

Subsidiaries can influence HRM policy imposed by HQ

November 5, 2008

An examination of "Americanness" within U.S. MNCs in Spain reveals Spanish subsidiaries exert critical influence on their U.S. headquarters.

American multinationals maintain an iron grip over their subsidiaries' human resource management (HRM) systems. Yet, evidence has emerged that when a subsidiary has an important role inside the MNC, there is some relaxing of this hold. Certainly, that is the case in Spain: While control from U.S. headquarters is strong, some subsidiaries are finding breathing space and greater autonomy when it comes to implementing HRM practices.

[Javier Quintanilla](#), professor of Managing People in Organizations at IESE Business School, Lourdes Susaeta of the University of Navarra, and Rocio Sánchez-Mangas of the Autonomous University of Madrid discuss the diffusion of HRM policies by U.S. MNCs to their subsidiaries. Their article, "[The Diffusion of Employment Practices in Multinationals: "Americanness" within U.S. MNCs in Spain?](#)" was published in the September 2008 issue of the Journal of Industrial Relations.

The authors consider the complexity of how HRM is disseminated from American headquarters to Spanish subsidiaries. Specifically, they look at:

- the extent to which Spanish subsidiaries have American characteristics in their HRM practices;
- the imprint of the Spanish business legacy;
- the role subsidiary managers play in shaping the relationship.

How American HQ exercises control has changed significantly. Previously, the chief tools were financial control systems and the placement of American expat managers in the subsidiaries. But over the past decade, the use of expat managers has decreased sharply. Now, standard procedures and common IT systems ensure HRM policies are maintained. The article highlights how challenging this can be for Spanish managers, both in strategic and financial terms.

The transfer of practices

U.S. MNCs are highly centralized and have a characteristic management style rooted in U.S. national business systems. They tend to transfer practices to subsidiaries in a highly standardized and formalized manner. However, the implementation of U.S. HRM policies across international subsidiaries is not a blanket process. Managers in subsidiaries do resist the transfer of some practices, and the relative strength of a subsidiary in the overall organization determines the weight given to managers' arguments.

This means that "Americanness" can vary across subsidiaries because of a particular subsidiary's bargaining power. The authors note that Spanish business systems are generally malleable. Managers are often receptive to learning from HQ and implementing what is considered innovative human resource and industrial relations (HR & IR) policies coming from the United States. Indeed, subsidiary managers are often educated by U.S.-style business schools and MBA programs.

Tensions implementing policy

In practically all the subsidiaries studied, the authors noted a homogenization of HR practices. But key to the authors findings is that "the way in which U.S. MNCs exert control over their subsidiaries depends on a wide array of variables, including the way the company has been established, the subsidiary's profitability, the weight and prestige of the subsidiary's managers internationally, and their ability to contribute in key areas such as research and development or to bargain politically."

As would naturally be expected, the control and standardization of HRM policy and processes creates tension in subsidiaries. The authors highlight cases where the "resource power" of a subsidiary gives it a greater margin for maneuver in negotiating the implementation of practices. And they also show where attempts at implementation have fallen short.

For example, one subsidiary had the greatest market share within the organization, was the

most profitable and was ranked third in number of employees and partners. They had been able to adapt the MNC's directives and create their own plan - "compatible with the world strategy but adapted to how things are done in Spain."

Most of the subsidiaries studied had suffered financial constraints in order to achieve the HRM targets that corporate HQ had set for them. One HQ focused on high-quality training courses, and when its Spanish subsidiary didn't have sufficient resources to fully implement them, the confused results failed to satisfy the principles of HQ's policies.

In another case, HQ imposed a 20 percent staff reduction across all its international subsidiaries. Spanish managers were determined to resist implementing this policy. They argued that they actually required an increase in the workforce and noted, "It is necessary to avoid doing anything that will result in losing our direction or volume." Clearly, Spanish managers felt tensions between saving the local business and keeping faith in HQ policy.

Important role of affiliate management

Although Spanish subsidiaries are being given less and less leeway to develop HRM strategies at the local level, the authors ultimately believe that subsidiary management does have a role in the diffusion process and can determine how local level policies are implemented.

www.iese.edu/insight