



# The adoption of high performance work systems in foreign subsidiaries

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## ABSTRACT

This study examines the determinants and outcomes of the adoption of high performance work systems (HPWS) in foreign subsidiaries of multinational corporations (MNCs). Region-of-origin of MNCs, headquarters (HQ) influence, and strategic human resource management (SHRM) orientation are expected to determine subsidiaries' use of HPWS, which affects firm performance via organizational climate. We found that HQ influence, SHRM orientation, and HPWS adoption varied among foreign subsidiaries originating in different regions. HQ influence and SHRM orientation were positively related to the adoption of HPWS. HPWS had a positive effect on subsidiaries' performance, and this positive effect was partially mediated by organizational climate.

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## 1. Introduction

Managers in multinational corporations (MNCs) operate in a dynamic global environment. They have developed sophisticated human resource management (HRM) systems to assist in managing their diverse workforce (Taylor, Beechler, & Napier, 1996). Subsidiary development and performance is beneficial to the corporate parent and the host country (Birkinshaw & Hood, 1997), thus subsidiaries, and their employees, are acquiring greater strategic importance in the MNC's global success (Taylor, Levy, Boyacigiller, & Beechler, 2008). It is crucial to explore the relationship between a subsidiary's HR practices and its organizational performance, as well as how this relationship varies under different conditions.

With the increasing use of high performance work systems (HPWS) in MNCs, more studies have been devoted to examining its determinants and outcomes (e.g., Gunnigle, Murphy, Cleveland, Heraty, & Morley, 2002; Marchington & Grugulis, 2000; Yalabik, Chen, Lawler, & Kim, 2008). To extend this line of research, we argue that the relationship between headquarters (HQ) and its foreign subsidiary affects the decision making regarding the subsidiary's adoption of HPWS. In particular, we expect strategic human resource management (SHRM) orientation, and internal control and resource allocation from HQ (HQ influence), to vary

among MNCs of different regions-of-origin. Additionally, although the HRM–performance relationship has been well documented in the existing literature, the processes underlying this relationship are still not fully understood (Bowen & Ostroff, 2004; Wright & Gardner, 2003).

We accomplish several objectives in our study. We test whether SHRM orientation and HQ influence are different in subsidiaries originating in different regions of the world, and we evaluate the effects of these factors on the adoption of HPWS in foreign subsidiaries. We also examine the linkage between the subsidiary's use of HPWS and its performance, and the mediating role of the subsidiary's organizational climate in this linkage. To control the impact of cultural, legal, and institutional factors, our study focuses on foreign subsidiaries of MNCs operating in one commercial center in Asia, Hong Kong. During the last decade, an increasing number of MNCs from different countries use Hong Kong as their Asian base to coordinate their business in the region (Meyer, 2008).

## 2. Hypothesis development

### 2.1. Relationship between region-of-origin and strategic human resource management (SHRM) orientation

The region-of-origin of MNCs represents the cultural and institutional influences from the home country on the strategic and operational decisions of foreign subsidiaries in a host country (Bae, Chen, & Lawler, 1998). When considering the region-of-origin effect on HRM, researchers often look at whether, and under what conditions, an MNC and its subsidiaries have adopted similar HR practices. This “forward diffusion” of HR practices from the MNC's home country to its foreign operations (Edwards & Tempel, 2010,

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p. 19) is a line of research that involves the debate between global integration and local responsiveness. The former refers to standardization of foreign subsidiaries HR practices towards HQ practices, regardless of the local norms and practices. The latter refers to the adoption by foreign subsidiaries of those HR practices commonly used by domestic firms in the respective host countries (Hannon, Huang, & Jaw, 1995; Rosenzweig & Nohria, 1994).

Much of the previous research has been written about American MNCs, that are in a strong position to influence HR practices among their foreign subsidiaries (Gunnigle et al., 2002). As pointed out by Fenton-O'Creevy, Gooderham, and Nordhaug (2008), decisions made by American MNCs regarding the HRM of their subsidiaries are largely motivated by economic self-interest and the home country institutional setting. These MNCs often resist pressures to localize practices to accommodate host country norms and values. Instead they implement standardized sets of HR policies and practices in their overseas subsidiaries (Gunnigle et al., 2002). This orientation is consistent with an 'ethnocentric' approach to MNC management (Heenan & Perlmutter, 1979; Perlmutter, 1969). Popular systems and practices within an American MNC may achieve a 'dominant' status in part because of their association with a successful economy (Edwards & Tempel, 2010, p. 20). American MNCs tend to adopt an 'exportive' orientation in which they replicate in their overseas subsidiaries the HRM policies and practices used in their home country (Taylor et al., 1996). Thus, region-of-origin may be related to different aspects of the MNC–subsidiary relationship context.

At the core of strategic human resource management (SHRM) research is the notion of a linkage between a firm's strategy and its HR practices, a notion developed in the West (Delery, 1998; McMahan, Virick, & Wright, 1999). The strategic orientation of HRM represents a managerial mindset of aligning a firm's HR policies and practices with its strategy (Burke, 2006; Gomez-Mejia, Balkin, & Cardy, 1995). With such an orientation, the HR function focuses on being a strategic partner within organizations and helps translate strategic decisions into HR priorities and realized organizational outcomes (Ulrich, 1996). In this example, American firms may be the early adopters of an SHRM orientation, while Asian subsidiaries are laggards. This can be explained theoretically by applying an innovation diffusion model (e.g., Rogers, 1995). Rogers (1995) proposed that an individual's decision to adopt a new idea, or innovation, is based on his/her attitude toward the innovation's characteristics (i.e., its relative advantage, compatibility, complexity, trialability, and observability). An SHRM orientation is compatible with Western managerial values and organizational cultures, and its relative advantage may be more easily perceived by managers in Western firms. Western firms may find it easier to implement SHRM, and its outcomes are likely to be more visible in Western firms. Thus, we would expect that American and European firms will have the highest levels of SHRM orientation compared to their Asian counterparts.

*Hypothesis 1a.* SHRM orientation is related to region-of-origin of MNCs. Specifically, North American firms will have the highest levels of SHRM orientation and Asian firms the lowest.

## 2.2. Relationship between region-of-origin and HQ influence

For MNCs, figuring out the best way to control foreign subsidiaries, who act as "agents," is critically important, because subsidiaries function as a means of accessing local resources and gaining local legitimacy (Yu, Wong, & Chiao, 2006, p. 1239). Diverse methods of control have been used by the HQ management, such as appointing the board of directors, assigning expatriates, transferring corporate culture, developing job descriptions, and periodic reporting (Jausaud & Schaaper, 2006; Welch & Welch, 2006). All of these activities involve a cost in terms of

money, organizational resources, and time (Subramony, 2006). In particular, MNCs can exercise strong control over their foreign subsidiaries when the latter depends on the former for scarce or critical resources. The resource dependence perspective explains the relationship between parent and subsidiary firms in terms of inter-organizational interdependence (Hannon et al., 1995; Taylor et al., 1996).

The control of human resources is a key element of subsidiary management (Gomez & Sanchez, 2005), and MNCs closely monitor and discipline the managers of foreign subsidiaries (Kim, Prescott, & Kim, 2005). Since staffing, performance appraisal, compensation, and training and development can be used to direct and modify employee behaviors (Delery & Doty, 1996; Macky & Boxall, 2007), the HRM system represents an important control mechanism which can ensure that overseas employees act in the best interests of the parent firm (Taylor et al., 1996). This view of HRM as a control mechanism is consistent with the behavioral perspective that firms develop HR practices as a means of managing the behaviors of employees (Schuler & Jackson, 2005).

For MNCs, variations in their origins reflect various cultural, economic, and institutional influences that may pose different HQ–subsidiary relationships. American MNCs tend to adopt an 'ethnocentric' approach, and are likely to exert tighter control and closely monitor resource allocations (Edwards & Ferner, 2005; Gunnigle et al., 2002). It follows that HQ influence would be stronger in American MNCs than other MNCs (Yuen & Hui, 1993). European MNCs take local norms into consideration. Therefore, their degree of localization is higher than that of American MNCs. Subject to less control and influence from HQ, subsidiaries of European MNCs would have more autonomy and power in designing and implementing management practices based on their own needs and local contingencies (Gunnigle et al., 2002). Another factor that may affect the degree of HQ influence is cultural distance. We expect that in the Hong Kong context, the influence from HQ will be stronger for American MNCs and weaker for Asian MNCs because there is a similar cultural heritage among Asian firms (smaller cultural distance). Based on our discussion regarding the possible effect of region-of-origin of MNCs, we develop the following hypothesis.

*Hypothesis 1b.* HQ influence is related to region-of-origin of MNCs. Specifically, North American firms will have the highest levels of HQ influence on their subsidiaries and Asian firms the lowest.

## 2.3. The relationship between region-of-origin and high performance work systems (HPWS)

There is a growing consensus that a system of HR practices, rather than HR practices in isolation, is a more appropriate focus for understanding how HRM impacts important organizational performance outcomes (Burke, 2006; Evans & Davis, 2005; Huselid, 1995; Lepak, Takeuchi, Erhardt, & Colakoglu, 2006). A HPWS consists of a group of separate but interconnected HR practices designed to enhance employees' skills, effort (Huselid, 1995), and firm performance (Shih, Chiang, & Hsu, 2006). A HPWS generally includes selective hiring, extensive training, job design programs, performance appraisal, self-managed teams, incentive-based compensation, employment security, and internal promotion (Huselid, 1995). It is a potential source of competitive advantage for firms (Becker & Huselid, 1998). Prior empirical evidence provides support for the relationship between HPWS and organizational performance (Delaney & Huselid, 1996; Huselid, 1995; Wright, Gardner, Moynihan, & Allen, 2005; Youndt, Snell, Dean, & Lepak, 1996). During the past decade, HPWS has been increasingly used by MNCs in managing their foreign subsidiaries (Gunnigle et al., 2002; Marchington & Grugulis, 2000; Yalabik et al., 2008).

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