HRM practices in subsidiaries of US, Japanese and German MNCs: Country-of-origin, localization or dominance effect?

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ABSTRACT

This paper contributes to two recurring and very central debates in the international management literature: the convergence vs. divergence debate and the standardization vs. localization debate. Using a large-scale sample of multinationals headquartered in the US, Japan and Germany as well as subsidiaries of multinationals from these three countries in the two other respective countries, we test the extent to which HRM practices in subsidiaries are characterized by country-of-origin, localization, and dominance effects. Our results show that for German and Japanese subsidiaries the dominance effect is most important, i.e. their practices appear to converge to the dominant US practices. For US subsidiaries localization effects are particularly important. Hence our results lead to the rather surprising conclusion that for what might be considered to be the most localized of functions – HRM – convergence to a world-wide best practices model is clearly present for Japanese and German multinationals. The lack of country-of-origin effects for Japanese and German multinationals leads us to a conclusion that is of significant theoretical as well as practical relevance. Multinationals might limit export of country-of origin practices to what they consider to be their core competences and converge to best practices in other areas.

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For at least four decades the international management literature has been characterized by two recurring and very central debates: on the macro (country) level the so-called convergence vs. divergence debate, which remains a key point of controversy in cross-cultural management; and, on the meso (company) level, the standardization vs. localization debate, one of the central questions in the literature on multinational corporations (MNCs). While on a theoretical level this latter debate has been mainly conducted with regard to management practices in general, human resource management (HRM) has occupied a particularly important position in empirical studies in this field. In this paper we adopt a broad definition of HRM as the activities that a company conducts to use its human resources effectively. Since HRM deals with the management of people, it is often seen as one of the functions that will be least likely to converge across countries and where MNCs are more likely to localize their practices than to export their country-of-origin practices. While our literature review below shows that there is considerable support for this assumption, the question remains whether the increasing importance of globalization and the ever-growing presence of MNCs will not diminish the localization of practices. In this context, the dominance effect assumes particular importance. It occurs when management practices of subsidiaries are neither shaped in accordance to the host country (localization), nor to the home country (country-of-origin effect), but according to that country which sets the standards for what are perceived global 'best practices'.

Much of the research in this area has focused on in-depth studies of a limited number of countries and has not allowed us to systematically compare the existence of country-of-origin, localization and dominance effects. This study therefore employs a very carefully matched design in which we investigate the same three countries (the USA, Japan and Germany) as home and host countries. We not only study HRM practices at headquarters (HQ) in each of these three countries, but also the practices of the subsidiaries of MNCs from each of the three countries in the two other respective countries. As a result we are able to compare the HRM practices of nine different groups of companies: headquarters in the USA, Japan and Germany, subsidiaries of Japanese and German MNCs in the USA, subsidiaries of US and German MNCs in Japan, and subsidiaries of Japanese and US MNCs in Germany. This will enable us to disentangle the country-of-origin, localization and dominance effects to a far greater extent than has been possible in other studies.

In the remainder of this article we will first provide an overview of the convergence vs. divergence and the standardization vs. localization debate, paying special attention to the dominance effect. We then integrate the various perspectives and discuss our rationale for focusing on HRM practices in the USA, Japan, and Germany as the subject of our empirical study. Subsequently, we review our methodology and present the results of our study. We come to the surprising conclusion that a function that is generally considered to be the most local of business functions shows very strong signs of converging to a dominant model that is applied worldwide, regardless of the home or host countries involved. Both German and Japanese subsidiaries seem to embrace the US HRM model, a finding that is consistent with other recent studies. In our discussion, we suggest that German and Japanese MNCs might limit export of management practices to what they consider to be their core competences and converge to what they see as best practices in other areas. Future research might assess whether this holds true for MNCs from other countries as well.

THEORETICAL FRAMEWORK

THE CONVERGENCE VS. DIVERGENCE DEBATE[1]

Authors following the convergence approach assume that in management ‘best practices’ can be defined which are universally valid and applicable, irrespective of national culture or institutional context. Efficiency imperatives and an increasingly similar global competitive environment are perceived to force companies to adopt such best practices in order to increase their competitiveness. From this follows a cross-national convergence of management practices (see e.g. Kerr et al., 1960; Levitt, 1983; Toynbee, 2001; Fenton-O’Creevy & Gooderham, 2003). Due to the dominance of American business schools in the development and dissemination of new management knowledge, the dominance of American consultancies in further spreading this knowledge and, most importantly, the strength of the American economy and American MNCs, ‘best practices’ in management are often, explicitly or implicitly, equated with management practices employed by successful American MNCs (Smith & Meiksins, 1995).

By contrast, scholars subsumed under the divergence or non-convergence school emphasize the embeddedness of national management methods in their cultural and institutional context and are therefore more skeptical about the possibility of cross-national learning from best practices. The literature in this area can be divided into two schools of thought: the culturalist and the institutionalist orientation. The culturalist tradition leans heavily on the work of Geert Hofstede, and in particular the indices of national cultural dimensions he developed (Hofstede 1980). Authors who developed similar cultural dimensions are Trompenaars and Hampden-Turner (1998) and House et al. (2004). The institutionalist school sees the institutional environment as the key determinant of organizational characteristics (DiMaggio & Powell, 1991; Scott, 1995). In the field of international comparative management the institutionalist approach is exemplified by the ‘business systems’ approach (Whitley, 1992, 1996, 2000), the societal effect approach (Maurice, 1979; Maurice et al., 1980; Sorge & Warner, 1986) and, more recently, the analysis of ‘varieties of capitalism’ (Hollingsworth & Boyer, 1997; Kitschelt et al., 1999; Hall & Soskice, 2001; Streeck, 2001a). Both the cultural and the various incarnations of the institutional approaches see little scope for cross-national convergence of management practices.

A country frequently referred to in this context is Japan. Its management model and in particular its HRM model has, at least until recently, been frequently depicted as very different from Western-style management, yet competitive (Vogel, 1979; Ouchi, 1981; Dore 2000; Kono & Clegg, 2001). Deep-rooted and unique cultural and institutional characteristics are usually cited as the key reasons for these differences (Inohara, 1990; Ballon, 2005; Pudelko, 2006b). However, important and persisting differences in management methods have been identified even among Western countries, mainly between the US and Europe (Guest, 1990; Brewster & Bournois, 1993; Brewster, 1995). According to Warner & Campbell it is German management that has, within the Western world, the symbolic status "as antithesis to the Anglo-American approach" (1993: 92; see also Lawrence, 1993). German HRM is met by American scholars with some, though limited, interest (e.g. Smith, 1991; Wever, 1995; Pfeffer, 1998).

More recent writings abandon the strict dichotomy between convergence and non-convergence in order to depict a more differentiated picture. Frenkel & Peetz (1998) describe a globalization-induced trend towards increasing convergence, which, however, finds a counter-balance in national culture, the role of the nation state and national industrialization strategies. Similarly, Katz & Darbishire (2000) observe a growing convergence of several patterns of HRM practices among industrialized countries, coexisting with an overall increasing divergence of employment practices within each country, a phenomenon they call converging divergences. Frenkel & Kuruvilla (2002) perceive employment relations patterns determined by the interplay of what they label three distinct 'logics of action': the logic of competition, resulting in the pursuit of 'best practices' and ultimately convergence; the logic of industrial peace, achieved in unique national solutions and encouraging non-convergence; and the logic of employment-income protection, which stands in between convergence and non-convergence.

THE STANDARDIZATION VS. LOCALIZATION DEBATE

On the company level, the question whether global management practices converge or remain different due to persisting differences in cultural and institutional contexts is closely related to one of the oldest debates in the literature on MNCs: the standardization vs. localization/adaptation or integration vs. responsiveness debate. The terms integration vs. responsiveness are mostly used to characterize general MNC strategies (e.g. Prahalad & Doz, 1987; Bartlett & Ghoshal, 1989), while standardization vs. localization/adaptation are more commonly employed to refer to functional areas such as marketing and HRM. The link between the convergence vs. non-convergence controversy and the standardization vs. localization debate is chiefly established by MNCs which are the main object of analysis of the latter debate and, as already established, one of the main reasons for assumed convergence in the context of the former debate.

One of the central questions in the literature on MNCs is the extent to which their practices resemble those of the parent company (standardization) versus the extent to which their subsidiaries act and behave as local firms (localization). In the light of globalization, HRM has evolved from a support function to a function of strategic importance. HRM is increasingly viewed as a crucial component of the firm's overall strategy (Schuler & Rogovsky, 1998). Some have even identified it as the glue that holds global organizations together (Teagarden & Von Glinow, 1997), and hence many MNCs attempt to transfer their HRM practices to their overseas subsidiaries. As a result HRM practices at subsidiary level will resemble practices in the home country more so than practices of local firms (country-of-origin effect). Country-of-origin effects have been shown to be persistent in many areas of management (see e.g. Harzing & Sorge, 2003;

Harzing & Noorderhaven, 2007). However, previous research has also shown that national cultural and institutional characteristics limit the transfer of HRM practices (Beechler & Yang, 1994; Ferner, 1997; Schuler & Rogovsky, 1998; Khilji, 2003; Myloni et al., 2004). As a result many MNCs adapt their practices to the host environment, hence showing localization.

The Dominance effect

In the standardization vs. localization debate, the concept of standardization is mostly understood as standardization of MNCs' management practices around those which are employed by headquarters and which therefore frequently reflect the specific patterns of the headquarters' home country (country-of-origin effect). However, what is all too often neglected in the MNC standardization vs. localization debate is that standardization can also take place around another pole: the management model which is considered to be particularly competitive and which therefore assumes the function of a role model. In this case, management practices of subsidiaries are neither shaped in accordance to the host country (localization), nor to the home country (country-of-origin effect), but according to that country which sets the standards for what are perceived global 'best practices'. Following Smith & Meiksins (1995) we label this form of standardization of management practices 'dominance effect'. Consequently, the standardization argument of the standardization vs. localization debate comprises actually two distinct effects: the country-of-origin effect and the dominance effect. Smith & Meiksins state:

> *"It is clear from history that there has always been a hierarchy between economies, and those in dominant positions have frequently evolved methods of organizing production or the division of labour which have invited emulation and interest. These 'dominant' societies are deemed to represent 'modernity' or the future, and act, either in total or through aspects of their system, as a measure of 'progress' and 'development'" (p. 255-6).*

One obvious reason for a country receiving the status of a dominant model is superior economic performance. More specifically, if the strengths of a successful economy are concentrated in industries which are characterized by intense international competition – for example, sophisticated mass production sectors like automobiles and electronics – the attention and the readiness to learn from it will be particularly strong. Such industries are often the focal point for defining 'best practices' and the place where global standards of management practice are set. Taylorism, or 'scientific management', has been the prime example for a management concept claiming universal validity. Other examples are lean production, kaizen, re-engineering and management by objectives.

According to Smith & Meiksins (ibid: 243) the USA, Japan and Germany are most frequently referred to as role models, "as they provide 'best practice' ideals from which other societies can borrow and learn". As economic performance and growth paths vary over time, however, the role of a 'dominant' economy also rotates among countries. In the 1950s, 1960s and most of the 1970s the American management style was clearly dominant and there was a common expectation that it would spread around the world, gaining application in many foreign countries. From the late 1970s to the early 1990s this argument was increasingly applied to Japan (Mueller, 1994) and to a lesser extent, and mostly limited to the European context, to Germany (Albert, 1991; Thurow, 1992). Since the implosion of the Japanese economy, the stagnation of the German economy and with the advent of globalization, the conventional wisdom over the last one and a half decade has been that the American management model is particularly well suited to provide the necessary flexibility to cope with the rapidly evolving economic and technological conditions and consequently the USA became again the dominant role model (Edwards et al., 2005). However, it must be acknowledged that more recently, economic growth in both Japan and

Germany is on the raise again. On a micro level this might possibly be partly accredited to learning from the dominant management model.

One major agent in diffusing ‘best practices’ globally are MNCs as they are considered to be particularly effective in transferring knowledge across national borders (Bartlett & Ghoshal, 1989). With the intensification of international competition and the increased global integration of economic activities, the importance of the concept of learning from ‘best practices’ defined by dominant economies has increased. Consequently, globalization can be interpreted as promoting standardization around dominant economies.

As ‘best practices’ frequently develop under the specific cultural and institutional context of the country they are originating from, adoption of those practices will be particularly difficult for countries that operate under very different socio-cultural contingencies. The actual outcome of the transfer process also depends on the relative openness or receptiveness to dominant ‘best practices’ of the receiving country. How global standards from a dominant model will be implemented in practice can therefore only be determined ex post, and not a priori (Smith & Meiksins, 1995). Institutional theory (Meyer & Rowan, 1977; DiMaggio & Powell, 1983) can help us explain how dominance effects develop. Subsidiaries of MNCs can be seen as part of the same population facing the same set of environmental conditions. Uncertainty in the environment might lead to mimetic isomorphism where organizations adopt seemingly successful ‘best practices’. Companies conform to increase their legitimacy as a successfully run organization, to impress shareholders and thus to increase their survival prospects. HR directors in turn feel a need to espouse the dominant model of HRM practices for instance to attract top talent globally and to impress superiors and peers.

As described above, the strength of national economies and of MNCs, business school research and teaching and consultancies are important factors determining what is considered ‘best practice'. The current dominance of the United States in all four areas seem to indicate that convergence can in many instances be equated to convergence toward management practices of the most dominant economy, the USA. According to Müller (1999: 126), the American concept of HRM in particular "has emerged as one of the most important prescriptions for a world-wide convergence of managerial practices" (see also Mueller, 1994 and Smith & Meiksins, 1995). In addition, globalization appears to play in favor of traditional American competitive advantages (Edwards et al., 2005; Pudelko, 2005). Consequently, in this study the dominance effect is defined as standardization around American management practices that are commonly perceived as representing 'best practices'.

Integration of the two debates, research gap and hypotheses

So far we have established that management practices in MNCs consist of the interplay between three effects: the localization effect, the country-of-origin effect and the dominance effect. If one adheres to the non-convergence concept, management methods can only be successful if they are adapted to the respective cultural and institutional context in which they operate. From this follows that MNCs need to adapt the activities of their subsidiaries to the contingencies of the respective host country (localization effect). In contrast, if more credence is attached to the convergence concept, MNCs should strive to standardize their practices throughout the organization. As we have seen, however, standardization can occur around home country practices (country-of-origin effect) or toward the management model which represents perceived 'best practices' (dominance effect). Hence the concept of convergence should be differentiated to cover both standardization effects. If MNCs follow 'best practices' of the dominant management model, we would observe a worldwide convergence of management practices. If, however, MNCs apply their country-of-origin management practices in their subsidiaries, convergence of management practices would only take place within MNCs. Figure 1 summarizes these relations.

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Our study will examine the relative importance of these three effects on the management practices of MNCs. We have chosen to focus on HRM practices in subsidiaries of US, Japanese and German MNCs. We believe that the area of HRM is particularly well suited for the investigation of these three effects since HRM practices are considered to be particularly difficult to transfer from one country to another. Consequently, if cross-national learning from 'best practice' can be achieved here, then it should also be possible for other management functions. Finding evidence of cross-national learning in HRM would therefore be a strong indicator for the (at least partial) validity of the standardization or convergence concept.

Our choice of US, Japanese and German MNCs was guided by five arguments. First, these three countries are the largest economies in the world (OECD, 2006)[ii]. Second, they constitute the leading economies of the triad North America, East Asia and Europe, which dominates the world markets (Ohmae, 1985; Thurow, 1992). Third, they represent three fundamentally different models of market economies: free-market economy, government-guided market economy and social market economy, rendering transfer of management practices between them more difficult (Thurow, 1992; Garten, 1993). Fourth, according to Smith & Meiksins (1995: 243) the USA, Germany and Japan are most frequently referred to as role models, "as they provide 'best practice' ideals from which other societies can borrow and learn". Fifth, the transfer of management practices between these three countries have been investigated rather comprehensively, resulting in findings which alternatively support the existence of all three effects (see e.g. Sullivan & Nonaka, 1986; Lane, 1989; Lincoln & Kalleberg, 1990; Gooderham et al., 1998). However, even though the transfer of management practices between these countries has been the subject of much research, the mixed and contradicting results point to the need for a more comprehensive and systematic study of these effects.

Our study provides a perfectly balanced and controlled sample that includes not only headquarters in each of the three countries, but also all subsidiary combinations. As a result we are able to compare the HRM practices of nine different groups of companies: headquarters in the USA, Japan and Germany, subsidiaries of Japanese and German MNCs in the USA, subsidiaries of US and German MNCs in Japan and subsidiaries of US and Japanese MNCs in Germany. This will enable us to disentangle the country-of-origin, localization and dominance effects to a far greater extent than has been possible in other studies. Since previous studies have found support for the existence of all three effects we propose the following rather generic research question:

RQ1: To what extent are country-of-origin, localization and dominance effects present in US, Japanese and German subsidiaries in three different host country contexts?

As we have discussed in some detail above, globalization of the world economy increasingly forces MNCs to adopt 'best practices' to remain competitive. We therefore presume that:

H1: The dominance effect occurs more frequently than the other effects.

H2: The dominance effect increases in importance over time.

METHODS

DATA COLLECTION AND SAMPLE

Data were collected through an extensive mail survey, focusing on HRM practices of US, Japanese and German MNCs. The first part of this study (1999-2000) focused on the headquarters. More specifically, questionnaires were mailed to the heads of the HR department of the top-500 companies from each of the three countries. It was assumed that heads of HR departments (usually at a Vice President level) had the best expertise and knowledge to provide the information required, given their senior position within the corporate hierarchy. In the second phase of this study, we obtained information from the subsidiaries. In 2001 US and Japanese subsidiaries in Germany were investigated, in 2002 US and German subsidiaries in Japan, and in 2003 Japanese and German subsidiaries in the USA. Again questionnaires were sent out to the heads of the HR departments.[iii]

The questionnaire was developed after an extensive review of the relevant literature. To enhance content validity and to minimise the possibility of misunderstanding, the questionnaire was pilot-tested in a focus group consisting of three HR German managers.[iv] These managers had between 5 and 25 years of work experience in multinational corporations. Pilot testing focused on both content and questionnaire design and resulted in some changes to enhance comprehensibility. In order to allow for direct comparisons, the subsidiary questionnaire contained partly the same questions as the HQ questionnaire, while other questions specifically focused on subsidiary issues. The headquarters questionnaire contained 36 items, while the subsidiary questionnaire included 67 items. Only data relevant to localization, country-of-origin effect and dominance effect are presented in this article.

Most questionnaires were sent out by mail, except for US subsidiaries in Japan, where the executive director of the American Chamber of Commerce in Japan sent them out via e-mail[v]. In total, 15 questionnaire versions in English, Japanese or German were used. Three questionnaires in the local language were used for the three HQ surveys. For each of the six groups of subsidiaries we provided two questionnaires, one in the home country language, one in the host country language.[vi] In order to secure consistency among the English, Japanese and German versions, the translation and back-translation procedure (Brislin, 1970) was used. A total of 849 HR managers participated in the various surveys. More detailed information on the number of respondents and the response rates can be found in Table 1. The lower response rates for the HQs compared to the subsidiaries reflect the fact that the top-500 companies of the three major economies in the world are very frequently targeted by surveys like ours (Harzing, 1997). In addition, we approached respondents at a very senior level (usually at vice president level). However, it should be observed that the response rate for Germany is still above comparable postal questionnaire research such as the well known Cranet-E-survey for Germany (Hanel 1996; see also Schmitt and Sadowski (2003)). The response rate for Japan is also above similar prior surveys in Japan as reported by Kato and Morishima (2003). In order to test non-response bias, we compared responding and non-responding firms on size (number of employees) and industry. No significant differences were found on these variables. We can therefore be reasonably confident that non-response bias is not a problem in our study.

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Our sample included a large variety of industries, both in manufacturing and in services. The overall median subsidiary size was 86 employees. Most of the subsidiaries (83%) were greenfields. We did compare results by sector (manufacturing versus services), both for the overall sample and by country. Neither of these comparisons produced significant differences in terms of HRM practices. A correlation analysis between size and HRM practices produced a very weakly significant result (Pearson's $r = 0.068$, $p = 0.096$). Differentiating this by home country showed that for both Japanese and US MNCs, larger subsidiaries are more likely to follow home country practices (at $p = 0.056$ and 0.048 respectively). This could be a reflection of the strategic importance of larger subsidiaries. Finally, we compared the HRM practices between greenfields and acquisitions, both for the overall sample and for each of the six subsidiary samples. In none of these samples did the difference in HRM practices between greenfields and acquisitions attain statistical significance.

MEASURES AND ANALYSIS

The respondents were presented with a set of twelve six-point bipolar scales concerning HRM practices and were asked to indicate for each of these pairs which practices they believed best characterized the human resource practices (found throughout all hierarchical levels) in their subsidiary (for the six subsidiary groupings) or companies in their country (for the three HQ countries). Whilst we do acknowledge that due the way that our data were collected, our data are subjective (opinions) and may not reflect actual HRM practices completely, we do feel that the comparative focus of our study counterbalances this common concern with surveys. We also do not have a reason to expect a systematic bias in our results.[vii] The twelve bipolar scales covered four categories, capturing the major elements of human resource management: recruitment and release of personnel, training and development, employee assessment and promotion criteria as well as employee incentives. Appendix 1 provides an overview of all twelve pairs of opposing statements. Using content-oriented scale anchors and an even numbered scale avoids the acquiescence response effect often found in scales expressing agreement and the medium response effect found with scales with a distinct mid-point. This is particularly important for our study since Japanese respondents have been found to show response effects that are very different from those of US respondents (Chen et al., 1995; Harzing, 2006). The scale anchors were based on an extensive review and synthesis of the literature and designed to cover a comprehensive spectrum of possibilities in between which each of the three HRM models could be situated. Space constraints prevent us from providing supporting citations for each of the twelve opposing statements. However, the following texts are representative of the publications that were used to construct the questionnaires items: for the USA: Kalleberg et al. (1996), Kochan (1996), Ichniowski et al. (2000), and Strauss (2001); for Japan: Yoshimura & Anderson (1997), Ornatowski (1998), Dalton & Benson (2002), and Matanle (2003); and for Germany: Wever (1995), Müller (1999), Streeck (2001b), and Wächter & Muller-Camen (2002).

The Cronbach reliability coefficient for this 12-item scale was $\alpha = 0.77$. Based on the HQ data it was established that typical US practices were situated close to the anchors on the left-hand side (as depicted in Appendix 1) and typical Japanese practices close to the anchors on the right-hand side, while typical German practices were found in-between. For each of the six groups of subsidiaries an ANOVA analysis subsequently compared the mean scores of the subsidiary HRM practices with the HRM practices of the home and host country (as measured at HQ). If a subsidiary's mean score was not significantly different from the home country mean score, but was significantly different from the host country mean score, we assumed the presence of a country-of-origin effect. If a subsidiary's mean score was not significantly different from the host country mean score, but significantly different from the home country mean score, a localization effect would be present. If a subsidiary's mean score was significantly different from home country mean score, but not significantly different from the mean score of US practices, a dominance effect was assumed.

The increase of the dominance effect over time was measured by asking respondents to indicate on a five-point scale whether their subsidiary's HRM practices were more similar to home country practices or to host country practices. This question was repeated for the present, the past and the future. If the dominance effect would increase over time, we would expect Japanese and German subsidiaries in the USA to show an increasingly strong resemblance to local practices, while US subsidiaries in both Germany and Japan would show a decreasing resemblance to local practices. Whereas this cannot be considered to be a longitudinal design in the strict sense, it does provide us with some indications of changes over time.

Supplementary information to test both hypotheses came from the questionnaires completed at HQ level in the three countries. Respondents at this level were asked about the extent to which they believed companies of their own country had oriented themselves (in the past) or will orient themselves (in the future) towards HRM practices from the two other countries. Although again, this does not provide our study with a longitudinal aspect in the strict sense, we would argue that the two sources combined give us a good indication of changes over time.

RESULTS

As Table 2 and Figure 2 show there are substantial differences between the three countries included in our study. A clear dominance effect is present in two cases: Japanese subsidiaries in Germany and German subsidiaries in Japan. In both cases, subsidiaries resemble neither home nor host country, but instead follow US practices. For Japanese subsidiaries in the USA, we can only conclude they follow US practices, but cannot establish whether this is caused by a dominance or localization effect. The same is true for German subsidiaries in the USA, although differences here are smaller than for Japanese subsidiaries. US MNCs show a combination of localization and country-of-origin/dominance effects[viii]. In Japan, the HRM practices of US subsidiaries are in between parent and host country practices and significantly different from both, but are closer to home country practices. In Germany, HRM practices of US subsidiaries also lie between parent and host country practices, but are closer to (and not significantly different to) host country practices. Overall, and in response to RQ 1, we therefore find that while all effects are present in our sample, the dominance effect seems to be stronger than the localization and country-of-origin effect.

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Importance of the dominance effect

Hypothesis 1 posited that the dominance effect would occur more frequently than the other effects. Our results find substantial confirmation of this hypothesis. In the only two cases where a dominance effect could be tested unambiguously (Japanese subsidiaries in Germany and German subsidiaries in Japan) this effect was indeed present. In two other cases (German and Japanese subsidiaries in the USA) a movement towards dominant US practices was apparent, but as the host country location was the USA, we could not establish whether this was a localization or a dominance effect. The only two cases in which a dominance effect was not present were US subsidiaries in Germany and Japan that at least partially localized their practices, rather than fully transfer their dominant home country practices. However, as we will see below even these subsidiaries are expected to reduce their localization in the future.

Increase of the dominance effect over time

Hypothesis 2 posited that the dominance effect would increase over time. An increasing dominance effect would imply that foreign (Japanese and German) subsidiaries in the USA would progressively increase their resemblance to local practices over time and that subsidiaries of US MNCs (in Japan and Germany) would decrease it. As Table 3 and Figure 3 show this is exactly what happens. While resemblance to local practices was fairly similar ($F = .933$) for all four groups in the past, it has diverged in the present ($F = 21.998^{***}$) and is expected to diverge even more in the future ($F = 63.415^{***}$). This divergence follows the predicted direction, i.e. more resemblance to local practices for subsidiaries of German and Japanese MNCs in the US and less resemblance to local practices for US subsidiaries in Japan and Germany. The difference between future and past is highly significant for three of the four groups.

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Sensitivity analysis: a comparison of local and expatriate respondents and manufacturing and service subsidiaries

An alternative explanation for our results at subsidiary level could be that respondents from different nationalities might have a tendency to assess the company's HRM practices in different ways, depending on their familiarity with either host or home country practices. Local managers – who are more familiar with local HRM practices – might have a higher tendency to perceive their company's HRM practices as different from local practices, while expatriate HRM managers – who are more familiar with home country HRM practices – would be more attuned to the differences with home country practices. We therefore repeated our analyses for hypothesis 1 and 2 by splitting the sample in each country into local and expatriate respondents. In most cases, we do indeed find local managers to be slightly more inclined to report HRM practices closer to home country practices, while expatriates are slightly more likely to report HRM practices closer to host country practices. However, the overall results with regard to both hypotheses do not change. According to hypothesis 1 a dominance effect is clearly present for German subsidiaries in Japan and Japanese subsidiaries in Germany, while both German and Japanese subsidiaries in the USA show a move towards US practices; US subsidiaries show a partial localization effect for both local and expatriate respondents. Confirming hypothesis 2, both local and expatriate respondents indicate an increasing level of adaptation to local practices in the USA and a decreasing level of adaptation to local practices in Japan.

As a reflection of the fact that, on average, Germany and Japan have a stronger competitive advantage in production and engineering, subsidiaries of German and Japanese MNCs in our sample had a higher proportion of subsidiaries in the manufacturing sector (2/3-3/4 of the subsidiaries were in manufacturing) than subsidiaries of US MNCs (just over half of the subsidiaries were in manufacturing). We therefore conducted a supplementary analysis to establish whether this differential distribution might have influenced our results. A country-by-country comparison looking at the difference in HRM practices for service and manufacturing subsidiaries did not find significant differences for any country. The differences between the two industries were largest in the two cases where the dominance effect was strongest: German subsidiaries in Japan, and Japanese subsidiaries in Germany. However, in these cases HRM practices in subsidiaries in the service industry were actually more similar to US practices than HRM practices in subsidiaries in the manufacturing industry. Hence the overrepresentation of the manufacturing industry for our German and Japanese samples only attenuated the dominance effect, it did not reinforce it. As a result, we feel we can be confident in the robustness of our results.

The dominance effect at HQ level

Another way to test hypothesis 1 and 2 is to assess and compare the extent to which MNCs from the three different countries indicated that they had oriented themselves towards, or adopted, particular human resource practices of corporations of the other two countries since the 1980s or will do so in the future. Data collected at HQs confirm that for Japanese and German respondents there has been an orientation, albeit cautiously, towards American HRM since the 1980s. When the same question was asked with regard to the future, the results were very similar. Once again

American HRM is rated as the strongest source of inspiration, although more so by the Japanese than the Germans. In comparison, orientation by American and German companies towards Japanese HRM and by American and Japanese companies towards German HRM was rated significantly lower, both with regards to the recent past and the future. Hence data gathered through a different source (HQ managers) and a different type of question provide confirmation of our results above. In both cases it is apparent that the US HRM practices are dominant and that this is the case for Japanese MNCs even more so than for German MNCs.

DISCUSSION AND CONCLUSION

Comparison of US, Japanese and German subsidiaries

Subsidiaries from the three home countries seem to act very differently. Even though the US model is defined as the dominant model, US subsidiaries are localizing their HRM practices to some extent in Japan and even more so in Germany. However, our data show a clear indication that US MNCs intend to adapt less to local practices in the future and hence might stick more closely to their own dominant model. Moreover, even though US subsidiaries are the only ones that show some level of localization, they are also the only ones that do engage in some level of transfer of their home country HRM system, especially in Japan, where local HRM practices are substantially different from home country practices.

Subsidiaries of Japanese MNCs have a very strong tendency to abandon their home country practices and move towards US practices. In Germany this provides a clear indication of dominance, while in the US this could be interpreted as either dominance or localization. However, given the strong desire of Japanese MNCs, expressed at HQ level, to orient themselves to US practices it is likely that the adoption of American practices in the US is motivated by a dominance effect. We suggest that this finding is of practical relevance not only for the management of Japanese MNCs but also for foreign companies operating on the Japanese market. If Japanese companies themselves increasingly abandon traditional Japanese HRM practices, there is no need for foreign companies to attempt to be 'more Japanese than the Japanese' and localize HRM practices. Our data for US and in particular German subsidiaries in Japan show that this conclusion is increasingly embraced by foreign companies. However, as Evans et al. (2002: 222) observe, many foreign joint ventures in Japan represent "museums of Japanese management" as they employ obsolete HRM practices that local Japanese companies abandoned a long time ago, but which are still presented to the foreign HQ as the 'Japanese' way of managing human resources.

German subsidiaries also have a clear tendency to adopt US practices although – because of the fact German practices were already closer to US practices – the change isn't as dramatic as for Japanese subsidiaries. The behavior of German subsidiaries in Japan shows a clear dominance effect as German subsidiaries seem unwilling to either adapt to the Japanese host practices or transfer German home practices and instead embrace US practices. In the USA, German subsidiaries show a partial move to US practices, which – as for Japanese subsidiaries – could be interpreted as either dominance or localization. However, although to a lesser extent than Japanese MNCs, German MNCs express a desire to orient themselves towards US practices and hence it is likely that the adoption of US practices is motivated by the dominance effect.

STRONG SUPPORT FOR THE DOMINANCE EFFECT

Overall, we find support for the presence of the dominance effect from three sources: a comparison of HRM practices of six groups of MNC subsidiaries, a comparison of the past, present and future of adopting home/host country practices in four groups of MNC subsidiaries, and an analysis of the sources of inspiration for US, Japanese and German HQs. This finding is of major significance as we have already established that in the MNC literature the standardization of management practices is mostly associated with the country-of-origin effect and much less so by the dominance effect. Furthermore, it is interesting that a function that is generally considered to be the most local of business functions shows such strong signs of converging to a dominant model. On a practical level this could be interpreted as an encouragement for MNCs to globally seek inspirations, even for HRM, from ‘best practices’.

It is, however, also possible that our findings are to some extent a reflection of the countries involved. German and Japanese companies typically build on their competitive advantage in production, while US companies might have a competitive advantage in marketing or HRM. German and Japanese companies might simply mimic what they see as best practices in HRM and hence have fewer problems to abandon their traditional HRM practices than their other management practices. A recent study based on 13 case studies of German MNCs in Hungary (Dörrenbächer, 2004) came to a similar conclusion. In this study most German MNCs did insist on a transfer of their production model, but only selectively transferred their labor relations model. In a study focusing on Greece Myloni (2002) also found US MNCs to transfer a significantly higher level of HRM practices to their Greek subsidiaries than German MNCs.

Our results are also consistent with a smaller scale, unpublished study conducted in Australia among 23 Japanese and 44 American subsidiaries (Raffa, 2002). Across a very wide range of HRM practices, virtually no significant differences were found between American and Japanese subsidiaries. However, Raffa found that while Japanese subsidiaries had significantly ($p=0.02$) lower autonomy than American subsidiaries with regard to decision on product development, the situation was completely reversed with regard to HRM. A compound of the ability to modify practices with regard to recruitment/selection, compensation, training and development and appraisal (Cronbach's alpha 0.90) was significantly (p=0.02) lower for American subsidiaries than for Japanese subsidiaries. Respondents at American subsidiaries also agreed to a significantly larger extent with statements such as "HQ should transfer HR practices to subsidiaries" (p = 0.000) and "it is important to have uniform HR practices" (p=0.001). Finally, American subsidiaries indicated a significantly (p=0.035) larger extent of monitoring of HRM practices by HQs than Japanese subsidiaries. As a result the difference in the bundle of HRM practices between HQ and subsidiaries was significantly (p=0.000) larger for Japanese subsidiaries than for American subsidiaries. HRM was clearly seen as a more strategic function in US subsidiaries than in Japanese subsidiaries, since the HR manager was part of top management in 81% of the subsidiaries, while this was the case for only 50% of the Japanese subsidiaries (and 65% of the Australian-owned control group).

Given the strong convergence to the dominant US model of HRM in overseas subsidiaries of Japanese and German MNCs, we might wonder what implications this may have on HRM 'back home' at Japanese and German HQs. Our data at HQs indicate that changes might be imminent there as well and that reverse transfer of HRM practices might become more important. And since our data at HQs were collected a couple of years before the data at subsidiary level, these imminent changes might already have occurred. Some support for this was found by Edwards et al. (2005) who reviewed several recent studies that show evidence of "reverse diffusion of employment practices" in both German and Japanese MNCs. In this context, it is also important to note that we shouldn't expect every subsidiary to be brought into the 'best practices' scheme in the same way. The subsidiary's strategic role may also affect this (see Taylor, Beechler & Napier, 1996). Recently Harzing & Noorderhaven (2006) confirmed the continued relevance of Gupta & Govindarajan's (1991) typology of subsidiary roles based on knowledge inflows and outflows. In this terminology, implementors – that are characterized by high knowledge inflow and low knowledge outflow – could be expected to adopt best practices. On the other hand, global innovators – that are characterized by low knowledge inflow and high knowledge outflow – would be more likely candidates for reverse transfer, also in terms of HRM practices. Hence they are helping HQ to define best practices that could subsequently be transferred to other subsidiaries within the MNC network.

Limitations

Our study is not without limitations. First, although our sample was unique in that, in addition to three sets of HQ data, it included all six possible subsidiary combinations of the three major industrialized countries in the world, the sample sizes for the individual home/host country combinations differed substantially. In particular our samples for US subsidiaries in Japan and Germany were relatively small, comprising 36 and 54 observations respectively. However, given that our most significant conclusions related to Japanese and German subsidiaries, we do not consider this to be a major problem. Second, common method/source variance might have inflated similarity in the response to HRM practices on the one hand and localization questions on the other hand, making the latter less suitable as an independent test of the dominance effect. On the other hand, the two sets of questions were structured in a very different way and had different scale anchors and hence we have no reason to assume that common method/source variance should be a significant problem here. Moreover, the increase in the dominance effect was validated by data from another source (HQ HR managers). Third, although our design was perfectly balanced in terms of host and home countries, we only had two cases in which we could unambiguously test a dominance effect. Future studies might want to explore whether a dominance effect is present in German and Japanese subsidiaries in other countries as well. Fourth, our data sets were collected over the course of several years. Subsidiary samples were collected a couple of years after the HQ samples. It is possible that this is one of the reasons why we find that the subsidiaries are showing signs of convergence to the US model, while practices at HQs are still clearly distinct (even though our HQ data already indicated that German and in particular Japanese HR managers are willing to adopt US practices to some degree). However, this does not in any way negate our core argument that the dominance effect is most important. As our data collection took place in the early part of the 21st century, this might explain why our study found a stronger dominance effect than other studies that were conducted in the 1990s. Fifth, our study has not incorporated a performance dimension. While we do make a strong case that Japanese and German subsidiaries follow the dominant US HRM practices in order to improve their performance, we cannot actually establish that this improvement actually takes place.

A final limitation, our reliance on a single informant at both HQ and subsidiaries, requires a more extensive discussion. We selected our respondents – high level HR managers – because we considered them to be the key informants most knowledgeable about the phenomena under investigation. However, Bowman & Ambrosini (1997) caution against using single respondents in strategy research and claim that while the CEO might be the best person to provide information about the company's intended strategy, the CEO may be a less objective respondent when it comes to realized strategy. In the latter case, his/her observations might be biased by his/her emotional commitment to the intended strategy. The same might be true in our study. HR managers might be espousing the dominant US HRM model in their external communications (including responses to surveys), while their actual HRM practices are much more localized and adapted to local circumstances. Further, possible respondent bias and divergence between respondents has been shown to exist. Wright, McMahan, Snell and Gerhart (2001) for instance found that HR executives differed from line managers in their assessment of HR effectiveness. However, whilst this might influence overall responses, this would not necessarily invalidate our comparisons *between* countries. Finally, our respondents might be suffering from an upper echelon bias (Hambrick & Mason, 1994). They might have completed an MBA, read Harvard Business Review and/or interact with management consultants. As a result they may have adopted, at least at a superficial level, the notion that business should be conducted in a certain way. Organizations might thus be separating talk and actions to reconcile competing and contradicting demands in their environment (see Brunsson, 2000 and 2002 for a more extension discussion of this phenomenon).[ix] The extent to which this is true is difficult to assess without more in-depth qualitative case study research in individual organizations, which would also allow researchers to canvass actual employees on what they perceive the HRM practices to be. As result, we do acknowledge that it is possible that we measured an element of aspirations in addition to actual practices. However, we would argue that this is true for any survey. Moreover, even if our data contained an element of aspiration, this would still confirm our main conclusion of the existence of a dominance effect. After all, we surveyed the most senior managers responsible for HRM at the subsidiary level, and if they aspire to implement certain changes, we believe one can also assume that this will at least indicate the overall direction of real change.

In spite of its limitations, we feel that our study has made a significant contribution to the convergence/divergence and standardization/localization debate. Our carefully balanced sample allowed us to investigate a range of effects that had only been researched in a rather piece-meal fashion in previous studies. Our results lead to the rather surprising conclusion that for what might be considered to be the most localized of functions – human resource management – convergence to a model perceived to represent world-wide 'best practices' (also called dominance effect) is clearly present for Japanese and German MNCs.

MANAGERIAL IMPLICATIONS

Our study also has significant practical implications. MNCs should be wary not to localize management practices that local companies themselves increasingly perceive as obsolete. Only in those instances in which subsidiaries see themselves obliged to adapt to the specific local cultural and institutional context, should they be allowed to localize their management practices. Our findings indicate that there appears to be less need for companies to localize than what is frequently believed. After all, the subsidiaries in our survey saw little need to localize, even in the area of HRM that is often associated with localization. Companies will continue to be confronted with the key challenge to find a fine balance between localizing and standardizing management practices. However, our data for Germany and Japan in particular, suggest that MNCs can no longer afford to define standardization simply as worldwide adoption of home country practices (country-of-origin effect). Instead, companies should seek standardization around 'best practices', wherever they originate from. If home country practices appear to be highly successful, this competitive advantage should be carefully exploited throughout the entire organization and therefore in this case standardization towards home country practices should prevail. If, however, foreign practices seem to be superior, they should be the source of inspiration. Consequently, whenever there is no necessity to localize management practices and whenever home country practices are not defining 'best practices' MNCs should strive for standardization towards global 'best practices'. However, the weight of organizational heritage as well as the implicit or explicit equation in the management literature of standardization with standardization towards HQ is standing in the way of this difficult change process.

MNCs are likely to operate in countries where 'best practices' exist. In these instances, local subsidiaries know best how to apply those practices. We predict, therefore, that reverse knowledge transfer will gain in importance. While the United States currently are clearly representing the dominant model, increasingly there are indications that this dominance might gradually give way to a more multi-polar world. The European and Japanese economies are picking up again, also in comparison to the American economy, and countries such as China, India, Russia and Brazil will further reduce the American economic dominance. A relative decline in the dominance of the American economy, American MNCs and the American management model might also lead to a growing difficulty in defining what 'best practices' actually are. Increasingly, there will be more than one source for 'best practices', rendering reverse knowledge transfer processes even more complex.

Our conclusion appears to be a clear warning that ethnocentric approaches are no longer sustainable in today's globalized corporate environment. Instead, our data seem to support geocentric (Perlmutter, 1969) or transnational (Bartlett & Ghoshal, 1989) corporate models. Future research might assess whether these conclusions based on HRM data from the three major economies in the world hold true for other management areas and for MNCs from other countries as well.

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TABLES AND FIGURES

Figure 1: Clarification of terms

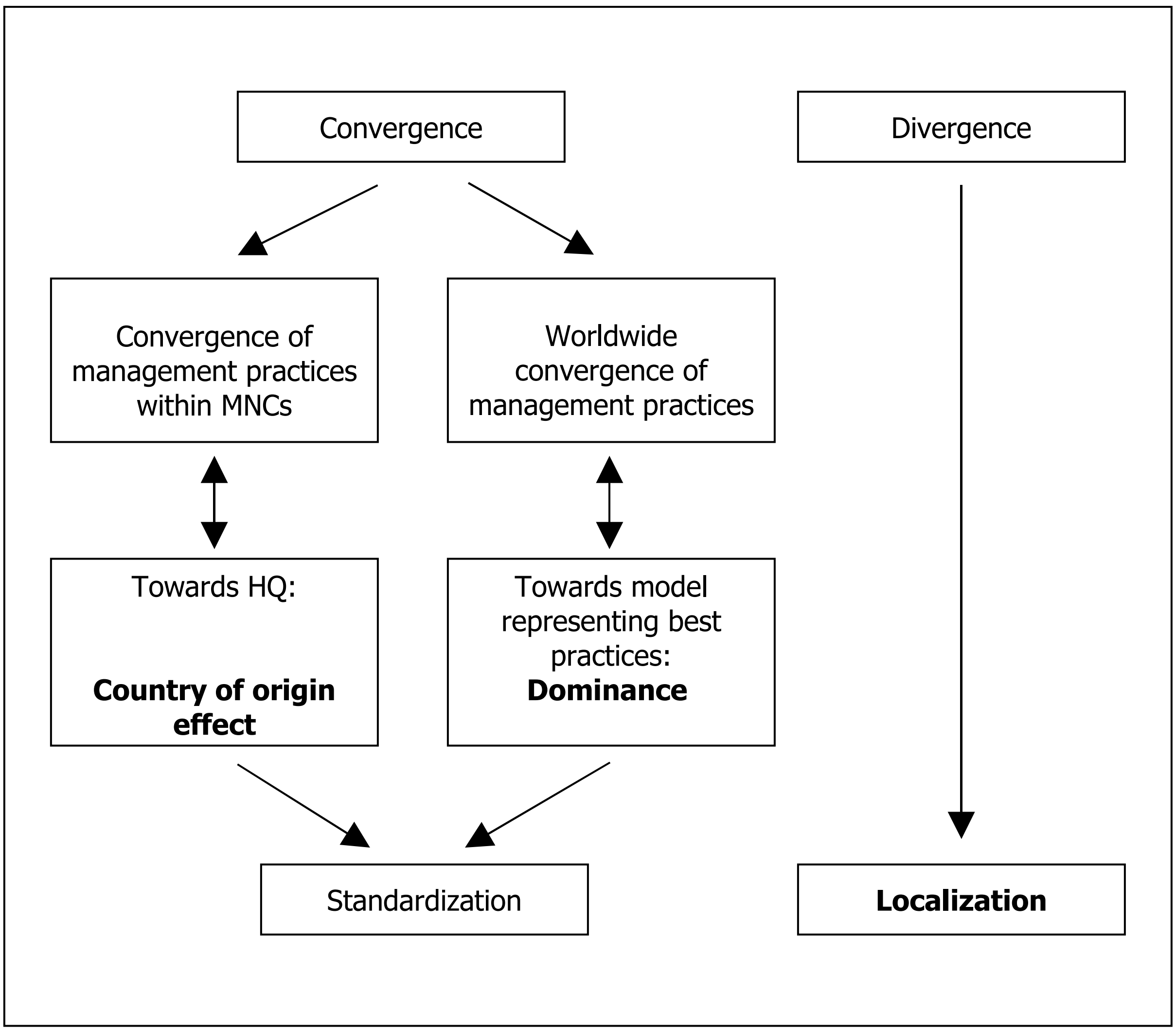


Table 1: Responses and response rates

Companies	Country of origin	Questionnaires mailed	Returned undeliverable	Returned Responses	Response rate
Headquarters	USA	500	18	57	12%
	JPN	500	8	68	14%
	GER	500	2	107	21%
	Subtotal	*1500*	*28*	*232*	*16%*
Subsidiaries in Germany	USA	250	27	54	24%
	JPN	250	19	82	35%
	Subtotal	*500*	46	*136*	*30%*
Subsidiaries in Japan	USA	74*	0	36	49%
	GER	250	23	85	37%
	Subtotal	*324*	23	*121*	*40%*
Subsidiaries in the USA	GER	500	62	151	34%
	JPN	600	57	209	38%
	Subtotal	*1100*	119	*360*	*37%*
Total		*3424*	216	*849*	*26%*

* For American subsidiaries in Japan only those companies that agreed to be approached by the researchers were contacted. This explains both the small number of questionnaires been sent out and the relatively high response rate.

Table 2: Country-of-origin, dominance and localization effects

Subsidiary location	**Home country mean**	**Subsidiary mean**	**Host country mean**	**US mean**	**F-value**	**Significant differences at p < 0.05**	**Country-of-origin effect?**	**Dominance effect?**	**Localization effect?**
US subsidiaries in Japan	2.87	3.22	4.09	---	55.801***	Home Country < Subsidiary < Host country	Partial?	Partial?	Partial
US subsidiaries in Germany	2.87	3.08	3.25	---	8.211***	Home Country < Host country & Subsidiary	No	No	Yes
Japanese subsidiaries in the USA	4.09	2.74	2.87	---	94.300***	Subsidiary & Host country < Home Country	No	Yes	Yes?
Japanese subsidiaries in Germany	4.09	2.89	3.25	2.87	52.871***	US & Subsidiary < Host country < Home Country	No	Yes	No
German subsidiaries in the USA	3.25	2.96	2.87	---	11.205***	Host country & Subsidiary < Home Country	No	Yes	Yes?
German subsidiaries in Japan	3.25	2.73	4.09	2.87	70.381***	US & Subsidiary < Home country < Host country	No	Yes	No

Figure 2: Country-of-origin, dominance and localization effects by home country

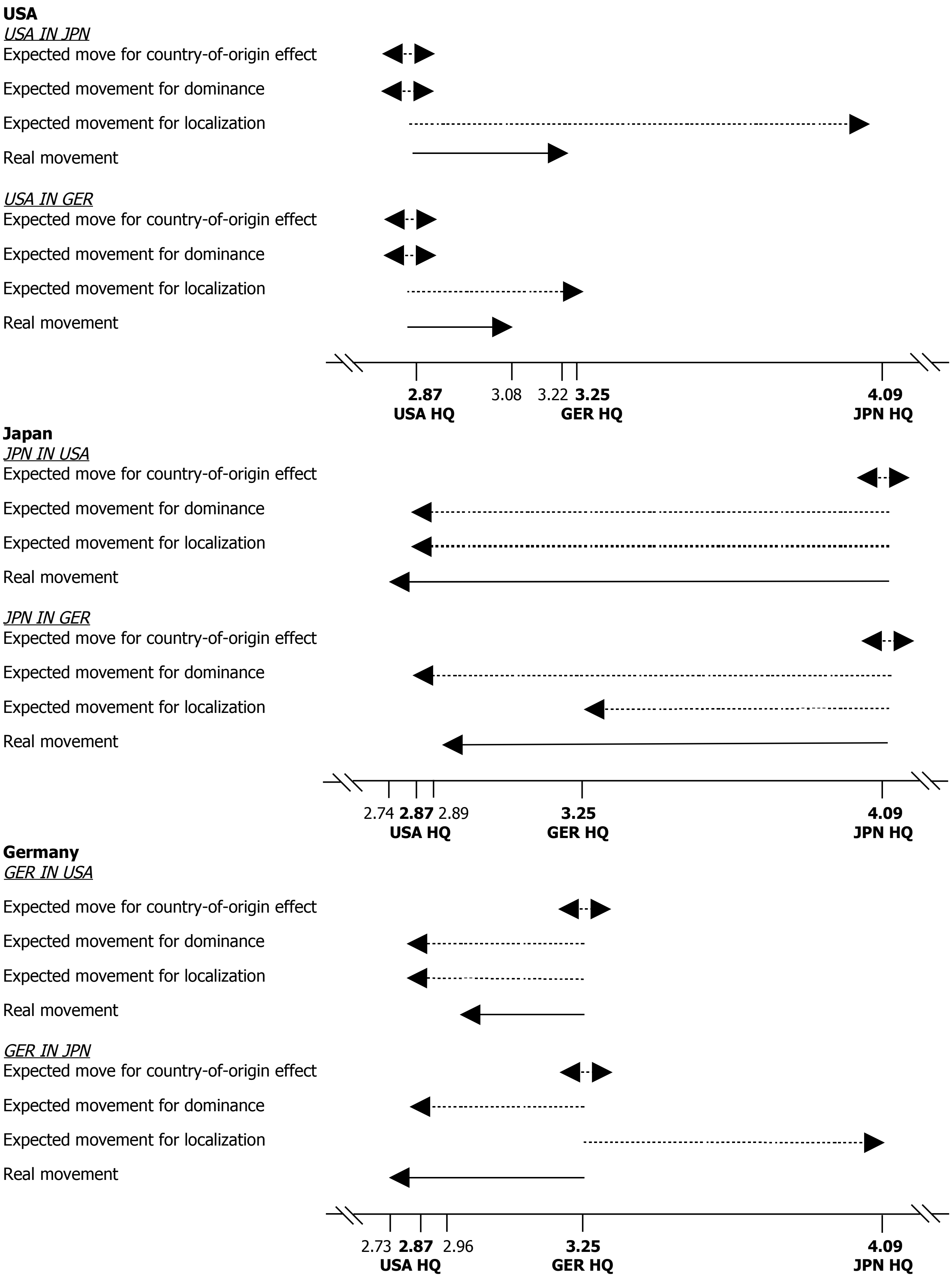
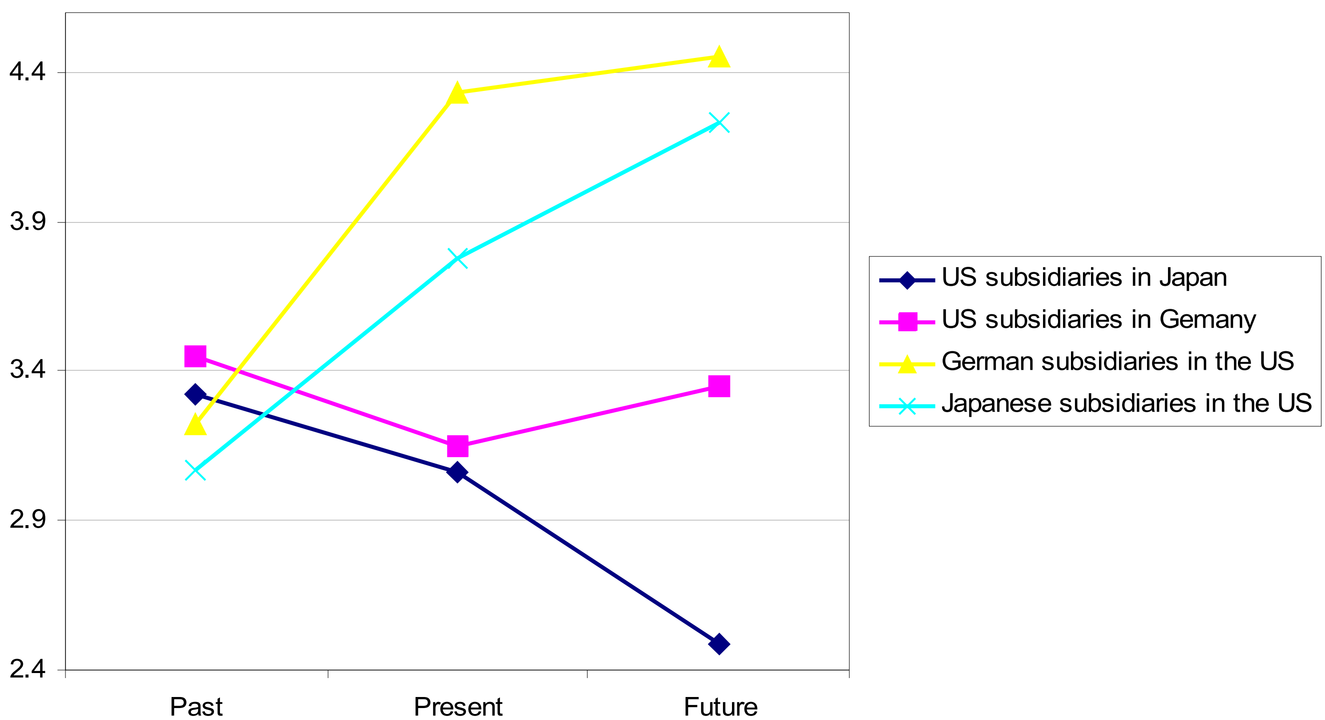


Table 3: Extent of adaptation to local practices

Subsidiary Type	Past	Present	Future	Difference Present vs. Past	Difference Future vs. Present	Difference Future vs. Past	Sign. of difference future vs. past (t-values)
US subsidiaries in Japan	3.32	3.06	2.49	-.26	-.57	-.83	-6.648***
US subsidiaries in Germany	3.45	3.15	3.35	-.30	.20	-.10	.485
German subsidiaries in the US	3.22	4.33	4.45	1.11	.12	1.23	18.553***
Japanese subsidiaries in the US	3.07	3.78	4.23	.71	.45	1.16	19.078***

Figure 3: Extent of adaptation to local practices



APPENDIX

Recruitment and Release of Personnel

	vs.
• finding the best qualified candidate (from within the company or externally) for a predefined position (job-oriented)	• recruitment of new graduates to a permanent employer-employee-relationship; more senior positions are filled exclusively using internal personnel (people-oriented)
• selection based on performance and expertise in a given area	• selection based on inter-personal skills
• high labour turnover (low degree of loyalty between employer and employee)	• low labour turnover (high degree of loyalty between employer and employee)

Training and Development provided by the Company

• training focused on specific knowledge for narrowly defined tasks (goal: to create a specialist)	• widespread training for broadly defined tasks (goal: to create a generalist)
• tendency to be limited and focused on the individual	• tendency to be extensive and focused on the work group
• little effort to mould the employee in accordance with the company's culture	• much effort to mould the employee in accordance with the company's culture

Employee Assessment and Promotion Criteria

• heavy weight on individual achievements	• heavy weight on seniority and contribution to collective achievements
• primarily formal, quantifiable promotion criteria (results oriented)	• primarily informal, non-quantifiable promotion criteria (behaviour-oriented)
• career path usually confined to one department or area	• career path encompassing several departments and areas

Employee Incentives

• primarily material incentives	• a mix of material and immaterial incentives
• pay depends on individual performance	• pay depends on seniority
• very large difference in pay between top-managers and average workers (more than 100 fold)	• little difference in pay between top-managers and average workers (less than 20 fold)

ENDNOTES

[i] We believe that in the context of this debate the term 'divergence' is a rather inappropriate and misleading antonym of 'convergence'. To diverge literally means "to move apart", yet, most authors of the so-called 'divergence' approach argue that national management models are different and will remain different due to persisting differences in cultural and other societal factors by which they are largely determined – without, however, going as far as to state that those management models actually move apart, that is, become over time even more different from one another (Pudelko, 2006a). It might be more appropriate to talk about 'non-convergence' or 'persisting differences' as antonym to 'convergence'. Similar, but not identical terms are 'culture free' vs. 'culture bound' (Lammers and Hickson, 1979), 'universalism' vs. 'institutionalism' (Smith and Meiksins, 1995), 'universalism' vs. 'contingency' (Delery and Doty, 1996) or 'universalism' vs. 'particularism' (Pudelko, 2006a).

[ii] In spite of the increasing importance of for instance China (which recently surpassed the UK in terms of GDP) the top three countries (US, Germany, Japan) have not changed.

[iii] We do acknowledge that the HR manager could have delegated the task of responding to the questionnaire to another staff member. However, the content of our questionnaire was such that it would have been very difficult for anyone but the HR manager to reply to it. So if the HR manager did not feel inclined to reply to the questionnaire, we consider it more likely that this would result in a non-response than in a response by someone not qualified to respond to the survey.

[iv] Whilst we would have preferred to enlist the help of a more diverse focus group, this was not practically feasible at the time. However, we do not think it has influenced our results. Neither non-response nor missing data did differ systematically between countries and we received positive feedback from both Japanese and US HR managers that participated in the survey.

[v] In this case, most respondents printed the questionnaire out, filled it in manually and faxed it to the researcher. Consequently, the procedure was very similar to that for the questionnaires sent by mail

[vi] Names and addresses were taken from the following sources: For US HQ: 'Fortune Guide to the 500 Largest U.S. Corporations' (1999); for Japanese HQ: 'Shukan Toyo Keizai' (1999) (for the names) and 'http://profile.yahoo.co.jp/' (for the addresses); for German HQ: 'Die Großen 500' (Schmacke and Jaeckel, 1999). For US subsidiaries in Germany: 'Subsidiaries of American Firms in the Germany' (American Chamber of Commerce in Germany 2001); for Japanese subsidiaries in Germany: 'Directory of Japanese Affiliated Companies in Germany: 2001' (JETRO 2001); for US subsidiaries in Japan: kindly distributed directly by email by Donald Westmore, Executive Director of the American Chamber of Commerce in Japan to managers whose companies agreed in principle to participate in academic surveys; for German subsidiaries in Japan: 'Mitgliederverzeichnis 2002' (Deutsche Industrie- und Handelskammer in Japan, 2002) and 'German Business in Japan' (Deutsche Industrie- und Handelskammer in Japan, 1999); for Japanese subsidiaries in the US: 'Directory of Japanese Affiliated Companies in the USA and Canada: 2002' (JETRO 2002) and for German subsidiaries in the US: 'Subsidiaries of German Firms in the US: 2002/2003' (German American Chamber of Commerce 2002). Where personal names were not available, the letters were addressed 'To the Head of Human Resources', 'Jinjibucho Dono' or 'An den Personalleiter'.

[vii] For a more detailed discussion of the limitations of single-respondent subjective data see our limitations section.

[viii] In the case of US MNCs, the dominance and country-of-origin effect work in the same direction, so we cannot actually distinguish between the two.

[ix] We would like to thank an anonymous reviewer for the AIB Annual Meeting 2006 for alerting us to this line of thought.