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**Best Practice versus Best Fit HRM: Within and Across MNC
Comparisons**

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ABSTRACT

Within the HRM and firm performance literature there has to date been a scarcity of studies focusing on international rather than domestic firms. Commentators are asking why not all high-performing firms have identical best practice HRM systems, especially in different countries. The MNC context presents a clear example of the dilemma facing organisations: whether to adopt universalistic HRM best practices or take a contingent best fit approach. Based on a global sample of in-depth case studies of well-known MNCs, we explore the levels at which similarities and differences in HRM practices can be observed within and across MNCs. We also consider the drivers for the adoption of these practices. In addition to the more commonly observed drivers (country-of-origin, sector, national culture and business systems), the findings reveal other important factors such as: corporate strategy, structure, culture and heritage; internationalisation strategy; technology; competition and business needs; and the impact of the HR function itself.

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BEST PRACTICE VERSUS BEST FIT HRM: WITHIN AND ACROSS MNC COMPARISONS

Elaine Farndale and Jaap Paauwe ^a

1. INTRODUCTION

Interest in the value of HRM practices in terms of contribution to firm performance continues to be high as the HRM field seeks legitimacy in both academic and practitioner fields. Despite groundbreaking work by authors such as Huselid (1995) and Pfeffer (1995), there are however as yet no definitive solutions offered as to what universal HRM best practices consistently deliver high firm performance. In the area of employee relations systems, this has evolved into a debate on the convergence or divergence in practices due to the increasing degree of globalisation (Geppert, et al., 2002; Paauwe, 2004). Equally, in the broader field of HRM such discussions are also underway (Brewster, 1999). When considering international organisations, this brings to the fore the distinction between best practice (universalistic) versus best fit (contingency) approaches to HRM (Delery & Doty, 1996).

As we might guess, multinational corporations (MNCs) are at the heart of these debates. They operate at a global level, are one of the main driving forces (next to ICT) behind globalisation, and are confronted with a variety of HRM practices in their countries of operation. At the same time, MNCs benchmark themselves against each other in order to improve both efficiency and effectiveness. Benchmarking might result in a certain amount of reproduction of HRM 'best' practices through competitive isomorphism (DiMaggio and Powell, 1991), but at the same time these practices can show variations in approach, content and implementation. Reflecting deeper on these

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observations, we can distinguish both high context and low context perspectives, where the latter emphasizes universal rationales for the adoption of HRM practices and the former more context-dependent or best fit perspectives (Child, 2000).

To continue this best practice/best fit debate within HRM further, this paper explores the application of HRM practices in high-performing MNCs through the analysis of fourteen in-depth case studies. We first explore the different levels at which we might observe similarities and variations in HRM practices, and then examine the drivers for the HRM practices adopted. In general, there is an identified scarcity of such studies considering the contingency or control variables relevant to the HRM and firm performance literature (Paauwe, 2004); a gap which this paper is designed to address.

2. HRM: GLOBAL/LOCAL DEBATE

The unique position held by MNCs with their cross-border activities implies that there are choices to be made on how to operate within this global or regional environment. Perhaps the most well-known internationalisation strategies are described in Perlmutter's (1969) and Bartlett and Ghoshal's (1989) classifications: ethnocentric, global strategy in which control is centralised and subsidiaries resemble the parent company; polycentric, multi-domestic strategy in which control is decentralised and subsidiaries conform to local practices; and the geocentric (or regiocentric as added by Perlmutter & Heenan, 1974), transnational strategy in which subsidiaries and headquarters alike adhere to worldwide (or regional) standards as part of the organisational network.

Subsidiaries can thus have differing roles in relation to corporate headquarters, such as the local adaptation of products or the provision of specialised expertise in a particular field, or they can have a worldwide mandate to provide a particular product or service (Dicken, 2003). Corporate strategy therefore varies based on the extent to which firms want or need to adapt practices to local conditions. This also applies to HR strategy: MNCs have the option of applying the practices with which they are

most familiar or which appear to promise high returns in performance, regardless of the location of their subsidiary (Gooderham & Nordhaug, 2003).

The universality of HRM practices within a company across the globe creates cross-border equity and comparability, and alignment of systems internationally to facilitate an internal labour market (Almond, et al., 2003). However, this standardisation can lead to conflict between company practices and local prevailing conditions in terms of national cultural phenomena, institutions and business systems. The extent of adaptation of HRM practices required is thus largely related to the extent of differences that exist between the parent and host country in terms of national regulations, institutions and culture as well as corporate strategic choice (Taylor, et al., 1996).

If we consider standardisation and what universalistic best practice means, this has often been associated with the Japanese management practices of the 1980s in production manufacturing environments, where cost and quality issues predominated. Companies were encouraged to develop lean and agile manufacturing systems, mirroring practices in the Japanese motor industry in particular (McCurry & McIvor, 2002). The characteristics of these lean manufacturing systems were linked in turn to related HRM practices in the form of high performance work systems, focusing on: employee development; flexible job-design in terms of employee participation and teamwork; incentive-based payment systems; and investment in recruitment and selection (Applebaum, et al., 2000; Boxall & Purcell, 2003). Thus these practices became accepted amongst manufacturing companies as appropriate practices to adopt in order to improve firm performance.

Empirical studies explored the transfer of these Japanese employment practices in MNCs from Japan as they expanded into Europe and North America to look at their effect on firm performance in different national cultures. It was found that US manufacturers that adopted a full system of innovative Japanese HRM practices achieved higher levels of productivity and quality than those manufacturers who only adopted certain individual practices, supporting the 'best practice' theory (Ichniowski & Shaw, 1999; Park, et al., 2003). However, the number of US manufacturers found to be adopting full systems of Japanese HRM best practice remained minimal,

implying that there are factors other than pure anticipated performance outcomes impacting on the choice of HRM practices. Other such factors have been argued to include: national culture (Harris, et al., 2003; Sparrow, et al., 1994; Schuler & Rogovsky; 1998); nationality of ownership, country of origin and branch of industry (Ferner, 1997; Hedlund, 1986; Lachman, et al., 1994); and national institutions and business systems (Budhwar & Sparrow, 2002; Harris, et al., 2003; Whitely, 1992).

As noted earlier, we can thus distinguish both high context and low context perspectives for observing HRM policies and practices. In highly context-specific situations (for example: strict labour legislation, high union presence), practices are more likely to be customised, but where context is less dominant, universal rationales may be observed (Child, 2000). HRM practices themselves can thus be seen at two levels: the surface level which is firm-specific and the deep level which is more akin to best practice universalities or the philosophy behind certain practices (Boxall & Purcell, 2003). This dichotomy is also expressed in the best practice (universal) and best fit (context-dependent, contingent) approaches to HRM (Delery & Doty, 1996).

Based on this argumentation, we can define four potential perspectives from which similarities and variations in HRM practices in MNCs can be observed (see Figure 1). Looking across organisations, universal best practice in HRM can be explored (Q1), but equally, there may be differentiation of HRM practices at the global policy level (Q2) between organisations. Similarly, within an individual organisation, there may be evidence of best practice being spread across different levels (for example corporate/global level and local national/plant level) within the company (Q3), but there may also be examples of where practices are being adapted to fit local conditions (Q4). All four perspectives of comparative analysis are thus important considerations when exploring best practice and best fit perspectives in MNCs.

(Insert Figure 1 about here)

3. A CONTEXTUALLY-BASED THEORY OF HRM

An exploration of HRM practices in multinational corporations thus brings the best practice/ best fit debate to the fore. In order to explore how and why HRM practices in MNCs might be both similar and different, consideration of the contingency factors, or drivers, is required. The contextually-based HR theory (CBHRT) developed by Paauwe (2004) provides a useful framework for continuing this discussion (see Figure 2).

(Insert Figure 2 about here)

The CBHRT model shows how the product/market/technology (P/M/T) competitive dimension and the social/cultural/legal (S/C/L) institutional dimension of an organisation's environment dominate the crafting of HRM. In addition, the unique historical heritage and configuration of the organisation also have a role to play in terms of organisational, administrative and cultural legacies. This heritage is the outcome of past choices and constraints which the organisation has endured, resulting in a unique pattern of relationships existing between HRM policies and practices and other organisational characteristics (Paauwe, 2004).

The model also introduces the notion of leeway, denoting the impact of the dominant coalition of the organisation on the making of strategic choices (Child, 1972). This element moderates the external and internal contingency factors noted so far, and gives an indication of the leeway available for shaping HRM policies and practices within an organisation. Following the internal and external environmental factors and the impact of the strategic choices made by the dominant coalition, the framework shows how there are still decisions to be made regarding the bundling of HR strategies adopted to ensure enhancements to competitive advantage are achieved (Barney, 1991). The consistency between practices thus becomes an important configurational issue.

The CBHRT model thus proposes that HRM practices are shaped by both external and internal contingency factors including strategic choice inputs. We have also seen that there are multiple reasons both for transferring HRM practices across company

business unit boundaries and national borders, and for adapting them to meet local requirements. The study presented below applies this framework to explore what drives MNCs to adopt particular HRM practices.

4. METHODOLOGY

In order to address these issues, we selected a number of case companies based on their superior business performance and reputation as an employer based on 2004 Fortune listings and other awards (see Table 1). This method of case selection follows that suggested by Truss (2001: 1122): “to take a firm that is financially successful in conventional terms and ask what HR policies it uses to achieve this level of performance.” In this way, the study’s focus is directed away from the linkage between HRM practices and firm performance, and towards the factors that account for the choice of the same ‘best’ practices or alternatively selecting other practices based on the unique situation of the organisation in its context.

(Insert Table 1 about here)

A series of fourteen in-depth case studies in multinational firms was thus undertaken. The study was designed to explore HR excellence in MNCs, carried out in collaboration with the authors with researchers across the globe from INSEAD, Cornell University and Cambridge University/Judge Institute of Management. During 2004-05, interviews were held with 214 interviewees in fourteen multinationals based in seventeen countries (see Table 2). A multiple respondent approach was adopted, including interviews with 138 HR professionals and 76 senior executives and line managers. 79 of the interviews were carried out at corporate headquarters, 87 at either country or divisional head office level, and 48 at plant level within a specific business division. The majority of interviews were carried out face-to-face where possible, otherwise by telephone. Where permitted the interview was recorded. The content of the interviews was summarised in individual case studies, which was then checked and approved by each company.

(Insert Table 2 about here)

The interviews were semi-structured, based on a schedule designed and piloted by the four academic partners, covering questions about the business context, HRM practices and the HR function. Letters were sent to the head of HR at corporate headquarters inviting the companies to take part in the study. Based on subsequent discussions at either headquarters or country level, companies were then invited to confirm their participation. One contact person per company was established, and this person provided an appropriate list of interviewees for the study. Interviews were then arranged at convenient times at the interviewee's office location. Interviews lasted between half an hour and three hours (most commonly around an hour) and were mostly carried out with two people present. This allowed the interviewer to concentrate on interaction with the interviewee, whilst the other person focused on making accurate notes and raising any issues which required clarification (Eisenhardt, 1989: 538).

The case studies once completed were coded by the authors both for evidence of similarities and variations in HRM practices (including talent management, performance management, reward, recruitment and selection, development and training, employee relations) based on the five dimensions identified in the CBHRT model: the product/market/technology competitive dimension; the social/cultural/legal institutional dimension; the historical heritage and configuration of the organisation; the impact of the dominant coalition within the organisation; and the horizontal fit between HRM practices. The comments relating to these dimensions were then collated to identify patterns and themes in the data.

The case study approach adopted here is one which allows for multiple levels of analysis and multiple data collection methods, including interviews and published documents. This method of research was adopted for its ability to cover contextual conditions which are highly pertinent to the study (Yin, 1994: 13). It is primarily applied in a descriptive manner, exploring causal links between the selection and adoption of HRM practices, rather than being theory-testing or theory-building (Eisenhardt, 1989; Yin, 1994). The process adopted, which included detailed write-ups per case before undertaking between-case analyses, is that suggested by Eisenhardt (1989: 540) whereby the "idea is to become intimately familiar with each

case as a stand-alone entity”. The consequent tabulation of HRM practices as detailed below follows the process suggested by Miles and Huberman (1994).

A brief introduction to the fourteen cases is provided in Textbox 1 (see also Table 1 for detailed characteristics).

(Insert Textbox 1 about here)

5. FINDINGS

Pairs of cases were first compared to detail the differences and similarities in HRM practices in place in each of the companies (cf. Eisenhardt, 1989), using the four quadrants of Figure 1 above as a framework for analysis. Table 3 presents an overview of some of the drivers uncovered behind the adoption of different or similar practices based on the domains of the CBHRT (cf. Paauwe, 2004).

(Insert Table 3 about here)

The first stage of the analysis was thus to consider the similarities across organisations at the level of global policies and practices, looking for examples of best practice across the case companies. This analysis showed that there is a certain degree of universality of global HRM policies, and evidence of mimetic forces encouraging best practice. There are commonalities in practices predominantly covering top management talent management and open job posting (OJP). For example, ten of the fourteen companies have corporate-wide competency-based assessment and development systems in place for senior management. All but two companies have implemented an open job posting system on the corporate intranet in recent years, encouraging employees to take responsibility for their own career moves. Technology is the primary driver for this. In Electronico, for example, the OJP system being implemented to support corporate restructuring was described as encouraging a culture of an open process, giving structure to this process and providing IT-based tools on a common platform to support the process. The management of expatriates is most commonly also under the control of Global HR,

which sets out the rules by which assignments are managed. And although succession planning is more often under the remit of local management, it is frequently controlled through global systems and tools.

Moving to the second perspective, we considered whether contextual factors are resulting in different HRM policies and practices across MNCs, undermining the notion of best practice at the global policy level and instead producing examples of best fit. In particular, varied practices were noted in the areas of performance management systems, employee involvement and reward. For example, Consumerco and Foodco, despite both being major competitors in the FMCG market, have very different philosophies behind reward strategies: Consumerco focuses predominantly on a base salary system, whereas Foodco has introduced variable pay at all levels of the organisation. Consumerco has adopted this salary system for the majority of its employees to enable the company to remain flexible to market changes – as targets change, there are no direct salary implications for individuals so they are more willing to change in line with business needs. Competitive differentiation is thus also a key force at this global level. Innovco has also taken a very strong approach to promoting diversity and developing its employees, to enable it to stand out against its competitors and attract the top talent.

Various organisational heritage forces are also influencing overall approaches to HRM within the companies, such as an expectation of life-long employment in Engineerco and Powerco. The impact of country-of-origin was also observed across the cases. Engineerco is Swedish by origin, and still a quarter of its expatriates are Swedish. The predominance of this national culture in the senior management positions means that the company encourages a consensus relationship in industrial relations and employee involvement.

Looking at the third quadrant of the analysis framework, we were looking for a universalistic, best practice approach between global headquarter policy and subsidiary practice within individual companies. At this level, it became obvious that the extent of similarity is largely driven by internationalisation strategy, with the best practice approach being adopted most frequently in the most transnational organisations: in this study, Consumerco, Electronico, Foodco, Innovco, Oilco, Softco

and Digico. In the more polycentric organisations of Powerco, Retailco, Visionco, Aeroco and Turboco the level of global policy making in HRM is much more restricted, and therefore there is more variation at the local level in HRM policies and practices across the company.

In Engineerco, which is consciously shifting from a multi-domestic to a more global strategy, there was evidence also of a shift in its HRM. For example, a new global information system's tool for talent management is enabling head office to encourage a focus on this aspect of HRM across the company as well as encouraging consistency in practices. However other aspects of HRM are still of less interest from a global perspective, and are more likely to be managed locally. Other examples of universal HRM practices being applied across a whole company also exist, with many of them being driven by technology. For example, group-wide systems operate via the intranet in Powerco for managing expatriation: this opens up the visibility of all vacancies and makes application easier for all.

Strategic fit between corporate strategy and HRM strategy was also stated as a common influence on the development of HRM practices within the case companies. In Powerco, the desired strategic fit is to develop HR practices as levers for change. Training is seen as a key driver for achieving the high level of transformation which the company is undergoing. This training is not just about developing specific skills, but is also about changing the corporate culture in line with the business need. In Retailco, the driving force behind the development of HRM practices across the whole company is the corporate culture. Retailco depends on its culture being maintained by people growing through the company, with the corporate culture reflected in leadership styles, communication methods, ways of working and reporting hierarchies. Corporate culture is also a defining force in Engineerco, although here the aim is to break down the existing culture to introduce more of a customer-focus. Standardised performance management systems are being introduced to encourage employees to work towards sales targets and to increase their customer orientation.

The structure of an organisation was also mentioned as a reason for adopting a standardised approach to HRM across a whole company. For example, HRM

practices are designed in Consumerco to support the matrix-based organisation structure. People are assessed for their effectiveness in supporting the interdependency relationships between business units on the following dimensions: how well people work together, common goals, joint systems to track progress, extent of communication and general commitment to the structure.

Additionally, the impact of the HR function itself was observed as a dimension of the dominant coalition, standardising practice across the company. In Engineerco, the HR agenda is set by Global HR, in conjunction with the local country business manager. The only way in which a local country-level HR initiative can become established in corporate practice is for the country-level HR manager to lobby the Executive Committee to get the initiative put on the global agenda. Conversely, the only feedback of real interest to Global HR is how well the global HR priorities are being implemented at country level.

The bundling of HR practices within a company to produce synergies is also leading to standardisation. In Electronico, interviewees expressed that the monitoring of consistency between HRM systems is what gives the company the edge: “the processes and the metrics must make sense together”. By standardising practices and providing access to all relevant information via intranet, policies can be implemented consistently. This bundling of practices in Consumerco has lead, according to interviewees, to the strength of the system, which is important for retention, lying less in individual tools and processes and more in how to the systems fit together in an integrated way to support each other and business goals.

In the final quadrant of the analysis framework, we explore the variations in HRM within each individual case company, looking at differences between global policies and local practices. A major dimension of influence is the specific sector in which a subsidiary is based, the product which it is producing, or the labour market which it is tapping in to. For example, in one business area of Electronico, there is an incredibly short innovation cycle and the importance to the business of having innovators is high. Therefore, appropriate HRM systems are put in place here to support the recruitment and retention of the required people, ensuring adequate development, recognition and exposure to others within the group. In Powerco, by contrast, parts of

the business are very long-term and high risk regarding safety, and so there are year-long development programmes put into place for new employees before they even start to carry out their work.

In Consumerco, HR priorities in any area of the business are said to be driven by local business needs rather than an overall global HR strategy. For example, looking at training, Consumerco has an online system providing all training event information direct to employees. As business needs change, the training system allows employees to see a broader range of courses or events available so that they can ensure they receive appropriate development, rather than sticking rigidly to a plan drawn up a number of months prior.

Another primary driver at this level is local organisation heritage. For example, Manufco have undertaken a number of IJVs in China; here, the company is forced to adopt local Chinese HRM practices in order to be allowed to operate in the country. Legislation is thus a major factor, particularly in influencing employee relations. Many countries across Europe have strict regulations regarding consultation and negotiation with employee representatives and trade unions. In Foodco, industrial relations was highlighted as the only area not yet affected by the shift within the company to more global policy setting, due to the very specific local arrangements needed. All companies expressed how local legislation determines both the remit and membership of employee representation bodies.

We can already see from this evidence that there is an additional dimension which must also be added to the global versus local perspective taken in the above analysis: the country-level perspective. National-level phenomena, such as culture, legislation, standards, institutions and norms, all play a part in making companies look alike at the country level – developing best practice across companies – but differentiating practice within a company. For example, the well-established Asian practice of structured annual graduate recruitment is practiced by all the major companies operating in this part of the world. Likewise, industrial relations patterns mean that, for example, the distinct German approach of co-determination is visible in many major organisations operating within Germany. To give an example, in Powerco, it is training which is strongly influenced by the legislation in its home

country of France. There, there is a legal requirement for a minimum spend on training. This results in a very high level of spending across the company (around 8% on average of the annual salary bill). However, this spending requirement also applies to other companies based in France, and creates a best practice of high training spend within the country.

However, these national traditions are also starting to breakdown as large multinationals begin to develop new approaches to achieve competitive advantage. For example, Manufco, predominantly based in Asia, is deliberately increasing its experienced hires and not relying on the annual graduate intake for finding the best talent. Digico is another company that is also attempting to find ways for non-home-country nationals to progress higher in the organisation by adopting new HRM practices.

The descriptions presented above (limited to a small selection from the evidence gathered) show different degrees of best practice standardisation or best fit customisation within each company setting and across the MNCs. The implications of these findings are discussed further below.

6. DISCUSSION

Based on theories of universalistic best practice in HRM (cf. Huselid, 1995; Pfeffer, 1995), we might expect to find successful large multinational organisations adopting these same best practices across the world. If we look at multinationals in greater detail, however, referring back to Figure 1, we find evidence of best practice and best fit (cf. Delery & Doty, 1996) across the four quadrants of the comparative matrix.

Firstly, there is evidence of best practice across MNCs, such as individual responsibility for career management through online job posting and training systems, talent management systems based on IT tools facilitating company-wide definitions of job profiles and the required competencies, and expatriation management systems enabling company-wide monitoring of the flow of people between locations. Predominantly, it appears to be the impact of technology from the

competitive dimension of the CBHRT (cf. Paauwe, 2004) which is facilitating these and other self-service systems. Another major driver is the mimetic forces of copying competitors in the marketplace (cf. DiMaggio & Powell, 1991).

Secondly, we explored whether contextual factors influence what is perceived to be best practice at the global policy level, hence creating a best fit approach to HRM across MNCs. Here, we see many examples of variations in practice driven by a number of dimensions identified in the CBHRT framework. For example, particularly the societal/cultural/legislative dimension has a role to play here. Expectations of life-long employment and consensual approaches to trade union relations at the national level are impacting the adoption of global policy development. This is also tied to the organisational heritage of the company: there are expectations based on past practices of how the company will continue in the future. Equally, corporations can choose how to deal with local pressures in adopting their competitive position in the market (cf. Gooderham & Nordhaug, 2003; Taylor, et al., 1996).

Thirdly, we explored the quadrant which looks at examples of a best practice approach being taken within an individual company. Again, much evidence of this activity was found in some companies, largely dependent on the internationalisation strategy adopted: the more transnational an organisation is, the more it will try to coordinate HRM practices from the global level. This coordination comes predominantly from the Global HR function itself, and hence is highly dependent on the ability of individuals within the function to operate at this level. A second group of drivers for this dimension is corporate strategy, structure and culture. The companies are aligning HRM strategy with corporate strategy, and aligning HRM policies themselves into synergistic bundles, to ensure a consistency of implementation throughout the company. This again is often facilitated through the use of technology to disseminate consistent policies, tools and procedures to all parts of the company.

Finally, the remaining quadrant of Figure 1 focuses on the adoption of a best fit approach to HRM within each MNC. In this dimension, national level characteristics, such as legislation, play a primary role and particularly in the field of employee relations. The impact of local market conditions is another driver of variation: different

employee groups and different areas of activity require customised approaches to HRM to ensure the relevant business needs are met.

In summary, the framework presented in Figure 1 can be supplemented by the drivers of both best practice and best fit as shown in Figure 3 below.

(Insert Figure 3 about here)

The dimensions of the CBHRT (cf. Paauwe, 2004) have thus all been shown to have a role to play in the formulation and enactment of HRM policy. The weighting of each dimension differs per approach to HRM, be it best practice or best fit either across organisations or within an individual company, supporting the notion that there is a place for both low and high context-bound simultaneous analyses of HRM practices (cf. Child, 2000; Boxall & Purcell, 2003).

7. CONCLUSIONS

The debate presented here has explored the influence of internal and external contextual factors on the choice of HRM practices in multinational corporations, using Paauwe's (2004) contextually based HR theory as a framework. The empirical work has been carried out in high-performing large MNCs to observe the selection of HRM practices. All fourteen companies included in the sample face choices amongst ethnocentric, polycentric, geocentric or regiocentric internationalisation strategies, and all are faced by changes in their sector and market, and by the different cultures and institutions prevalent in the different countries in which they operate.

Given the multitude of contextual factors and strategic choice opportunities, it is not surprising that the HRM practices across these high performing firms were found to differ both at the global strategic level and the local implementation level. However, this paper also set out to consider what the contingency variables relevant to the HRM and firm performance linkage are. Similarities in approach to HRM appear to stem largely from the impact of information technology. It appears to be the availability of systems and tools that is facilitating a move to more standardised

practices and procedures. Differences in approach seem to be predominantly led by corporate strategy or culture and local characteristics. All of these factors appear to carry a different weighting in the different company settings depending on current corporate challenges and the internationalisation strategy adopted.

The outcome of these variations in contextual factors is a varied degree of both standardisation and customisation of HRM practices within the MNCs. In companies where decentralisation is still strong, there are only minimal global HRM practices in place and little activity to increase these. However, where centralisation or transnationalisation is stronger, there is a robust framework of global HRM policies in place providing a broad framework within which subsidiaries must operate. The HRM strategies selected within a company, which show a combination of standardised and customised practices, are thus suited to a particular context and hence produce firm-specific outcomes which in turn impact on firm performance.

This study has provided a wealth of information in terms of comparisons of how large organisations are managing their operations in a number of countries across the world. The study is currently limited to the use of interview data and documentation, however further work will also provide survey data across a broader range of companies to explore the generalisability of the findings to date. The paper is also limited by its focus on intended HRM practices, as opposed to an observation of actual implementation and how the practices are then perceived by employees. It remains to be seen now how these companies fare in terms of their performance over the coming years as a consequence of their chosen HRM strategies.

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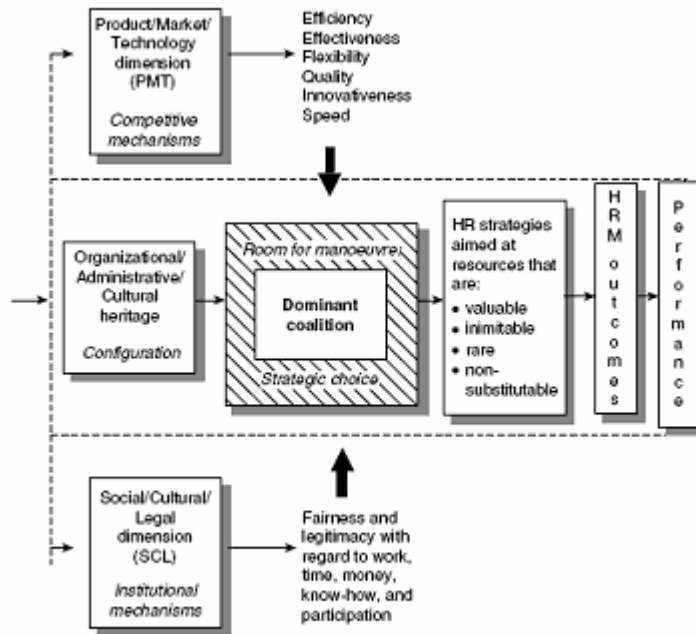
FIGURE 1

Best fit versus best practice models of HRM in MNCs

| | | | | |
|----------------------|----|--|----|---|
| Best practice | Q1 | <i>Universal HRM practices across organizations</i> | Q3 | <i>Universal HRM practices within an individual organization</i> |
| | Q2 | <i>Differentiation of HRM practices across organizations</i> | Q4 | <i>Differentiation of HRM practices within an individual organization</i> |
| Best fit | | Across organizations | | Within an organization |

FIGURE 2

A Contextually Based Human Resource Theory



Source: Paauwe (2004: 91)

FIGURE 3

Drivers of best fit versus best practice models of HRM in MNCs

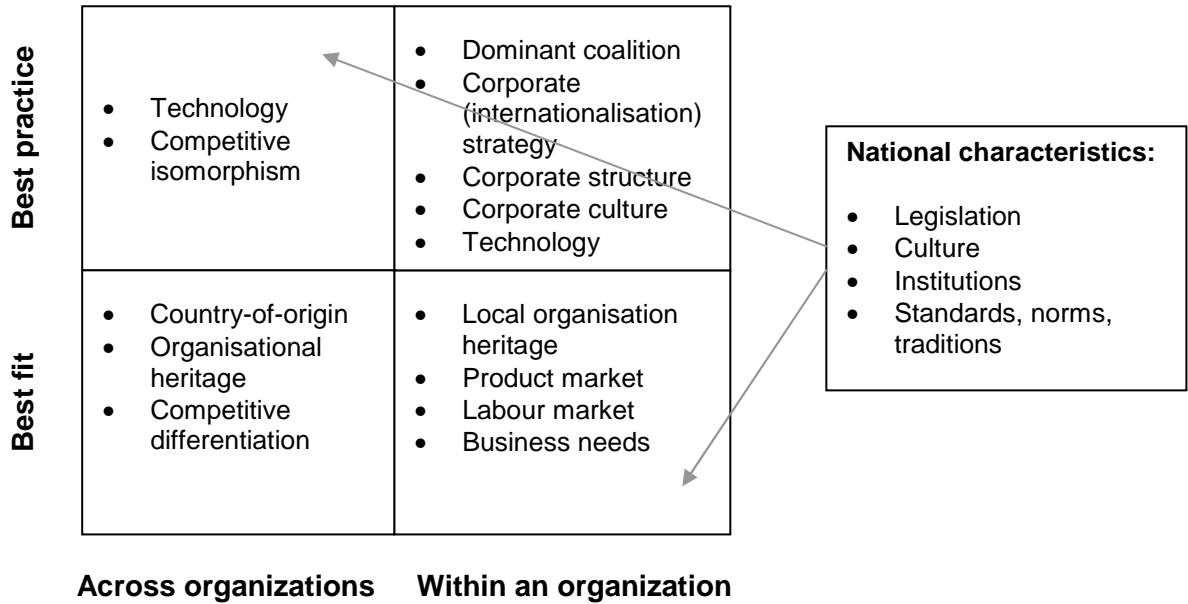


TABLE 1**Case Companies**

| Company | Sector | Employees | HQ base | 2004 <i>Fortune</i> listings |
|----------------|--|------------------|-------------------------|---|
| Engineerco | (Electrical) Engineering | 116,000 | Switzerland | Global 500 Best Companies to Work For Global Most Admired |
| Powerco | Power generation & distribution | 167,000 | France | Global 500 Europe's top 50 companies |
| Retailco | Retail | 84,000 | Sweden | Best Companies to Work For |
| Consumerco | FMCG | 98,000 | USA | Global 500 Fortune 500 Best Companies to Work For Global Most Admired |
| Electronicco | Electronics / electrical engineering | 417,000 | Germany | Global 500 Best Companies to Work For Global Most Admired Europe's top 50 companies |
| Foodco | FMCG | 234,000 | UK / The Netherlands | Global 500 Global Most Admired Europe's top 50 companies |
| Aeroco | Aerospace, defence | 90,000 | UK | Global 500 |
| Turboco | Aerospace, marine & energy | 24,000 | UK | (Pacific Star award for activities in Asia; Business Commitment to the Environment Award) |
| Softco | IT software & infrastructures | 41,000 | USA | Fortune 500 |
| Oilco | Oil/energy | 119,000 | UK/NL | Global 500 |
| Innovco | Software/ hardware/ IT services | 319,000 | USA | Global 500 Fortune 500 Best Companies to Work For America's Most Admired |
| Manufco | Consumer electronics | 290,500 | Japan | Global 500 |
| Visionco | Consumer electronics | 53,000 | China | (Largest TV manufacturer in China) |
| Digico | Consumer electronics | 128,000 | South Korea | Global 500 Global most admired |

TABLE 2**Interviewees**

| Company | Countries | Interviewees | | | | | |
|----------------|---|---------------------|------------|--------------------|-----------|----------------------------|----------------------------|
| | | Total | HR | Non- HR | HQ | Region/ country | Division/ plant |
| Engineerco | Switzerland, Netherlands, Sweden | 13 | 6 | 7 | 3 | 7 | 3 |
| Powerco | France, UK, Germany | 9 | 9 | 0 | 2 | 5 | 2 |
| Retailco | Netherlands, Sweden | 9 | 7 | 2 | 4 | 3 | 2 |
| Consumerco | USA, Switzerland, Netherlands, UK | 11 | 9 | 2 | 4 | 5 | 2 |
| Electronicco | Germany, Netherlands, Spain | 18 | 11 | 7 | 4 | 6 | 8 |
| Foodco | Netherlands | 9 | 6 | 3 | 0 | 5 | 4 |
| Aeroco | UK, USA | 12 | 8 | 4 | 7 | 2 | 3 |
| Turboco | Germany, Norway, UK, Brazil, Netherlands, Switzerland | 25 | 12 | 13 | 12 | 6 | 7 |
| Softco | UK, Germany, Italy, France | 17 | 4 | 13 | 4 | 13 | 0 |
| Oilco | USA, UK, Netherlands, Dubai, Singapore | 24 | 24 | 0 | 7 | 17 | 0 |
| Innovco | USA, France, China | 9 | 9 | 0 | 4 | 5 | 0 |
| Manufco | Japan, USA, UK, Singapore | 24 | 11 | 13 | 18 | 2 | 4 |
| Visionco | China, France | 12 | 4 | 8 | 5 | 2 | 5 |
| Digico | Korea, USA, Singapore, Malaysia | 22 | 18 | 4 | 5 | 9 | 8 |
| Totals | 17 countries | 214 | 138 | 76 | 79 | 87 | 48 |

TABLE 3

Drivers of HRM Practices

| Driver | HRM response | Company |
|---|--|---------------------------|
| <i>Corporate strategy</i> | | |
| culture transformation | training programs / performance management | Powerco/Engineerco/Aeroco |
| restructuring | open job posting systems | Electronicco |
| local business needs | local priorities over global HR policies | Consumerco |
| global integration | standardising HR best practices | Oilco/Manufco |
| HR capability | HR professional competency framework, global branding of HRM activities | Oilco/Innovco |
| constantly being aware of changing customer needs | adapt practices to local needs but with overarching principles/values | Innovco |
| <i>Product/Market/Technology</i> | | |
| fierce competition | modern working practices (HPWS) | Turboco |
| high safety-risk sector | long-term development plans | Powerco |
| changing market needs | flexible training plans | Consumerco |
| innovative employees | development, recognition & group exposure | Electronicco |
| financial target flexibility | base salary reward system | Consumerco |
| IT system/tool availability | standardisation of: talent management, open job posting, training infrastructure, expatriate management, communication | Various |
| cost-efficiency, quality | shared service centre | Various |
| corporate intranet | dissemination of procedures/tools/rules | Various |
| <i>Society/Culture/Legislation</i> | | |
| trade union involvement | establishment of workers' association | Retailco |
| Swedish country-of-origin | consensual approach to industrial relations | Engineerco |
| multi-site collective bargaining | from adversarial to harmonious partnership | Aeroco |
| positive approach to trade unions | incumbent worker training | Oilco |
| tight labour market | more experienced hires | Manufco |
| training spend legislation | above average training spend | Powerco |
| industrial relations legislation | determines remit/membership of employee bodies | All |
| <i>Organisational heritage</i> | | |
| corporate culture | development as a daily task | Consumerco |
| corporate culture | common philosophy behind practices | Retailco |
| corporate culture | employee voice, HRM practice transparency | Manufco |
| corporate structure | supporting business unit interdependencies | Consumerco |
| industrial relations tradition | collective bargaining based on ability to pay | Turboco |
| <i>Dominant coalition</i> | | |
| Global HR | setting HRM priorities and standards | Engineerco |
| too much top-down centralised decision-making | increasing flexibility but maintaining uniformity and integration | Innovco |
| <i>HR system bundling</i> | | |
| focus on retention | linked HRM to encourage retention | Consumerco |
| consistency | linked HRM & dissemination via intranet | Electronicco |
| vertical and horizontal alignment | linked HRM to enable leadership development | Aeroco |

TEXTBOX 1

Case company profiles

Engineerco: simplifying its highly decentralised structure to increase central control and agility; recent major cost-cutting program including divestment of businesses and staff reduction; new culture focused on controlling costs; good reputation as a life-long employer.

Powerco: operating as a holding company around the world; home country influence abroad is limited; aiming to develop a more global focus; excellent reputation as a life-long employer and as a public service provider.

Retailco: highly successful and expanding retailer across the globe; decentralised operational power at retail store level; corporate culture is its strongest asset, stemming from its founder and its country of origin; identity is used for competitive advantage in attracting employees.

Consumerco: undergone major change, developing a new organisation structure which emphasizes global/regional brand development, shifting from country-focused operations; culture is performance driven, encouraging constant measurement of results.

Electronico: a solution provider, proud of its ability to innovate; long-term history of solid results based on a strong country-of-origin corporate culture; increasing interaction between business divisions to extract value from its global status rather than operating on a country-level basis.

Foodco: recently suffered a financial shortfall thus undergoing major restructuring focussing on centralising business divisions at the country and regional levels; focus on speeding up operations and creating more interlinkages between business areas.

Aeroco: undergoing rapid and far-reaching change, from an international company with a domestic bias to being truly global; central to the human resources vision is strong leadership; central HR function recently re-organised to deliver as a 'business partner'.

Turboco: currently dealing with a complex matrix organisation structure with a strong home country focus; high levels of employee loyalty and pride in the brand; strongly dominated by pluralistic employee relations and a paternalistic culture.

Softco: reforming the business model and organisational design, consolidating employment structures and automating human resources systems; highly centralised top-down management structure and policy development; strong performance driven culture.

Oilco: a global organisation which has shifted from geography-based to division-based management; strong organisational culture of valuing and capitalising on diversity, which is a challenge whilst trying to increase the standardisation of HR practices across subsidiaries.

Innovco: global company which is centrally controlled, striving to offer more ownership to local units in order to create more speed and innovation; HR becoming less transactional and more strategic, maintaining uniformity and integration while allowing for flexibility.

Manufco: global manufacturing company, developing a more customer-orientated focus; strong corporate culture of fairness and openness regarding its employees; aiming to develop a more integrated global operation, rather than an ethnocentric home-country focus.

Visionco: Chinese based multinational which has grown through IJVs and acquisitions across the globe; operating largely as a holding company with little influence of home-country practices spreading across borders; corporate culture focused on employee learning.

Digico: an agile organisation with a strong focus on employee loyalty and pride; a leading player in its home-country, able to command the best talent; currently facing the challenge of how non-home-country nationals can progress to the top of the organisation.

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