Exploring Employment Relations Practices of MNCs in Australia

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ABSTRACT

This paper explores the literature relating to the employment relations practices of multinational companies (MNCs) operating in Australia and Australian MNCs operating overseas. These practices are framed in the context of theoretical debates concerning the apparent emergence of 'multi-centred' or 'heterarchic' organisational forms in MNCs, the 'country of origin' effect that arises from the embeddedness of MNCs in the institutions of the home country and the extent to which there is a 'corporate division of labour' which governs the character of work in MNCs.

INTRODUCTION

Multinational companies (MNCs) are at the forefront of globalisation through the movement of capital, labour, technology, skills and knowledge across borders and within international supply chains. The most recent United Nations Conference on Trade and Development Report (UNCTAD, 2008) found that there are almost 80,000 MNCs worldwide employing a staggering 55 million people. While the current worldwide financial crisis may temper the pace of globalisation, it is unlikely to stall given the range of developments in information and communication technology (ICT) and transportation and trade regulation which are designed to encourage increased international business activity. MNCs have a long-standing presence in the Australian economy with the ratio of FDI to GDP being around 3%; higher than that experienced in most OECD economies (Treasury, 2002). They are critical to Australia in terms of their contribution to employment, investment, research and development, and trade.

The theoretical rationale of the paper covers three interrelated strands of the literature on MNCs. First, the management literature has described a variety of evolving models of MNC organisation as companies respond to the requirements of operating in an international economy. Research has highlighted, for example, the emergence of 'multi-centred' or 'heterarchic' firms in which strategic responsibilities are widely disseminated and in which the coordination of 'differentiated networks' becomes a key management task. This strand of the literature has also pointed to the accompanying growth of horizontal linkages involving innovative project- and team-based forms of international organising and to the strengthening of international structures based on regions and business divisions (Bartlett and Ghoshal 1989; Hedlund 1986; Forsgren 2004). These developments have stimulated a wide variety of intermediate structures and modes of organising management functions, including human resources, at international level (Edwards et al. 1996; Lee and Williams, 2007). These evolving and diverse developments have profound implications for how different MNCs manage employment practices

within their subsidiaries. At issue is whether these global developments tend to replicate each other and result in a convergence in the organization of MNCs (including HR practices), or whether the process of globalization results in increasing diversity in the organization and HR practices of MNCs.

Second, those addressing MNCs from a 'varieties of capitalism' perspective have stressed the way in which even apparently highly globalised firms are 'embedded' in the country in which they originated (e.g. Almond and Ferner, 2006). Given that the organisational structures of firms rooted in different national business systems continue to display major differences (Hall and Soskice, 2001; Whitley 2001), this embeddedness means that MNCs exhibit a 'country of origin' effect in the way that they manage their international workforces (Ferner, 1997). There is considerable evidence of this pressure in the way that MNCs operate.

Third, a quite different approach is to view employment practice in the subsidiaries of MNCs as being determined by the position of each subsidiary within a corporate division of labour. This approach has its roots in the work on the 'new international division of labour' (Frobel et al, 1980) which argued that MNCs were increasingly breaking up their production processes so that functions requiring skilled labour, such as research, design, sales and marketing, were located in developed economies while the labour intensive operations that could be performed by unskilled workers were located in developing countries. More recently, this idea has been developed by those writing about 'global value chains' (Gereffi et al., 2005) and has been taken up by some researchers looking at employment relations issues in MNCs.

In this paper we first discuss these theoretical areas and their significance in Australia, second we explore the literature on MNCs in Australia and Australian MNCs overseas and third we highlight some key research questions for future research.

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Convergence versus divergence

Institutional and related differences between countries have led some researchers observing the emergence of divergent patterns of employment practice while others argue that globalisation acts as a standardising force leading to greater convergence (Weber et al., 2000). This raises a number of important questions. For example as globalisation continues apace, are differences increasing or decreasing? Are we heading towards a homogenous global model of MNC operation? Convergence theorists suggest the logic of technology and markets are superseding differing national cultures towards universally applicable 'best practice' managerial techniques (Kidger, 1991). For example, research points to the implementation of a range of specific employment practices which can be identified with so-called High-Performance Work Systems (Murray et al., 2002). This suggests that there are real centripetal forces in the management of MNCs and that managers need to observe closely what others are doing, learn from it, mimic it and, where and when possible, improve upon it. While acknowledging variation in

management practices, this is ascribed to factors such as sector, organisation strategy, available resources, the nature of international competition and policies of the nation-state. They suggest these factors are diminishing in salience and in the long term practices will converge. On the other hand, the divergence thesis argues that management systems will continue to reflect the 'footprint' of their national institutional environment. Given the relatively low pressure for local 'institutional isomorphism' within the Australian business system, any observed similarities of employment practice among different kinds of MNCs could be taken as prima facie support for a convergence thesis.

Societal effects

MNCs inevitably carry the 'DNA' of their home countries or countries of origin. Hall and Soskice (2001) argue that firms are more likely to succeed and to foster innovation within their economic community and across their supply chain if they are compatible with, or even supported by, their institutional environment (varieties of capitalism literature). Moreover, in most cases, it is their original institutional environment that they carry with them, for example empirical studies demonstrate that European firms are different from U.S. firms (Almond and Ferner, 2006). More specifically, U.S. or Anglo-American firms are seen to be more impatient and aggressive, dominated by shareholder value. This translates into management practices which are more sharply oriented to formalization and centralized control. A key research question in Australia is what is the influence of country of origin on the employment practices in situ? Following on from this is, what is its effect on local managerial decision making autonomy?

Companies are under pressure to maximise the benefits of global co-ordination, while maintaining responsiveness to differences at local, national or regional level – often described as the 'think global', 'act local' paradox (Dowling et al., 1999). The question persists as to the extent to which their various foreign subsidiaries act and behave as local firms (local adaptation) versus the extent to which their practices resemble those of the parent firm (global integration). Also MNCs have the potential to be a major source of innovation in employment practice. However there is an absence internationally of comprehensive studies of the ways MNCs organise and manage their employees, employment practices and the extent to which these are standardised on a global basis (cf. McDonnell et al., 2007). As explained later, evidence on Australia is similarly limited.

Global value chains and MNCs

The emerging interest in global value chains (GVCs) in MNCs and the significance of employment relations has particular significance in Australia. A *value chain* refers to the process of technology, material and labour combining to produce products or services which are subsequently assembled, marketed and distributed. The MNC represents a particularly fitting context to study value chains. Typically, MNCs have a parent company headquarters and subsidiaries in other countries. Foreign operations will contribute in different ways to the parent company's objectives. For example, operations involved in research and development (R&D) may have a more significant role than those engaged in basic assembly and therefore occupy a higher position in the corporate value chain. It is now suggested that MNCs

are focusing their core competencies on building their value-added segments and simultaneously outsourcing or offshoring non-core activities (Gereffi et al., 2005). Research has analysed how MNCs establish differentiated roles for their constituent operations within organisational GVCs (Kaplinsky, 2000) and how subsidiaries develop 'mandates' within the company (Birkinshaw, 2000). This poses the question of why subsidiaries in some countries garner more pivotal roles than others within organisational GVCs. An increasingly topical issue is what activities are kept in-house and which are outsourced, and where to? For example, R&D is seen as most likely to be kept in-house, primarily in the country of origin, whereas 'back-office' functions are viewed as the more likely to be outsourced. All of this means that production is becoming more fragmented across geographic borders. A key question emerging for Australian scholars and policy makers is how does Australia fit in the practice of GVCs and what impact does it have on employment practice, labour standards and the labour movement, and how activities are being coordinated?

Australia's institutional context and its interconnectedness with the global economy

Australia has a number of features which highlight the value of a study of ER practices of MNCs in this country. First, it has a long tradition of legal regulation of employment conditions through a third party tribunal system. This sets it apart from many countries, including other Anglo Saxon countries. Second, Australia's proximity to Asia makes it an important country to research because of the significant number of Asian and Indian owned MNCs. Third, there are issues of public policy around whether unique institutional arrangements affect MNC ER innovation and different ER practices emerging in Australian based subsidiaries. Likewise, there is an issue for Australian MNCs operating abroad, whether they are able to develop and adapt these institutional arrangements for offshore operations.

The recent global financial crisis has demonstrated the interconnectedness of the Australian and global economies and the important economic and social consequences of this relationship. Also, sectors of Australian industry have undergone radical restructuring and greater exposure to the global economy due directly to government policy. For example, the privatisation of major government business enterprises (e.g. Qantas and Telstra) has created new Australian MNCs (Barton, 2002). The privatization of other government owned industries such as electricity and gas has led to new forms of MNC ownership and new forms of employment relations (Fairbrother and MacDonald, 2000). Developments include the entry of new MNCs by origin including Chinese and Indian MNCs.

Lack of comprehensive survey data of MNCs ER practices in Australia

Despite the theoretical and practical significance of these issues, there is a striking lack of comprehensive survey data on employment practices in MNCs in Australia; a phenomenon now being highlighted internationally (Collinson and Rugman, 2005). While there have been a number of studies, these tend to be somewhat dated and/or unrepresentative. There have been a number of studies utilising data from the 1990 and 1995 Australian Workplace Industrial Relations Surveys (AWIRS) in Australian and foreign-owned workplaces. For instance, McGraw and Harley (2003) compared the changes in ER practice,. They concluded that in Australia '*there is a pronounced divergence in the HR*

practices of overseas workplaces when compared with locals.' Foreign-owned MNCs were utilising a more sophisticated range of ER policies and practices at a faster rate than indigenous companies. The use of this data has three key limitations. First, AWIRS was a general workplace survey and was not designed to capture some of the more specific research questions that have emerged (e.g. impact of global value chains, new organisational structures). Second, the data from the AWIRS studies are not only quite dated but also were collected before the major industrial relations restructuring that took place after 1996. Finally, the study was not specially aimed at MNCs and did not differentiate Australian-owned MNCs from domestic only firms, something this study will address.

There has been recent evidence from cross-country data drawn from the GLOBE (Global Leadership and Organisational Behaviour Effectiveness) and CRANET (Study on Comparative Human Resource Management) research 1999-2000. Gooderham et al. (2006) compared the application of three typical HR practices (described as 'calculative HR practices') - performance appraisal, individual rewards systems and monitoring of training in US subsidiaries in four European settings and in Australia. However, CRANET data is similar to AWIRS in that the last full survey was conducted in 1999 and thus is now dated. In addition, the study focused on the workplace level (50 employees or more) and also included public sector organisations. Further, the populations from which the samples were drawn in the various CRANET surveys were not altogether comprehensive. Scholars have also used the International Best Practice Survey dataset to investigate compensation (Lowe *et al.,* 2002), training and development (Drost et al., 2002) and recruitment practices (Huo *et al.,* 2002). However, the focus was on HR practices was economywide, including the public sector and not specifically on MNCs.

Furthermore, other studies have been limited to particular sectors, industries or cases (cf. Lansbury et al*.,* 2006), to particular nationalities of MNCs (cf. Festing, 1997). There have been some informative studies on Australian-owned MNCs (cf. Zheng and Hyland, 2007). There have also been studies that explore the experience and challenges of managing expatriates overseas (cf. Harzing, 2001) and the impact of geographical distance and the role and management of subsidiaries in Australia and New Zealand (cf. Harzing and Noorderhaven, 2006). However, as already stated there has been no comprehensive survey on employment practices of MNCs in Australia.

CONCLUSIONS

In summary the literature contains some interesting insights. First, the global-local debate is prominent in many of the studies both in relation to foreign MNCs in Australia and Australian MNCs overseas. Second, the evidence suggests that there are many factors influencing global v. local control. The country of origin effect is noted particularly in relation to US and Japanese companies in Australia. However the impact of Australian companies overseas is not so clearly defined. Other factors include the effects of the type of product and product market in which the MNC operates; company and HR structure, language and cultural proximity and geographical distance on employment practices. Although as already stated the Australian evidence is limited. Third, host country effects are prominent in terms of structural and

institutional change. Australia's – 10 years of changing industrial relations legislation has possibly led to greater turbulence than in many other countries. Anecdotally, many companies and industries appear to have taken advantage of more favourable conditions to reshape their workforces.

Many different approaches have been taken in the literature on both foreign and Australian owned MNCs and their impact on employment relations in Australia. First, the different paradigms within the industrial relations, human resource management, international business and international management disciplines have applied different theoretical and analytical frameworks to their research. Yet, although there has been some discussion of administrative heritage there has been no clear exposition of the Australian business system and how this impacts on employment relations and human resource management. In particular there is little on GVCs and the impact on employment relations practices. Second, there are different methods used from surveys to case studies with limited consistency across methods. We have as of yet little by means of comprehensive large scale evidence on the employment practices of MNCs in Australia, both foreign and indigenous owned firms. In addition, previous studies are arguably particularly dated now as a result of the external conditions MNCs now face. With Australia about to officially enter 'recession status', a study that explores some of the questions heretofore posed is particularly timely for policy-makers, practitioners and researchers alike. In particular such a study could contribute to this debate by showing the extent to which HR practices in foreign MNCs resemble or diverge from each other; and following, the extent to which these practices are locally developed or applied at an organizational level globally.

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