

How much HR control do subsidiaries really have?

A study by IESE's Javier Quintanilla and his coauthors reveals that U.S. multinational companies tend to exert greater control over their subsidiaries.

October 31, 2013

Subsidiary freedom versus head office control: In the changing global economy, this tension is likely to intensify, especially as emerging market players begin to assume a bigger role, bringing their own systems with them.

A study by IESE's [Javier Quintanilla](#), together with Anthony Ferner (De Montfort University), Jacques Bélanger (Université Laval), Olga Tregaskis (University of East Anglia) and Michael Morley (University of Limerick), explores the extent to which U.S. multinational companies (MNCs) differ from their non-U.S. counterparts in terms of how much discretion over human resources and employment relations (HR/ER) they grant their subsidiaries.

U.S. subsidiaries have tightest controls

Based on a sample of around 900 cases, the authors compared U.S. MNCs with non-U.S. firms from France, Germany, Japan, Scandinavia and other European countries, to assess how much control they exercise over their subsidiaries' HR/ER policies.

Overall, the study reveals that U.S. companies control their subsidiaries more, compared with all the others.

This applies to variables such as performance appraisals, variable pay, training and development, group-based employee involvement and provision of information to the workforce.

Does the host country matter?

The authors checked to see whether this pattern changes according to the country where the subsidiary operates, given that national regulations, geopolitical location or the availability of cheap labor might conceivably moderate this pattern.

The authors looked specifically at U.S. MNCs operating in Canada, Ireland, Spain and the United Kingdom. They found that the overall pattern of greater head office control in U.S. MNCs compared with non-U.S. ones does not change according to country.

In the case of Canada, it may come as little surprise that subsidiaries there would have the least discretion, considering the already close alliances with the United States.

Subsidiaries in the United Kingdom seemed to have more discretion in most HR variables than Spain did.

You would think that in Spain, where the labor market is much more highly regulated, subsidiaries would be granted more room to maneuver. Yet, other than somewhat less control of information provision, the overall pattern held.

This may be due to Spanish companies yielding to recent labor reforms, as well as Spain's continued reliance on external management models, reflecting its still somewhat subordinate role in the international economy.

As such, even within institutional constraints, U.S. MNCs are still able to call the shots on key aspects such as remuneration and performance management.

Global dominance of U.S. model

The endurance of the U.S. model can be partly explained by U.S. companies' many more years of experience in transferring business systems to their overseas operations.

However, it is the dominance of U.S. business systems within the global economy that reinforces the perception that U.S. practice is the most efficient, universal model.

U.S. corporate HQs are able to mobilize dense webs of expertise in operating U.S. management systems in host countries.

This expertise reflects the predominant weight of U.S. capital in each host country. In some countries, anywhere from half to two-thirds of the foreign MNCs operating there are U.S.

ones.

This enables centralized policy control mechanisms to operate more easily, and effectively constrains subsidiary discretion.

In U.S. subsidiaries, control is also maintained through more indirect means, via monitoring, along with a social cohesion mechanism that is transmitted through international HR networking and a global HR philosophy.

But there are other ways of exerting control beyond HR mechanisms. France, for example, tends to use parent company expats for senior positions in subsidiaries.

Alternative models

Despite U.S. economic dominance, there is no proof that MNCs from other countries are totally adopting U.S. models of HR/ER. Although there were some overlaps found between U.S. and non-U.S. firms in relation to their practices, alternative models do exist.

What's true is that there may be a lower controlling class of firm, which maintains some freedom of action, by simply not taking up all the control options available.

The ability of host countries to have an impact on MNCs from different countries of origin is an area worth exploring further, as well as testing the U.S. model in highly regulated host countries such as Germany or Japan.

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