

Employment Practices of Multinational Companies  
in Denmark  
Result report

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Employment Practices of Multinational Companies in Denmark

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Finally, it should be emphasized that this report by no means represents the final results of the survey. In fact, this report should be seen as a first step towards many deeper analyses in the years to come. This report is a generally descriptive analysis of Danish MNCs alone. When the Danish and Norwegian datasets are merged with the international dataset (which includes data from the other seven countries), we will have new and interesting possibilities. First, as the database will be significantly bigger, we will be able to examine more specific issues without the risk of having too few observations. Second, we will be able to compare how MNCs from one country behave in two or more foreign institutional settings – for example, how a US company behaves in terms of HR in the UK, Ireland, Spain and the Nordic countries. Third, it will be possible to analyze how Danish companies behave abroad on the basis of accounts provided by foreign subsidiaries rather than Danish headquarters and vice versa.

## Abbreviations and concepts

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<b>HRM</b>	Human resource management
<b>IR</b>	Industrial relations
<b>EWC</b>	European Works Council
<b>LOG</b>	Largest occupational group
<b>MNC</b>	Multinational corporation
<b>SME</b>	Small and medium-sized enterprise
<b>Danish operations</b>	All of an MNC's operations within Denmark
<b>Home-based corporations</b>	Corporations that are wholly or majority owned by Danish interests, and that have at least 500 employees worldwide and 100 or more employees working outside of Denmark
<b>Foreign-based corporations</b>	Corporations operating in Denmark that are wholly or majority owned by non-Danish interests, and that have at least 500 employees worldwide and a minimum of 100 employees in Denmark
<b>NACE rev. 2</b>	Statistical classification of economic activities in the European Community <sup>1</sup>
<b>Coordinated Market Economies (CMEs)</b>	Coordinated market economies rely on formal institutions to regulate the market and coordinate the interaction of firms and firm relations with suppliers, customers, employees, and financiers <sup>2</sup>
<b>Liberal Market Economies (LMEs)</b>	In liberal market economies, the problem of coordination between firms and between firms and their financiers, employees, suppliers, and customers is solved through market mechanisms. LMEs are free market economies <sup>2</sup>

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<sup>1</sup> [ec.europa.eu/eurostat](http://ec.europa.eu/eurostat)

<sup>2</sup> [http://www.jrank.org/business/pages/948/liberal-market-economy-\(LME\).html](http://www.jrank.org/business/pages/948/liberal-market-economy-(LME).html)

## Summary in Danish

### Summary in Danish

Tilstedeværelsen af multinationale virksomheder (Multinational Companies - MNC'er) har stor betydning for den danske økonomi. En betydelig – og stadig stigende - andel af den danske arbejdsstyrke er beskæftiget i multinationale selskaber, og de personalepolitikker, som disse virksomheder implementerer, får derfor stadig større betydning for danske lønmodtagere – og for det danske arbejdsmarked – fordi personalepolitikker i de ofte store virksomheder indirekte kan påvirke samarbejds- og forhandlingskulturen. I et internationalt forskningsprojekt '*Employment Practices of Multinational Companies in Organizational Context*' har forskere fra flere lande samlet nationale data omhandlende human ressource management (HRM) og arbejdsmarkedsrelationerne (Industrial relations - IR). Den danske data-base er indsamlet via et omfattende spørgeskema, som i 2009 blev sendt ud og besvaret af HR-ledere i danske og udenlandske MNC'er i Danmark. Den danske undersøgelse er ydermere suppleret med nogle interview med HR-ledere i MNC'er i Danmark. Det er de første resultater af de danske del af undersøgelsen, der afrapporteres her.

### Et overblik over MNC'er i Danmark

Den samlede population af MNC'er i Danmark består af 304 udenlandsk-ejede MNC'er<sup>3</sup> hvoraf 88 MNC'er indgår i projektets databesvarelse (svarprocent: 29 %) og 113 danskejede MNC'er<sup>4</sup> hvoraf 31 indgår i databesvarelsen (svarprocent: 27 %).

Flertallet af MNC'er i den danske databesvarelse er ejet af et moderselskab i et europæisk land. De skandinaviske lande dominerer, idet en andel på 46 % af MNC'er i Danmark kommer fra Skandinaviske lande. Uden for Europa dominerer MNC'er med moderselskab i USA; de udgør 16 %. Alt i alt kommer mere end 9 ud af 10 af de MNC'er, der opererer i Danmark, fra de vestlige økonomiske systemer. Det betyder, at størstedelen af udenlandske MNC'er i Danmark er ejet af et moderselskab i et land med relativt store ligheder med det økonomiske og til en vis grad (arbejdsmarkeds)kulturelle system, som vi har i Danmark.

De udenlandske MNC'er er generelt større målt på antal medarbejdere end de danskejede MNC'er i vores undersøgelse, med et gennemsnitligt antal medarbejdere i hele koncernen på 60.000 i de udenlandske MNC'er mod et gennemsnitligt antal medarbejdere i danskejede MNC'er på mellem 1.000-4.999 medarbejdere.

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<sup>3</sup> En udenlandsk ejet virksomhed, der opererer i Danmark, og som har mere end 500 medarbejdere på verdensplan, hvoraf minimum 100 af dem er ansat i Danmark.

<sup>4</sup> En dansk ejet virksomhed, med mere end 500 medarbejdere på verdensplan og mindst 100 ansatte medarbejdere i Danmark.

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Halvdelen af de MNC'er, som indgår i vores databesvarelse, er fremstillingsvirksomheder. Det er interessant, taget i betragtning at den danske økonomi oftest beskrives som en vidensøkonomi. Man kunne forvente, at et væsentligt argument for, at MNC'ere investerer og opkøber danske virksomheder kunne være det høje niveau for uddannelse og viden. For en nærmere analyse af dette resultat kæves yderligere mere kvalitative undersøgelser.

### HR-politikken i MNC'er – systematisk eller ad hoc?

Der er forskel på, i hvilken grad virksomhederne har systematiseret deres HR-politik på tværs af moderselskabet og de enkelte datterselskaber. To tredjedele af HR-lederne angiver, at deres virksomhed har en 'international HR-enhed' og at de 'systematisk samler HR-ledere på tværs af landegrænser'. De udenlandsk ejede MNC'er benytter sig i højere grad af sådanne systematiserede HR-praksisser, og vi finder ydermere, at virksomhedens størrelse har betydning for, i hvor høj grad HR-praksisserne er systematiseret. Den tredjedel af MNC'er i undersøgelsen, som ikke har systematiseret deres HR-politik, risikerer at gå glip af vidensdeling på tværs af deres selskaber i de forskellige lande, ligesom talentudvikling med henblik på intern rekruttering til lederpositioner ofte er mangelfuld eller ikke-eksisterende.

Skønt spredningen af HR-initiativer typisk finder sted *top-bottom* – altså fra virksomhedens hovedkvarter i moderselskabet til datterselskaberne – så er der i undersøgelsens case-studier eksempler på, hvordan nogle datterselskabers' HR-initiativer er blevet diffunderet op til hovedkvarteret og siden er blevet implementeret til resten af virksomhed – et fænomen, som i forskningen kaldes *reverse diffusion* (af HR-praksisser).

### Datterselskabernes autonomi

Når et selskab opkøbes eller et datterselskab etableres, kan der være betydelige forskelle på, i hvilket omfang, moderselskabet tildeler datterselskabet autonomi vedrørende beslutninger om økonomi og personale. Det engelske begreb *discretion* dækker begrebmæssigt bedst den grad af selvstændighed og beslutningskompetence, som moderselskabet tildeler datterselskaberne.

Analysen af data fra undersøgelsen viser et generelt højt niveau af autonomi blandt de undersøgte virksomheder indenfor områderne kommunikation, medarbejderinvolvering og medarbejderrepræsentation. Til gengæld er der et lavere niveau af beslutningsautonomi, når det gælder aflønning. Det er ikke så overraskende, da denne faktor har stor betydning for virksomhedens profit og konkurrenceevne, og da løn er et område, som klassisk og mest håndgribeligt kan regulere både de menneskelige ressourcers motivation og virksomhedens overordnede økonomi.

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Virksomhedernes oprindelsesland har betydning for, i hvor høj grad de tildeler datterselskaberne selvstændighed til at træffe beslutninger indenfor de forskellige HR-områder. Analysen viser, at amerikansk ejede virksomheder har en tendens til at tildele datterselskaber i Danmark mindre autonomi - sammenlignet med fx de svenskejede virksomheder, hvor HR-ledere i det danske selskab oplever en relativt høj grad af selvstændighed i beslutningerne.

### HR praksis

Et formelt evalueringssystem (*appraisal and reward systems*) er et vigtigt redskab indenfor HR, hvilket også afspejler sig i undersøgelsen: 75 % af MNC'er har et system, der evaluerer og belønner ledere, og 68 % har et sådant system for alle andre medarbejdere i virksomheden. Analyserne viser, at udenlandsk ejede MNC'er i højere grad benytter sig af disse redskaber end de danske MNC'er. Især US-baserede virksomheder benytter disse redskaber.

Evalueringerne bruges af mere end en fjerdedel som et formelt system til at træffe beslutninger om forflytninger eller afskedigelser. Samtidig angiver mere end halvdelen af respondenterne, at systemerne bruges *uformelt* til at træffe sådanne beslutninger. Dermed er der stor risiko for, at baggrunden for disse betydningsfulde beslutninger ikke er gennemskuelige for medarbejderne – ej heller for de ledere, der evalueres på en sådan baggrund.

Når ledere skal evalueres, bruger virksomhederne en lang række af redskaber. Det mest anvendte er individuelle præstationer, tæt fulgt af gruppe-præstationer, kompetencer samt loyalitet over for virksomhedens værdier. Ses nærmere på, om virksomhedernes nationale oprindelse spiller en rolle, ses det, at de svenske MNC'er i signifikant mindre grad bruger individuelle præstationer og værdiloyalitet som udgangspunkt for leder-evalueringer. Det antyder, at den skandinaviske tradition for gruppe-arbejde og uddelegering af ansvar også slår igennem i mindre individuelt præget evalueringssystemer i de svensk-ejede MNC'er.

'360-degree feedback' er en HR-praksis, som brug af to tredjedele af virksomhederne – og det gælder for både menige medarbejdere og ledere. Lønssystemer med variabel løn bruges af 77 % af virksomhederne for ledere, mens 60 % bruger sådanne systemer for menige medarbejdere. Til gengæld viser analysen, at overskudsdeling og aktieoptioner til medarbejdere ikke anvendes så ofte i MNC'erne; analysen viser, at disse redskaber kun er brugt i 20 % af virksomhederne for ledere og i 10 % for alle andre medarbejdere.

### Efteruddannelse og udvikling af medarbejdere

*Efteruddannelse og udvikling af medarbejdere* drejer sig om, i hvor høj grad virksomheden investerer ressourcer i dens medarbejdere. Omkring halvdelen af de adspurgte virksomheder angiver, at 1-4 % af

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virksomhedens årlige udgifter til medarbejderne bliver anvendt til efteruddannelse og udvikling af medarbejdere, mens omkring to ud af fem bruger mindre end 1 %. Analysen viser, at udenlandske MNC'er i Danmark har en tendens til at bruge flere ressourcer på efteruddannelse og udvikling sammenlignet med de danskejede MNC'er – det er således kun udenlandske virksomheder, som bruger mere end 4 % på efteruddannelse. Virksomheder, som på andre områder har en systematisk HR-politik – fx de virksomheder, som har et globalt HR-udvalg – investerer typisk også markant mere i efteruddannelse og udvikling.

*Planer for generationsskifte* er relativt udbredt. 43 % af de dansk-ejede MNC'er har sådanne planer på plads i alle eller nogen af deres organisationer, mens tallet er 50 % for de udenlandsk ejede virksomheder. Selv om der altså ikke er lavet generationsskifteplanerne på godt halvdelen af virksomhederne, betyder det ikke, at man ikke er opmærksom på talentudviklingen. Næsten 70 % har et lederudviklingsprogram, som retter sig mod medarbejdere med lederpotentiale. Den mest udbredte måde at udvikle ledere er via globale lederudviklingsprogrammer, typisk baseret på evaluering af præstationer i forhold til et defineret sæt af globale lederkompetencer.

Ét er at udvikle den enkelte medarbejder. Noget andet er at sikre, at organisationen også stadig udvikles, selv hvis individer forsvinder. *En lærende organisation* sikrer, at den viden som er i virksomheden forbliver der, selv når medarbejdere med særlig viden rejser herfra. Samtidig formår den lærende organisation at transformere sig selv, så den konstant forbliver konkurrencedygtig. Omkring 40 % af virksomhederne i undersøgelsen har en formel politik omkring *international organisatorisk læring* som skal sikre, at viden bliver i organisation og at organisationen udvikler sig. De redskaber, som er mest udbredte for at sikre denne læring, er internationale projekter og arbejdsgrupper (anvendt af 80 % af de adspurgte virksomheder). Også internationale uformelle netværk og udsendelse af medarbejdere benyttes af mange virksomheder. Internationale projektgrupper og *task forces* er redskaber, som 60 % af virksomhederne angiver som vigtigst i den organisatoriske læring. Igen er der også her en klar sammenhæng: De virksomheder, der har en systematisk HR-politik på andre områder, er også dem, der typisk arbejder med systematisk organisatorisk læring.

### Medarbejderinvolvering og kommunikation

Medarbejderinvolvering og kommunikation er vigtige elementer af en virksomheds HR-praksis. Medarbejderinvolvering kan have betydning for kvaliteten i det produkt eller den service, som virksomheden leverer, og som sådan kan det være en konkurrencefaktor. Kommunikation kan være afgørende for medarbejdernes tilfredshed og kan dermed også påvirke produktion, service og kvalitet. Et flertal af de undersøgte virksomheder angiver, at deres systemer for medarbejderinvolvering er



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forskellige fra den ene enhed til den anden. Det indikerer, at MNC'er tilpasser deres involveringssystemer og kommunikationsstrategi til det enkelte datterselskab i det enkelte land

I de udenlandsk ejede virksomheder er den mest anvendte strategi for involvering af medarbejderne 'problem-løsningsgrupper' og 'grupper der skal stå for kontinuerlige forbedringer i virksomheden'. Disse grupper bruges i højere grad af udenlandsk ejede virksomheder end af dansk-ejede virksomheder, og det kan overraske; man kunne forvente, at sådanne gruppedynamiske arbejdsorganiseringer var anvendt mere i en dansk sammenhæng, hvor man har relativt lange traditioner for gruppe-baseret arbejdsorganiseringer.

Når det gælder kommunikation i MNC'er, bruges en bred vifte af kommunikationsmidler. Det mest udbredte i forbindelse med kommunikation til de menige medarbejdere er møder mellem ledere og mellemledere, nyhedsbreve eller e-mails – samt virksomhedens intranet. Analysen viser igen, at de virksomheder, som har en international HR-enhed eller virksomheder som anvender andre systematiske HR-praksisser, også i typisk arbejder mest systematisk med kommunikation.

Når vi ser på, hvad indholdet i kommunikationen med medarbejderne er, peger HR-lederne på følgende - i prioriteret rækkefølge: Virksomhedens finansielle situation; information om investeringsplaner; og bemandingsplaner (ansættelser og afskedigelser). Det skal dog bemærkes, at undersøgelsens dataindsamling fandt sted i 2009, midt under den finansielle krise. Derfor giver det også mening, at mange virksomheder prioriterer at informere omkring den finansielle situation og at medarbejderne måske også efterspørger denne information. Det kan dog undre, at information om bemanding ikke ligger højere på listen, da det må formodes at ligge mange medarbejdere på sinde i en tid med krise.

Man kunne forvente, at informationer om virksomhedens finansielle situation og om ansættelser og afskedigelser i højere grad blev formidlet i dansk-ejede virksomheder end i udenlandskejede virksomheder, da der i Danmark er en lang tradition for informationsdeling i samarbejdsudvalg. Analyserne viser imidlertid, at det forholder sig modsat; de udenlandsk ejede virksomheder tenderer i højere grad at dele den form for information end de dansk-ejede.

### Medarbejderrepræsentation og konsultation

Graden af medarbejderrepræsentation og konsultation er traditionelt meget afhængig af det enkelte lands love og politik på området – samt ikke mindst arbejdsmarkedssystemet (Industrial Relations – IR). I Danmark er der en tradition for stærke fagforeninger og en høj overenskomstdækning, sammenlignet med andre lande i verden, og i det danske IR-system spiller arbejdsmarkedets parter –

### Summary in Danish

arbejdsgiver og fagforeninger - en stor rolle i reguleringen af det danske arbejdsmarked via kollektive forhandlinger. Medarbejdernes rettigheder i forhold til repræsentation og konsultation er stipuleret i Samarbejdsaftalen, og lønmodtagerne – uanset fagforeningsmedlemskab - har yderligere rettigheder som er stipuleret i EU-direktiver, ikke mindst direktivet om European Works Councils (EWC).

En central forskningsinteresse i dette projekt har været at belyse, hvorvidt udenlandsk ejede MNC'er har tilpasset sig det danske arbejdsmarked med disse stærke traditioner for samarbejde og forhandling, eller om de forsøger at pådutte danske medarbejdere i datterselskaber andre traditioner. Analysen viser, at fagforeningerne er accepteret af et stort flertal af de undersøgte virksomheder; kun 5 % har svaret, at de ikke går ind for fagforeninger mens hele 47 % tager en tilgang hvor der samarbejdes med fagforeningerne. Når det gælder danske MNC'er holdninger til fagforeninger i datterselskaber uden for Danmark, så overlader godt halvdelen det til datterselskabernes ledelse selv at tage beslutninger relateret til fagforeningen – mens en tredjedel ikke har nogen politik på området. Denne analyse indikerer, at samarbejdet med fagforeninger i høj grad relaterer sig til de lokale forhold – og derfor også overlades til den lokale ledelse, uanset om moderselskabet kommer fra et land med lange traditioner for samarbejde og konsultation – eller det modsatte.

Andre data indikerer også en relativt dyb respekt for arbejdsmarkedsreguleringen i Danmark. 30 % af virksomhederne lever op til de lovmæssige minimumskrav om information og konsultation, men hele 54 % angiver, at de overopfylder kravene i 'nogen' eller 'betydelig' grad. Også når det gælder emner, hvor ledelser ikke nødvendigvis skal involvere fagforeningsrepræsentanter, involverer mange dem alligevel. Det gælder således fleksible lønsystemer og direkte medarbejderinvolvering. Til gengæld konsulterer størstedelen af virksomhederne ikke fagforeningsrepræsentanter, når det gælder arbejdsorganisering og outsourcing til andre firmaer (subcontracting). Det kan undre noget, at fagforeningsrepræsentanter ikke er mere involveret i arbejdets organisering, taget i betragtning at mange emner i den kollektive overenskomst såvel som samarbejdsaftalerne netop handler om arbejdets tilrettelæggelse. Outsourcing påvirker indirekte medarbejderne, da de på sigt kan miste arbejdsopgaver, men det undrer måske mindre, at der ikke konsulteres om dette, da det formelt set er en del af ledelsesretten at træffe beslutninger om dette.

Endelig viser analysen, at mere end fire ud af fem MNC'er jævnlig holder møder mellem ledelse og medarbejderrepræsentanter med henblik på information og konsultation. I 70 % af virksomhederne dækker disse møder alle medarbejdere – dog har møderne forskellig karakter for de forskellige grupper.

Europæiske Samarbejdsudvalg (ESU) – eller noget tilsvarende - findes i 40 % af virksomhederne, mens 40 % ikke har det. Interessant nok angiver 20 % af de adspurgte HR-ledere ikke at vide, om der er et

### Summary in Danish

sådan udvalgt i organisationen, og 60 % angiver at få meget lidt eller ingen information om ESU's aktiviteter. Det indikerer, at medarbejderinformation og konsultation på internationalt plan fylder relativt lidt i en femtedel af HR-ledernes prioriteringer og/eller kompetenceområde.

#### Virksomhedernes præstationer

I spørgeskemaundersøgelsen blev HR-lederne bedt om en subjektiv evaluering af deres virksomheds præstationer sammenlignet med tilsvarende virksomheder i samme branche. Flertallet af HR-lederne rapporterer, at deres virksomhed har præsteret særdeles godt – faktisk angiver 84 % af respondenterne i de dansk-ejede MNC'er og 60 % af respondenterne i de udenlandsk ejede virksomheder, at virksomhedens generelle præstationer er "outstanding". Her er produkt- og markedsresultaterne højest vurderet, efterfulgt af resultaterne inden for HR og den generelle finansielle performance. Blandt de udenlandske MNC'er viser analysen, at en større andel af amerikanske HR-ledere vurderer deres virksomheds præstationer som relativt dårlige, sammenlignet med andre ledere i udenlandsk ejede virksomheder.

#### Den institutionelle kontekst – arbejdsmarkedssystemerne og HR-politikken

Når et multinationalt selskab investerer i eller etablerer en virksomhed i et fremmed land, møder de ofte et arbejdsmarkedssystem, som er anderledes end det, de kender. Hvor det er muligt at kontrollere en række virksomhedsinterne HR-forhold – det handler om ledelsesretten – så er værtlandets traditioner for regulering af arbejdsmarkedsforhold i det store og hele uden for MNC'ens kontrol. Den institutionelle kontekst skal forstås som de lokale forhold, hvorunder MNC'erne opererer, inklusive arbejdsmarkedsrelationer, arbejdsmarkedslovgivning, det kollektive forhandlingssystem og traditioner for samarbejde mellem ledelse og medarbejdere. Disse forhold sætter nogle rammer for det multinationale selskabs HR-politikker, og hvis et MNC ønsker at implementere den samme HR-praksis på tværs af landegrænser, kan nogle tiltag komme i konflikt med lokale regelsæt og traditioner. Teoretisk kan analyser af disse forhold frugtbart tage udgangspunkt i *Varieties of Capitalism*-tilgangen, hvor lande kan kategoriseres som liberale markedsøkonomier eller som koordineret markedsøkonomier. En koordineret markedsøkonomi (CME) er karakteriseret ved, at formelle institutioner regulerer markedet og koordinerer interaktionen mellem virksomhederne og deres relationer til kunder, ansatte og investorer. I den liberale markedsøkonomi (LME) koordineres disse relationer gennem det frie marked.

Virksomheder bærer i et vist omfang et 'institutionelt DNA' med sig, når de investerer i andre lande, forstået således at arbejdsmarkedstraditioner fra MNC'ens hjemland kan præge moderselskabet HR-politik. Det betyder, at der kan opstå problemer med at forstå andre landes arbejdsmarkedstraditioner, når der investeres i på nye arbejdsmarkeder – fx når en MNC fra en liberal

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markedsøkonomi med svage fagforeninger og en minimal regulering af arbejdsmarkedet skal investere i en virksomhed i en koordineret markedsøkonomi. Meget forenklet kan mulige kombinationer illustreres som nedenfor:

	Operating in LMEs	Operating in CMEs
Originating from LMEs	No conflict	Turbulence area
Originating from CMEs	Turbulence area	No conflict

Som allerede påpeget kommer langt størstedelen af MNC'er i Danmark fra vestlige lande med økonomiske systemer og til en vis grad arbejdsmarkedssystemer, der har ligheder med det danske. Deler vi det op i forhold til LME'er og CME'er – og hvad man kan kalde blandinger – ser vi, at 30 virksomheder har moderselskaber, der kommer fra LME'er – og dermed er det 30 virksomheder, hvor der kunne være potentiale for konflikter mellem moderselskabets HR-politik og de lokale arbejdsmarkedstraditioner i værtslandet Danmark, som er CME.

På baggrund af denne undersøgelses data har vi analyseret, om der på udvalgte parametre, hvor der særligt kunne forventes forskelle, kan identificeres forskelle mellem virksomheder med moderselskab fra et LME hhv. et CME:

- Når det gælder kommunikation, kan der ikke identificeres forskelle mellem LME-virksomheder og CME-virksomheder i Danmark.
- Når det gælder medarbejderrepræsentation kan der konstateres forskelle mellem LME- og CME-virksomheder, er der heller ikke signifikante forskelle, fx i anderkendelse af fagforeninger. Faktisk konsulterer hele 84 % af LME-virksomheder fagforeningsrepræsentanter, når der skal laves variable lønssystemer.

Den foreløbige konklusion er altså, at der ikke er forskelle mellem LME-virksomheder og CME-virksomheder, der opererer i Danmark – og at LME-virksomheder altså i vid udstrækning synes at tilpasse sig de lokale arbejdsmarkedstraditioner i Danmark.

Vi skal dog være opmærksomme på to ting. For det første er denne undersøgelse udelukkende baseret på lederes syn på spørgsmålene. Kvalitative undersøgelser, hvor også medarbejdersiden indgår, såvel som case-studier i denne undersøgelse indikerer, at udenlandsk ejerskab på en række områder faktisk kan forandre relationerne.

For det andet er data-materialet så lille, at det ikke er muligt at køre statistiske tests. Derfor vil der være en række meget stærkere resultater, når den danske data-base bliver kørt sammen med databaserne fra de otte andre lande i den internationale undersøgelse, og da vil det være muligt at levere mere signifikante resultater og at gå dybere bag om tallene om LME versus CME.

## Introduction

### Chapter 1: Introduction

The importance of multinational corporations (MNCs) activity in the Danish economy is evident and such activity plays a crucial role in shaping employment practices in Danish society. Over the last years, an increasing number of foreign MNCs have discovered Denmark as a profitable market with a sound labor market. At the same time, Danish companies have rapidly expanded internationally.

Despite this increase in the prevalence of MNCs in the Danish economy, there is no definitive picture of the ways in which MNCs in Denmark organize and manage their employees. Furthermore, a general understanding of how employment practices are influenced by the organizational forms developed by international firms as they struggle to respond to the imperatives of globalization is lacking. Knowledge of how employment practices vary according to key variables, such as organizational structure, nationality of ownership, sector and size, is patchy at best. Our understanding of the patterns of transnational diffusion of employment practice among MNCs with different organizational characteristics is also limited.

In an effort to respond to these gaps in the research, the comparative international project *Employment Practices of Multinational Companies in Organizational Context*<sup>5</sup> brought leading international researchers together on national teams. The project resulted in a rich data set useful for testing key propositions concerning MNC employment practices in the realm of human resource (HR) and industrial relations (IR) management.

This report presents the key findings of this large-scale survey of the employment practices carried out in Denmark in both Danish- and foreign-owned MNCs. We examine four central aspects of the MNCs' organization and management in Denmark. First, the strategies, structures and control mechanisms characterizing the companies are presented with the purpose of creating a "profile of MNCs" operating in Denmark. Second, we consider the role of the HR function and its structure within MNCs, including the relationship between Danish-based operations and management at international headquarters. Third, the survey focuses on four substantive areas of employment practices, each of which are analyzed and described in separate chapters:

- Performance management and reward systems,
- Training, development and organizational learning,
- Employee involvement and communication, and

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<sup>5</sup> This is part of the international network INTREPID: "Investigation of Transnationals' Employment Practices International Database".

## Introduction

- Employee representation and consultation.

Finally, we highlight some tendencies with regards to corporate performance as evaluated by HR managers.

Overall, this report seeks to communicate the results of the survey in an easy-to-understand, accessible manner. We hope to increase the understanding of HRM in MNCs by characterizing their HRM practices, and analyzing how organizational factors affect their structure and performance. As we move through each part of the survey, we use descriptions and statistics to accentuate our key findings.

### Study design

In this section, we briefly describe the process of gathering data for this project – from the establishment of the population of MNCs to the development of the survey tool to the execution of the survey.

### The research population

In developing the population, our aim was to construct two lists: one of foreign-owned companies and another of Danish-owned companies. The first step in this regard was to formulate our definition of an MNC. For this purpose, we used the definitions provided by the INTREPID project:

- **Foreign-owned MNC:** All wholly or majority foreign-owned corporation operating in Denmark, with at least 500 employees worldwide and a minimum of 100 employees in Denmark.
- **Danish-owned MNC:** All wholly or majority Danish-owned corporations, with at least 500 employees worldwide and 100 or more employees working outside of Denmark.

The lists were created using two databases – AMADEUS (Pan-European) and CD Direct (Danish) – in which searches could be undertaken on the basis of the above criteria. The company list produced from each database was cross-checked and missing information (such as country of origin, ownership status and number of employees) was gathered using a number of general business-interest websites and individual MNCs websites.

### The questionnaire

The questionnaire consists of core questions from the international research project as well as questions specific to Denmark and the research group's special interests. The main additions to the core questions focus on employee representation and company performance. The questions on employee representation were added because of the tradition of high union involvement and high

## Introduction

union density in the Nordic countries. The questions on company performance were added to obtain data on the effectiveness of HR for the performance of the company.

The survey was designed as a web-based questionnaire using software from Inquisite. Two surveys were created, one for home-based MNCs and one for foreign-based MNCs. The questionnaires were offered in both Danish and English. The questionnaires are available on the project website: [www.cbs.dk/mnc](http://www.cbs.dk/mnc).

### Data collection

After establishing the study population and developing the survey, the next step was to contact the companies. As the questionnaire involves complicated, high-level, HR-related questions, we collected the contact information, name, and e-mail address for the senior HR manager/head of HR in Denmark for each company/subsidiary. This data collection was undertaken by phone. On the basis of the contact information, a personalized invitation was sent through the Inquisite system. Each invitation was followed by a reminder email and, finally, a reminder by phone.

Table 2 shows the population, the number of responses, and the response rate for both Danish-owned and foreign-owned companies.

**Table 1: Response rates**

Type	Foreign-owned	Danish-owned	Total
Population	304	113	417
Responses	88	31	119
Response rate	28.9%	27.4%	28.5%

For a more detailed description of the methods used to collect the data and the problems that were encountered during the process, please refer to the project website, [www.cbs.dk/MNC](http://www.cbs.dk/MNC), where you will find various publications and method papers.

## Introduction

### The research team

This research project was carried out through a cooperative partnership between the **Department of Strategic Management and Globalization** (SMG, Copenhagen Business School) and **FAOS – Employment Relations Research Centre** (Department of Sociology, Copenhagen University).

**SMG** undertakes research into the strategic behavior of companies in an increasingly globalized world. This research is carried out in the intersecting field of two disciplines – strategic management and international business – and builds upon the unique mix of ideas from organizational economics and strategic theory that the department’s group of researchers has cultivated over the past six years.

The project manager from SMG is:



**Dana Minbaeva, Associate Professor, PhD**

Department of Strategic Management and Globalization (SMG)

Copenhagen Business School

[dm.smg@cbs.dk](mailto:dm.smg@cbs.dk)

**FAOS** undertakes research into industrial relations, employee involvement and employee-employer relations. The international dimension of the organization’s research focuses on the importance of international actors for national institutional employment systems. MNCs are important actors in the international division of labor, a fact highlighted by the regulation of employment relations on an international level, not least in the EU.

The project manager from FAOS is:



**Steen E. Navrbjerg, Associate Professor, PhD**

Employment Relations Research Centre (FAOS)

Copenhagen University

[sen@faos.dk](mailto:sen@faos.dk)

Other members of the project team are student/research assistants Aja Henderson, Helle Aasen, Kristine Svendsen, Lars Christian Lund Larsen, Mia Petring, Naomi Rosenthal, and Sarah Biel from SMG at Copenhagen Business School; and Anders Sjøberg and Ask Greve from FAOS, Copenhagen University. Language editing was done by Tina Pedersen.

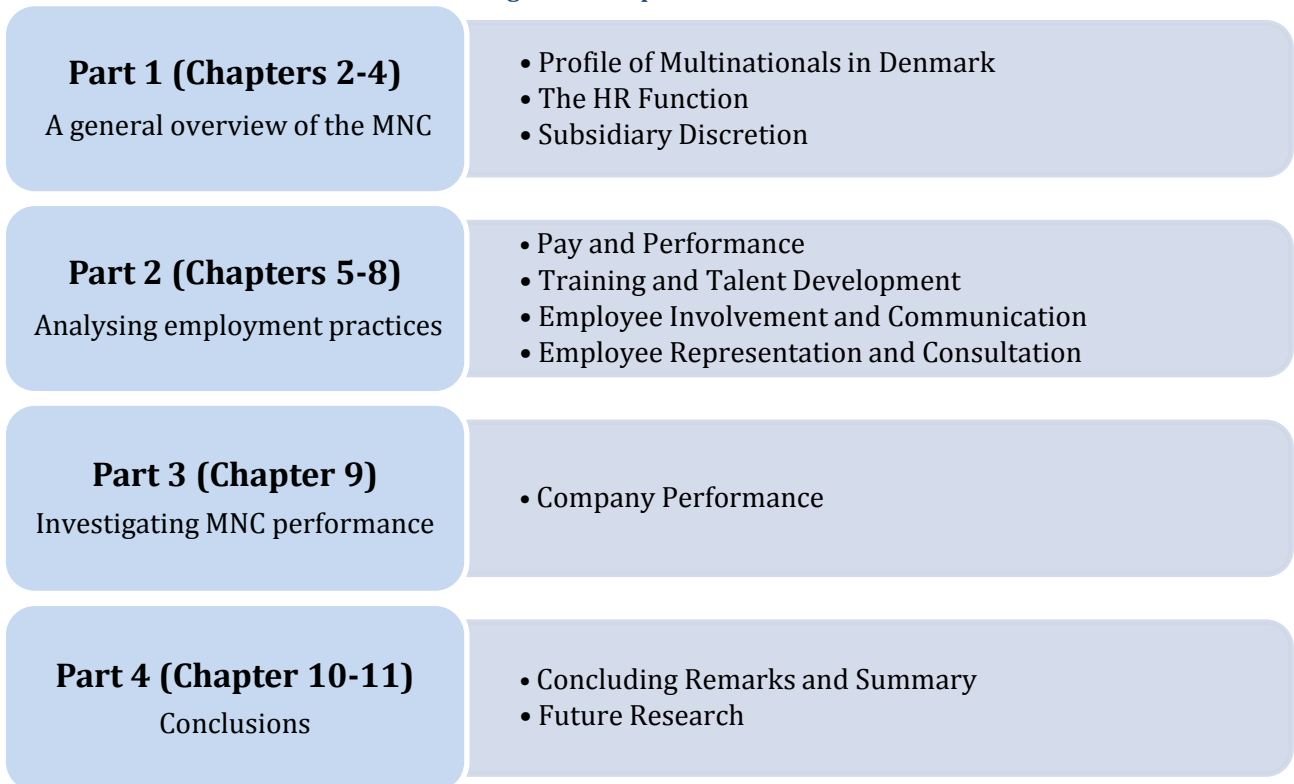


**Introduction**

**Report structure**

This report is structured around four main parts, each analyzing or describing an important aspect of the MNC and its employment practices (see Figure 1-1). Part 1 begins by profiling the main contours of the MNCs in terms of their countries of origin, sectors, employment levels, history in Denmark, business strategies and organizational structures (**Chapter 2**). The nature of the HR function, including the relationship between the Danish-based operations and the international enterprise, is then examined (**Chapter 3**). In **Chapter 4**, the overall discretion given to the subsidiaries is described. Part 2 consists of four chapters (**Chapters 5-8**) that examine the four substantive aspects of employment practice on which the survey focuses. Each chapter provides an overview of the practice, examines the practice in relation to various company-specific variables and ends with a summary of the key findings. In Part 3 (**Chapter 9**), the performance of the MNC is described. Results from Parts 1 and 2 are used to develop a picture of performance, and to associate it with employment practices and company-specific variables. Part 4 (**Chapter 10-11**) presents the overall conclusions of the study and future research.

**Figure 0-1: Report structure**



# Part 1

*A general overview of the MNC*

**Profile of multinational Denmark**

**The HR function**

**Level of discretion**

## Profile of Multinationals in Denmark

### Chapter 2: Profile of Multinationals in Denmark

This chapter provides a profile of the “typical” MNC in Denmark by looking at the three aspects. First, we describe a number of the MNCs’ basic characteristics, such as nationality, size and sector. Section 2 takes a deeper look into the strategies and structures adopted by MNCs. Finally, section 3 addresses the role that the Danish operations fulfill within the international context, e.g., whether the Danish sites perform low value-added activities with little “strategic” content or whether they are important parts of MNCs with international responsibilities for product development or R&D.

#### Basic characteristics

##### Country of origin

Country of origin is an important factor for MNCs in Denmark, as it can have a significant effect on the culture, behavior, performance and success of the MNC in Denmark. The distribution of country of origin is presented in Figure 2-1.<sup>6</sup> The presence of domestic companies in the Danish economy is evident, with 26% of the MNCs originating from Denmark. Throughout this report, these companies are referred to as “home-based”. The importance of MNCs from the other Nordic countries is confirmed by the data, with 21% of all companies in the survey coming from Nordic Europe. The data also confirms a substantial presence of European MNCs, which represent 52% of the companies surveyed. German (10%), UK (6%) and Swiss (7%) MNCs account for the three largest non-Nordic, European groups. US-owned companies are also present in significant numbers and account for 16% of the MNCs participating in the survey.

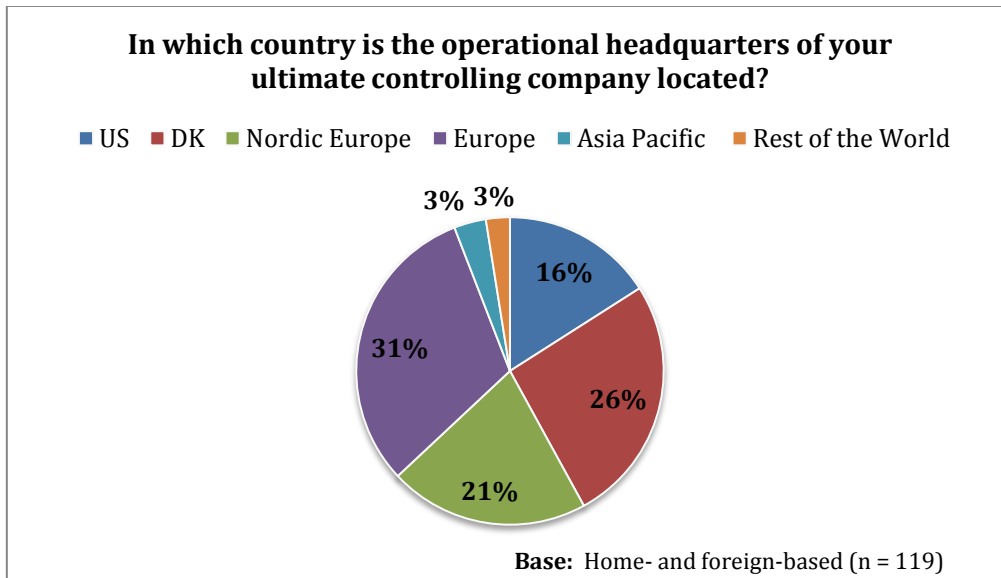
Overall, the dominance of Nordic Europe together with Denmark is clear, with 47% of the companies originating from Denmark, Norway, Sweden, Finland or Iceland. Meanwhile, only 6% of MNCs in the survey come from the Rest of the World and Asia-Pacific.

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<sup>6</sup> The countries are grouped as follows: the US, Denmark, Nordic Europe (Finland, Sweden, Norway, and Iceland), Europe (the UK, France, Germany, Belgium, Switzerland, Spain, Italy, and the Netherlands), Asia Pacific (Japan, India, and Australia) and Rest of the World (South Africa and Others).

Profile of Multinationals in Denmark

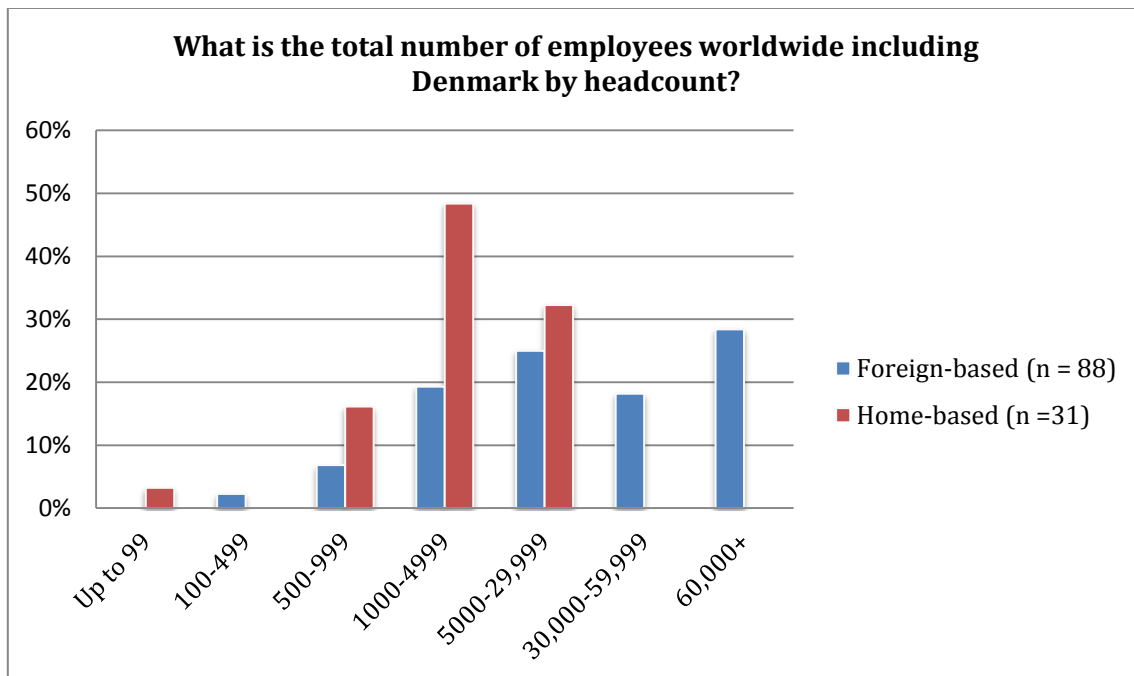
Figure 0-2: Country of origin



Company size and composition

On average, foreign-based MNCs employ more than 60,000 people worldwide. The Danish-based MNCs are substantially smaller, with almost 50% employing between 1,000 and 4,999 people worldwide (see Figure 2-2).

Figure 0-3: Worldwide employment



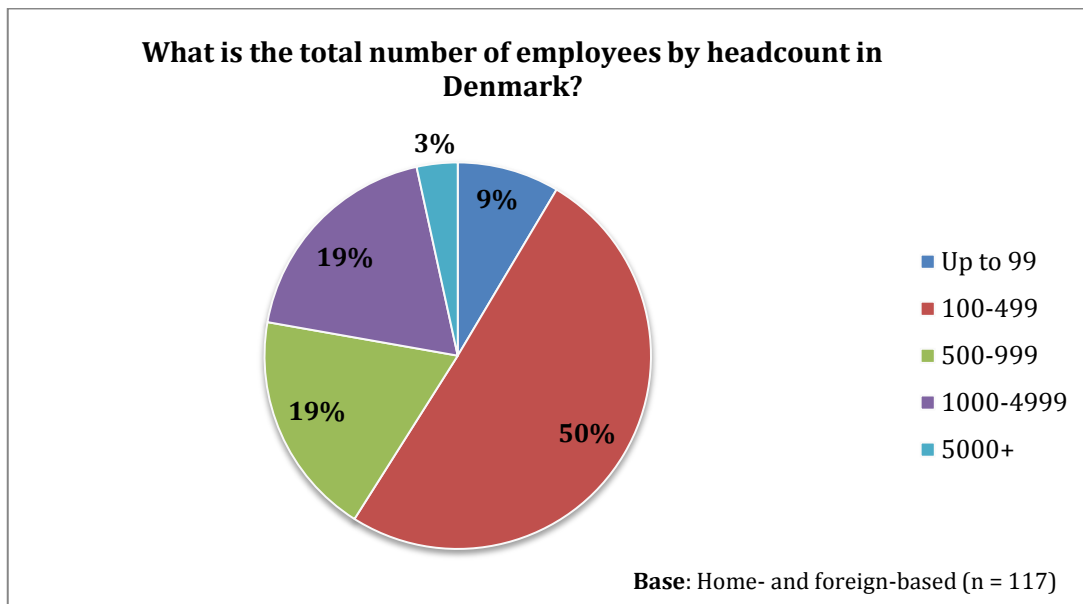
In terms of national variations, US- and German-owned MNCs are considerably larger than other foreign-owned companies, with nine US-owned companies and four German-owned companies

**Profile of Multinationals in Denmark**

employing more than 60,000 people worldwide. Similar to the Danish-owned MNCs, the Nordic-owned MNCs most commonly employ between 1,000 and 4,900 people worldwide (see Figure 2-3).

Foreign-owned companies employ an average of 100-499 employees in their Danish subsidiaries, while home-based MNCs are generally bigger, employing between 1,000 and 4,999 employees on average in Denmark. Again, there is some national variation around this mean. German-owned subsidiaries in Denmark are the largest, with four companies employing between 1,000 and 4,999 people and one company employing more than 5,000 people. Only two foreign-owned MNCs employ more than 5,000 people in the Danish economy, originating from the UK and Germany. In a Danish context, these are viewed as relatively large enterprises, as the economy is dominated by small- and medium-sized enterprises (SMEs).

**Figure 0-4: Number of employees in Denmark**



To obtain more information on the size factor, we also look at the composition of the workforce. We distinguish between the following two groups:

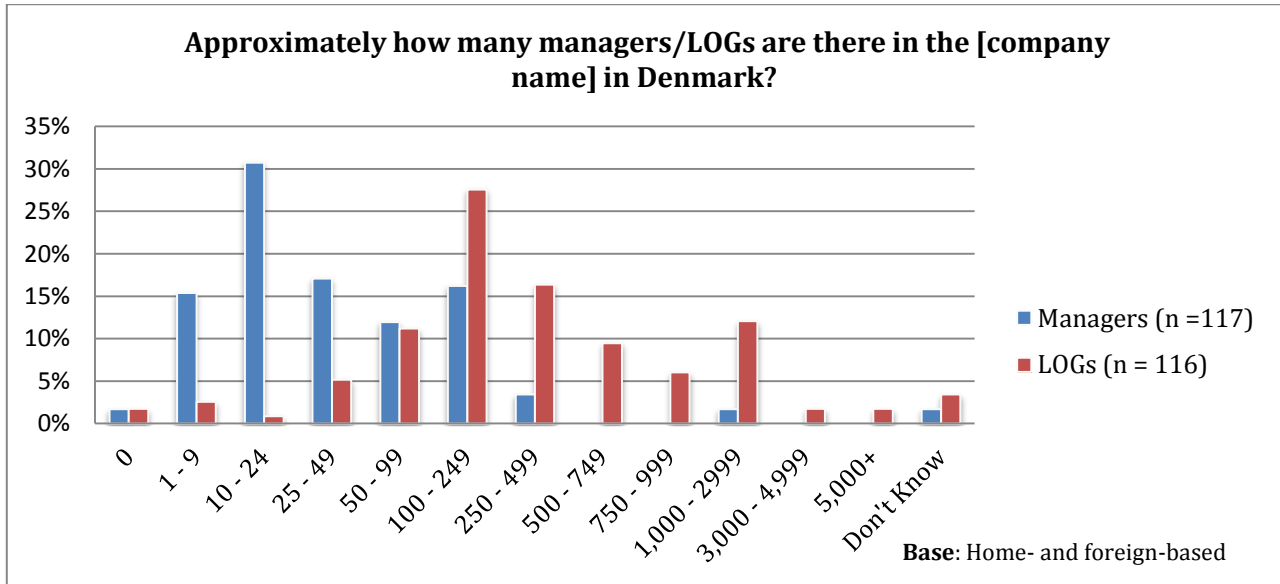
**Managers:** Employees who primarily manage the organization, a department, a subdivision, a function, or a component of the organization, and whose main tasks consist of the direction and coordination of that unit. In other words, managers include employees above the level of the first-line supervision.

**The largest occupational group (LOG):** The largest non-managerial occupational group among the employees in the “headcount” in Denmark. For example, the LOG in a manufacturing business might be semi-skilled operators, while in an insurance company it might be underwriters, claims handlers or call center staff.

**Profile of Multinationals in Denmark**

31% of the companies represented in the survey have between 10 and 24 managers employed in Denmark. Furthermore, 28% of the companies have between 100 and 299 LOG employees (see Figure 2-4).

**Figure 0-5: Number of managers/LOGs employed in Denmark**



The results also show that the employee-manager ratio for Danish-owned MNCs is 10 to 1; that is, on average there is 1 manager per every 10 employees. In the case of foreign-based MNCs, the employee-manager ratio spans from 10 to 1 to approximately 20 to 1; that is, on average, there is 1 manager per 10-20 employees.

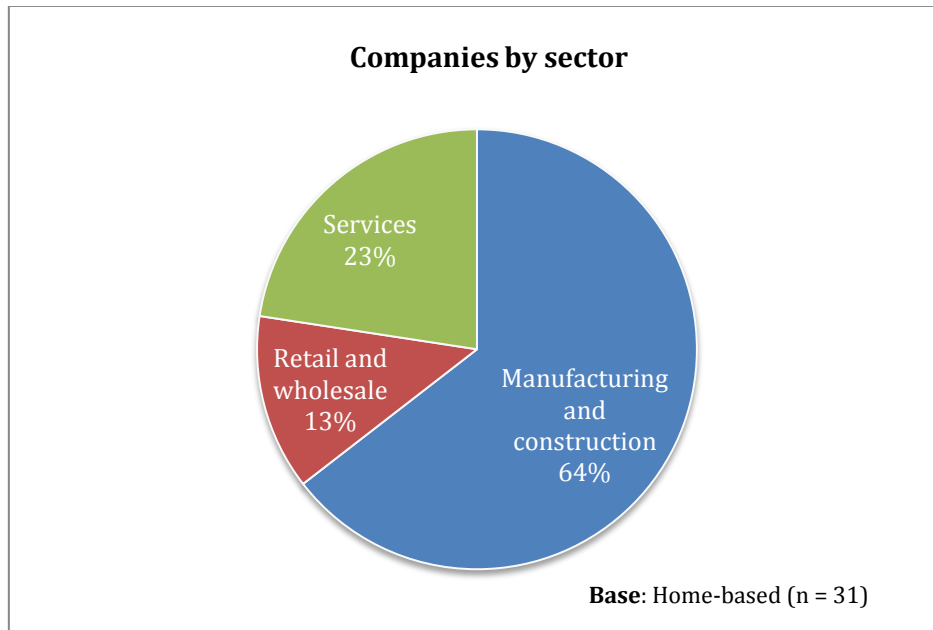
**Sector**

Sector data provides information on the industries in which the MNCs are primarily engaged. The sector data used in this study is extracted from the NACE rev. 2 code. As shown in Figure 2-5 (home-based MNCs) and Figure 2-6 (foreign-based MNCs), home-based companies are significantly more represented in the manufacturing sector than foreign-owned MNCs.<sup>7</sup> More than half of the companies in our data sample are engaged in manufacturing and construction, while about one-third are engaged in services or retail and wholesale. Given the Danish economy’s status as a “knowledge economy”, the high percentage of manufacturing companies is somewhat surprising.

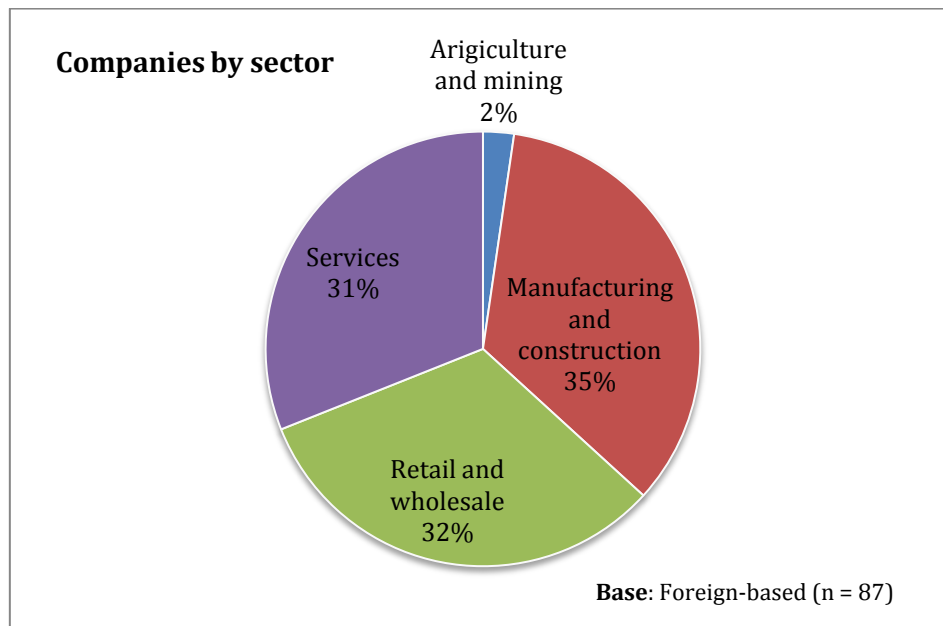
<sup>7</sup> Chi-square test: significant at the 5% level.

**Profile of Multinationals in Denmark**

**Figure 0-6: Companies by sector (home-based MNCs)**



**Figure 0-7: Companies by sector (foreign-based MNCs)**

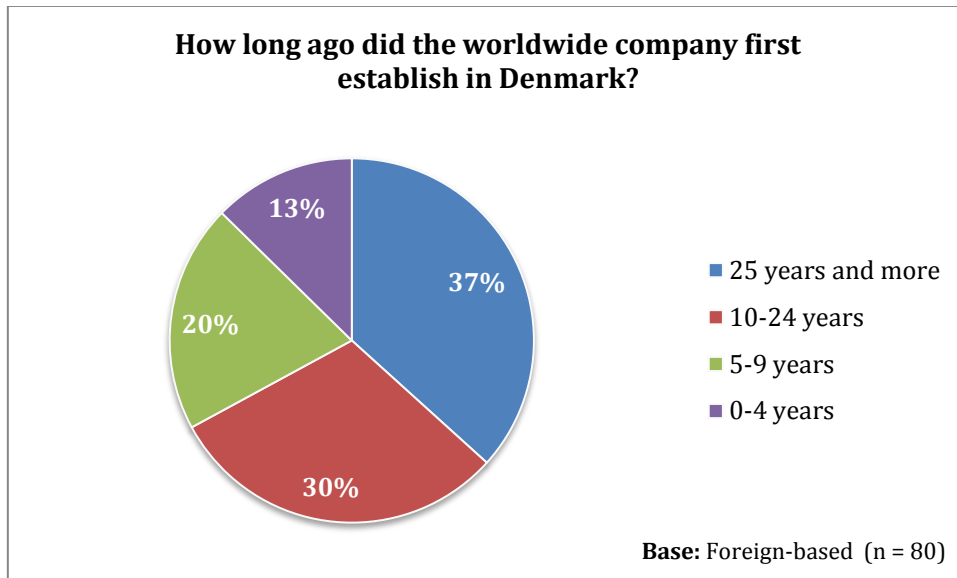


**Age and first significant investment**

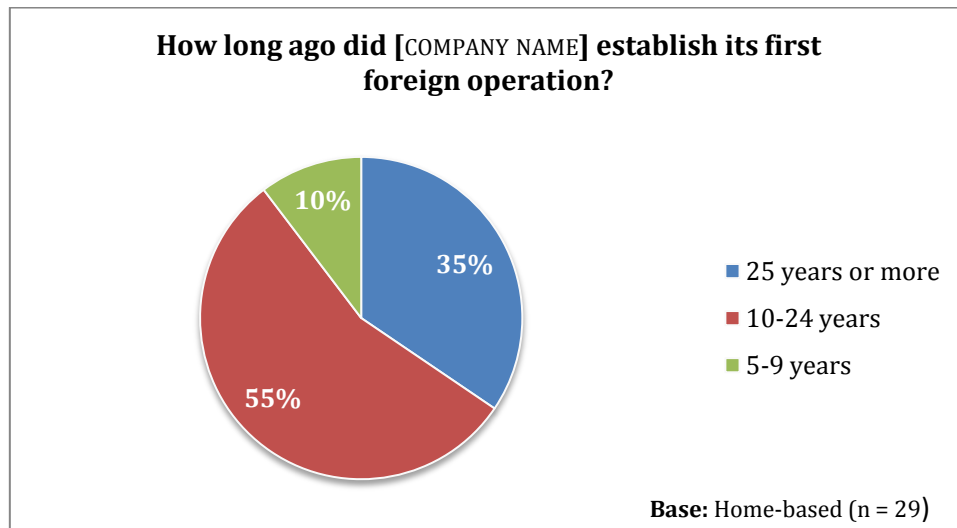
Figure 2-7 depicts the number of years foreign-owned MNCs have been present in Denmark. 37% of foreign-owned MNCs have been present in Denmark for more than 25 years, while only 13% have been in Denmark for less than 5 years. Figure 2-8 shows the number of years that home-based companies have been present in foreign countries, where the trend is similar. 35% have been operating on an international level for more than 25 years. However, none of these companies have operated internationally for less than five years.

**Profile of Multinationals in Denmark**

**Figure 0-8: Years in Denmark (foreign-based MNCs)**



**Figure 0-9: Years abroad (home-based MNCs)**



In terms of the modes of entry used by foreign-owned MNCs to enter Denmark, 60% entered through a merger or acquisition, 24% through a Greenfield investment, and 16% through other types of investments. Other types of investments include formation of a subsidiary, own production in existing buildings, franchising and new establishments.

**Indicators of strategy and structure**

In this section, we examine three indicators of MNC strategy: the level of diversification, the degree of standardization versus the degree of diversification, and the role of the Danish operations within the global company.

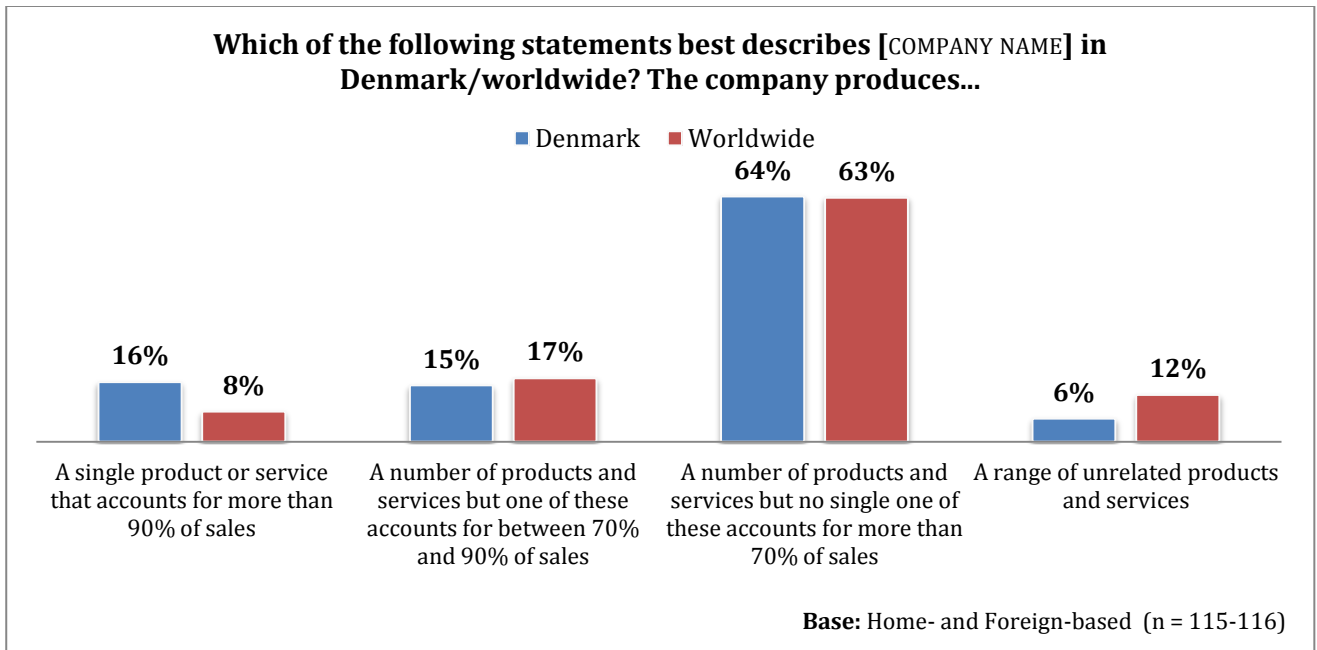


**Profile of Multinationals in Denmark**

**Level of diversification across sectors**

The level of diversification across sectors measures the extent to which MNC operations are focused on a specific activity, or the extent to which they have a wide range of products and services. The results for this variable are shown in Figure 2-9.

**Figure 0-10: Primary activity worldwide and Denmark**



Most MNC operations in Denmark have multiple products or services. 64% of the respondents indicate that the Danish operations produce a number of products or services but no single one accounts for more than 70% of sales. The multi-product nature of these companies does not make them conglomerates, as only 6% of the respondents classify themselves as producing a range of unrelated products and services.

The results are similar for worldwide operations: companies producing a range of unrelated products and services account for 12% of the worldwide operations compared to the 6% of the Danish operations. Furthermore, in the case of worldwide operations, 63% of companies offer a number of products or services but no single one accounts for more than 70% of sales. This figures is 64% for Danish operations.

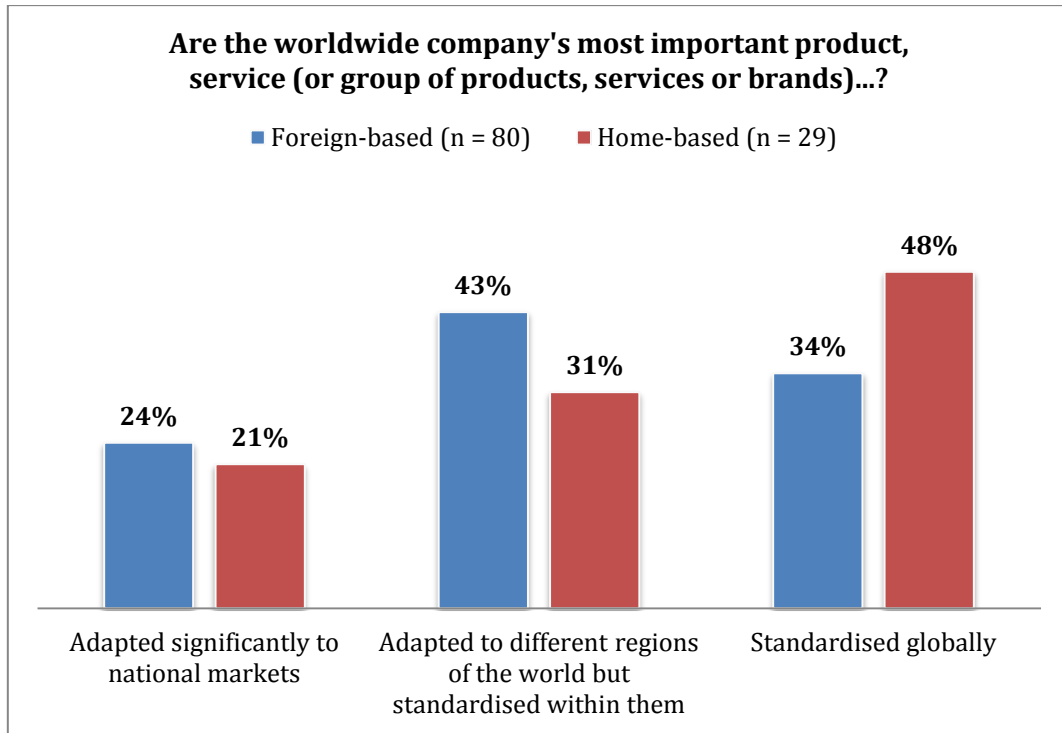
**Standardization**

A second dimension that is highly relevant in the context of MNCs is the degree of international standardization of products and services. This dimension can provide information on whether MNCs in Denmark manage their operations differently across regions.

**Profile of Multinationals in Denmark**

The data related to this issue point to the importance of regional standardization. Respondents in more than one-third of the companies (43% foreign-owned and 31% home-based MNCs) said that they “adapted to different regions but standardized within them”, with another third (34% foreign-owned and 48% home-based MNCs) saying they “standardized globally” (see Figure 2-10).

**Figure 0-11: Standardization vs. adaptation**

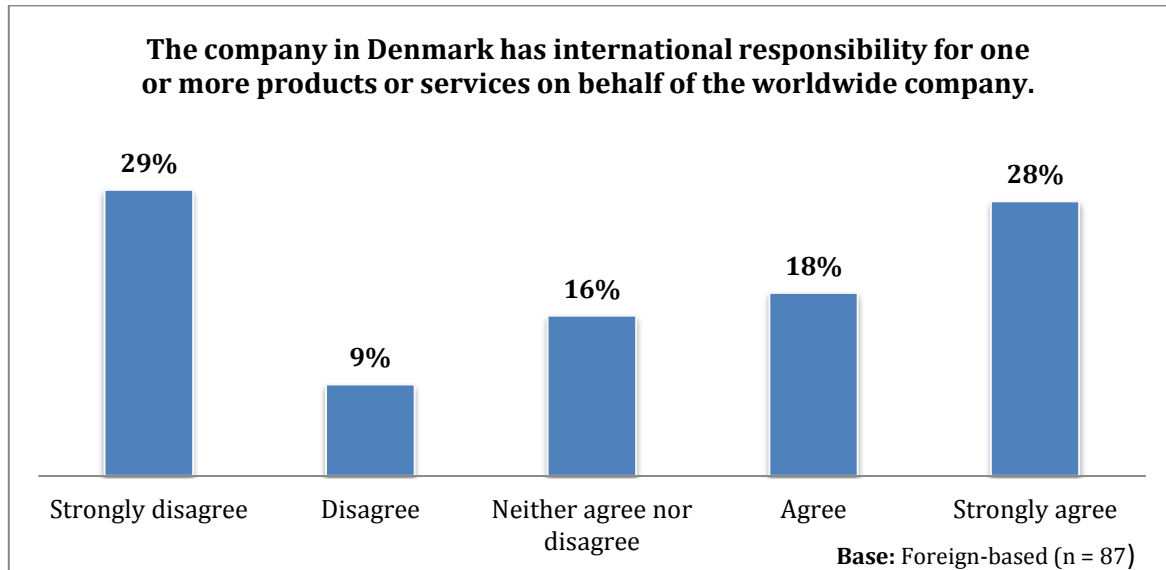


**The role of Danish operations in an international context**

This section examines the role of the Danish operations within foreign-based and home-based MNCs. In particular, it aims to answer the following question: do the Danish operations have a strategically important role or do they simply serve as a “service hub” for the Danish market?

## Profile of Multinationals in Denmark

Figure 0-12: Role of Danish operations

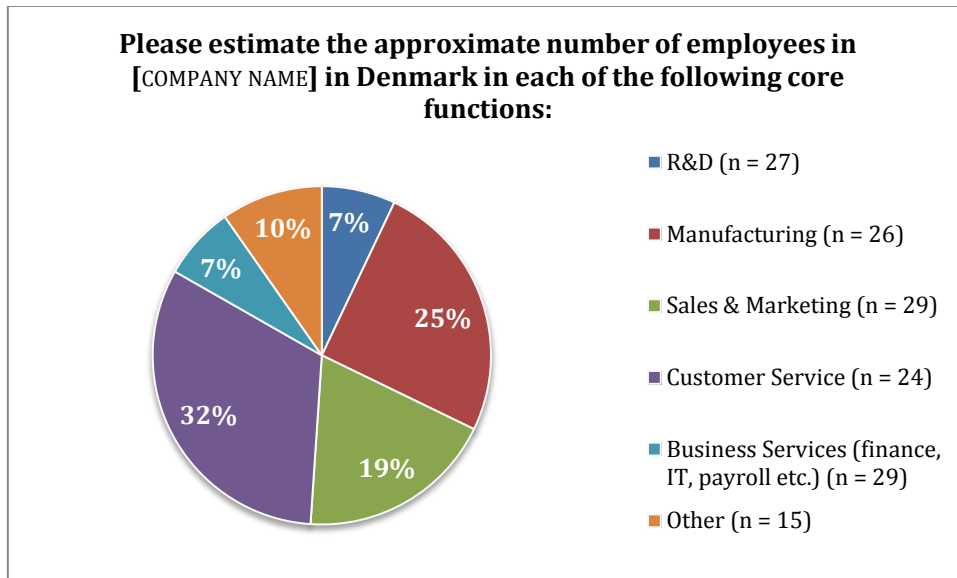


One measure of this factor is the extent to which the subsidiary in Denmark has international responsibility for one or more products. Almost half of the foreign-owned companies (46%) indicate that they “agree” or “strongly agree” with this point. Furthermore, almost 59% of Danish-owned MNCs indicate that they “agree” or “strongly agree” that international responsibility for one or more products or services resides outside of Denmark. This shows that a subsidiary outside of the country of origin holds “international mandates” approximately 50% of the time (see Figure 2-11).

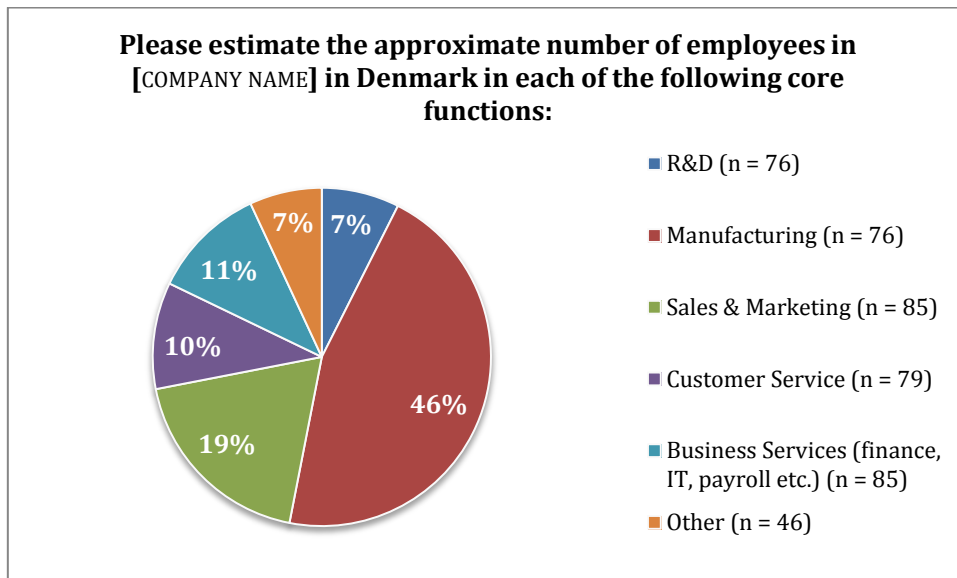
A second measure of the role of the Danish operations is whether they carry out R&D and to what degree. R&D is a strategically important function for many companies, as it is often the “heart” of an enterprise. In terms of the approximate number of employees employed in the R&D function in Denmark, the data show that approximately 85% of home-based MNCs have employees in the R&D function in Denmark, whereas this is the case for only 62% of the foreign-based MNCs. Graphical overviews of the distribution of different functions are provided in Figure 2-12 for home-based MNCs and in Figure 2-13 for foreign-based MNCs. The fact that the non-R&D functions are distributed equally in both home-based and foreign-based companies indicate that R&D is such an important function that few enterprises dare to “outsource” it to subsidiaries.

**Profile of Multinationals in Denmark**

**Figure 0-13: Number of employees by function (home-based MNCs)**



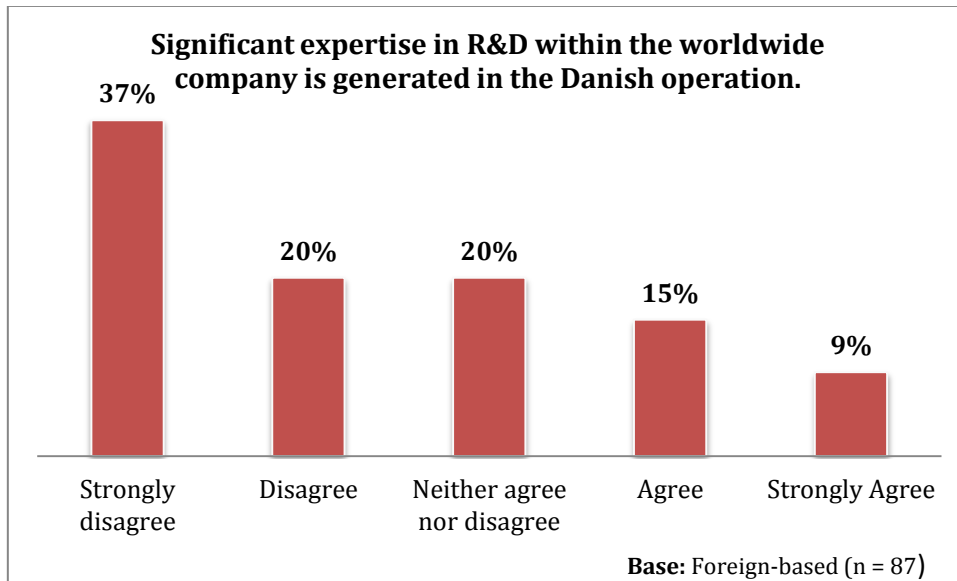
**Figure 0-14: Number of employees by function (foreign-based MNCs)**



A final measure of the role of Danish subsidiaries is whether significant R&D is generated in the Danish operations relative to the companies’ worldwide R&D. Overall, 24% of the foreign-based companies “agree” or “strongly agree” that expertise has originated from Denmark. This can be seen in Figure 2-14.

## Profile of Multinationals in Denmark

Figure 0-15: R&D in Danish operations (foreign-based MNCs)



### Summary

This chapter has described the composition and strategy of a typical MNC operating in Denmark. The analysis shows that:

- The majority of the companies are from Europe, especially Nordic Europe, with only 22% originating from outside Europe. As such, MNCs operating in Denmark tend to come from countries that are similar to Denmark. Most prevalent are Nordic companies, which account for 47% of the sample. Of the non-European countries, US-based companies dominate with 16%. Only 6% of the MNCs are based in the “rest of the world”. In other words, a large proportion of MNCs operating in Denmark come from countries with similar business models.
- In discussions of Denmark’s place in the international value chain, the emphasis has been on the knowledge economy as Denmark’s strongest point. However, 50% of the MNCs in Denmark are in manufacturing, which indicates that Danish companies are not necessarily at the top of the value ladder. Further research is needed to explore why manufacturing in Denmark is widespread among MNCs.
- On average, foreign-based MNCs in Denmark employ more than 60,000 people worldwide. Danish MNCs are significantly smaller, with Danish MNC employing between 1,000 and 4,999 people on average. However, the situation is reversed in the Danish operations, where Danish MNCs are bigger. In general, home-based companies have been international for many years – no home-based MNCs has been international for less than four years.

### **Profile of Multinationals in Denmark**

- A relatively small number of companies adapt their most important products or services to the national market. The majority of companies in the sample adapt to different regions of the world or standardize globally. Home-based companies, in particular, have a high degree of standardization.
- In terms of strategic position, the results show that about 50% of the subsidiaries hold international responsibility for some products and services, and 24% believe that significant R&D has been undertaken in the Danish operations.
- Home-based MNCs tend to focus on one product, while foreign MNCs are relatively more likely to diversify. This could be connected to the home-based MNCs' small size relative to foreign-based MNCs.

## The HR Function

### Chapter 3: The HR Function

In the previous chapter, we described some key features of the MNCs operating in Denmark by looking at their basic characteristics, as well as the strategies and structures that they have adopted for the relationship between headquarters (HQ) and subsidiaries. In this chapter, we elaborate on a number of important aspects of the human resource (HR) function. In particular, we look at the organization of the international HR function and its various aspects, such as the mechanisms the MNC has in place to facilitate a coordinated approach to HR across national borders, the nature of HR policy-making bodies and the extent to which HR staff are brought together across borders.

HR managers were also asked about the proportion of non-HR managers that spend the majority of time on HR matters. We find that non-HR managers in home-based MNCs spend more time on average (15%) than non-HR managers in foreign-based MNCs. (7%).

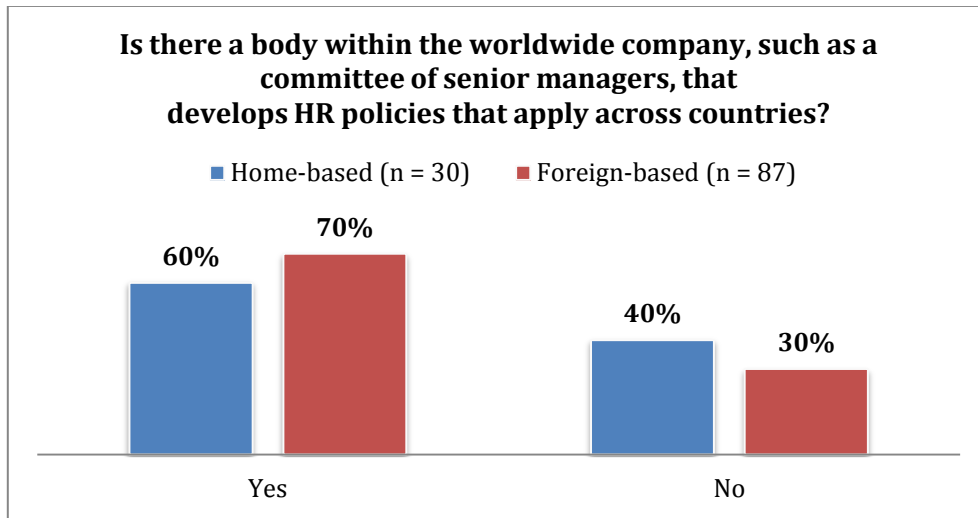
The chapter ends with an examination of the respondents' views on the extent and nature of an international philosophy on the management of employees, and a brief summary of the findings.

#### HR policy formation and coordination across borders

One aspect of the international HR function that provides a measure of the degree of control over HR policy across borders is whether there is an international HR policy-making body. Respondents were asked whether their companies have a body within the worldwide MNC, such as a committee of senior managers that develops HR policies that apply across countries (see Figure 3-1).

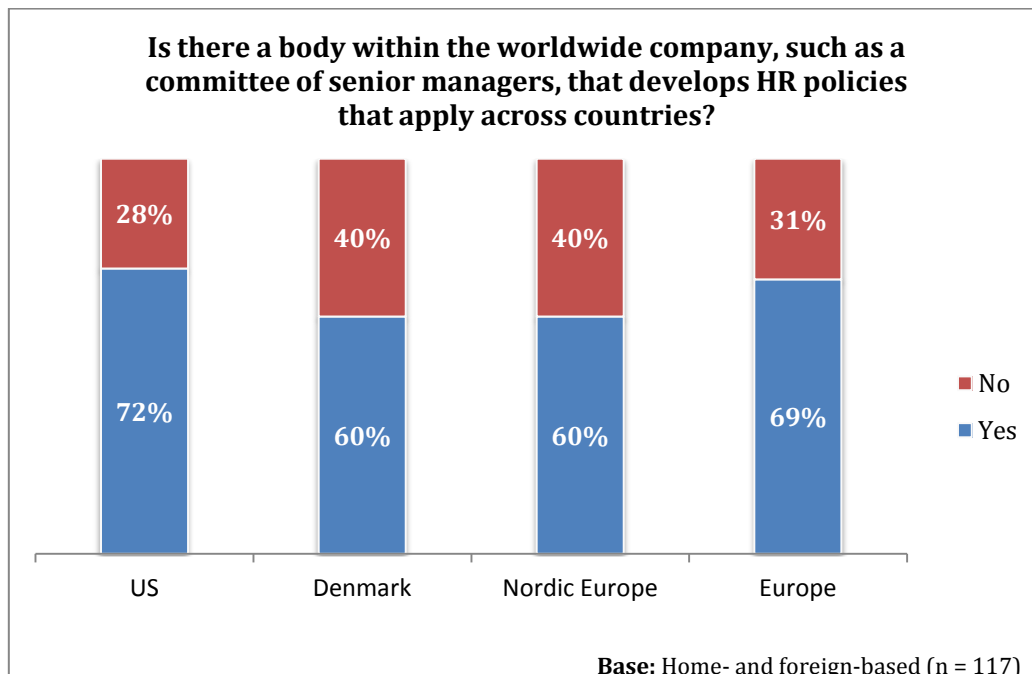
The HR Function

Figure 0-1: Presence of global HR body



We see that such bodies are quite common in both home- and foreign-based companies, as 60% of home-based companies and 70% of foreign-based companies have such a unit in place. This leads to an assumption that HR is, at least to a certain extent, coordinated across borders. The prevalence of such units varies somewhat on the basis of HQ nationality across the different regions but this result is not statistically significant (see Figure 3-2).

Figure 0-2: Presence of international HR-policy body



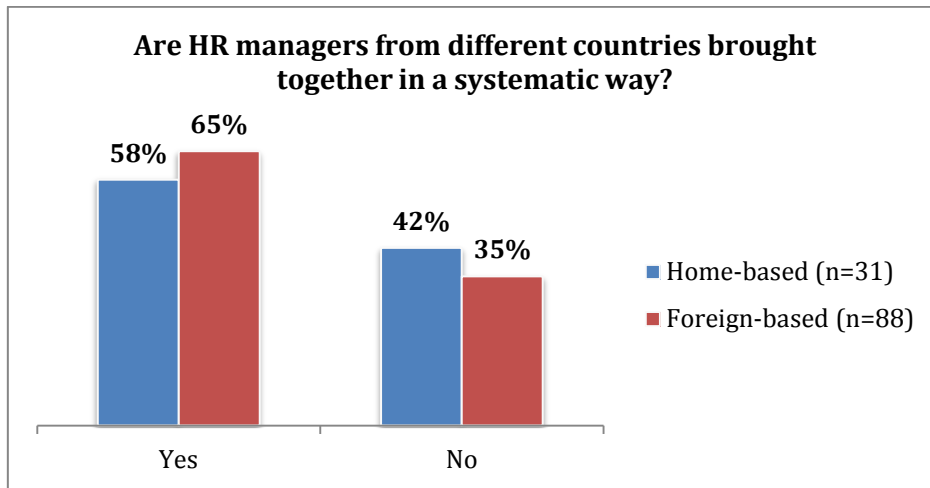
The respondents were also asked whether Denmark was represented on this body. This can be seen as an indicator that distinguishes Danish operations with a local HR implementer role from Danish operations that are participants in an international network. Of the foreign-based MNCs with an HR-policy coordination committee, 37% indicated that the group includes a Danish representative.



The HR Function

Another important indicator is the degree to which the MNC makes a systematic attempt to bring managers together across countries. This factor might serve as an indicator for systematic knowledge sharing and organizational learning among subsidiaries. However, such systemization can also be used as a way of controlling the local HR functions by creating shared values.

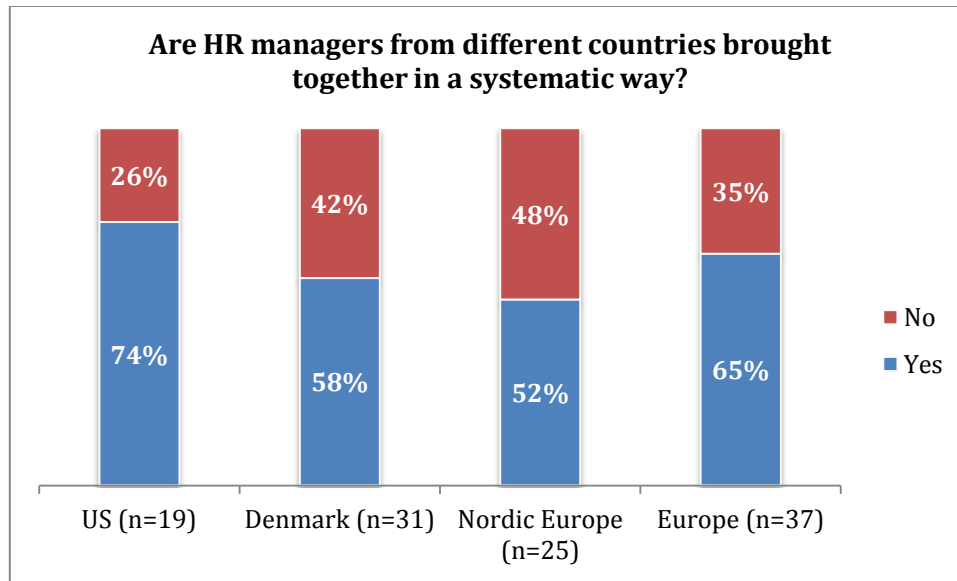
Figure 0-3: Attempts to bring HR managers together



Just under two-thirds (65%) of the foreign-based companies and slightly more than half (58%) of the home-based companies systematically bring HR managers from different countries together (see Figure 3-3). This provides further support for the notion that many MNCs are developing an integrated approach to HR policy making. Respondents were asked whether this activity takes place on the global or regional level. 40% indicated that they assemble HR managers on the regional level, whereas 25% do so on the global level. Once again, the nationality and size variables are important determinants. As Figure 3-4 shows, Danish companies and companies originating from Nordic Europe are those least likely to systematically bring managers together, while companies from Europe and the US are most likely to bring managers together.

The HR Function

Figure 0-4: MNC systemization of cross-region HR manager meetings

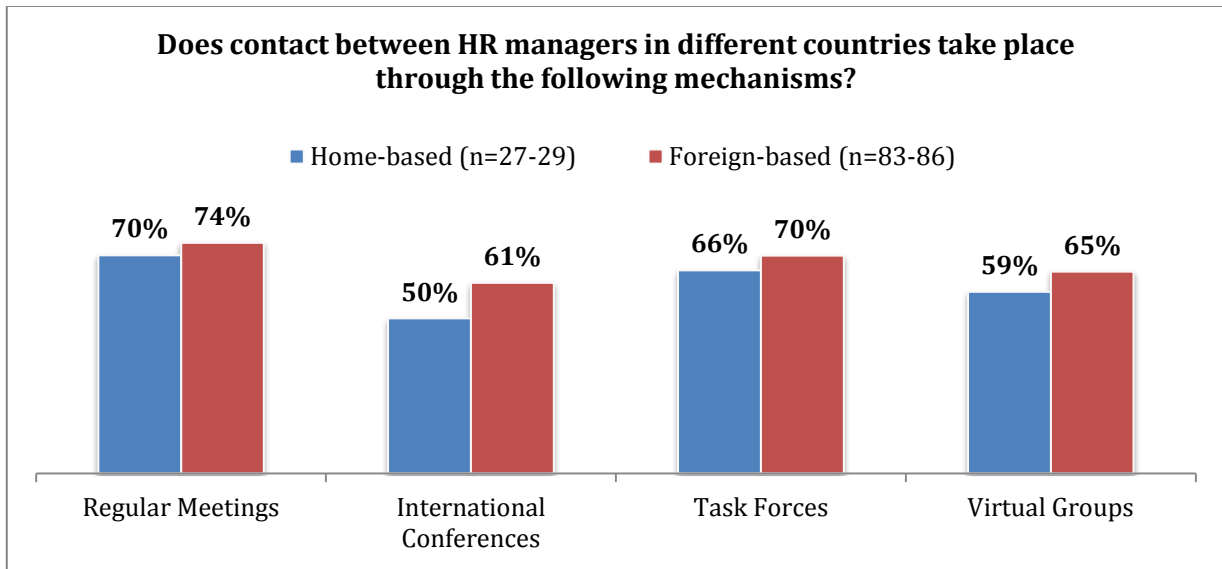


Larger companies, in terms of both global and Danish employment, are more likely to encourage managerial contact on the global and regional levels. Specifically, 77% of the companies employing 5,000 employees or more worldwide bring HR managers together on both a regional and global basis, while the corresponding figure for companies with less than 5,000 employees worldwide is only 41%. Three of the four companies in our sample with more than 5,000 employees in Denmark bring HR managers together on a global and regional basis, while only 62% of companies with less than 5,000 employees in Denmark do so.

Respondents were also asked about the mechanisms used to facilitate international contact between HR managers – regular meetings, international conferences, taskforces and virtual groups (see Figure 3-5) – and how frequently those mechanisms were used. The results show that all mechanisms are widely used in the vast majority of companies, with only 21% of the responding companies not applying any of the four mechanisms. Regular meetings are the most common, while international conferences are the least, although the latter are still used by more than half of the companies.

The HR Function

Figure 0-5: Mechanisms bringing HR managers together



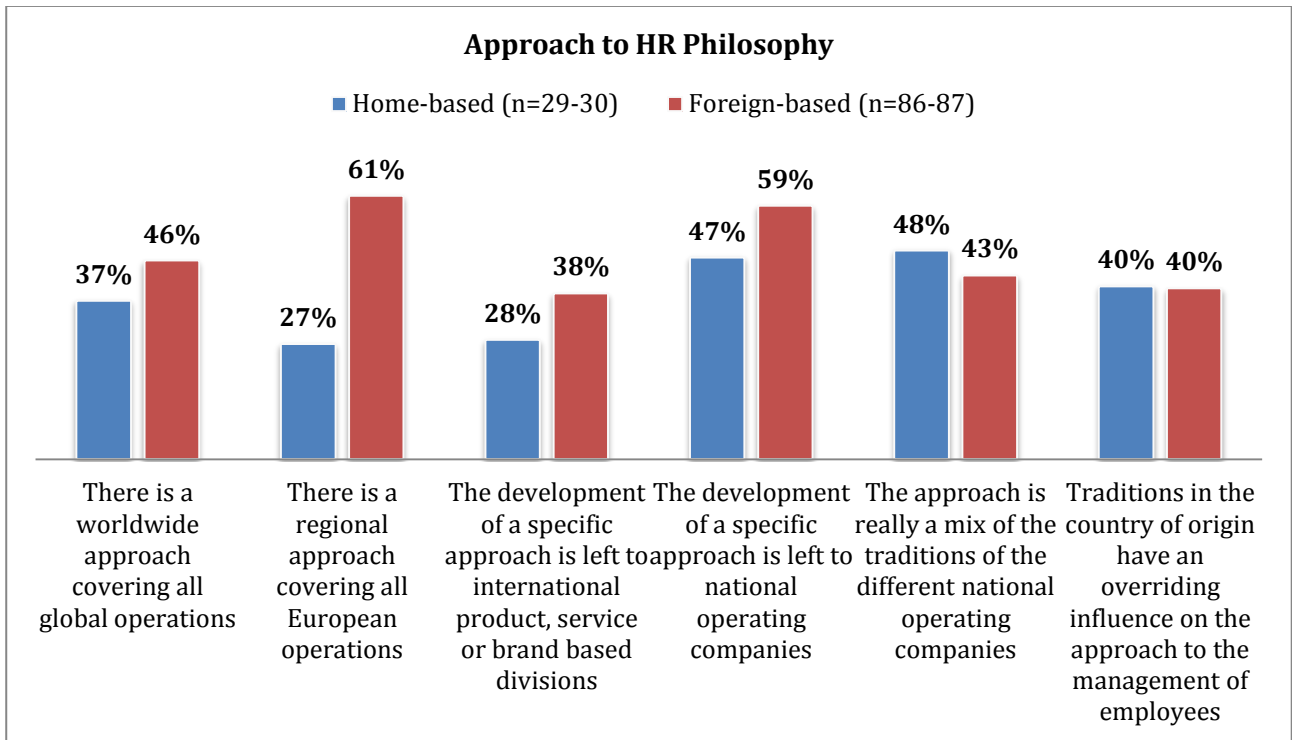
HR philosophy and reverse diffusion

Another way of examining the international dimension HRM activities is to consider the extent to which there is a uniform management style across borders. Respondents were presented with a series of statements related to the company’s philosophy concerning its employee management style and asked the extent to which they agreed or disagreed with each statement on a scale of 1 to 5<sup>8</sup> (see Figure 3-6). The data show that a worldwide philosophy is widespread in 37% of the home-based MNCs and in 46% of the foreign-based MNCs.

<sup>8</sup> In Figure 3-6 those companies answering: “agree” (4) and “strongly agree” (5) to each of the statements are displayed.

The HR Function

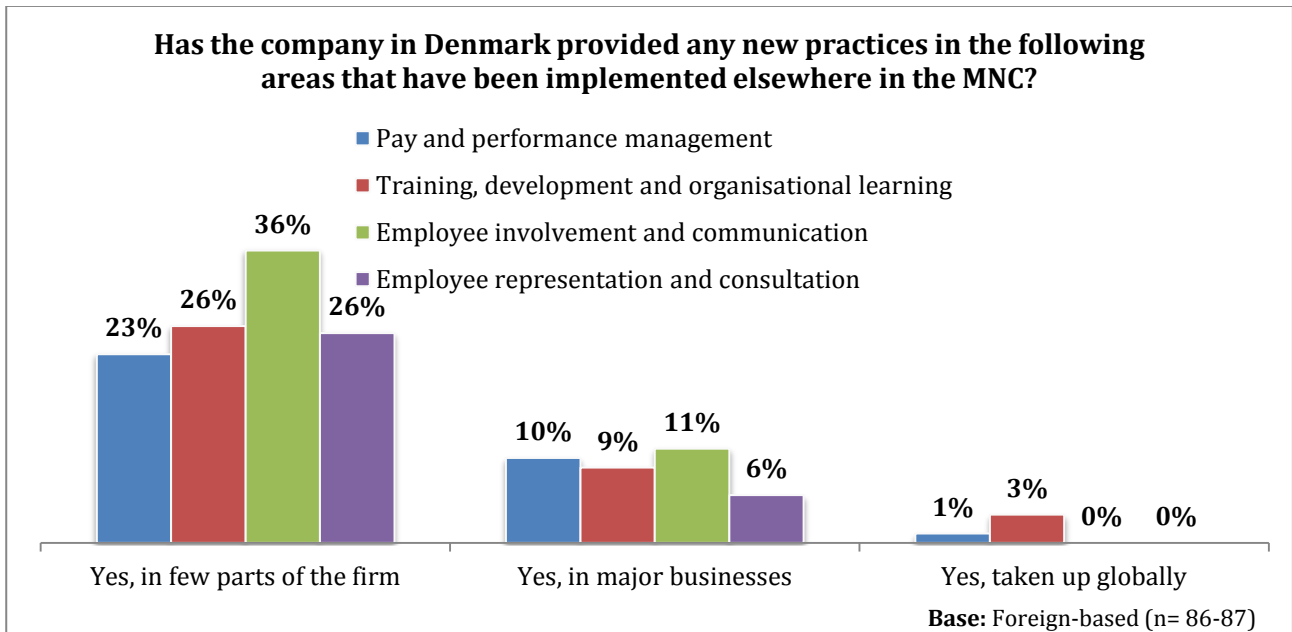
Figure 0-6: Approach to HR philosophy



In general, the analysis shows that only a minority of MNCs engage in *reverse diffusion* of HR practices from the subsidiaries to the worldwide organization. When asked whether some of their local HR practices have been used in the MNC worldwide, 30% stated that HR practices had been taken up in a few parts of the firm, while 60% indicated that none of their HR practices were in use across the MNC. Very few subsidiaries reported that their HR practices had been implemented globally. Notably, the area of "employee involvement and communication" seems to be the area in which local HR practices are most often diffused to other branches of the MNC (see Figure 3-7).

The HR Function

Figure 0-7: Reverse diffusion of HR practices



Summary

This chapter has described the HR functions of MNCs by looking at HR policy development and coordination, systematic attempts to bring HR managers together, and mechanisms for doing so. We find that:

- About two-thirds of MNCs in Denmark have an international HR body and a system for bringing managers together. These systems are somewhat more common in foreign-based MNCs than in Danish-based MNCs, partly due to the smaller size of the latter.
- In about one-third of the foreign-based MNCs, a Danish representative is part of the international HR policy-making body.
- The most common way of bringing managers together is through regular meetings, but international conferences, task forces and virtual groups are also widely used.
- Companies adopt a variety of approaches to their HR philosophy, ranging from local adaptation to global standardization.

A decision to not bring HR managers together or not introduce an international HR body could have consequences in terms of missed opportunities to encourage knowledge sharing in HR. Subsidiaries might have ideas or practices relevant to certain HR problems, but these cannot be spread throughout the organization if subsidiary HR managers do not meet. However, there are some examples of an HR initiative from a subsidiary being implemented in the wider organization (see Textbox 1).

## The HR Function

### Textbox 1: Reverse diffusion

#### “We were a playground”

A Danish subsidiary of a German MNC was part of a merger of subsidiaries in the Nordic countries over 15 years ago. Of the more than 100,000 people employed by the MNC worldwide, the Danish subsidiary only accounts for around 150. It is, therefore, relatively small in size. The merged Nordic region became an inspiration for the German HQ, and was followed by formations of other regions of similar institutional contexts. The result of the progressive approach taken in the Nordic subsidiaries was a higher level of discretion. According to a Danish HR manager:

*Back then, we were allowed to do almost anything we wanted (in the Nordic subsidiaries), as we were viewed as the pioneering region.*

The Nordic subsidiary became a playground for organizational experimentation, and it therefore gradually gained the attention of HQ as top management began to recognize the potential benefits of the “Nordic model.” The result was that the organizational innovations initiated in the Nordic countries were replicated globally.

Given the variety of institutional contexts in different national contexts, over the years the MNC has developed overall strategies with built-in compliance rules. These rules make it possible to adjust the strategy to local conditions and are inspired by the subsidiaries’ experiences:

*On the implementation level, you have to interpret the decisions made on the strategy level. You might have a strategy, (...) but then you might run*

*into some legislation locally that makes it impossible to implement the strategy in that form. You have to relate to the local legislation.*

While there is strong reverse diffusion from subsidiaries to HQ, HQ also maintains strict central control of HR. Every fifth year, the performance of the subsidiary – including HR – is evaluated. The focus is the degree to which HQ’s general strategy is followed. This is a mutual learning process, as HQ needs to understand the institutional limitations to which the subsidiary is subject:

*We can’t say, “Yeah, whatever... We don’t care what HQ does”. You can’t do that. (...) But it is a learning process because we go back and tell them that this is not possible in this country or region, while this is possible. (...) And they go back and change their policies.*

This has led HQ to adopt a softer approach to HR in subsidiaries:

*It is being softened up more and more. The top-down management that once was is slowly disappearing.*

By reconciling the inherent contradiction between centralization and decentralization, this German MNC is able to leverage the tension between local requests for more discretion and HQ’s desire for control. It uses subsidiaries to develop HR policies, and to find and develop management talent. In other words, HQ’s HR policies are not set in stone, but can be adjusted to the local context, and HR is diffused from subsidiaries to HQ.

## Subsidiary Discretion

### Chapter 4: Subsidiary Discretion

Chapter 3 touched upon the HR-related relationship between MNC HQs and subsidiaries, and we analyzed the level of discretion warded to subsidiaries with regards to HR. In this chapter, we elaborate on the relationship between HQ and subsidiaries by looking more thoroughly at subsidiary discretion with regards to a variety of issues, including pay schemes, succession programs and union recognition. The level of discretion is an important indicator of headquarters' strategy with respect to subsidiaries and the way in which they manage their global operations. It reflects whether the MNCs focus on the benefits of standardization or give local operations the freedom to adapt to local challenges. In addition, this chapter offers an overview of the levels of discretion and a discussion of the general influence of discretion in the subsidiaries.

#### Measuring discretion

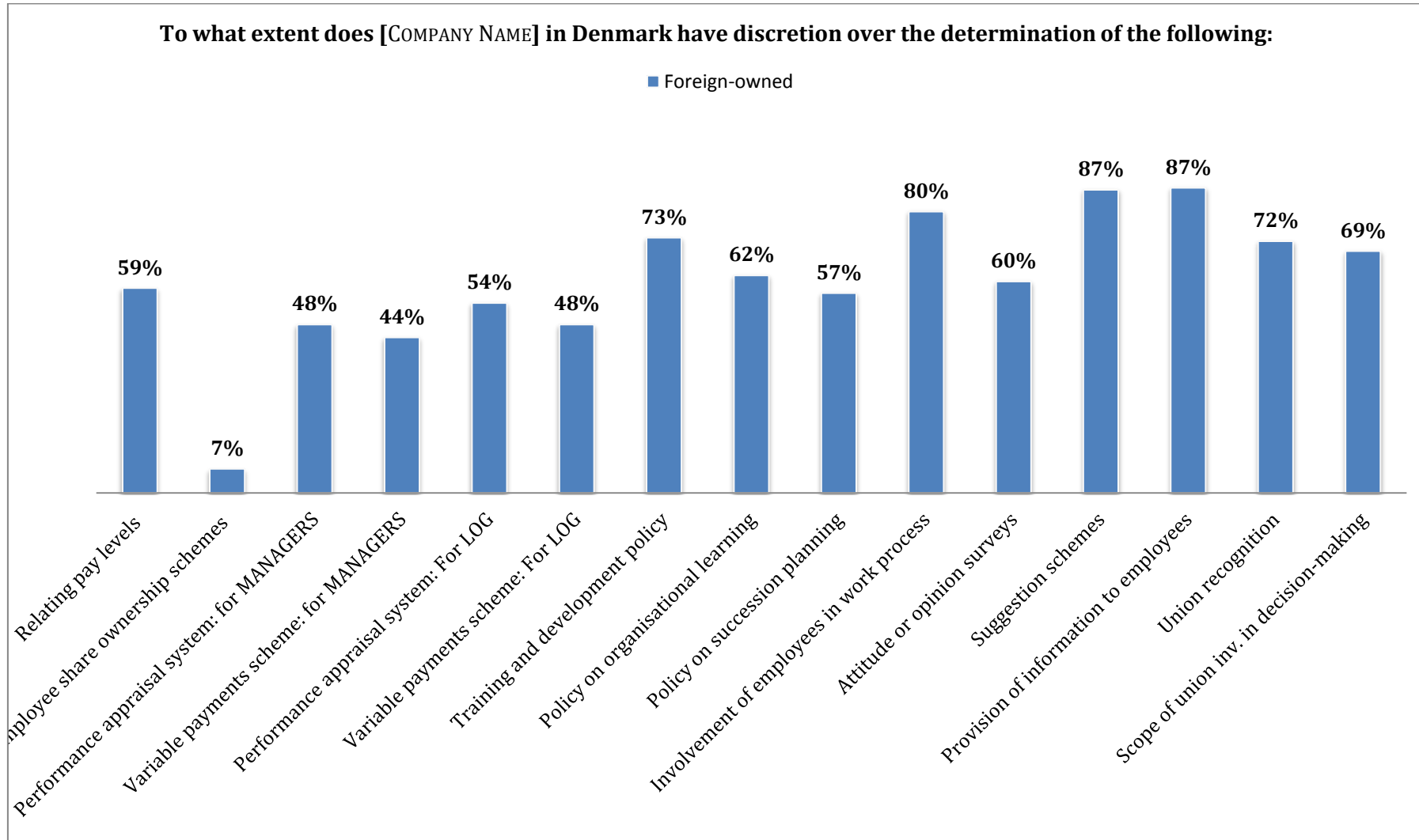
In this survey, "discretion" refers the extent to which a subsidiary has autonomy over the main areas of its employment practices. The survey measures discretion using 15 different items within the four main areas of HR policy: pay and performance, training and development, employee involvement and communication, and trade union policy. Respondents were asked to evaluate the level of discretion in their organization on a five-point scale ranging from "none" to "full discretion".

#### Pattern of discretion

Summaries of the proportions of companies with high levels of discretion for the various items are provided in Figures 4-1 and 4-2. Figure 4-1 illustrates the foreign-based companies' perceptions of their discretion levels. For this purpose, HR managers were asked: "To what extent does [COMPANY NAME] in Denmark have discretion over the determination of the following aspects of pay and performance policy?" Figure 4-2 illustrates home-based companies' self-perception of the discretion they give to their subsidiaries. Here, the HR managers were asked: "To what extent do operating companies outside of Denmark have discretion over the determination of the following aspects of pay and performance policy?"

Subsidiary Discretion

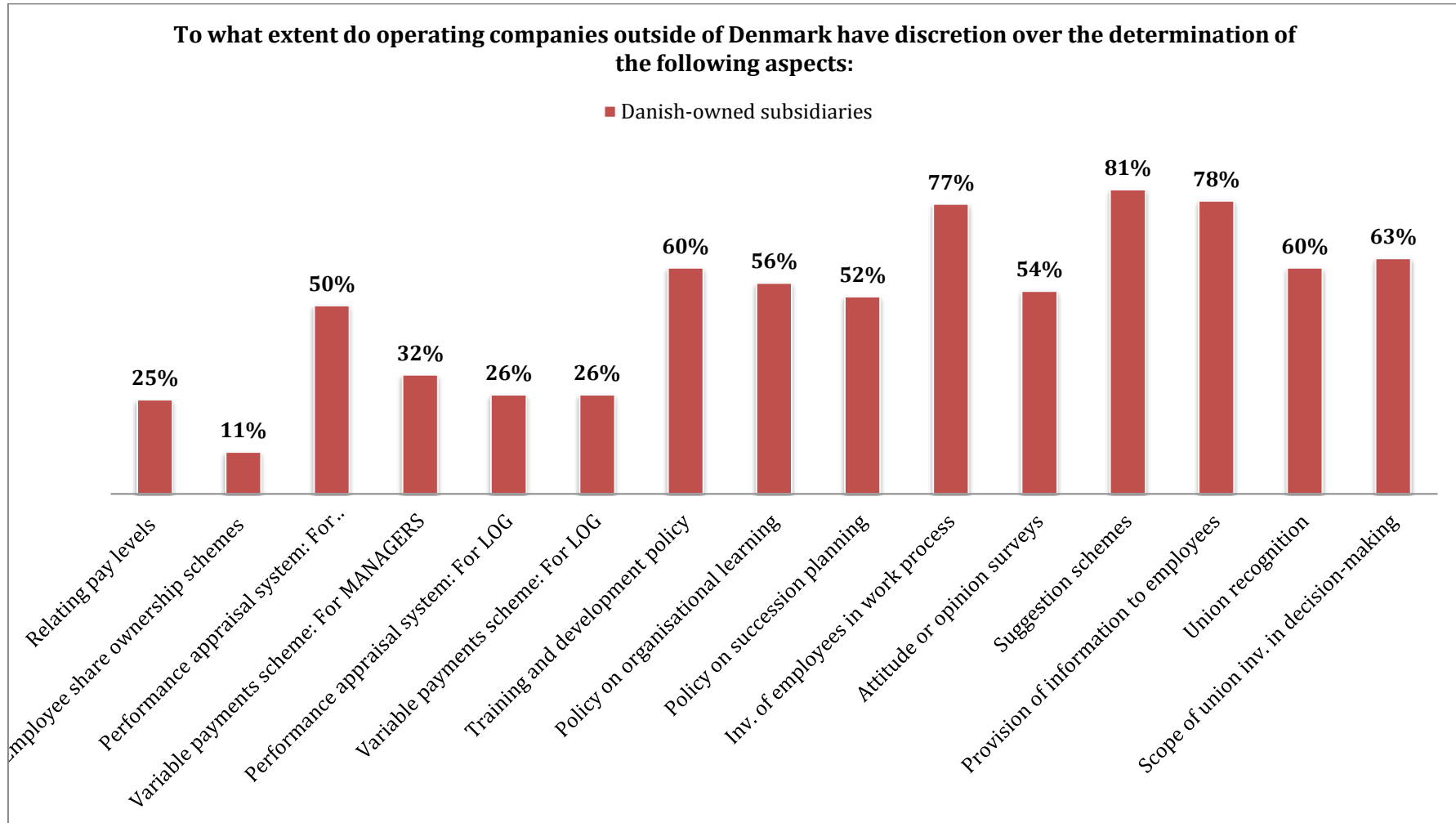
Figure 0-1: Areas of discretion (foreign-based)





Subsidiary Discretion

Figure 0-2: Areas of discretion (home-based)



### Subsidiary Discretion

On the basis of Figure 4-1 and Figure 4-2, the following conclusions can be made:

- Overall, the foreign- and home-based MNCs are similar in their level of discretion, with between 60% and 80% of the companies having high discretion for most of the factors (with the exception of “pay and performance”).
- Both home-based and foreign-based companies have the highest level of discretion in relation to “provision of information to employees” and “suggestion schemes” (81% and 87%, respectively).
- The lowest degree of discretion for both foreign- and home-based companies is found for “employee share ownership scheme”.

A clear pattern can be seen in the two figures with respect to pay and performance, where the levels of discretion are much lower than for other employment practices. Influences on discretion for foreign-based companies

This section discusses how selected company-specific characteristics influence the level of discretion. For this purpose, an overall discretion index – based on the average of the 15 individual items – is formed. The relatively small number of home-based companies means that the following statistics are limited to foreign-based companies.<sup>9</sup>

First, we look at the influence of the country of origin, the age of the subsidiary, and the size of the Danish operations. For this analysis, Swedish and US companies are compared because Swedish-owned companies come from an institutional context similar to Denmark’s, whereas US-owned companies come from a different institutional context. These are the groups that we use for testing national differences throughout the report, as they represent different institutional systems and have a substantial amount of respondents in their group.

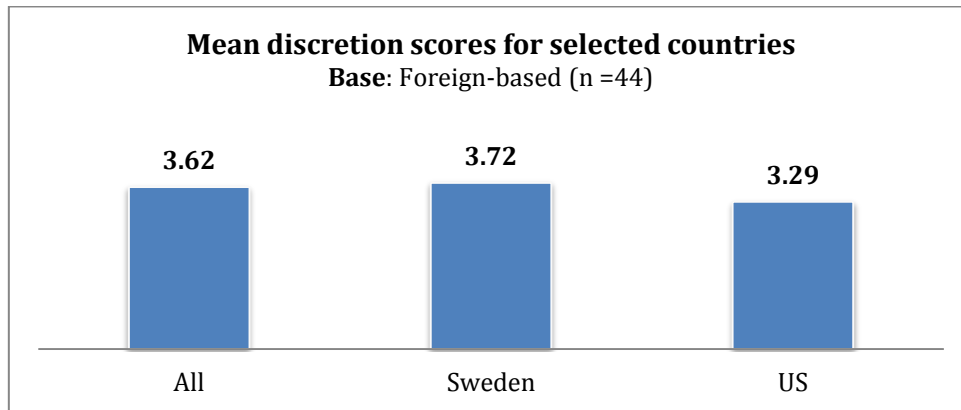
Figure 4-3 provides the mean scores for all foreign-based, US-based and Swedish-based companies. From this figure, we see that companies with US-based headquarters have a lower degree of discretion than their Swedish-based counterparts, and that Swedish-owned subsidiaries have a higher average level of discretion than the sample of all foreign-based companies. This finding could lead to a conclusion that US-based companies prefer a higher level of control over their subsidiaries than Swedish-based companies. However, these differences are not statistically significant.

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<sup>9</sup> This index forms a reliable scale with a Cronbach alpha value of 0.855. This scale has a minimum of 1.47 (should be more than 1), a maximum of 4.93 (should be less than 5) and an average of 3.6242.

## Subsidiary Discretion

**Figure 0-3: Mean discretion scores for selected countries**



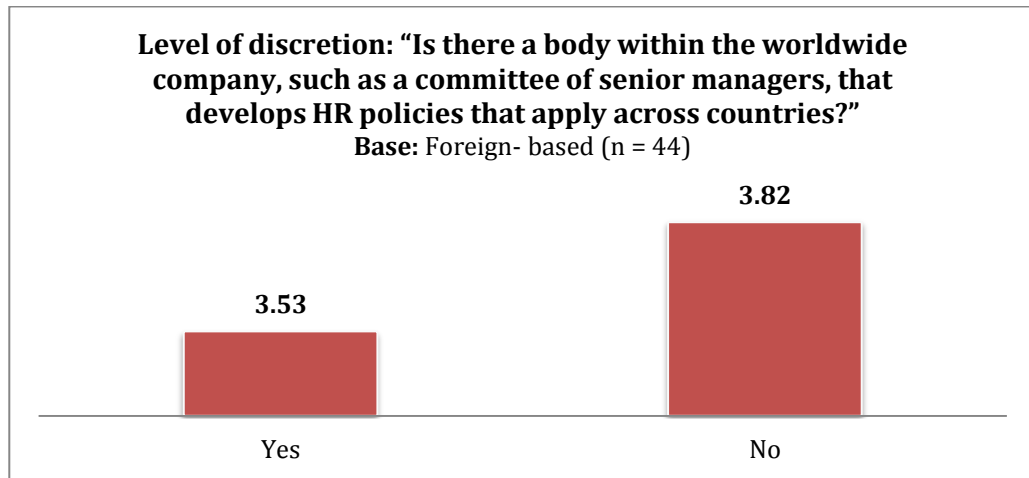
The next element is the age of the subsidiary. Older subsidiaries can be expected to have more flexibility to make decisions, as they are integrated in their institutional context to a higher degree. It can also be argued that the MNC might wish for a higher level of control in the initial phase of subsidiary establishment due to a higher need for support as well as a desire to influence the subsidiary's culture in the direction of the MNC's values and procedures. However, statistical tests of the correlation between age and discretion show no significant results.

In addition to the "factual" variables of the MNC, other variables might indicate the degree of discretion in MNCs. We therefore examine three different aspects:

1. **Standardization or adaptation of products:** This aspect is tested to determine whether there is an association between a focus on standardization of products and the level of discretion. The results show no significant association between these variables.
2. **Globally decided HR policies:** Companies with a global mindset with regards to creating and deciding upon HR practices might be expected to provide their subsidiaries with less discretion. Figure 4-4 shows the mean of the overall discretion index for companies answering "yes" or "no" to the following question: "Is there a body within the worldwide company, such as a committee of senior managers, that develops HR policies that apply across countries?" The figure shows that MNCs that do not have such a body within the worldwide MNC provide more discretion on average to their subsidiaries than those companies that have a body within the worldwide MNC (although this tendency is not statistically significant).

## Subsidiary Discretion

**Figure 0-4: Level of Discretion and Globally Decided HR Policies**



- 3. Worldwide approach:** The respondents in the survey were asked about the extent to which they agreed or disagreed with the following statement: “There is a worldwide approach covering all global operations” with the objective of testing whether a general worldwide approach has an influence on the level of discretion. This was not the case – no significant correlation was found between the level of discretion and a worldwide approach covering all operations.

### Summary

This chapter has briefly discussed subsidiary discretion in home-based and foreign-based MNCs. Discretion is defined as the extent to which the subsidiary has autonomy over different areas of HR policy. The results for home-based and foreign-based MNCs are presented separately, as they are not comparable. We find that:

- The subsidiaries enjoy a high level of discretion with regards to communication, employee involvement and employee representation.
- With the exception of the Danish-owned operations of Danish companies, a low level of discretion is found in the areas of pay and performance.
- Country of origin matters for discretion. The analyses indicate a general tendency for US companies to grant less discretion to their subsidiaries than the study population in general. Subsidiaries with a Swedish headquarters enjoy higher discretion than the average.
- Whether the MNC has standardized products or a worldwide approach has no significant effect on discretion.

### Subsidiary Discretion

The finding that, in general, discretion is lower on pay and performance is not surprising. Pay is a decisive factor in the relations between management and employees, and it is an important motivator. It is also decisive for the company profits.

Likewise, employee share ownership schemes are a low-discretion area. This element is also central to management's prerogative and it is also an important motivational factor in any company.

As the study shows, the level of discretion awarded to, or obtained by, subsidiaries varies significantly. In this respect, two case studies reveal the diversity of attitudes toward the centralize-decentralize question (see Textbox 2).

## Subsidiary Discretion

### Textbox 2: High discretion versus low discretion

#### “America has the last word”

The Danish subsidiary has no production and no R&D activities – only sales. Over the last 10 years, the company’s size has been reduced by half and it no longer has a full-time HR manager. The company’s HR policy is dictated by the US headquarters and implemented via the European branch’s HR department in Sweden. HR policy and HR managers do not meet across borders. Although recruitment in the Danish branch is up to each sub-department, it must comply with the rules of the Swedish HQ. Ultimately, all recruitment occurs under the supervision of the American HQ. Any hiring has to be approved by the Swedish HQ and the Swedish HQ’s HR policy must be approved by the American HQ. Headcounts are the most important factor for HR in the American HQ:

*Once a month, we have to report how many employees we have and how many working hours they have. Two or three years ago, we had to lay off about 10 employees. The HQ in the US said: “You have too many employees”. (...) We contacted the employers’ association but the unions were not involved.*

The US MNC basically has to approve any HR decision. The consequences can be dire if such approvals are not obtained in advance:

*A couple of years ago, the Swedish CEO tried to introduce a new scale for all of the European subsidiaries. He was almost fired because he didn’t get it approved by the US HQ. You have to be careful – you put your job on the line if you don’t get a change approved in the US.*

Accordingly, all HR decisions go through the HR division in Sweden and are approved in the US. HR policy is decided from the top down, and the Swedish and US HQ do not consult the subsidiaries:

*There is a code of conduct on the Intranet. We have to read it once a year. By looking at our users’ profiles, they can check whether we have done so. If not, they send us a reminder. (...) You can read it or you can watch the video. Then you have to pass a test afterwards.*

The Danish branch is not invited to HR meetings in other countries and, in general, the Danish branch feels inferior in the MNC:

*They are so far away [the US]. I believe they think: “Denmark, that’s a small one – we don’t want to waste time on them”. When we write to them, we often feel they don’t really care – it doesn’t matter to them.*

This American MNC clearly believes the benefits of centralization and standardization outweigh the benefits of local discretion. HR policy is determined centrally with little or no input from local subsidiaries, and the MNC seems hostile toward local innovation.

#### “We don’t really cooperate with HQ”

Recognizing the importance of adapting to local conditions, one German retailer completely decentralized the company’s HR function. The freedom provided by this hands-off approach means that local HR managers are responsible for identifying and developing training and development programs, as well as leadership programs, for the company’s employees. The Danish

## Subsidiary Discretion

subsidiary is basically independent from the German HQ in HR terms:

*I don't report to the HR function in Germany. (...) We do not really cooperate with HQ in Germany [on HR]. If they have some good ideas, we use them. Otherwise, we make our own strategy, our own priorities and do it our way.*

This discretion has allowed one local HR manager to develop an initiative designed to increase female participation in the labor market. The subsidiary has also established an academy for further training in Denmark, which is independent of HQ. The Danish branch aims to be the best in the business and has started the academy for further training of its employees. It is institutionalized and, as such, is part of the subsidiary's headcount – there are always a certain number of employees involved in training. These measures were discussed only between the Danish HR manager and the Danish CEO, and the German HQ did not need to approve them:

*There are no demands from anybody – the only thing is that things have to work out.*

HR managers from different subsidiaries do not meet across countries and there is generally no cooperation between HR departments in different countries. This high level of discretion is not a formulated policy from the German HQ, but is instead the result of the corporation's development. The parent company was established in Germany in 1960. Greenfield operations were established in Denmark in 1988.

### Case summary

HR policies can be formed centrally or locally. The advantage of centrally decided HR policies is that they can be important pillars in the establishment of a common corporate culture and can serve as an organizational control tool useful for achieving the advantages of global scale and scope. The advantage of decentralized HR policy formation is the possibility of adjusting to the needs of local cultural, institutional and social environments – including investment relations systems. Hence, they are more receptive to local trends and emerging needs.

Regardless of where HR policies are formed, another important issue is whether they are shared across borders. If a subsidiary establishes a best practice, it can only be defined as such when compared to other practices within the MNC, when the practice is communicated throughout the MNC, and when the practice is adopted in other MNC units. In this respect, reverse diffusion allows a subsidiary to provide inspiration to HQ regarding an HR policy. In contrast, spillover occurs when a subsidiary's HR policies spill over to other subsidiaries.

While the high level of discretion in case 2 is highly appreciated by the subsidiary's HR department, it is also obvious that there is no organizational learning in this setup. HR in the German headquarters does not pick up on ideas and innovations from its subsidiaries, and HR managers on the subsidiary level do not meet or share knowledge.

# Part 2

*Analyzing employment practices*

**Pay and performance**

**Training, development and organizational learning**

**Employee involvement and communication**

**Employee representation and consultation**



## Pay and Performance

## Chapter 5: Pay and Performance

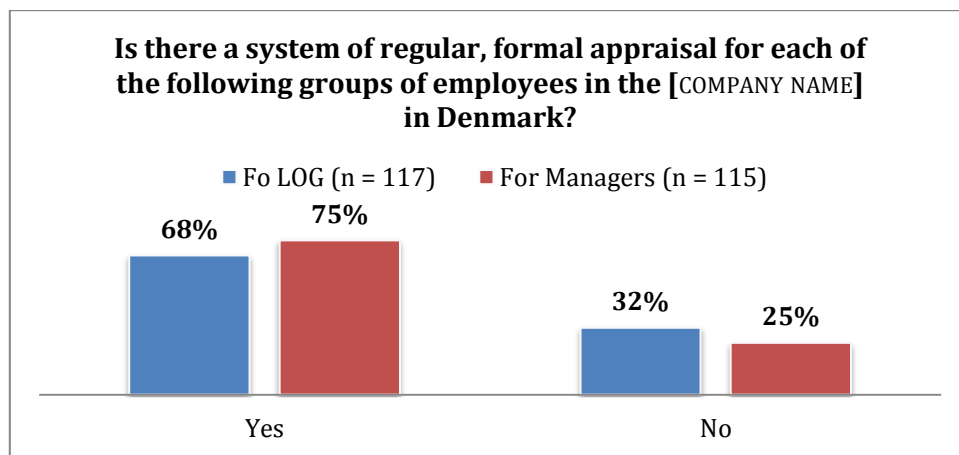
After establishing the general picture of MNCs operating in Denmark in the previous three chapters, we now proceed to explore the specific areas of HR practice in MNCs. This chapter focuses on subsidiary pay and performance systems. It begins with an examination of the performance appraisal system, the methods are that used, and how those methods are employed for different groups of staff. Second, we look at various reward systems in the subsidiary and the underlying criteria used for performance evaluation.

Throughout the chapter, we analyze the effects of various company-specific variables on pay and performance practices. In this respect, we look at attributes from Chapters 2 and 3, such as nationality (home-based or foreign-based), size, sector, standardization and presence of global HR policies.

## Performance appraisals

Performance appraisal systems are widespread among the companies in the survey. 75% of the companies report that they have a formal system of appraisal for managers, and 68% report that they have an appraisal system for the LOG (see Figure 5-1). This indicates that the majority of companies have developed an official, formal appraisal system for a large portion of their employees.

Figure 0-1: Presence of appraisal systems



When looking into this result, we find several interesting tendencies:

- **Country effect:** There is a significant difference between home-based and foreign-based companies in their probability of having appraisal systems. Foreign-based MNCs are more likely to have performance appraisal systems for the LOG.<sup>10</sup> A similar tendency is evident for managers, although this is not statistically significant. US-

<sup>10</sup> Chi-square test: significant at the 5% level.

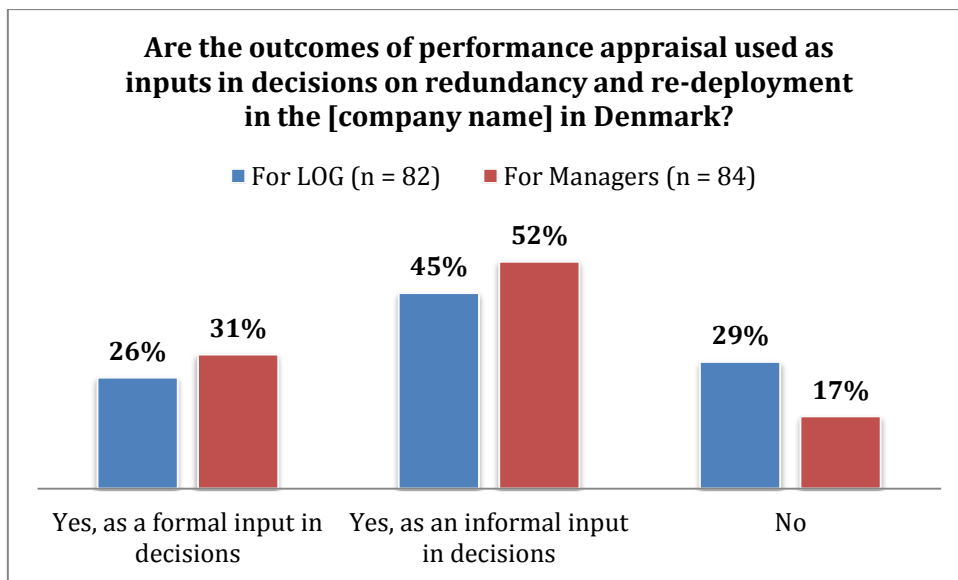
**Pay and Performance**

owned companies have the highest frequency of appraisal systems for both the LOG and managers.

- **Global HR policies:** Those MNCs with a body responsible for the development of global HR policies are significantly more likely to have performance appraisal systems for both the LOG and managers than companies with no such unit.<sup>11</sup>
- **HR managers brought together in a systematic way:** Companies that bring their managers together in a systematic way also have a significantly higher likelihood of having a formal appraisal system for both the LOG and managers than companies that do not have systematic meetings of managers.<sup>12</sup>

One interesting aspect of appraisal systems is whether they use the results of the appraisal in decisions on redundancy or redeployment. Figure 5-2 shows that most companies use appraisal results as either formal or informal input into such decisions. In total, 71% engage in this practice for the LOG and 83% do so for managers. These figures, together with the above results, indicate that appraisal systems are used to evaluate and regulate managers more often than the LOG. Notably, 48% of the companies use appraisal systems as an *informal* input for decisions on redundancy and redeployment (for the LOG and/or managers).

**Figure 0-2: Uses of the performance appraisal system**



When testing for differences in the use of performance appraisal systems in relation to company characteristics, no significant differences are found in terms of sectors, global HR units,

<sup>11</sup> Chi-square test: significant at the 5% level.

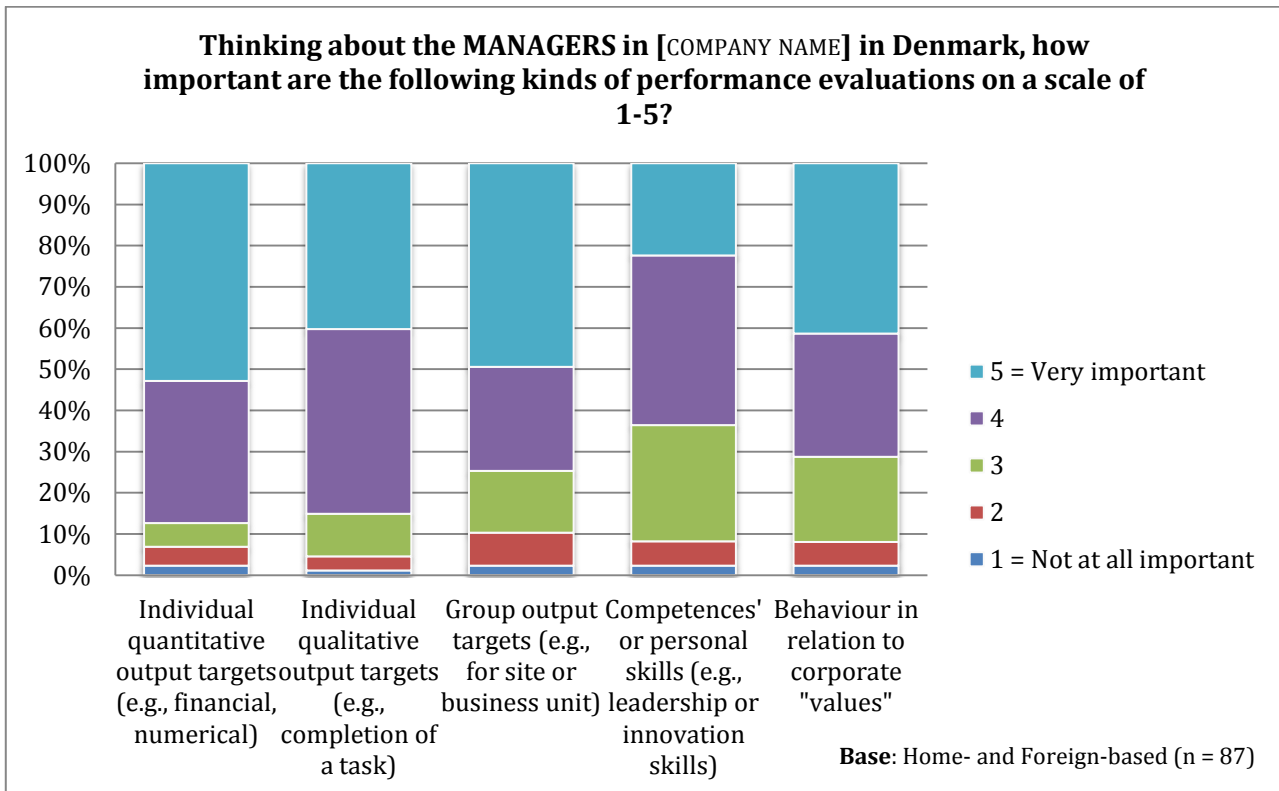
<sup>12</sup> Chi-square test: significant at the 5% level.

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standardization or countries of origin. However, we find that companies that bring managers together in a systematic way use the outcomes of performance appraisals in decisions affecting both the LOG and managers more often than companies that have no such regular meetings. Overall, however, we conclude that no specific features characterize companies that utilize appraisals to make decisions on redundancy and redeployment.

Another aspect of performance appraisal is found in the criteria that are important for evaluating management performance. The respondents were asked to assess the importance of five criteria on a scale from not important to very important. As shown in Figure 5-3, all criteria were found to be mostly “important” or “very important” in assessing performance. Individual outputs, in particular, are perceived to be very important, while slightly less importance is attributed to “competences or personal skills”, “group output targets” and “behavior in relation to corporate values”.

**Figure 0-3: Management performance evaluation**



The only significant variation between the groups<sup>13</sup> is found when looking at Sweden. Swedish MNCs has a significantly lower perceived importance of individual quantitative output targets and behavior in relation to corporate values. The same tendency is true for individual qualitative output targets, although this is only close to statistically significant. This is interesting in a Scandinavian context, as

<sup>13</sup> To achieve an acceptable number in all groups, answers 1 and 2 were merged to “not important”, 3 was rated “of medium importance”, and 4 and 5 were merged to “very important” for the purpose of the statistical tests.

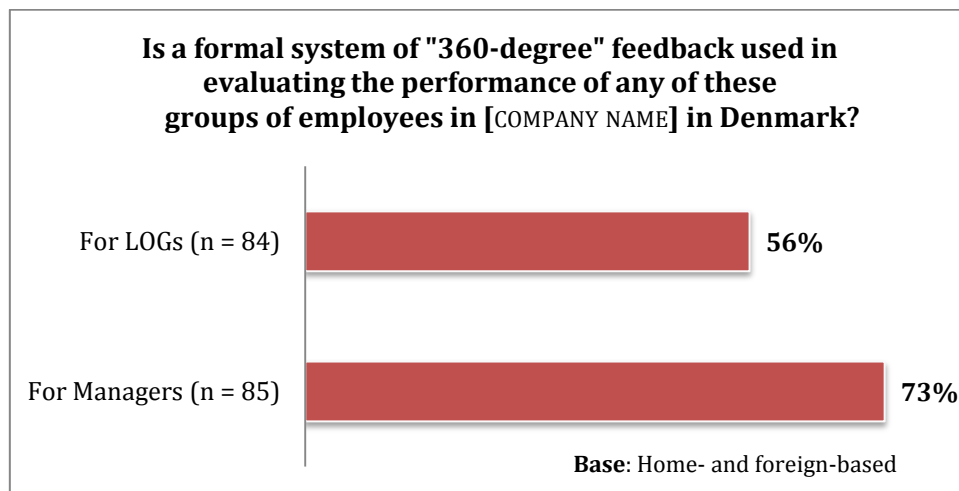
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the Nordic countries – especially Sweden – have a long tradition of self-governing teamwork in the workplace. These data indicate that this tradition is also reflected in the appraisal systems of Swedish MNCs.

We also see that companies that bring HR managers together in a systematic way place more emphasis on individual quantitative output targets. However, no significant differences were found for other characteristics.

Another way of evaluating performance is by using “multi-rater reviews” or “360-degree feedback”. This practice is increasingly popular in MNCs and has the benefit of offering a more holistic view of individual performance by providing feedback from peers, subordinates and managers. The data show that this practice is widespread: 73% of the respondent companies use 360-degree feedback to evaluate the performance of managers, and 56% use the practice to evaluate the LOG (see Figure 5-4).

**Figure 0-4: Use of 360-degree feedback**



**Performance-related pay systems**

After looking at general performance appraisal systems, we now focus on performance-related pay systems. First, we investigate the extent to which variable pay is used for managers and the LOG in MNCs.

## Pay and Performance

Figure 0-5: Variable pay (managers)

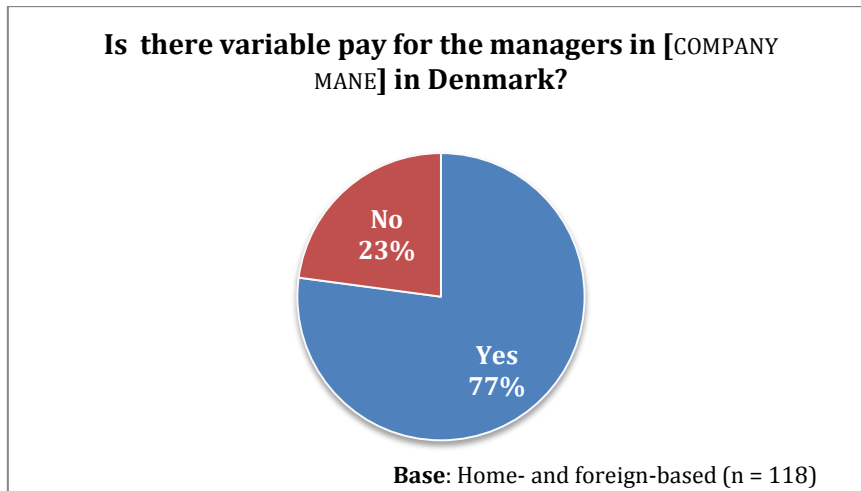
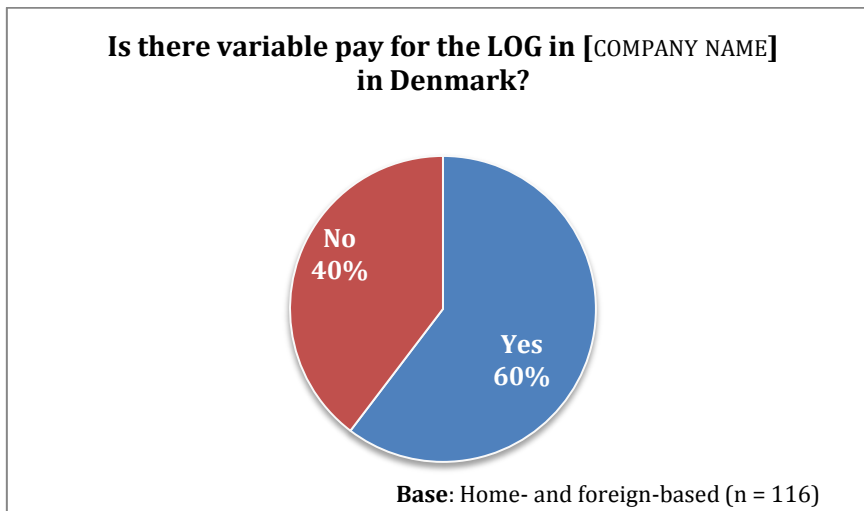


Figure 0-6: Variable pay (LOG)



Figures 5-5 and 5-6 show that variable pay is more widespread among managers. 77% of managers have some element of variable pay, while the corresponding figure for the LOG is 60%. Companies that systematically bring HR managers together tend to have a higher frequency of variable pay for managers (see Figure 5-7).

Pay and Performance

Figure 0-7: Variable pay and HR approach for managers

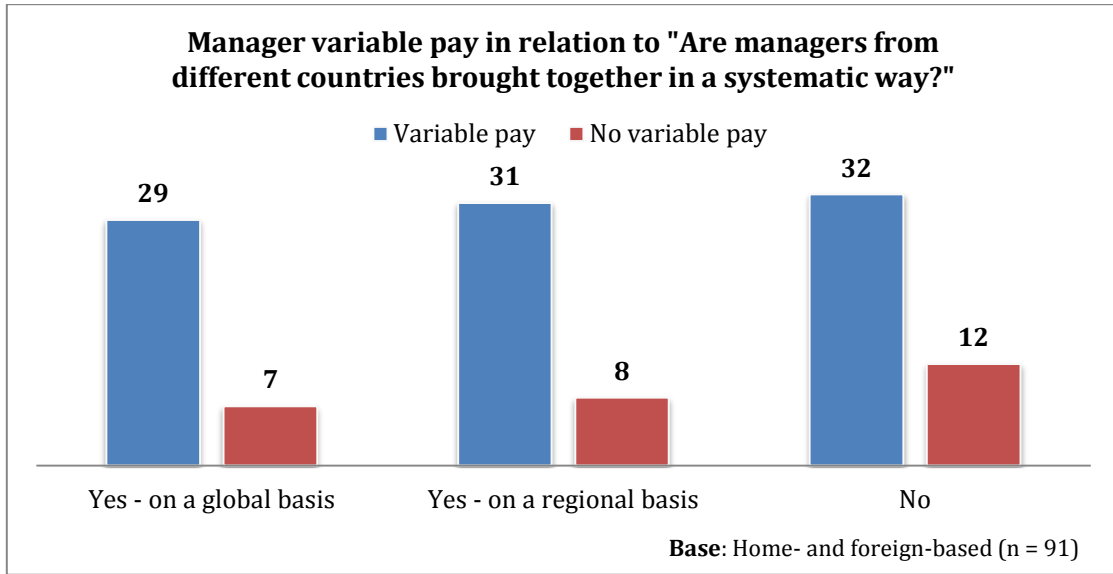
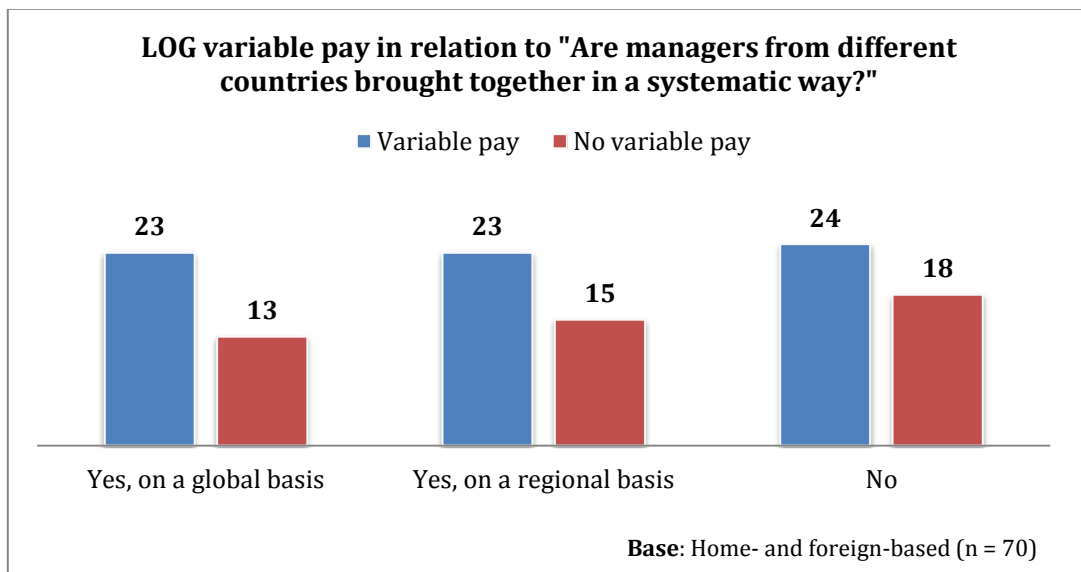


Figure 0-8 Variable pay and HR approach for LOG



Those companies using variable pay were also asked to indicate whether they offered the following kinds of pay to the LOG or managers:

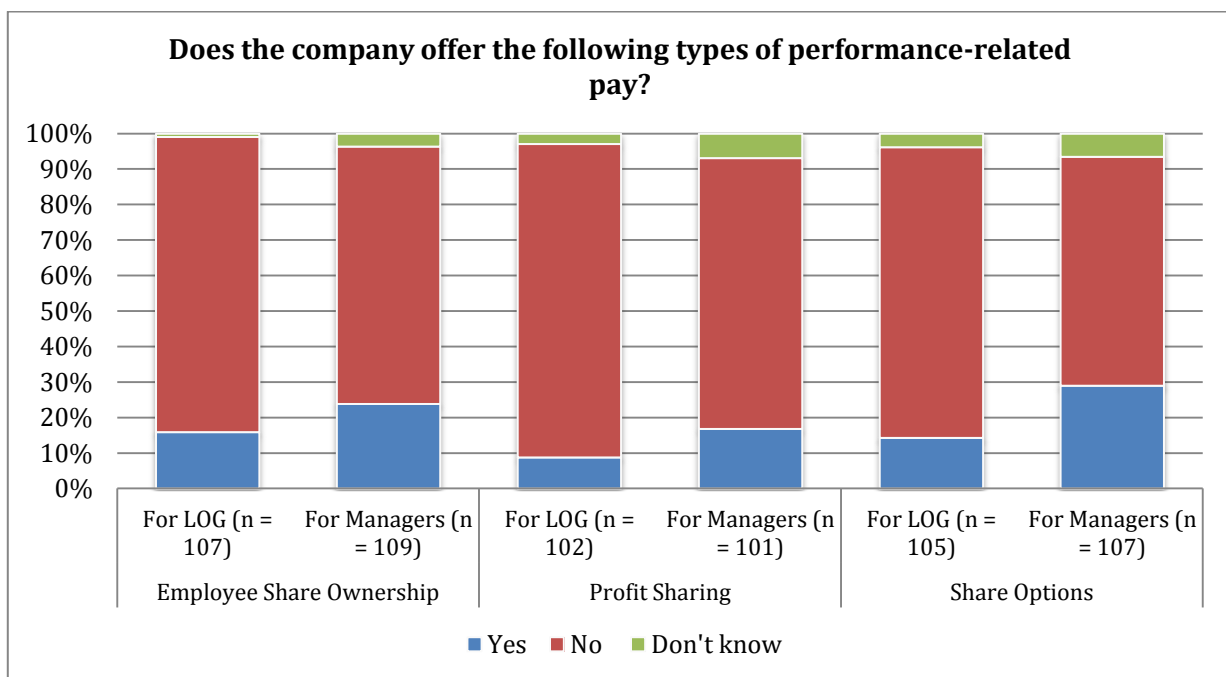
- **An approved employee share ownership scheme** in which the organization establishes a trust that acquires shares on behalf of employees and provides employees with part ownership of the company through those shares.
- **Profit sharing**, which refers to rewards given to employees over and above their normal salaries and bonuses. These awards are directly dependent on the levels of profit in the business.

**Pay and Performance**

- **Share options**, through which employees are given the option of buying company shares, often at a reduced rate.

As shown in Figure 5-9, none of these types of pay are common (average occurrence of around 20%). Again, these pay-related elements are slightly more widespread among managers than LOGs. Share options are the form of performance-related pay offered most often to managers, closely followed by employee share ownership schemes. For the LOGs, the most popular type of pay is employee share ownership, followed by share options. The least common type of performance-related pay for both managers and LOGs is profit sharing.

**Figure 0-9: Types of performance-related pay**



In general, although none of the results are statistically significant, home-based companies tend to have a higher frequency of all of the above types of performance-related pay. Furthermore, companies that systematically bring HR managers together are more likely to offer employee share ownership and share options to their managers.<sup>14</sup>

**Summary**

This chapter has examined the structure and extent of performance appraisal and reward systems. We have seen that the existence of appraisal systems is widespread:

<sup>14</sup> Chi-square test: significant at the 5% level.

### Pay and Performance

- 75% and 68% of companies have appraisal systems for managers and LOGs, respectively. Hence, appraisal systems are used almost as often to motivate LOGs as to motivate managers. As such, they are an important HR tool for the majority of MNCs.
- Overall, foreign-based companies in Denmark are more likely to have appraisal systems for the LOG and managers, although the latter finding is not statistically significant.
- US-based companies are more likely to have appraisal systems for both the LOG and managers, as are companies that develop global HR policies through a worldwide body and those that systematically bring HR managers together.
- A high proportion of companies use appraisals as a basis for decisions on redundancy and redeployment. However, half of the companies use these results only as *informal* inputs for such decisions.
- Companies use a wide array of criteria to assess managerial performance. The most popular of these is individual output, but group output, competences and behavior in relation to corporate values are also important. Interestingly, MNCs originating from Sweden have a significantly lower perceived importance of individual quantitative output targets and behavior in relation to corporate values. The same tendency is evident for individual qualitative output targets, although this result is only close to significant. This is interesting in a Scandinavian context, as Nordic countries – especially Sweden – have an extensive tradition of self-governing teamwork in the workplace. These data indicate that this tradition is reflected in the appraisal systems of Swedish MNCs.
- “360-degree feedback” is used in about two-thirds of companies for both managers and the LOG.
- Pay schemes with variable pay for managers are implemented in 77% of the companies, while 60% use some form of variable pay for the LOG.
- Employee share ownership, profit sharing and share options are not very popular, with only about 20% of companies using these performance-based pay options for managers and even fewer using them for the LOG. Companies with an HR system that brings managers together and home-based companies employ these kinds of incentives to a greater degree.
- Global HR policy can be used to implement a certain wage policy if the institutional setting allows it. However, such strategies may conflict with industrial relations traditions, especially in the Danish context, where there is a long tradition of collective bargaining and relatively equal pay (see Textbox 3).



## Pay and Performance

### Textbox 3: HR as a strategy implementer versus no HR at al

#### HR as a (wage) strategy implementer

When a Danish subsidiary was taken over in 1996, high subsidiary discretion prevailed. However, as a result of a trend towards consolidation on the various markets, headquarters became increasingly controlling. This trend had consequences for HR, as HR procedures had to be similar across borders.

One of the goals of HQ's policy was to implement individualized wages. In Denmark, the focus in this respect was on giving more money to units with individual wage systems. This made a difference, especially among blue-collar employees:

*We strive to obtain this [individual wages]. When we had wage negotiations with the blue-collar workers, at one plant they accepted individual regulation. Hence, they got a higher evaluation percentage. At another plant, the blue-collar workers demanded an equal minimum wage for all. They got it, but at the absolute minimum. (...) The policy is individual wages, but this is not the way that the legislation and agreements work. Also, it is really difficult to obtain individual wages in Denmark and Finland.*

Continuous documentation of HR processes in different countries has been introduced and HR

managers in the Nordic branches meet monthly. The main goal is to document HR practices in order to support knowledge sharing and to spread HR practices:

*[Q] So, where is HR in this corporation? Is it primary here?*

*[A] No, we are everywhere.*

HR is defined centrally and implemented throughout the organization through documentation and meetings. HQ defines the "management criteria", but the local units are highly involved in finding management potential:

*The management criteria are not defined here [on the subsidiary level]. They are defined from the top, from the Group. But we are launching initiatives and we are finding high potentials.*

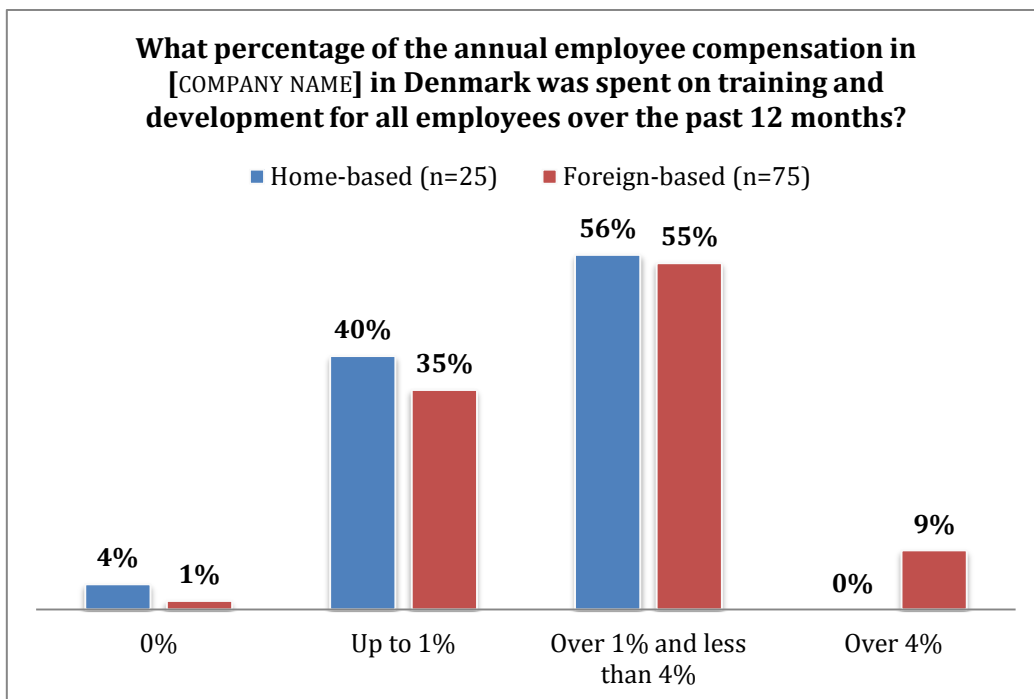
As such, the local branches are implementing HR strategies from above and are finding management potentials according to centrally defined criteria. From HQ's point of view, the global HR policy is built around a thorough documentation system. It is also viewed as an important tool in other respects, such as the implementation of certain wage systems. However, this also creates potential for conflict.

Training and Talent Development

Chapter 6: Training and Talent Development

Training expenditure can reflect how companies prioritize investments in human resources and, indirectly, whether they view investment in their employees as central to the accomplishment of their goals. Figure 6-1 shows investment in training as a percentage of the companies' annual employee pay bill. Over 50% of home- and foreign-based companies spend between 1% and 4% of their annual compensation expenses on training. None of the home-based companies, but almost 10% of foreign-based companies, spend more than 4% on training. Overall, foreign-based companies tend to invest more in training, although this difference is not statistically significant.

Figure 0-1: Training as a percentage of annual employee compensation

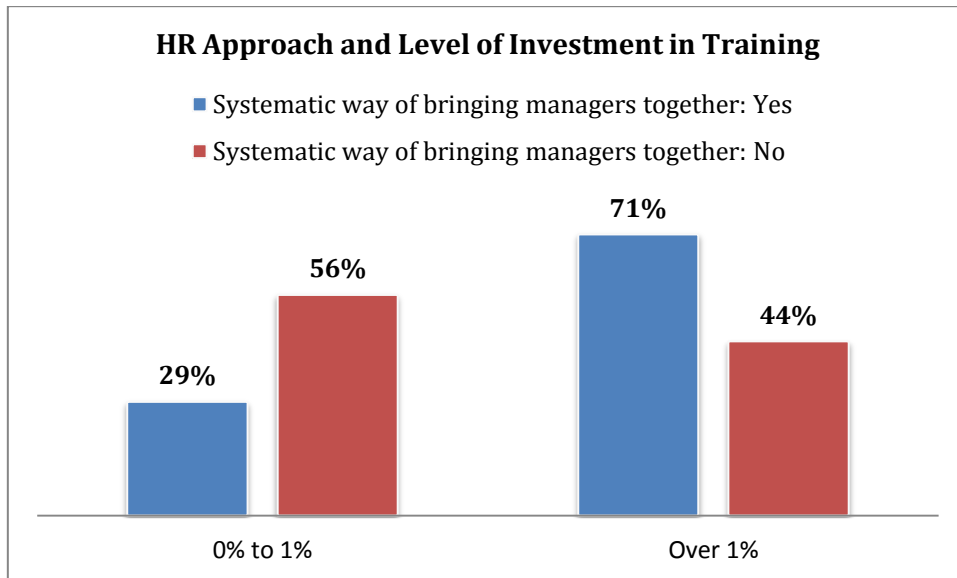


In terms of other differences, a clear pattern arises when looking at the HR system. As shown in Figure 6-2, companies with a global HR policy body and a systematic way of bringing managers together invest significantly more in training.<sup>15</sup> This might indicate that these companies prioritize HR to a greater extent.

<sup>15</sup> Chi-square test significant at the 5% level.

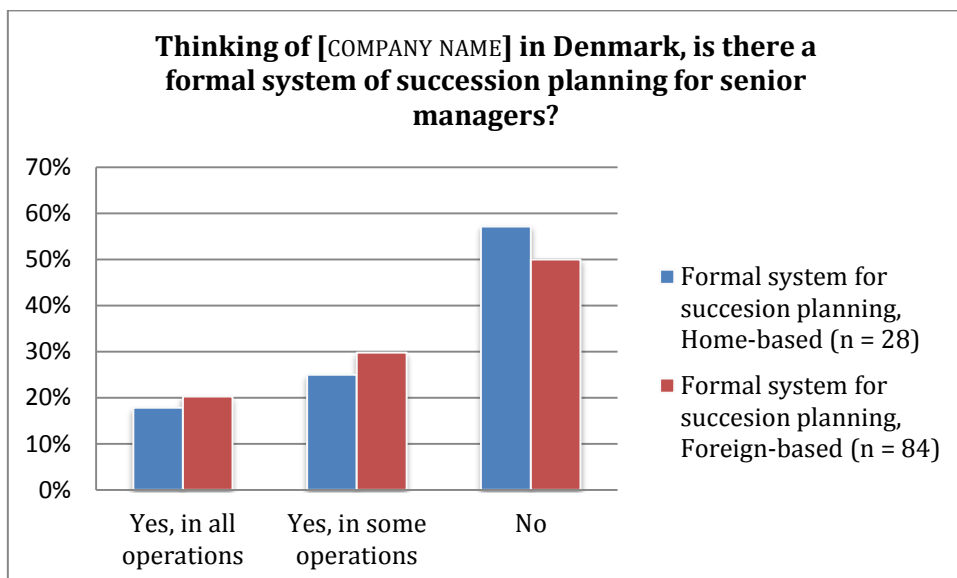
**Training and Talent Development**

**Figure 0-2: HR approach and level of investment in training**



The next step in describing the training and development policies of MNCs is to look at the extent of succession planning and management development programs. Succession planning is a process used to identify and develop management talent in the organization that will eventually succeed the current management. The data show that 43% of home-based companies have succession planning in all (18%) or some of their operations (25%). For foreign-based companies, this figure is slightly higher at 50% (see figure 6-3).

**Figure 0-3: Succession planning for managers**



No national differences are found with regards to succession planning, and the difference between home-based and foreign-based MNCs is not significant. However, one interesting difference is evident.

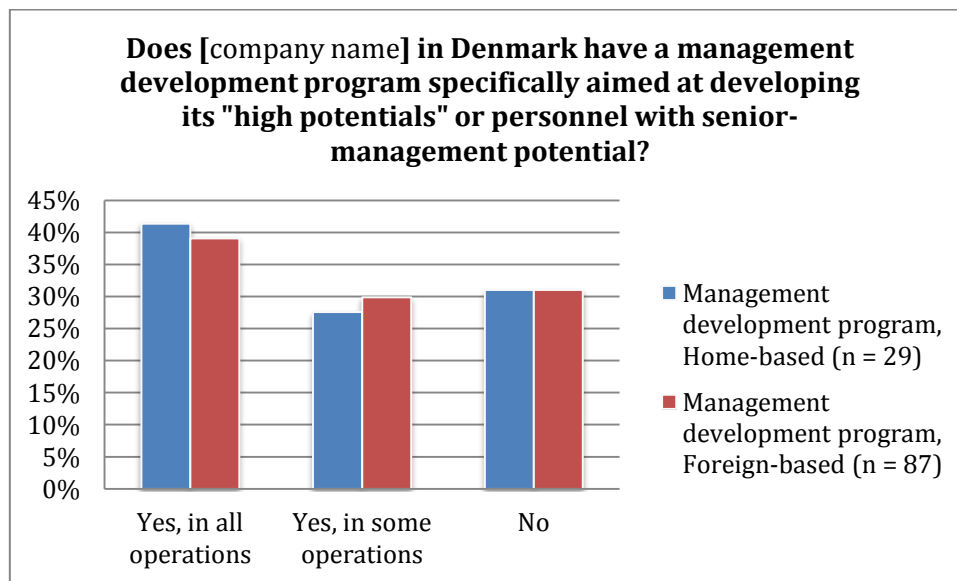
### Training and Talent Development

Nearly two-thirds of companies with an HR system that brings managers together in a systematic way have a system for succession planning, whereas only 21% of companies without this HR system have succession planning. No other company characteristics appear to have a significant impact on the prevalence of succession planning.

Another aspect of training policy is the presence of management development programs. The data show that such programs are more widespread than succession planning programs, with almost 70% of home- and foreign-based companies indicating that they have such programs in place for some or all operations.

With regard to the HR system, the same pattern is found as for succession planning. Companies that regularly bring managers together are more likely to have a management development program than companies that do not.<sup>16</sup> This pattern also applies for companies with a global HR policy body. Overall, these results indicate that companies with a systematic HR approach that brings managers together across borders and a global HR policy body place more emphasis on developing internal talent and managers.

Figure 0-4: Management development programs

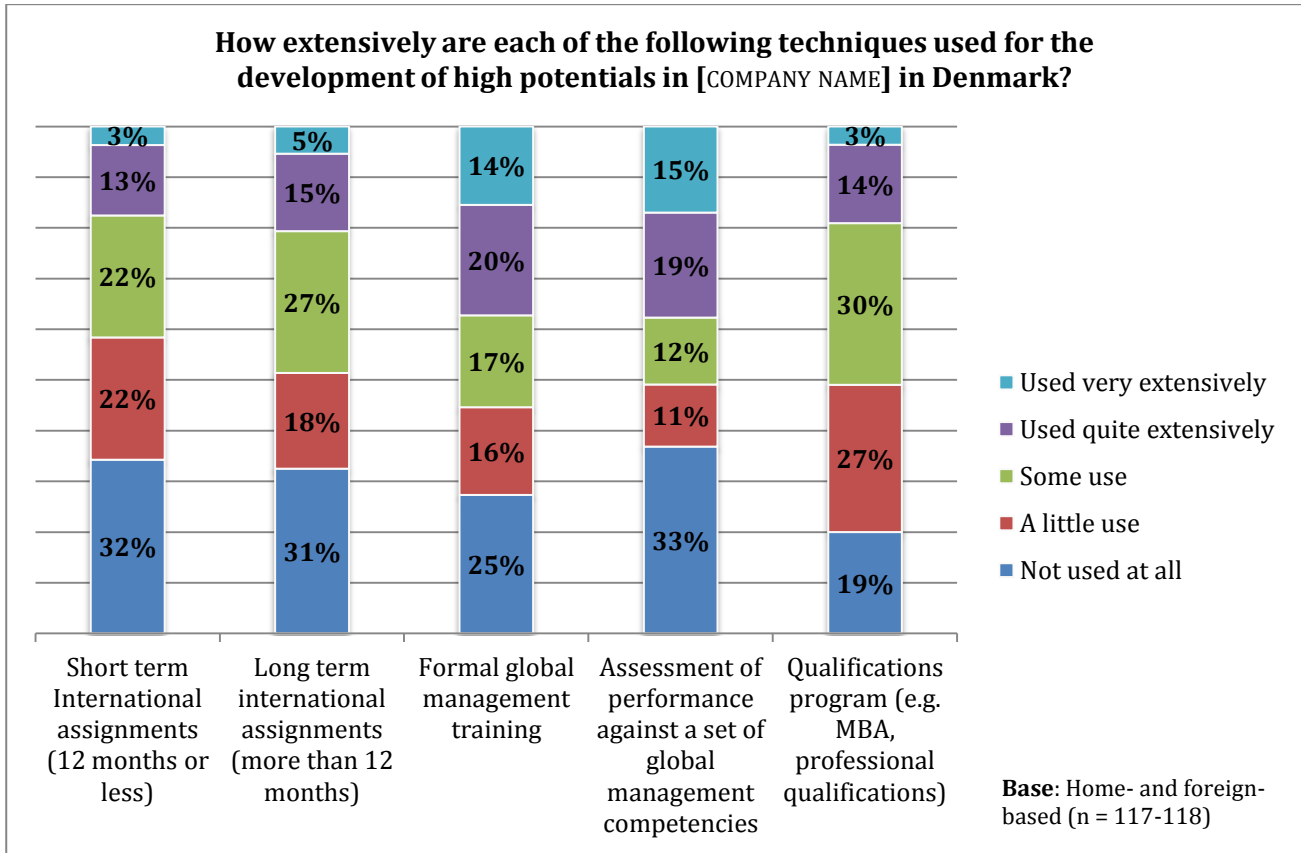


Different techniques can be used to develop management potential, as shown in Figure 6-5.

<sup>16</sup> Chi-square test significant at the 5% level.

Training and Talent Development

Figure 0-5: Management development techniques



Overall, the distribution is similar across the various techniques. “Formal global management training” and “assessment of performance against a set of global management competencies” are the two most popular techniques, with almost 35% of MNCs using them quite extensively or very extensively. “Short-term international assignments” are the least popular technique, with over 50% indicating little or no use. This is followed by “long-term international assignments”, with 49% indicating little or no use of the technique.

When testing for differences in company characteristics in relation to the use of these management development techniques, the variables are re-coded to three groups: “strongly disagree” (1) + “disagree” (2), “neither agree or disagree” (3), “agree” (4) + “strongly agree” (5). We find several tendencies:

- “Short-term international assignments” are more widespread in manufacturing companies and in companies with a non-standardized product approach.
- “Long-term international assignments” are used more often in companies with a global HR policy body and an HR system that brings managers together. Furthermore, this technique is used more in companies with a non-standardized product approach.

### Training and Talent Development

- “Formal global management training” is more widespread among manufacturing companies, companies with global HR policies and companies that systematically bring managers together.
- “Assessment of performance against a set of global management competencies” is more prevalent in companies with a global HR policy body and a systematic way of bringing managers together. Furthermore, it is more common among companies with a non-standardized product approach.
- “Qualification programs” are used more in companies with a global HR policy body and in companies with an HR system that brings managers together.

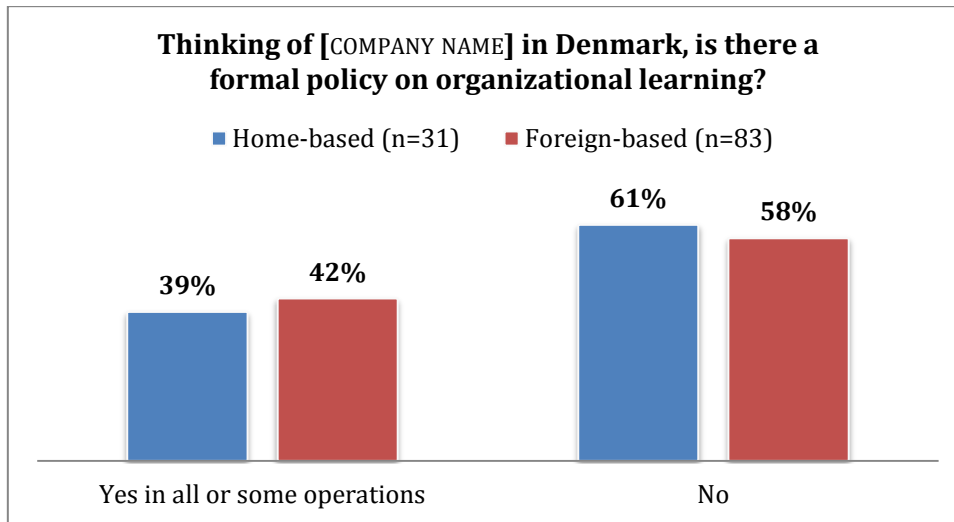
In sum, two elements have a significant influence on the choice of technique used for developing managers: a global HR policy body and an HR system that brings managers together in a systematic way. If these are present, companies use the techniques more extensively. Furthermore, the prevalence of some of the techniques is affected by the presence of a non-standardized product approach or activities in manufacturing.

### Organizational learning

In this section, we briefly examine the extent to which the organizations have policies on organizational learning, as well as the techniques that are used to facilitate organizational learning. A learning organization can be characterized as one that facilitates learning throughout the organization, and that transforms itself and its resources in order to remain competitive. Organizational learning ensures that knowledge stays in the organization even when employees leave the organization, i.e., the knowledge is not dependent on individuals.

## Training and Talent Development

Figure 0-6: Organizational learning



About 40% of both home-based and foreign-based companies have a formal policy for organizational learning. 58% of foreign-based MNCs and 61% of home-based MNCs have no such policy (see Figure 6-6). This means that organizational learning is less common than other development techniques. However, organizational learning policies might, in fact, be less explicit or integrated into other parts of the training system. In terms of differences in company characteristics, we find that companies with integrated HR systems that bring managers together are more likely to have a formal policy for organizational learning. The trend is similar for companies with a global HR policy, although this finding is only close to significant.

Another interesting aspect is the techniques companies use to facilitate organizational learning with regards to managers in Denmark. In this regard, the most common technique is the implementation of international project groups or taskforces, which are used in about 80% of companies. This is followed by international informal networks, which are found in slightly more than 60% of both home- and foreign-based companies. Expatriate assignments are used more extensively in home-based companies (about 70%) than in foreign-based companies (45%). The least-used technique is international secondments<sup>17</sup> to other organizations, which is used by approximately 15% of the companies.

<sup>17</sup> Secondment: a temporary change of job roles for employees within the company or a transfer to another organization for an agreed period of time.

### Training and Talent Development

Overall, a number of techniques are used to facilitate international organizational learning. In terms of differences between MNCs with certain characteristics and the prevalence of organizational learning, the following results can be accentuated:

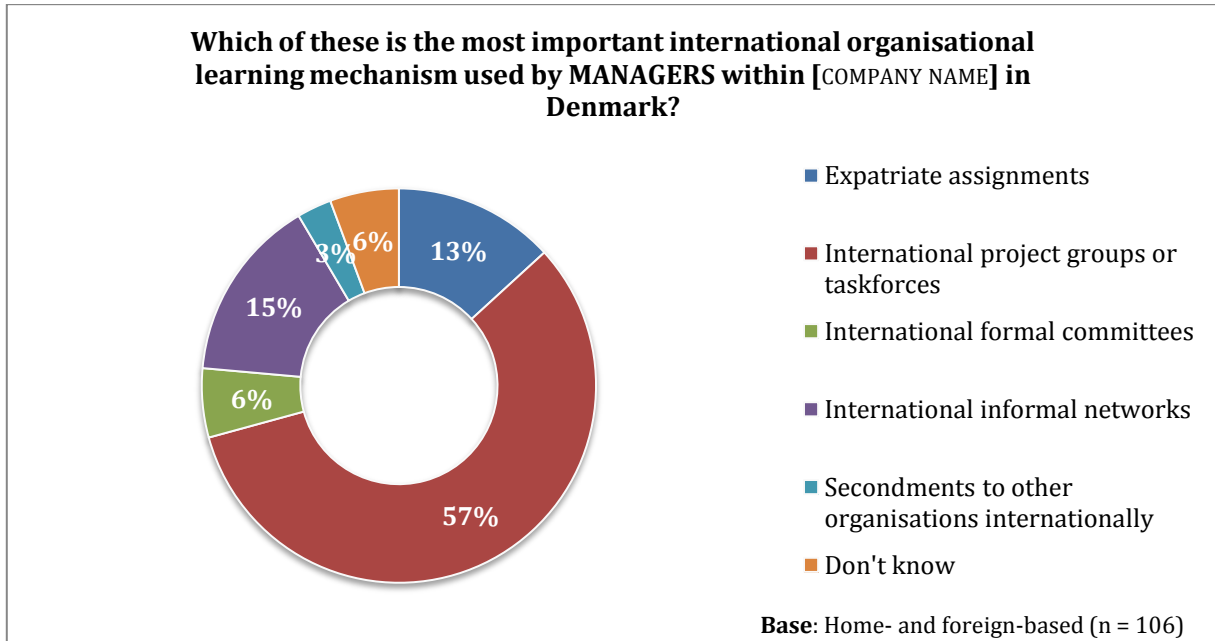
- “Expatriate assignments” are used more in home-based companies that have a non-standardized product approach and “Expatriate assignments” are also more common in companies with an HR system for managers.
- “International project groups” are more prevalent in companies with global HR policy bodies and HR systems for managers.
- International formal committees are more common in companies with a global HR policy body and a systematic approach to bringing HR managers together.
- International informal committees are not affected by company characteristics, as size and sector do not make a difference.
- International secondments to other organizations more common among non-US based companies, and among companies with a global HR policy body and a systematic way of bringing managers together.

Overall, these patterns support the other results presented in this chapter. Companies with a global HR policy body and HR systems that bring managers together make more use of techniques to facilitate organizational learning. To complete this picture of organizational learning, Figure 6-7 shows those techniques respondents considered to be most important for organizational learning. Almost 60% of companies indicate that international project groups or taskforces are the most important technique. This is followed by expatriate assignments and international informal networks.



Training and Talent Development

Figure 0-7: Techniques used to facilitate international organizational learning



Summary

This chapter has examined MNC policies and practices with regards to employee training and development. We find that:

- Investments in training are common in MNCs. Almost 50% of MNCs spend 1-4% of their annual employee compensation expenses on training and development.
- Investments of more than 4% in training and development are only found in foreign-based MNCs. 9% of foreign-based MNCs spend more than 4% of their annual employee compensation on training and development.
- Companies with a global HR policy body and a systematic way of bringing managers together have a significantly higher level of investment in training and development. Less than 50% of MNCs have a system for succession planning but almost 70% have a management development program aimed at “high potentials”. In other words, more resources are invested in finding management potential than in planning for succession.
- The most popular ways of developing high-potential employees are through formal global management training and the assessment of performance against a set of global management competencies, techniques that are used quite extensively or very extensively by about 35% of the companies. Overall, the use of these techniques increases when the MNC has a global HR policy body and a systematic approach to HR.

### Training and Talent Development

Therefore, a clear tendency is that companies with a global HR body, a systematic HR policy of a system for bringing managers together spend more resources on training and development, on succession planning and on finding high management-potential employees.

Another aspect of training and development is “organizational learning”, for which we find that:

- About 40% of the companies have a formal policy. Companies with a global HR policy body and systematic HR approach are more likely to have a formal policy.
- International project groups and taskforces are the primary techniques used to facilitate organizational learning. These are used by about 80% of MNCs.
- International informal networks and expatriate assignments are also widely used.
- Expatriate assignments are the most widely used in home-based companies and companies with a non-standardized product approach. International project groups and international formal committees are more prevalent in companies with a global, systematic approach to HR. Overall, 60% of the companies indicate that international project groups and taskforces are the most important techniques used to facilitate organizational learning.

While international project groups, taskforces and short-term international assignments are concrete, hands-on assignments might very well be part of an organizational learning process. Therefore, a more qualitative question is whether such techniques are seen as ad-hoc solutions that would have been undertaken regardless of the organization’s desire for organizational learning or whether they are part of a system directed towards organizational learning.

Overall, there is a clear indication that companies that systematically bring managers together often have a coherent strategy for developing management potential, maintaining that potential and actively supporting organizational learning.

Even though most MNCs have an HR function at headquarters, some corporations have no HR policies or HR managers in their subsidiaries. They therefore basically deny themselves the tools to keep and develop management talent within the organization. Two case studies serve to illustrate some of the consequences of not having consistent management potential or management development systems (see Textbox 4).

## Training and Talent Development

### Textbox 4: HR as a strategy implementer versus no HR at all

#### No HR function

Neither HQ nor subsidiaries in this small MNC have HR managers, or any kind of national or global HR support. This is evident to the CEO of a small subsidiary:

*We don't have an HR-function. We are too small. So all of the responsibility for the HR function lies either with me or my office manager.*

Even employee performance appraisals are up to each branch manager. The subsidiary CEOs themselves only receive performance appraisals if they take the initiative themselves:

*My line manager sits in Holland and, generally speaking, we try to sit down and have a formal conversation once a year. At that point, I always say, "You need to formally, or as formally as you can, appraise my performance. I still need to know which direction I should be going next year".*

HR has a relatively low priority in the company and secondment – moving from one part of the company to another as part of further training or development of management skills - is not common:

*There is an aspect in HR of getting the leadership across the countries to think about how to leverage the fact that it is a group structure on a global scale. But currently [the company] hasn't really invested a lot of value in its people dimension of leveraging that out of the businesses. For example, there is not a lot of movement of people around this company. To my know, this has happened just once.*

The company does not generally transfer employees from one subsidiary to another. All initiatives to do things differently come from the subsidiaries rather than from HQ:

*When we had open spaces in sales, the first thing I did was to go to my line management and say: "Is there anyone who has English speaking capabilities and foreign sales capabilities that could come to our market and fill this vacancy?". I did this rather than go to the local market outside the company because, actually, across the much bigger business, there must be some people with good sales skills that can come in and develop the market ... and maybe relish the new environment, a younger company and a new country. That is what we did and we need to do more of the same.*

#### A focus on talent development

A Danish subsidiary of a German MNC was part of a merger of subsidiaries in the Nordic countries over 15 years ago. Although the German MNC has more than 100,000 employees worldwide, the Danish subsidiary only accounts for around 150 employees. It is, therefore, relatively small in size. Each national branch has to find "high potentials" – employees with management potential who are to be sent to HQ for management training. At HQ, the high potentials are assessed, but very few pass. For local management, this is a big responsibility, especially given the high rejection rate.

*We are careful about putting candidates on the list, especially if they have a big ego. If you have a good sales person and this person goes for the assessment, is weighed against the other candidates and found to be too "light", then that person might be broken. Why not keep a good sales person rather than send him or her abroad to be broken? We send some employees, telling them that the bar is really high at HQ and that they might not make it.*

## Training and Talent Development

Like many other MNCs, this corporation has an organization-wide HR policy. Even then, the implementation of a new policy is challenging, as each country has different institutional setups:

*HR will always be local – even within the Nordic context there are nuances. When you are on my level [HR implementation], then there is a free car policy. Even if you try to make a policy on free car use for the worldwide corporation, you will quickly meet some barriers in the form of tax legislation on the operational level. (...) The same is true for wages.*

That said, the subsidiary HR consultant still feels it is important to have a common overall HR strategy – not least for the branding of the company to the customers.

### Summary

With no central or local HR functions, the first company denies itself the possibility of finding and developing talent in the corporation. Initiatives to

hold performance appraisals must come from the employees rather than the managers. Employees generally stay at the local subsidiary and the movement of employees around the organization is extremely rare and happens only on the initiative of the employees themselves. Therefore, the company misses out on an opportunity for knowledge sharing and a possibility to develop talent within the organization. Furthermore, there is a risk that talented managers may choose to leave the organization. There is little doubt that size matters here. Even though the company was established in 1906, it now employs only 660 people worldwide.

In contrast, the second company has more than 100,000 employees worldwide. Its HR policy is highly organized, and each subsidiary is responsible for finding management potentials and sending them for further training. While local legislation might demand some adaptation of the global HR policy, subsidiaries' HR managers feel the global policy is crucial – not least for the branding of the corporation and its services.

## Employee Involvement and Communication

### Chapter 7: Employee Involvement and Communication

Employee involvement and communication is a key aspect of HR. MNCs can implement different forms of work organization and techniques of direct employee involvement in their services or production, and involvement can, in turn, become a competitive factor. Communication and information can be keys to employee satisfaction and, as such, they can make a difference for a company's output, and the quality of its products or services.

This chapter begins with an examination of the types of employee-involvement practices used by the MNCs in our sample, how they are affected by organizational characteristics and whether they are standardized across operations. Finally, this chapter reports on the internal communication mechanisms that are primarily used by the MNCs and the types of information that are provided to employees.

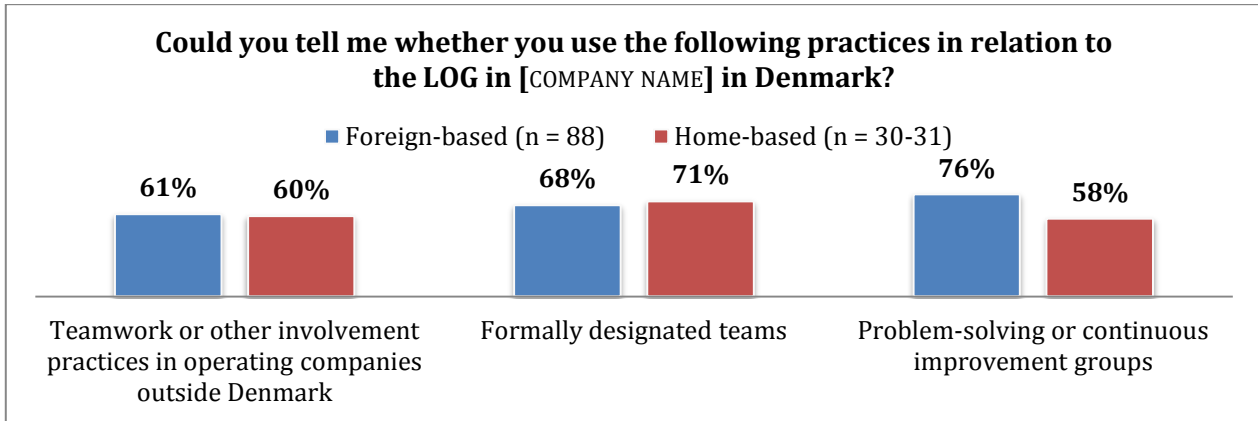
#### Involvement mechanisms

Figure 7-1 illustrates the prevalence of three different involvement mechanisms. The companies were asked: "Could you tell me whether you use the following practices in relation to the LOG in your company in Denmark?"

The data show that problem solving and continuous-improvement groups are the employee-involvement techniques most commonly used by foreign-based MNCs (76% of foreign-based companies; 58% of home-based companies), and that formally designated teams are the most popular technique among home-based MNCs (67% for foreign-based companies; 71% for home-based companies). Teamwork or other involvement in units operating outside Denmark is used by 61% of the foreign-based companies and by 60% of the home-based companies. All mechanisms are used by more than half of the companies. Interestingly, appraisal mechanisms (Chapter 4), development mechanisms (Chapter 5) and involvement mechanisms are all used to similar extents.

Employee Involvement and Communication

Figure 0-1: Employee involvement



When testing the prevalence of these techniques with respect to company characteristics, we find the following:

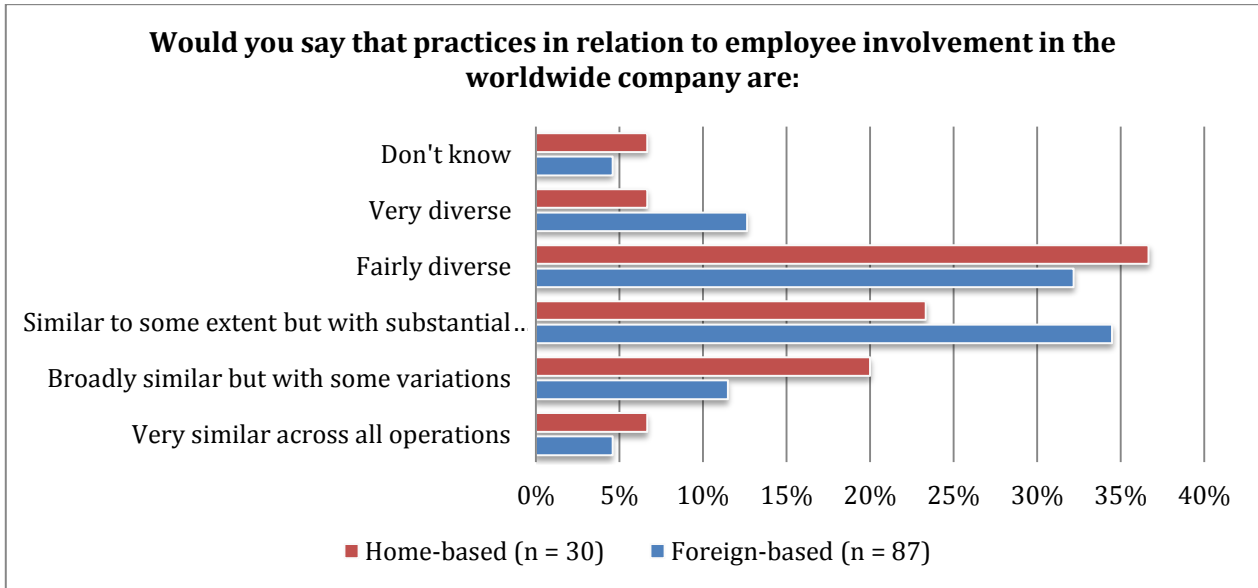
- *Formally designated teams*: US-based companies tend to use formally designated teams less often than all other companies. However, this result is not statistically significant.
- A system for bringing managers together correlates with use of the teamwork involvement mechanism.<sup>18</sup> *Teamwork or other involvement* with units operating outside Denmark is used significantly more by companies with cross-national HR systems than by companies that do not have such systems.

As a majority of companies use involvement mechanisms, the next question is whether these systems are standardized across operations. Respondents were therefore asked about the degree to which employee-involvement practices are similar across the global organization. Almost 75% of the companies state that their employee involvement practices are somewhat diverse or vary substantially, while less than 20% state that they have broadly similar or very similar practices (see Figure 7-2).

<sup>18</sup> Chi-square test significant at the 5% level.

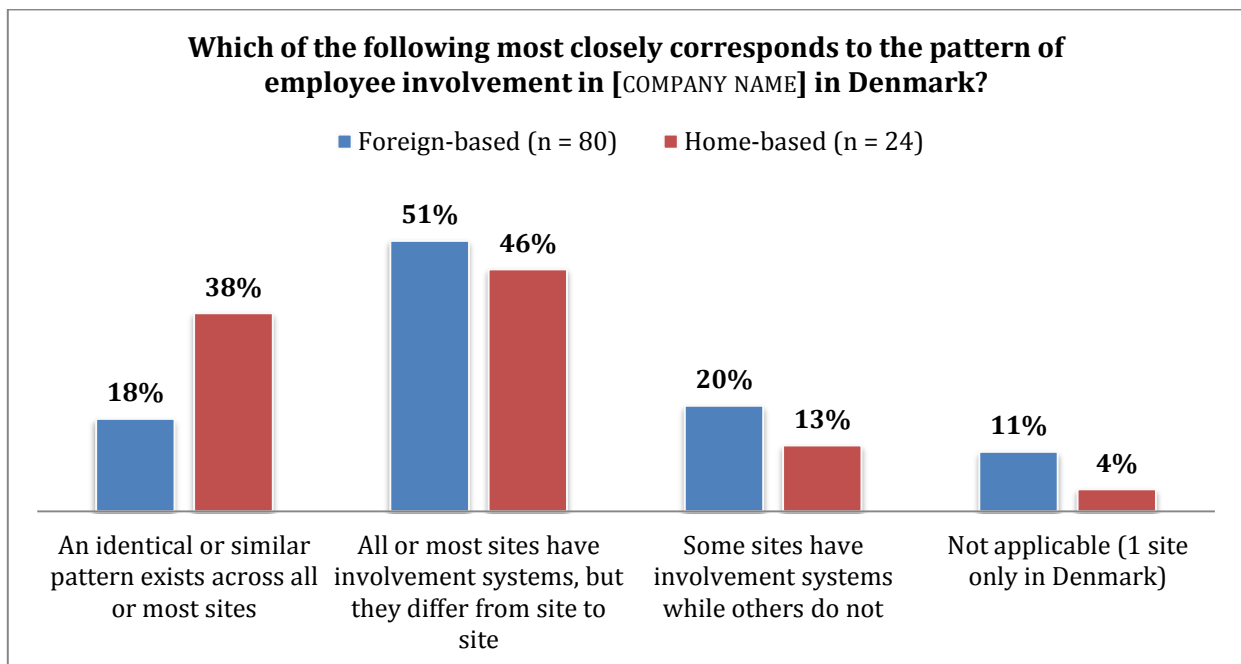
**Employee Involvement and Communication**

**Figure 0-2: Patterns of employee involvement I**



In terms of organizational differences and the prevalence of employee involvement mechanisms, no significant results are found. We conclude that employee involvement practices are diverse and independent of our chosen organizational variables. For comparison, Figure 7-3, which demonstrates the pattern of employee involvement in Danish operations, shows that although the majority of sites have involvement systems, these systems differ from site to site. This indicates that involvement systems are, in general, locally based.

**Figure 0-3: Patterns of employee involvement II**



## Employee Involvement and Communication

### Communication mechanisms

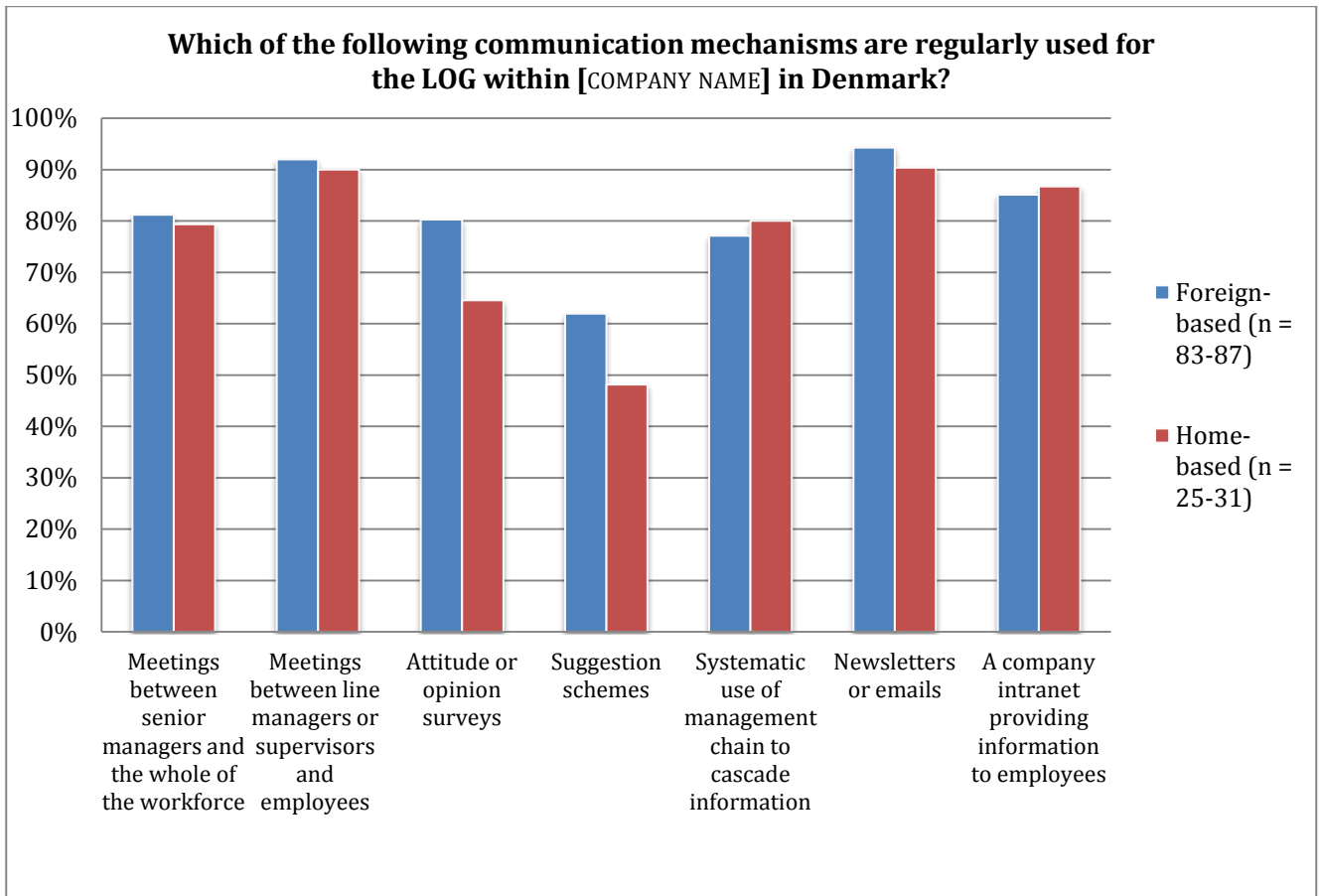
The extent to which an organization communicates with its employees, and how it does so, can have a significant impact on employee satisfaction and retention. Further, these practices often reflect an MNC's overall HR strategy.

In this regard, respondents were asked to indicate which communication mechanisms were regularly used for the LOG within the Danish operations. Multiple answers were allowed. Figure 7-4 illustrates the prevalence of each technique for both home-based and foreign-based companies. The results show that, with the exception of suggestion schemes, all mechanisms are used extensively by 60% to 90% of the companies. Meetings between senior managers and line managers and meetings between senior managers and the entire workforce are used in almost every MNC, indicating that face-to-face interaction is widespread. Newsletters and emails, and company intranets are also popular ways of communicating with the LOG. Overall, home-based companies use these mechanisms slightly less, but the patterns of home-based and foreign-based usage do not differ to a great extent and no statistical difference is found between them. Attitude or opinion surveys are an exception, with foreign-based MNCs being more likely to use this technique (although this result is only close to significant).



Employee Involvement and Communication

Figure 0-4: Communication mechanisms



The effect of organizational characteristics differs somewhat between the mechanisms:

- *Attitude or opinion surveys* are used significantly<sup>19</sup> more in companies that have a global HR developing body and systematized meetings among HR managers.
- Companies with a standardized product approach are less likely to have a company intranet.

The next step is to move from techniques to context in terms of the types of information provided to employees. The respondents were asked to state which type of information was regularly provided to the LOG about the worldwide MNC and the Danish company.

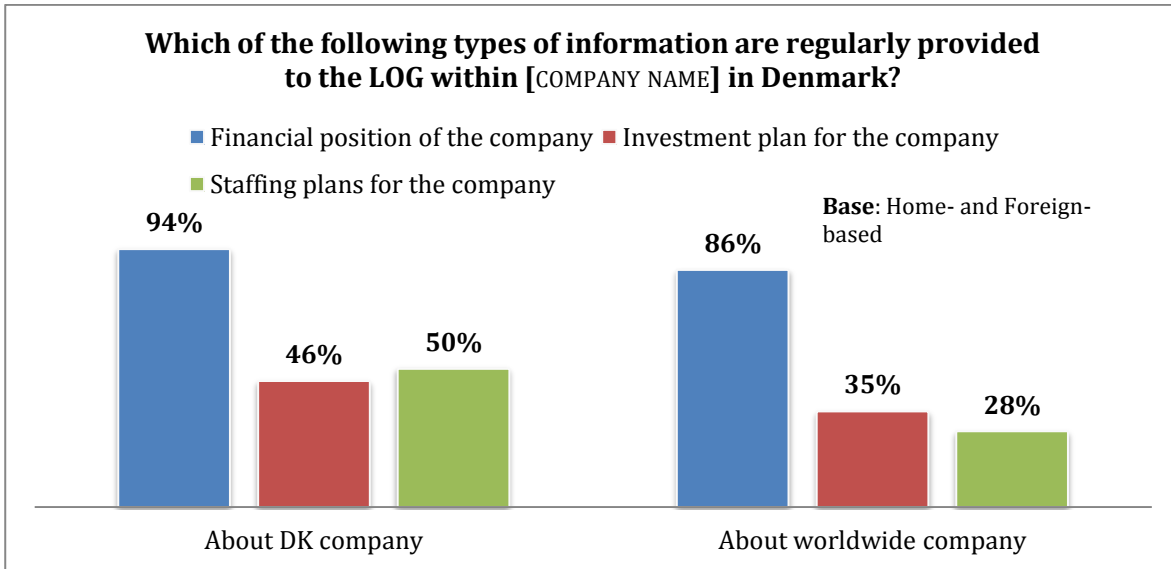
Overall, employees are most often informed about the financial position of the company. 94% are informed about this aspect of the Danish operations, while 83% are informed about the financial position of the global company. A little less than half of the companies inform their employees about investment plans for the Danish branch, while one-third communicate about investments in relation to

<sup>19</sup> Chi-square test significant at the 5% level.

**Employee Involvement and Communication**

the worldwide company. Staffing in Denmark is an issue that employees are informed about in half of the MNCs, while just one in four regularly inform their employees about staffing plans for the worldwide operation (see Figure 7-5).

**Figure 0-5: Provision of information to the LOG**



Various interesting tendencies (although only close to being statistically significant) are evident in relation to the link between organizational characteristics and the communication of different types of information to employees:

- *Financial position of the company in Denmark:* This type of information is most frequently provided in manufacturing companies. All manufacturing companies in our data sample regularly provide information about their financial position to employees.
- *Investment plan for the company in Denmark:* Manufacturing companies tend to inform employees about investment plans, as do companies with a non-standardized product approach.
- *Staffing plans for the company in Denmark* are more commonly communicated in foreign-based companies than in home-based companies.
- *Financial position of the worldwide company* is more frequently communicated in manufacturing companies.
- *Investment plans for the worldwide company* are communicated to the same extent in home- and foreign-based companies.
- *Staffing plans for the worldwide company* are communicated more often in companies with global HR developing bodies and systematic meetings of HR managers.

## Employee Involvement and Communication

### Summary

This chapter has examined the employee involvement and communication techniques used by the MNCs. It shows that:

- The most popular techniques for employee involvement among foreign-owned MNCs are problem-solving groups and continuous improvement groups, while formally designed teams are most common among home-based MNCs.
- Teamwork or other involvement practices, and formally designated teams are used in more than 60% of foreign-owned MNCs.

Employee involvement techniques are seldom standardized worldwide and most companies state that their employee involvement practices are diverse or vary substantially. This indicates that MNCs adjust their local communication strategies to a high degree. Alternatively, they may allow local managers to determine the communication strategies.

Foreign-based MNCs employ problem-solving groups and continuous improvement groups to a higher extent than Danish-based MNCs. Although such groups might be expected to be more widespread in Danish-based companies, as group-based work units have a long tradition in Denmark, this is not the case. Furthermore, the fact that teamwork or other involvement with operating companies outside Denmark are used significantly more by companies with cross-national HR systems than by companies that do not use such systems indicates that factors other than traditions related to a certain work design are at stake. Further research is needed in this regard.

Various communication mechanisms are used by the vast majority of the MNCs:

- The most common mechanisms used to communicate with the LOG are meetings between managers and line managers, employee newsletters, emails and intranet sites.
- Communication mechanisms are used more often in companies with global HR developing bodies and systematic meetings among HR managers

Finally, the chapter examined the types of information regularly provided to the LOG about the Danish and the worldwide operations. We find that:

- The most common type of information shared with employees relates to the financial position of the company, with information on investment plans and staffing plans in second and third place, respectively.
- Manufacturing companies provide information to employees more often than companies in other industries.

### Employee Involvement and Communication

In terms of the content of information, the results show that information about the financial position of the company is very common. However, the survey was carried out in 2009 at the height of the financial crisis. Accordingly both management and employees in any private enterprise could be expected to have been attentive to the company's economic development, which could explain the prevalence of this type of information in our data set. At the same time, however, surprisingly few companies share information on staffing plans. During a financial crisis, it would generally be expected that staffing plans and information on possible restructurings would be of great interest to employees.

Why do manufacturing companies share information on investment plans and the financial position of the company with employees to a higher degree than other companies? One possible explanation is that union density is higher among blue-collar workers in manufacturing companies. Unions tend to ensure that the awareness of employees' rights to be informed and consulted is high, which may put pressure on managers to share this knowledge.

The amount of information on companies' financial positions and staffing plans might be expected to be higher in Danish-based MNCs because of Denmark's long tradition of well-functioning, cooperative committees in which such information is typically shared. However, this is not the case. Instead, foreign-based companies seem to share such information with LOGs to a greater extent than Danish-based companies.

Finally, it is important to note that information is not the same as co-determination, co-influence or even consultation. While information is normally found at the beginning of a continuum that extends to consultation, co-influence and, ultimately, co-determination, information – and the surveillance of who is using it – can also be used by HR to control employees (see Textbox 5).

#### Textbox 5: Information as control

One American-based MNC regularly informs its employees about management decisions and it has a code of conduct on its intranet. However, this intranet information system also functions as a control mechanism:

*There is a code of conduct – it is on the intranet. We have to read it once a year. By looking at our users' profile, management can check whether we have read through it. If not, they send us a reminder. (...) You can read the code or you can watch a video. Then you have to pass a test afterwards.*

HQ can check user profiles, which indicate which employees read information on the intranet and when. However, HQ is basically not interested in subsidiary input:

*A couple of years ago, the Swedish CEO tried to introduce a new scale for all of the European subsidiaries. He was almost fired because he didn't get it approved by the US HQ. You have to be careful – you put your job on the line if you don't get a change approved in the US.*

## Employee Representation and Consultation

### Chapter 8: Employee Representation and Consultation

In this chapter, we seek to increase the understanding of employee representation and consultation in MNCs. Traditionally, this area has been highly dependent on national systems of legislation, politics, industrial relations (IR) and collective agreements, which differ widely between countries.

Denmark has a long tradition of high union density and an IR system in which the social partners play a decisive role in regulating the labor market through collective bargaining. The level of employee representation and consultation involvement is stipulated in the Danish Cooperative Agreement (*Samarbejdsaftalen*), which is supported by EU directives on consultation and European Works Councils (EWC). One interesting question is whether foreign-owned MNCs tend to adopt the Danish perspective, especially when they come from a different system of cooperation and consultation, or whether they try to impose their own traditions on their Danish subsidiaries.

This chapter is separated into three sections. The first describes the companies' approaches to union representation. The second discusses the nature of employee consultation in MNCs, and the final section investigates the presence and influence of European Works Councils.

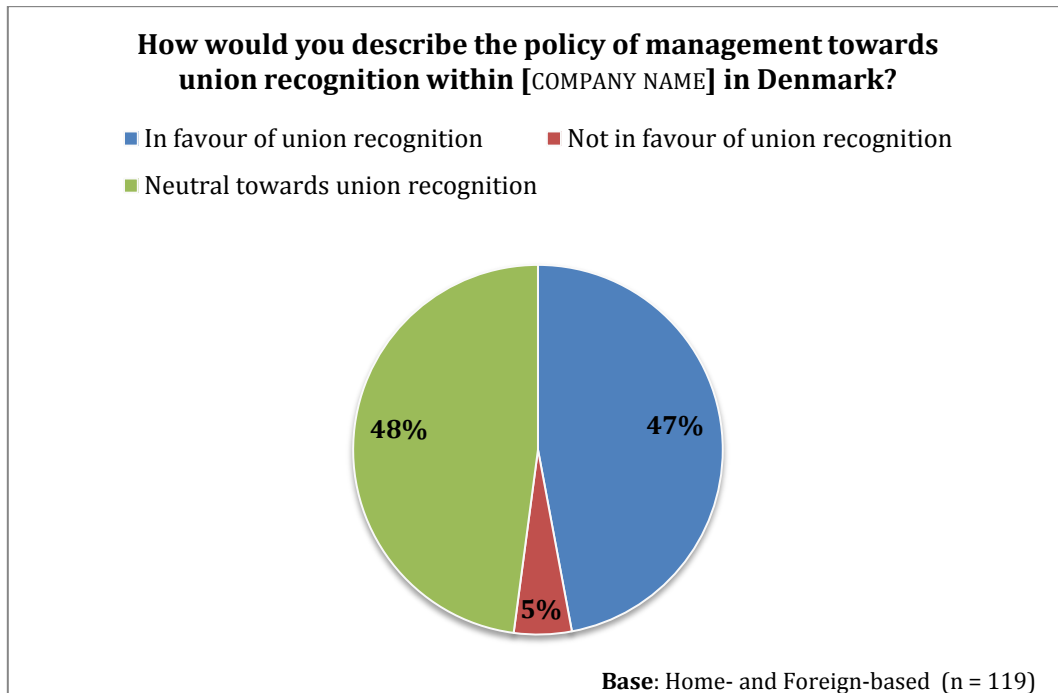
#### Employee representation

Denmark is known for its high union density as well as the impact of unions on labor market regulations and on business activities. For foreign-based MNCs, this might pose a challenge.

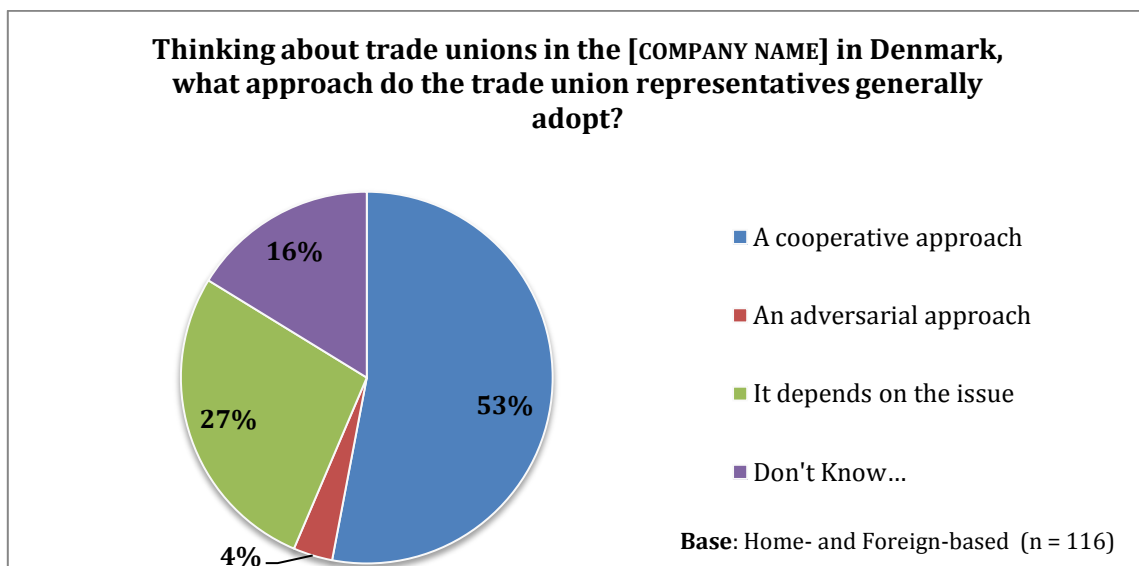
Companies were asked: "How would you describe the policy of management towards union recognition in Denmark?". Only 5% of the MNCs surveyed are not in favor of union recognition, with the rest being equally distributed between "in favor of" and "neutral towards" union recognition (see Figure 8-1). In terms of the link between organizational differences and company views on union recognition, no significant results are found. It is surprising that no major differences can be seen between home-based and foreign-based companies in this regard, as it might be expected that home-based MNCs would be more used to unions and, hence, more likely to have a positive perception of them.

**Employee Representation and Consultation**

**Figure 0-1: Management policy towards union recognition**



**Figure 0-2: Approaches adopted by trade union representatives**



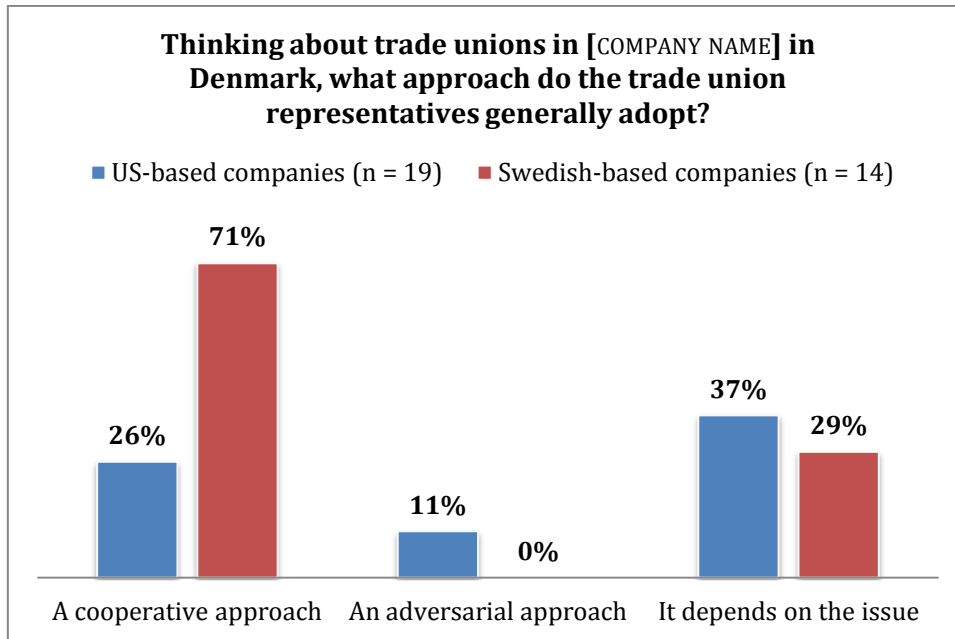
The companies were also asked about the approach they felt that trade union representatives generally adopted. As shown in Figure 8-2, 53% of managers feel the trade union representatives have a cooperative approach, while only 4% feel their approach is adversarial.

This variable is clearly affected by company characteristics, with industry and economy type having a strong influence. In particular, we find that:

**Employee Representation and Consultation**

- **Market economy:** US-owned companies feel that union representatives are less cooperative than Swedish-owned companies (see Figure 8-3). Swedish-owned companies come from an institutional context that is similar to the Danish context, whereas US-owned companies come from a different institutional context.
- **Sector:** Trade union representatives are considered more cooperative by HR managers in manufacturing companies than by HR managers in other sectors.

**Figure 0-3 Approach to trade unions**

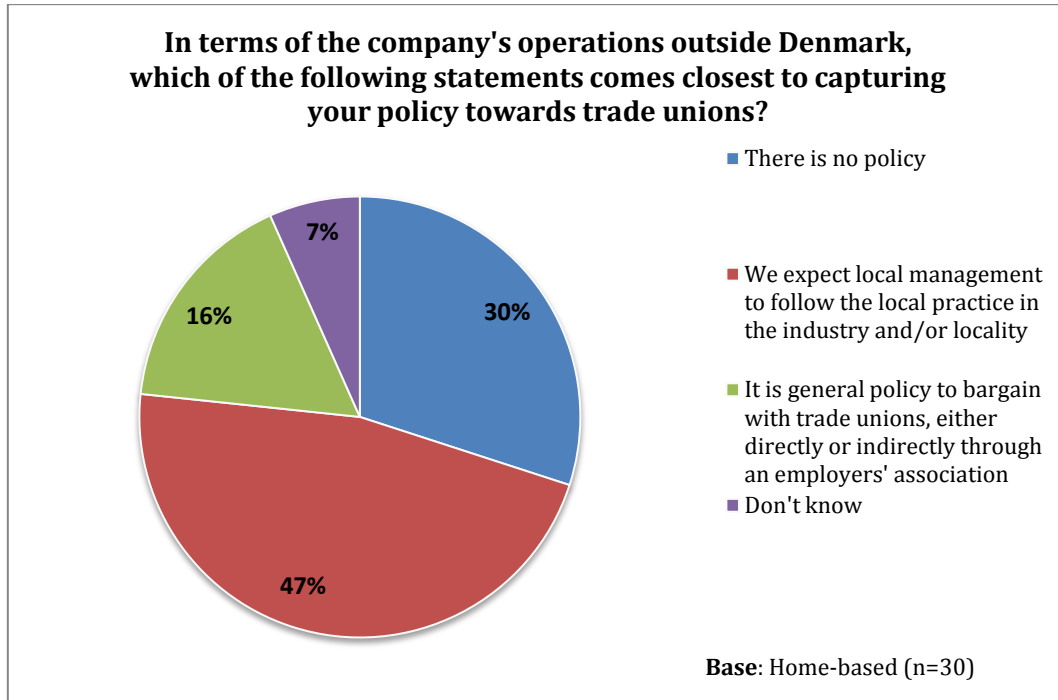


Another issue for analysis is the trade union policies found in the foreign operations of Danish-based MNCs. Figure 8-4 shows that 17% of these companies have a general policy of bargaining with trade unions. Almost one-third have no policy whatsoever, and about half of the companies leave the policy making to subsidiaries, which are expected to adapt to local standards.<sup>20</sup> This is a clear indication that this field, in particular, is highly context-sensitive, which makes it necessary for MNCs to provide local managers with more discretion.

<sup>20</sup> Unfortunately, the sample size for home-based companies is too small to perform tests on organizational characteristics.

**Employee Representation and Consultation**

**Figure 0-4: Danish MNCs' trade union policies**



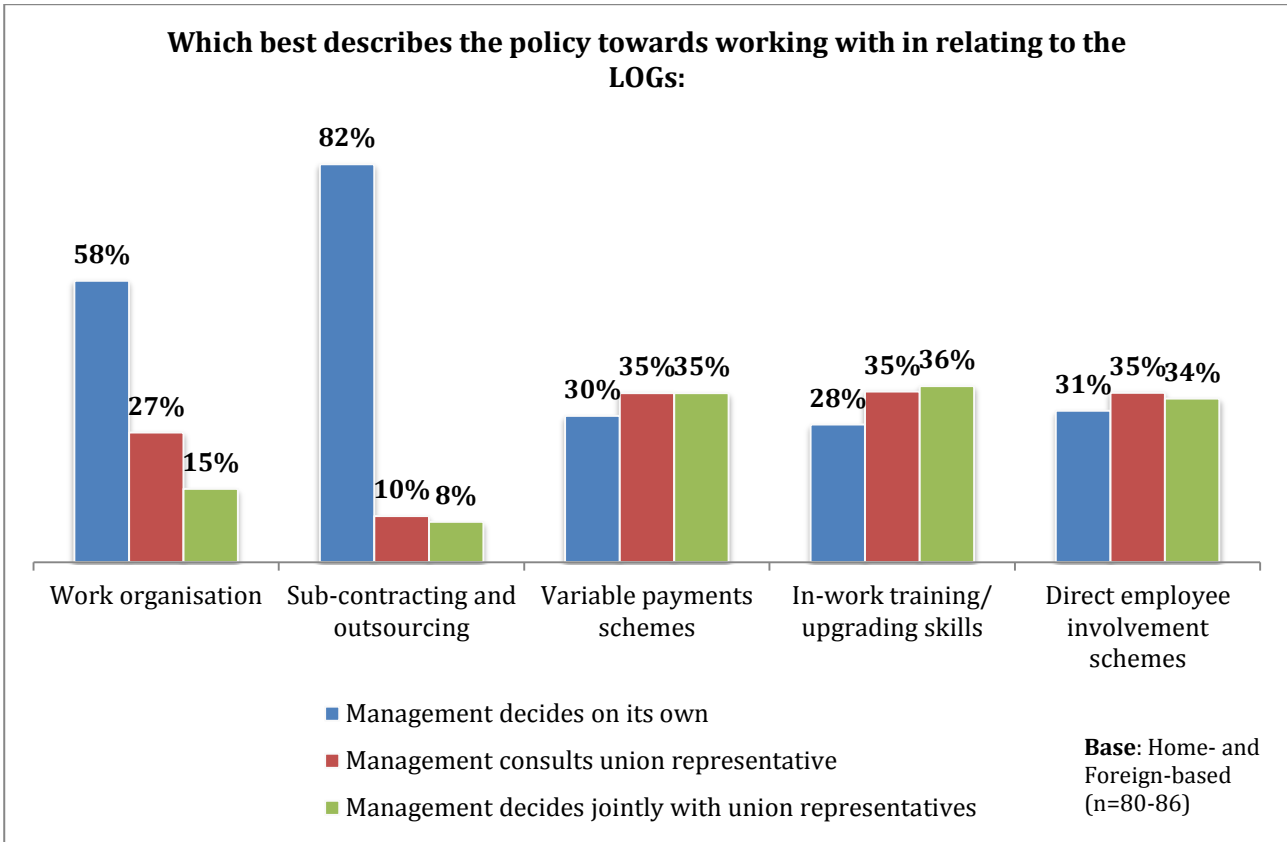
Overall, the above highlights the fact that trade unions are widely accepted. Most companies have a neutral or positive approach to working with unions, and there is a high degree of local adaptation to the local industrial relations system. However, in which areas do the companies include union representatives in decision making?

In an effort to answer this question, the MNCs were asked to describe their policies for various matters related to the LOG. With regard to the variables “work organization” and “sub-contracting/outsourcing”, management typically makes decisions on its own. However, 43% of the companies involve unions or union representatives in the work organization, while 17% involve them when decisions are to be made on sub-contracting and outsourcing. In terms of payment schemes, in-work training and direct employee-involvement schemes, about one-third of the companies make decisions on their own, one-third make decisions jointly with union representatives and one-third consult union representatives (see Figure 8-5). In these areas, therefore, more than two-thirds of the companies involve employee representatives.



**Employee Representation and Consultation**

**Figure 0-5: Union involvement**



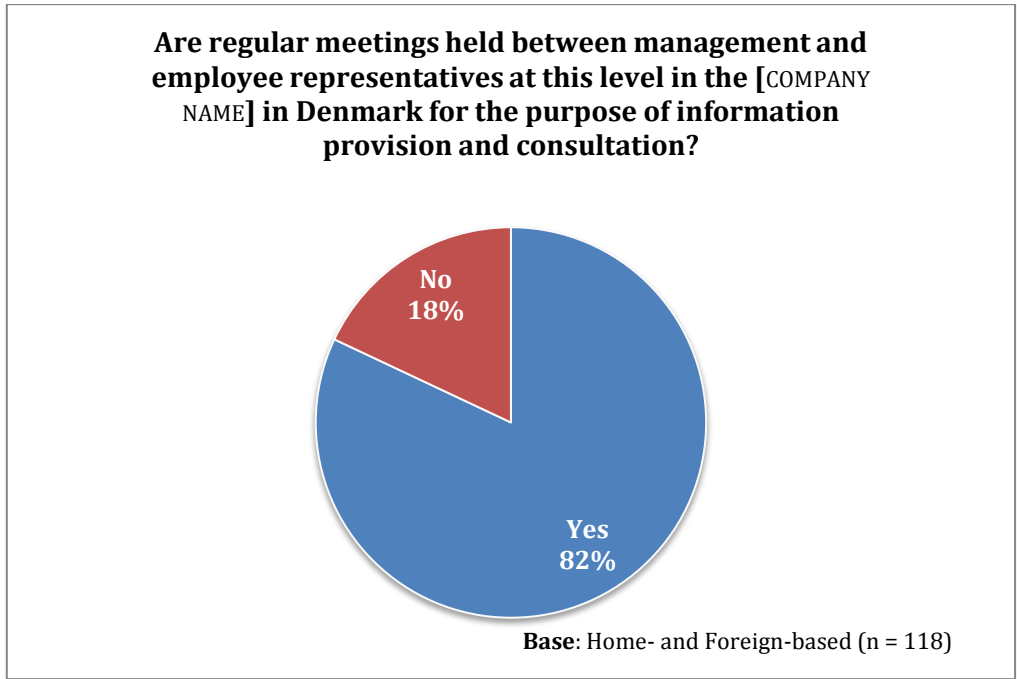
When testing for the organizational differences, only a few notable results appear. With regards to “work organization”, manufacturing companies frequently make decisions on their own and less often in joint cooperation with union representatives. This is interesting, as manufacturing companies are also significantly more “cooperative” in their approach and are typically more unionized.

**Employee consultation**

As with employee representation, employee consultation can provide an indication of the extent to which employees are involved in decision making. Figure 8-6 shows that 82% of the companies hold meetings on regular basis with the purpose of consulting their employees. No organizational or country characteristics affect this variable. Companies holding such meetings were also asked whether those meetings covered all employees or were limited to certain employee groups. Around 75% answered that the meetings covered all groups of employees, although in some companies, each group had different arrangements. Only around 20% of the MNCs stated that the meetings covered only some employee groups.

**Employee Representation and Consultation**

**Figure 0-6: Employee consultation**



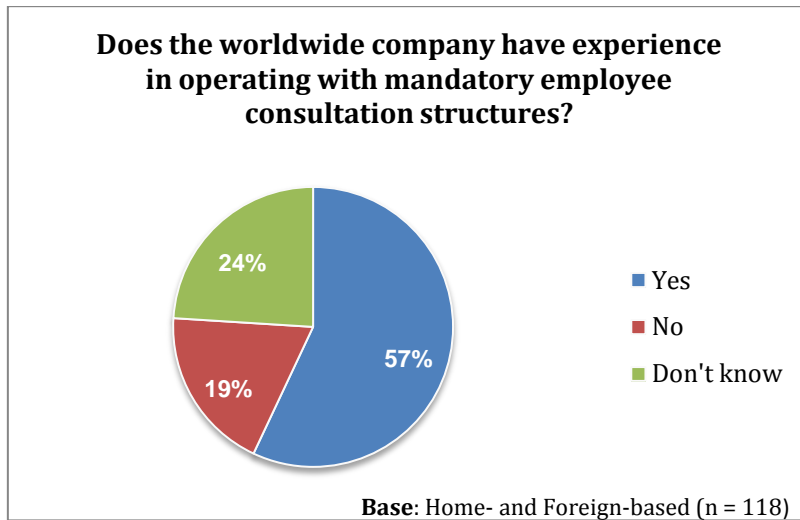
21

The companies were then asked whether they had experience in working with mandatory employee consultation structures. 57% confirmed that they had experience with such structures. A surprisingly high amount of the companies answered “don’t know”, which indicates that the average HR manager might not be fully aware of the concept (see Figure 8-7). The data show that companies with HR-development bodies and systematic ways of bringing managers together have more experience with these structures.

<sup>21</sup> By “this level” it means that for example Danish HQ calls in meetings with employee representatives from all the units in Denmark.

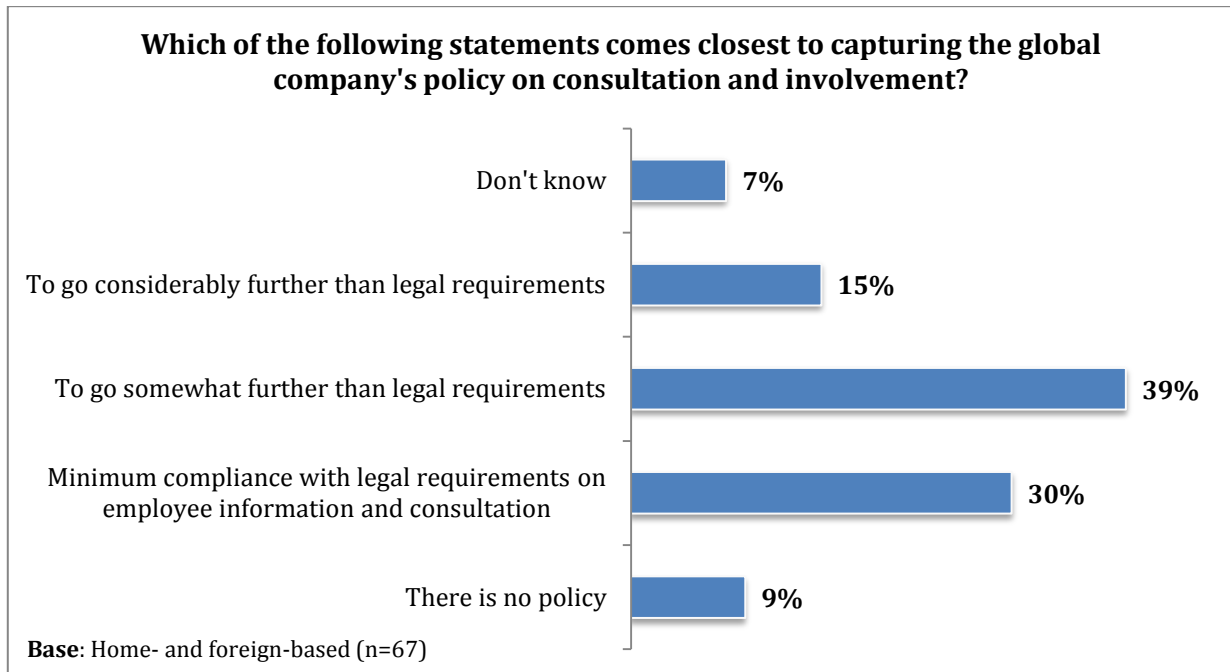
**Employee Representation and Consultation**

**Figure 0-7 Experience with mandatory employee consultation structures**



As this area is somewhat affected by local legislation, collective agreements or (EU-) directives, the companies were also asked about their level of compliance with legal requirements. In this respect, 54% of the companies exceed the minimum legal requirements, while 30% of the companies focus on minimum compliance. 9% have no policy on this issue (see Figure 8-8).

**Figure 0-8: Policy on local legal requirements**



**European Works Council (EWC)**

One of the most important regulations on employee consultation and involvement in Europe is the European Works Council (EWC) requirement. As a part of the European Council Directive of

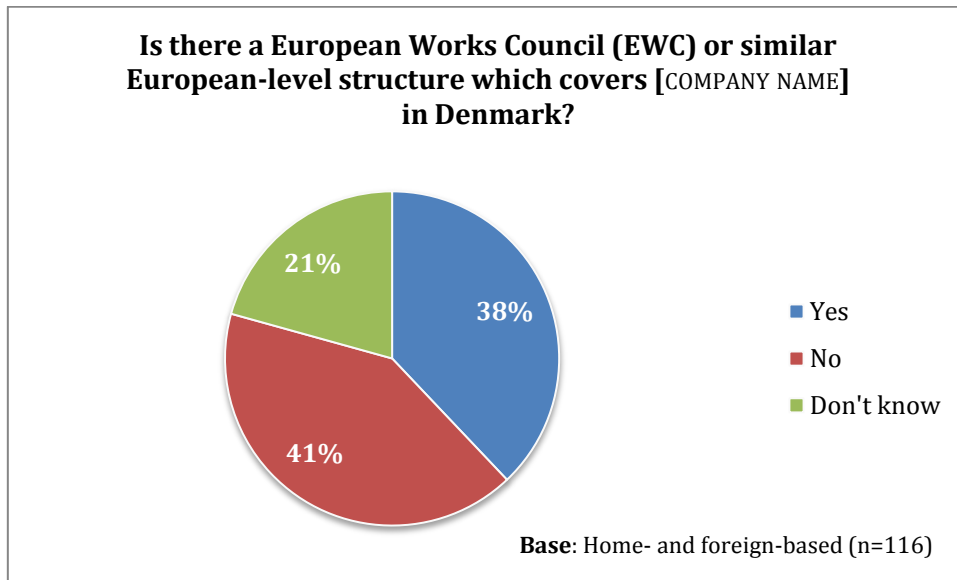
**Employee Representation and Consultation**

September 22, 1994, companies of a certain size that are active beyond their national borders must have an EWC.<sup>22</sup>

The companies were therefore asked about the presence of an EWC or similar structure that covered their Danish operations, and whether the companies prompted any changes in employee representation within the last three years. The data show that almost 40% of the companies have an EWC or a similar structure, and slightly more than 40% do not (see Figure 8-9). When asked whether the EU directive on Information and Consultation prompted any changes in arrangements for employee representation in Denmark, slightly more than 10% of the respondents answered “yes”. Again, the percentage of “don’t know” answers is high, which indicates that this might not be an area familiar to HR managers.

The results show that organizational characteristics have some impact on the prevalence of EWCs. Foreign-based companies are more likely to be covered by an EWC or similar structure. This might be explained by the fact that these companies are generally larger in terms of the number of employees (see Chapter 3) and, as such, more likely to be covered by the EWC directive. There is also a significantly higher percentage of companies covered by the EWC among companies with global HR policy development units and a systematic way of bringing managers together.<sup>23</sup>

**Figure 0-9: Presence of EWCs or similar structures**

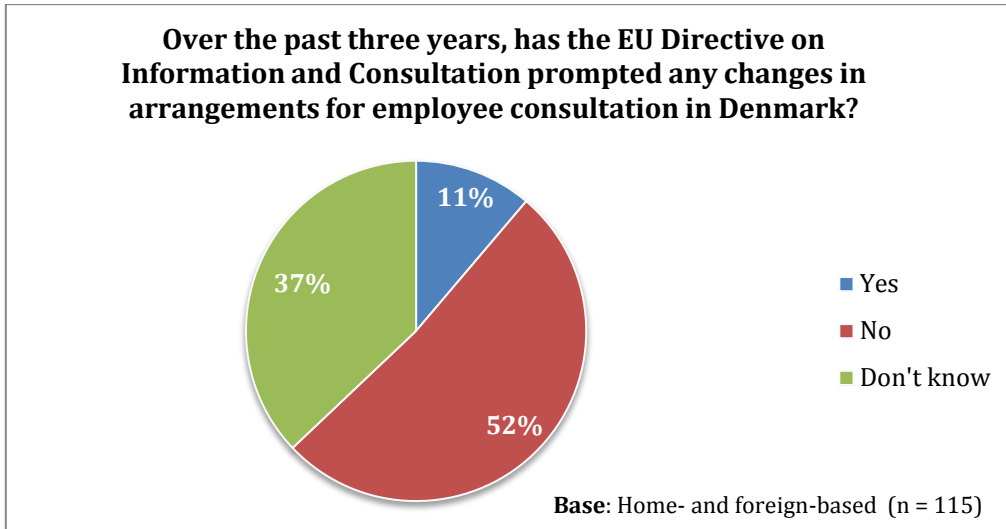


<sup>22</sup> More information on the councils, their purpose and relevant procedures can be found at: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:31994L0045:EN:HTML>.

<sup>23</sup> Chi-square test significant at the 5% level.

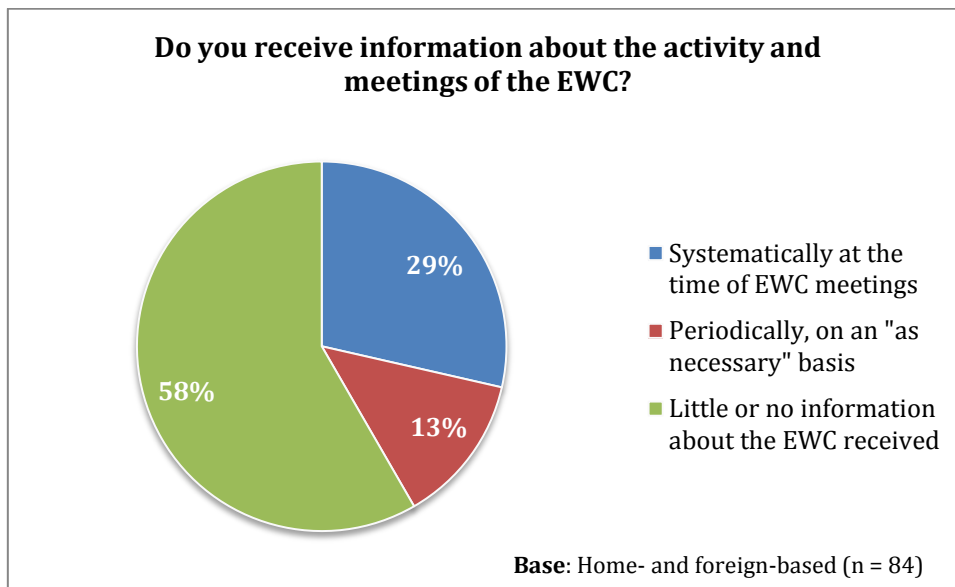
**Employee Representation and Consultation**

**Figure 0-10: Impact of EU directive on information and consultation**



58% of respondents stated that they received little or no information about the activity and meetings of the EWC. This supports the suggestion that HR managers may not be very familiar with the concept of the EWC (see Figure 8-11).

**Figure 0-11: Information Concerning EWCs**



**Summary**

This chapter has outlined results and tendencies with regards to employee representation and consultation in MNCs operating in Denmark. Unions are recognized or accepted by the vast majority of these MNCs, which is not surprising given the high union density and the country’s tradition of cooperation. In addition, we find that:

### Employee Representation and Consultation

- Only 5% of MNCs do not favor of union recognition and 47% adopt a cooperative approach.
- Approximately 50% of the Danish-based companies leave decisions on trade union relations outside of Denmark up to local management and about one-third have no policy. This indicates that cooperation with unions is a highly context-sensitive area that local managers are considered best suited to handle.
- Although 30% of companies meet only the minimum legal requirements for employee information and consultation, 54% exceed the requirements. This indicates a rather deep respect for the rules.
- The companies consult or jointly decide with union representatives on issues such as variable payment schemes, in-work training and direct employee-involvement schemes in more than two-thirds of the MNCs.
- The majority of the companies make their own decisions on work organization and sub-contracting without consulting union representatives. In this regard, employee representatives might be expected to be more involved in work organization, as many aspects of collective agreements deal affect work organization and as this issue directly affects employees. In contrast, sub-contracting affects employees only indirectly and could be considered a management prerogative (though subcontracting could also have serious consequences for company employees).
- With regards to “work organization”, manufacturing companies decide more on their own than in cooperation with union representatives. This is interesting, as manufacturing companies are also significantly more “cooperative” in their approach to unions and often are more unionized.
- For employee consultation, the data show that more than 80% of the companies hold regular meetings between management and employee representatives for the purposes of information provision and consultation. In 70% of the MNCs, these meetings cover all employees, although there might be different arrangements for certain employee groups.
- With regards to European Works Councils and their impact on employee consultation in Denmark, almost 40% of the companies have an EWC or a similar European-level structure, while 40% do not. The former figure is surprisingly low given that most companies in the survey would be expected to meet the baseline criteria for being required to establish a European Works Council.<sup>24</sup>

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<sup>24</sup> In a European context, of the estimated 2,264 companies covered by the legislation, some 828 (34%) have EWCs in operation, although the number of active EWCs is higher because some companies have set up more than one (<http://www.etuc.org/a/125>). In the Danish case, about one-third of the companies covered by the agreement have an EWC (639 out of 1865) (<http://coindustri.inforce.dk/sw15703.asp>).

### **Employee Representation and Consultation**

- One interesting result is that many HR managers (20%) do not know whether their company has an EWC. In addition, almost 60% receive little or no information about the activities in the EWC. This indicates that employee consultation on the international level is not an important issue for HR managers.

# Part 3

**Company performance**



Company Performance

Chapter 9: Company Performance

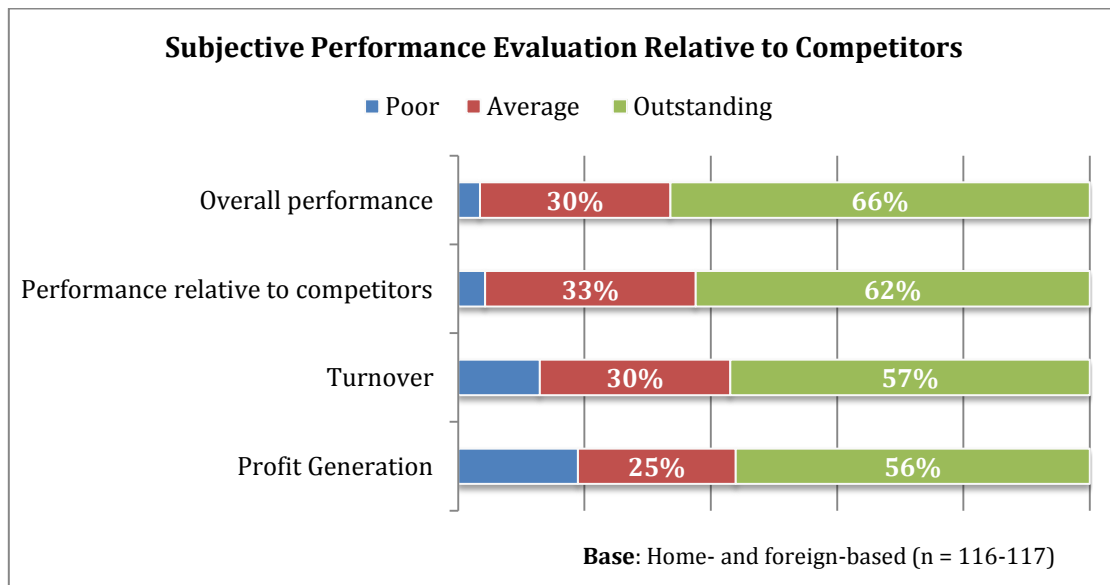
The chapter is separated into three sections, each covering an aspect of performance measures. We start with a section on MNCs’ overall performance, then continue with a section on product/market performance, and finish with a discussion of HR performance. It should be noted that this section is unique to the Danish part of the international survey and has the purpose of evaluating various subjective performance indicators of the MNC.

Note that all performance measures represent the subjective evaluations of the individual HR managers.<sup>25</sup> In addition, we share the results of several studies of the effect of specific HRM practices on objective performance measures, such as sales per employee (see Textbox 6).

Overall performance

The HR managers were asked to evaluate their organizations’ performance over the past three years relative to the performance of other companies in their sector. Figure 9-1 clearly shows that HR managers generally believe their company performs better than their competitors, with between 56% and 66% indicating relatively strong performance. Only a limited percentage of the respondents state that their company performed poorly. Given the fact that the survey was carried out at the height of the global financial crisis, this result is surprisingly positive for all measures of overall performance.

Figure 0-1: Overall financial performance



<sup>25</sup> In the questionnaire, all performance measures were measured using a five-point scale ranging from “poor” to “outstanding”. For statistical purposes, these scores are merged into three groups: poor (1 and 2), average (3) and outstanding (4 and 5).

## Company Performance

### Textbox 6: HRM and Organizational Performance

In a separate study entitled “HRM and Organizational Performance – Testing the effect of strategic moderators” (Henderson, 2011), the relation between High Performance HR practices and organizational performance is examined for our data set (foreign-based MNCs). The study’s central hypothesis is that *HR practices have positive effects on organizational performance* (measured in terms of sales per employee).

Four HRM practices are used to examine the hypothesis: performance-based compensation, training, internal communication, and competence and performance appraisals.

The study finds that “performance-based compensation” is the largest contributor to MNC productivity and that it has a positive effect on organizational performance. It is closely followed by “training”, which also makes a positive contribution. “Internal communication” and “competence and performance appraisal”, in contrast, are found to be negative for MNC productivity.

The study also examines the effect of strategic moderators on the strength and direction of the relationship between HRM and organizational performance. In particular, the study investigates whether a high degree of integration moderates the relationship between HRM and MNC performance. The empirical tests show that performance-based compensation is positively moderated by global integration, so that investments in performance-based compensation have a stronger effect on productivity if global integration is high. This indicates that global integration is a significant moderator of the relationship between HRM and performance.

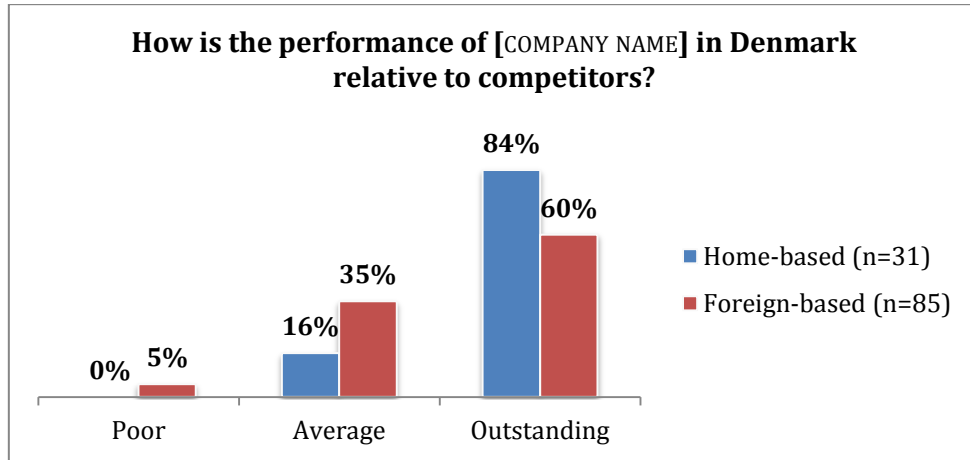
The overall conclusion of the study is that MNCs wishing to maximize productivity (organizational performance) should have a high degree of global integration and focus their HRM investments on performance-based compensation and training.

In terms of the link between organizational characteristics and perspectives on financial performance, no trend is evident with respect to overall performance. However, for the individual components, a number of results should be noted:

- *Turnover*: Companies that systematically bring managers together are more likely to indicate poor performance than companies that do not have such regular meetings among managers.
- *Performance relative to competitors*: The data show that home-based companies are more likely to indicate outstanding performance (84%). The corresponding figure for foreign-based companies is far lower at 60%. This striking result might be a clear sign that companies operating in their own market will usually report better performance than foreign companies. Figure 9-2 illustrates this difference.

Company Performance

Figure 0-2 Performance relative to competitors I



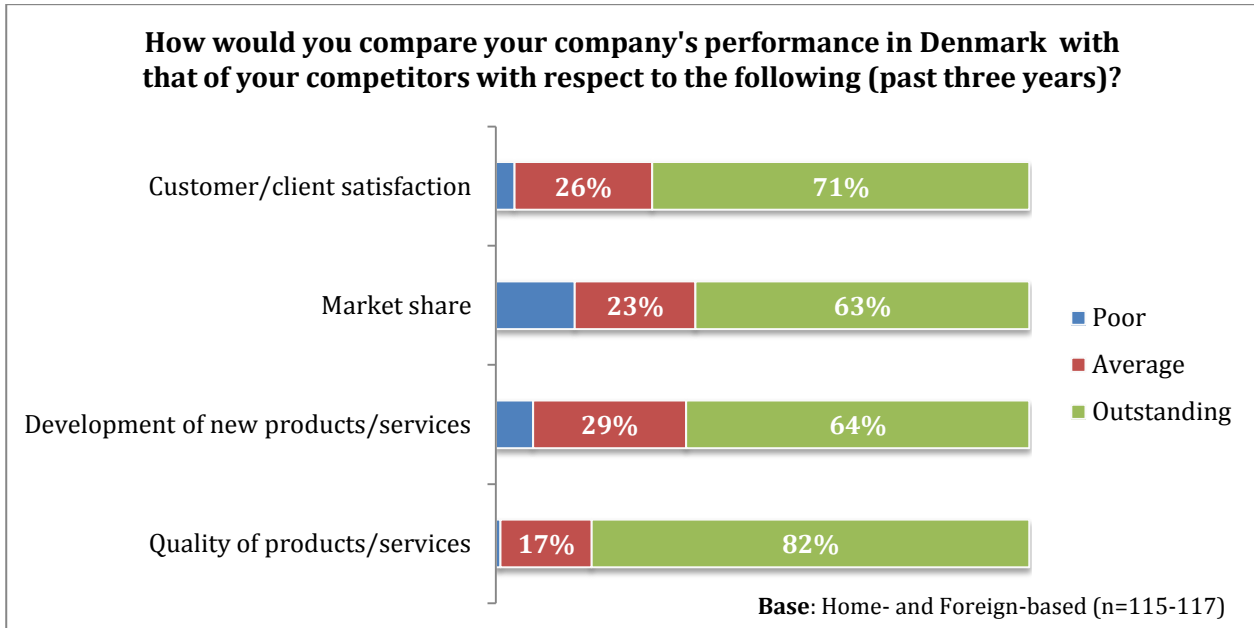
Product/market performance

The product/market performance indicators include four items: customer/client satisfaction, market share, development of new products/services, and quality of products/services. Companies were asked to evaluate their organizations’ performance over the past three years relative to that of other companies in their sector.

First, we find a high proportion of positive evaluations, with “outstanding” accounting for between 63% and 82% of all responses (see Figure 9-3). In particular, “quality of products/services” scores high, with less than 1% of HR managers indicating poor performance. Second, “customer/client satisfaction” scores high, with 71% of HR managers indicating outstanding performance.

Company Performance

Figure 0-3: Performance relative to competitors II



As with overall financial performance, company characteristics appear to have no general impact across the measures. However, there are some notable results for individual variables:

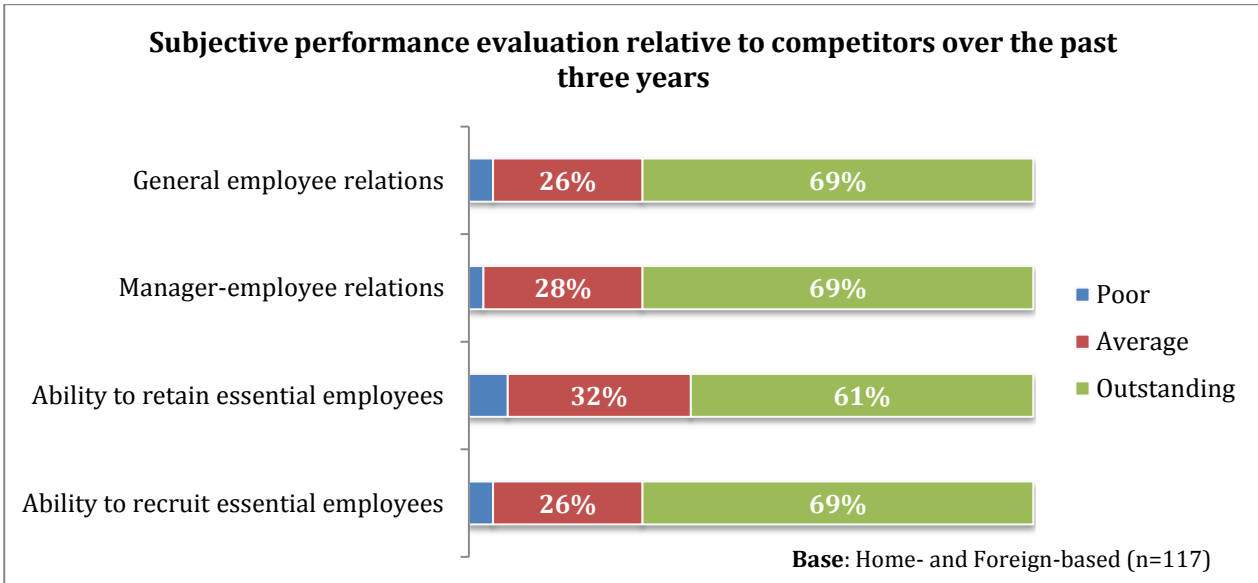
- *Customer/client satisfaction:* This variable is affected by the presence of a system for bringing managers together, which tends to lead to an evaluation of “average” performance. Companies without such a system tend to evaluate their performance as “outstanding”.
- *Market share:* This measure is affected by US ownership – US-based companies indicate poorer, more average performance than non US-based companies. Again, HR managers in home-based companies indicate outstanding performance on this measure to a much greater extent than HR managers in foreign-based companies.

HR performance

This final section focuses on the perceived performance of HR relative to that of other companies in the same sector. These measures cover the abilities of the MNCs to recruit and retain employees, as well as their general relations with employees. The results show a similar pattern across the different measures, with “outstanding” indicated in 61% to 69% of the cases. All measures show a low frequency of “poor” performance (see Figure 9-4).

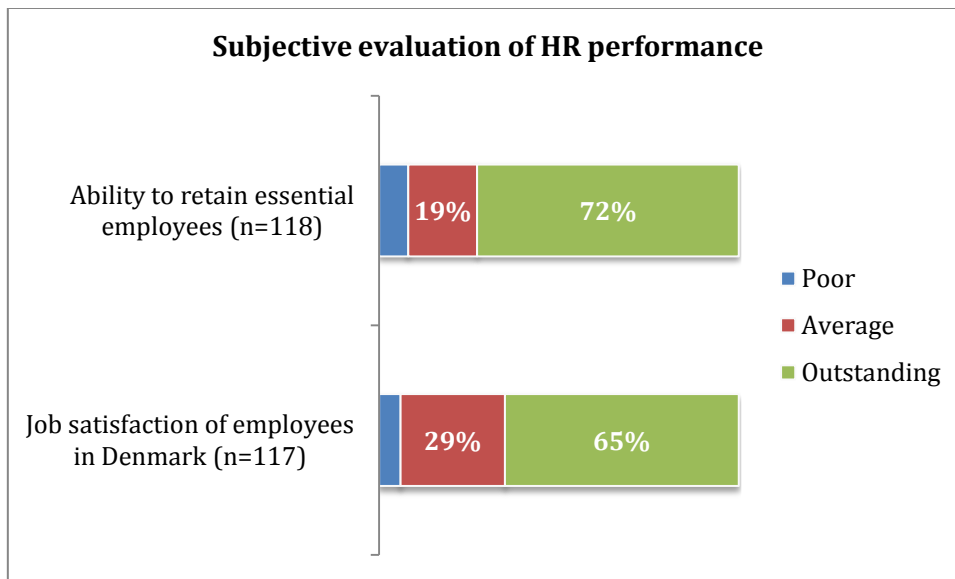
Company Performance

Figure 0-4: HR performance I



The respondents were also asked to assess the job satisfaction of their employees and their ability to retain essential employees (see Figure 9-5).

Figure 9-5: HR Performance II



The evaluation of HR performance is affected by various company and institutional characteristics. However, no pattern covers all of the variables. On the individual level, HR managers in non-US-based companies tend to evaluate job satisfaction in their companies higher than managers in US-based companies. In addition, the presence of global HR policies leads to a higher score on this dimension.

## Company Performance

### Summary

This chapter has summarized HR managers' subjective evaluations of their companies' financial performance in terms of overall performance, product/market performance and HR performance. The majority of the HR managers report that they believe their companies outperform competitors on most measures, with "outstanding performance" reported in the vast majority of cases. Product/market performance is rated highest, HR performance is rated second and overall financial performance is rated third. Across all variables, poor performance is seldom indicated.

Company characteristics appear to have no clear impact on the performance scores. However, HR managers in the home-based companies in our sample generally report better performance than HR managers in the foreign-based companies, with HR managers in US-based companies reporting the lowest scores. With regards to "turnover" and "customer/client satisfaction", companies that have systemized interactions of HR managers evaluate their performance lower. Finally, HR performance is positively affected by the presence of a global HR-development body.

# Part 4

**Conclusion**

**Future Research**

## Concluding Remarks and Summary

### Chapter 10: Concluding Remarks and Summary

The last nine chapters have reported the main results from the survey of employment practices of MNCs in Denmark. In this chapter, the results are summed up and areas for future research are discussed.

#### Origins and characteristics of MNCs in Denmark

The majority of MNCs operating in Denmark are headquartered in Europe and 47% of the MNCs in the sample in this survey originate from the Scandinavian countries. Of the countries outside Europe, US-based companies dominate (16%). The “rest of the world” is only represented by 6% of the companies in our data set. In other words, an overwhelming majority of MNCs operating in Denmark come from countries with similar cultural and business environments.

In terms of size, foreign-based companies employ more than 60,000 people worldwide on average. Danish MNCs are significantly smaller – with Danish MNC employing on average between 1,000 and 4,999 people. In general, the MNCs operating in Denmark have been international for many years. In fact, all home-based companies have been international for at least four years.

A relatively small number of companies adapt their most important products or services to the national market (the majority of companies in our sample adapt to “different regions of the world” or “standardize globally”). Home-based MNCs tend to focus on a single product, while foreign MNCs are relatively more likely to diversify. This finding could be connected to the relatively small size of home-based MNCs. In terms of strategic positioning, the results show that about 50% of the subsidiaries have international responsibility for some products and services, while 24% believe that significant R&D has been undertaken in the Danish operations.

#### Denmark – a knowledge economy?

In discussions of Denmark’s place in the international value chain, the emphasis has typically been on Denmark as a knowledge economy. However, 50% of the MNCs in Denmark are active in manufacturing, which indicates that Danish companies are not necessarily at the top of the value ladder. The limits of the present survey prevent us from further elaborating on this finding, but this result supplements qualitative studies showing that MNC takeovers in Denmark often result in a restructuring (i.e., downsizing) of R&D and sales activities, and the maintenance of activities handled by blue-collar labor (Navrbjerg & Minbaeva, 2009). Further research is needed to explore why manufacturing is a common investment area for MNCs in Denmark.



### Concluding Remarks and Summary

#### The structure of HR policy – systematic on a worldwide basis or ad hoc?

The systemization of HR policies among MNCs varies. HR managers were asked about the kinds of coordination techniques their companies employed. About two-thirds of the companies have an international HR body and a system for bringing managers together. These techniques are somewhat more common among foreign-based MNCs than among Danish-based MNCs, and size is an important explanatory factor. The most common way of bringing managers together is through regular meetings, but international conferences, taskforces and virtual groups are also widely used (more than 50% of the companies). In about one-third of the foreign-based MNCs, a Danish representative is part of the international HR body.

A decision to refrain from bringing HR managers together or introducing an international HR body could mean that the company will fail to exploit knowledge-sharing possibilities in HR. Subsidiaries might have ideas about and practices for tackling certain HR problems, but these cannot be spread throughout the organization if HR managers from subsidiaries do not meet. Case studies in this report show that some subsidiary HR initiatives have been implemented in their respective worldwide organizations, a phenomenon known as "reverse diffusion".

#### The content of HR policy: performance appraisals

Appraisal and rewards systems can be an important HR tool. The survey shows that appraisal systems are widespread: 75% of companies have appraisal systems for managers, while 68% have them for the LOG. Therefore, appraisal systems are used almost as often to motivate LOGs as to motivate managers.

Overall, foreign-based companies are more likely to have appraisal systems for the LOGs than Danish-based companies. The same is true for appraisal systems for managers, although this finding is not statistically significant. In terms of other company characteristics, the analyses show that US-based companies are more likely to have appraisal systems for both the LOG and managers than other companies, as are companies that develop global HR policies through a worldwide body and those that systematically bring HR managers together.

More than 25% of MNCs rely on appraisal results as a formal basis for decisions on redundancy and redeployment. However, half of the companies use them only as an *informal* input for such decisions. This indicates that these important decisions about work life are quite opaque to managers and employees.

Companies use a wide array of criteria to assess managerial performance, with the most popular being individual output. Group output, competences and behavior in relation to corporate values are also

### Concluding Remarks and Summary

important. In terms of the characteristics of companies in relation to the various performance assessment approaches, MNCs originating from Sweden have a significantly lower perceived importance of individual quantitative output targets and behavior in relation to corporate values. The same tendency is evident for individual qualitative output targets, although this finding is only close to significant. This is interesting in a Scandinavian context, as Nordic countries, especially Sweden, have a long tradition of self-governing teamwork in the workplace. These data indicate that this tradition is reflected in the appraisal systems of Swedish MNCs.

Evaluation systems along the line of “360-degree feedback” are used in about two-thirds of the companies for both managers and the LOGs. Variable pay schemes for managers are in place in 77% of the companies, while 60% use such schemes for the LOG.

Employee share ownership, profit sharing and share options are not very popular programs (average prevalence of 20% for managers; lower for LOGs (around 10%)) However, companies with an HR system that brings managers together and home-based companies employ these kinds of incentives to a higher degree.

#### Subsidiary discretion – pay and country-of-origin matters

Discretion is defined as the extent to which the subsidiary has autonomy over different areas of HR policy. In general, the subsidiaries enjoy a high level of discretion with regards to communication, employee involvement and employee representation. In one area, however, foreign-owned subsidiaries show a below-average level of discretion: pay and performance.

The fact that discretion is lower with regard to pay and performance is not very surprising. Pay is a decisive factor in the relations between management and employees and, because it serves as an important motivator and is also decisive for the profit of the enterprise, it is also a typical area of conflict. This conflict can be addressed individually (through individual contracts) or collectively (through a collective agreement), and the typical national setup depends on institutional traditions.

In general, country of origin matters for discretion. The data indicate that companies originating in the US generally grant less discretion to their subsidiaries when compared to the population in general. Subsidiaries with a Swedish HQ enjoy an above-average level of discretion.

#### Training and development – more popular in foreign-based MNCs

Training expenditure can reflect how companies prioritize investments in human resources and, indirectly, whether they see investment in their employees as central to the accomplishment of their goals.

### Concluding Remarks and Summary

Investments in training are common in MNCs. Almost 50% spend 1-4% of their annual employee compensation expenses on training and development. However, more foreign-based MNCs spend more than 4% on training – 9% of foreign-based MNCs spend more than 4% of their annual pay bill on training and development, while the corresponding figure for Danish-based subsidiaries is 0%.

In terms of company characteristics, the analysis shows that companies with a global HR policy body and a systematic way of bringing managers together make significantly more investments in training and development. This is again an indication that a systematic HR policy in one area affects policies in other areas.

Succession planning is a process used to identify and develop management talent in the organization to eventually succeed the current management. The data show that for 43% of home-based companies have succession planning in place in all or some of their operations. More than 50% have no succession planning at all. For foreign-based companies, this latter figure is slightly lower (49%), while the amount of foreign-based companies *with* a formal succession planning system is a higher (50%).

The development of talent within an organization can be worthwhile, as the transaction costs associated with buying management skills can be very high. While a relatively high number of MNCs do not have a succession plan, they are generally aware of management talent. Almost 70% of companies have a management development program aimed at high-potential employees. These data indicate that more resources are invested in finding management potential than in making plans for succession.

The most popular way of developing high-potential employees is through formal global management training and assessments of performance relative to a set of global management competencies. These techniques are used quite extensively or very extensively by about 35% of the companies. Overall, the use of these techniques increases when the MNC has a global HR policy body or a systematic approach to HR.

Another aspect of training and development is “organizational learning”. A learning organization can be characterized as one that facilitates learning as well as transforms itself and its resources with the purpose of remaining competitive. Organizational learning ensures that knowledge stays in the organization even if employees leave the organization, i.e., the knowledge is not dependent on individuals. The survey shows that approximately 40% of the companies have a formal policy on organizational learning. Again, companies with a global HR policy body and a systematic approach to HR are more likely to have a formal policy.

International project groups or taskforces are the primary methods used to facilitate organizational learning. They are used in about 80% of companies. In addition, international informal networks and

### Concluding Remarks and Summary

expatriate assignments are widely used. Expatriate assignments are most common in home-based companies and in companies with a non-standardized product approach. Overall, 60% of the companies surveyed indicate that international project groups and taskforces are the most important techniques used to facilitate organizational learning. Hands-on assignments might also be part of an organizational learning process. A more qualitative question, therefore, is whether such techniques are seen as necessary ad-hoc solutions and that also might lead to organizational learning, or whether they are part of a systematic learning system directed at organizational learning.

Overall, there is a clear indication that companies that bring managers together often also have a coherent strategy for the development of managerial potential, for maintaining that potential and for actively working on organizational learning. Likewise, companies with a global HR body, a systematic HR policy or a system for bringing managers together typically use more resources on training and development, on succession planning, and on finding high-potential employees.

#### Employee involvement – adapted to local circumstances

Employee involvement and communication are key aspects of HR. MNCs can implement different work organizations and techniques of direct employee involvement in their services or production, and employee involvement can serve as a competitive factor in terms of product or service quality. Communication and information can be important in terms of employee satisfaction and, as such, might affect the output of a company, and the quality of its products or services.

Employee involvement techniques are seldom standardized worldwide – most companies state that their employee involvement practices are diverse or vary substantially. This indicates that MNCs tend to adjust their communication strategies locally and/or let local managers determine the communication strategies. This also highlights the *necessity* of adjusting the involvement policies to local circumstances, in that MNCs recognize that the same policy may not be relevant for all subsidiaries.

The most popular technique for employee involvement among the foreign-owned MNCs is the establishment of problem-solving groups and continuous improvement groups. Formal teams are most common among the home-based MNCs. However, teamwork or other involvement practices and formally designated teams are used in more than 60% of the foreign-owned MNCs.

Interestingly, foreign-based MNCs employ problem solving groups and continuous improvement groups to a higher extent than Danish-based MNCs. One might expect such groups to be more widespread in Danish based companies, as this type of work organization has a long tradition in Denmark, but this is not the case. The fact that teamwork or other involvement practices in operating companies outside Denmark are used significantly more by companies with such cross-national HR

### Concluding Remarks and Summary

systems than by companies that do not use such system indicates that other factors than traditions for a certain work design are at stake. Further research into this result is therefore needed.

Various communication mechanisms are used by the vast majority of MNCs. When communicating with LOGs, the most common mechanisms are meetings between managers and line managers, employee newsletters or emails, and intranet. The communication mechanisms are generally used more in companies with global HR-development bodies and those in which HR managers meet regularly.

The analysis shows that the most common type of information given to an LOG relates to the company's financial position, while information on investment plans and staffing plans are in second and third place, respectively. However, we should bear in mind that the survey was carried out in 2009 at the height of the financial crisis. Accordingly, both management and employees in any private enterprise could be expected to have been attentive to the economic development of the company, which might explain this study's finding related to the distribution of information. However, it is more surprising that there relatively few companies share information on staffing plans. In the midst of a financial crisis, one might expect information on staffing plans and possible restructurings to be of great interest to employees.

The level of information on finances and staffing plans might be expected to be higher in Danish-based companies because the country has a long-standing tradition of well-functioning cooperative committees in which such information is typically shared. However, this is not the case, as foreign-based companies seem to share such information with LOGs to a greater extent than Danish-based companies.

#### Employee representation and consultation– an institutionally sensitive issue

Employee representation and consultation is traditionally an area highly dependent on national systems of legislation, politics, industrial relations (IR) and collective agreements, which differ widely between countries. Denmark has a long tradition of high union density and an IR system in which the social partners play a decisive role in regulating the labor market through collective bargaining. The level of employee representation and consultation involvement is stipulated in the Danish Cooperative Agreement (*Samarbejdsaftalen*), and this is further supported by EU-directives on consultation and on European Works Councils (EWCs).

One interesting aspect is whether foreign-owned MNCs are likely to adopt the Danish perspective, especially when they come from a different system for cooperation and consultation, or whether they try to impose their own traditions on the subsidiary. The analysis shows that unions are recognized or

### Concluding Remarks and Summary

accepted by the vast majority of MNCs operating in Denmark. Only 5% of MNCs are not in favor of union recognition. 47% adopt a cooperative approach.

In terms of policies for trade unions outside of Denmark, about half of the companies leave the decision up to local management and about one-third have no policy. This indicates that cooperation with unions is a highly context-sensitive area that local managers are considered best suited to handle.

30% of MNCs adhere to the minimum legal requirements on employee information and consultation, while 54% of the MNCs go “somewhat” or “considerably” further than the legal requirements. This might indicate a rather deep respect by MNCs in Denmark for labor related legislations and rules.

On issues such as variable payment schemes, in-work training and direct employee involvement schemes, companies consult or decide jointly with union representatives in more than two-thirds of the time. However, with regards to work organization and sub-contracting, the majority of companies make decisions without consulting union representatives. For work organization, employee representatives might be expected to be more involved, as many issues in collective agreements deal with work organization and as this issue directly affects employees. Sub-contracting, in contrast, affects employees only indirectly and could be viewed as a management prerogative (although subcontracting can have serious consequences for the employment at the company).

The results also show that more than 80% of the companies hold regular meetings between management and employee representatives for the purpose of information provision and consultation. In 70% of MNCs, these meetings cover all employees, although there may be different arrangements for different groups.

With regards to European Works Councils and their impact on employee consultation in Denmark, the results show that almost 40% of the companies have an EWC or a similar European-level structure, while 40% do not. The former figure is surprisingly low, as most companies in the survey would be expected to meet the legal criteria under which a European Works Council is required.<sup>26</sup>

Interestingly, 20% of HR managers do not know if their enterprise has an EWC, and almost 60% received little or no information about the EWCs' activities. This indicates that employee consultation on an international level is not an important issue for HR managers.

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<sup>26</sup> Of the estimated 2,264 companies covered by the legislation, some 828 (34%) have EWCs in operation, although the number of active EWCs is higher because some companies have more than one (<http://www.etuc.org/a/125>).

## Concluding Remarks and Summary

### Company performance – high self-evaluations

The survey asked HR managers about their subjective evaluations of the company's financial performance. Questions were asked on the overall performance of the company, product/market performance and HR performance.

The majority of the HR managers report that their companies perform very well, with “outstanding performance” reported in the vast majority of cases (84% of home-based managers and 60% of foreign-based managers). Product/market performance is ranked highest, while HR performance is second and overall financial performance is third. Across the variables, poor performance is only indicated in very few cases.

HR managers in the home-based companies in our sample generally report better performance than the HR managers in the foreign-based companies, with HR managers in US-based companies reporting the lowest score. With regards to the performance measures of “turnover” and “customer/client satisfaction”, the presence of a systematic way of bringing HR managers together leads to a lower evaluation of performance. Finally, HR performance is positively affected by the existence of a global HR development body.

### The institutional context – decisive for HR policies

Managers of MNCs will encounter different business systems as they invest in or establish subsidiaries in different countries. While a broad range of HR policies can be controlled within the MNC and while many of those issues are considered part of management's prerogative, the country's organizational context is, for the most part, beyond the MNC's control.

“Organizational context” refers to the local conditions under which the MNC operates, including labor market relations, the labor market legislation, the collective bargaining system, and level of cooperation between management and employees. These institutional settings form a framework for the HR policy that an MNC can implement in a subsidiary. Throughout this report, several references have been made to the institutional context of the MNCs operating in Denmark. In the next chapter we offer some future research perspectives in this area.

## Future Research

### Chapter 11: Future Research

#### CMEs and LMEs in Denmark

An important – and widely discussed – approach to the analysis of the influence of institutional context on the coordination of the economy is the *Varieties of Capitalism* (VoC) approach (see Textbox 7). The critique of the VoC concept is overwhelming, as is the discussion of which countries are LMEs or CMEs. It is beyond the scope of this report to go into this discussion. However, in this chapter we indicate the possibilities for further research in this area. In categorizing country-of-origins in our sample, we use Hall and Gingerich (2004). However, we also create a group of “cross-over” countries in order to derive “cleaner” archetypal data to with which to work.

Within the sample, we find a mix of foreign-based MNCs originated from LMEs and CMEs. As discussed in Chapter 2, the CMEs dominate. As such, our first conclusion is that the majority of MNCs operating in Denmark come from business systems similar to Danish one. This also means that the possibility of working in “turbulent areas” between MNCs’ HR units and local subsidiary HR units is limited. To be more precise, we would only expect some kind of “turbulence” in 30 of the cases studied here.

**Table 2: MNCs operating in Denmark – according to market systems**

<b>Coordinated Market Economies (CMEs)</b>	Finland (2 <sup>27</sup> ), Norway (6), Sweden (15), France (5), Germany (12), Belgium (1), Switzerland (8), Netherlands (2), Japan (2)
<b>Liberal Market Economies (LMEs)</b>	US (19), India (1), Australia (1), South Africa (1), Israel (1), UK (7)
<b>Cross-over Economies</b>	Spain (1), Italy (1), Iceland (2)

Following the arguments of the VoC approach, we should experience some kind of differences in employment practices between foreign firms operating in Denmark, depending on their origin (LMEs vs. CMEs). Basically, we expected:

- 1) MNCs originating from LMEs will have a “harder” HR policy with lower employee involvement, more individualized management-employee relations and a lower level of union recognition.
- 2) When investing in subsidiaries in CMEs like Denmark, MNCs originating from LMEs will adhere to the labor market system in the host country and, as such, there will be no difference between the HR policies in LME-based companies and CME-based companies.

<sup>27</sup> Numbers in parentheses indicate the number of companies originating from the country.



Future Research

Textbox 7: CME versus LME

According to the Varieties of Capitalism (VoC) approach, which was introduced by Hall and Soskice (2001), the methods firms use to resolve the coordination problems they face vary across economic contexts. In liberal market economies (LMEs), firms solve coordination problems via “hierarchies and competitive market arrangements” (Hall and Soskice, 2001: 8). In coordinated market economies (CMEs), firms depend more on non-market relationships.

Given these two approaches, what happens when enterprises from one market system invest in subsidiaries in another market system? In other words, what happens if an MNC from an LME wishes to operate in a CME or vice versa? When an MNC originating from an LME (e.g., the UK) moves into an LME institutional environment (e.g., the US), the situation entails relatively limited potential for conflict. In both countries, the MNC operates in an environment where there is a limited tradition for listening to employees as a collective and employee expectations are typically adjusted to this fact. Hence, clashes are few and limited. The same applies when an MNC from a CME (e.g., Norway) comes into contact with another CME institutional structure (e.g., Denmark). Actors in northern Europe expect a relatively high level of employee empowerment and employment practices often offer what the employees demand, e.g., a work design that emphasizes the importance of the employee. In both cases, the degree of convergence in terms of a common understanding of management-employee relations is high and conflicts are limited (Hyman, 2004).

Table 3: When LMEs meet CMEs

	Operating in LMEs	Operating in CMEs
Originating from LMEs	No conflict	Turbulence area
Originating from CMEs	Turbulence area	No conflict

The situation can be quite different, however, when an MNC originating from an LME encounters, for example, a northern European IR systems (a typical example of a CME), or when an MNC originating from a CME move into an LME. In the former case, “hard” HRM policies (typical for LME firms) tend to meet an IR system with a tradition of employee involvement and high union penetration (Kristensen and Zeitlin, 2005). This creates a potential for conflict, as described by several authors analyzing American MNCs operating in Ireland (see, e.g., Edwards and Ferner, 2002; Collings et al., 2005; Gunnigle et al., 2005). Less analyzed are cases where an MNC from a CME comes into contact with an LME institutional structure, as would be the case when a northern European MNC establishes an American subsidiary. This situation does not necessarily lead to conflict or turbulence, at least not between management and employees. However, turbulence might arise between the management of the parent company and the management of the subsidiary, as the parent company might enforce “soft” HRM in a “hard” IR system. The former is likely to be an HR-approach that local management is unfamiliar with and might even feel is “wrong”.

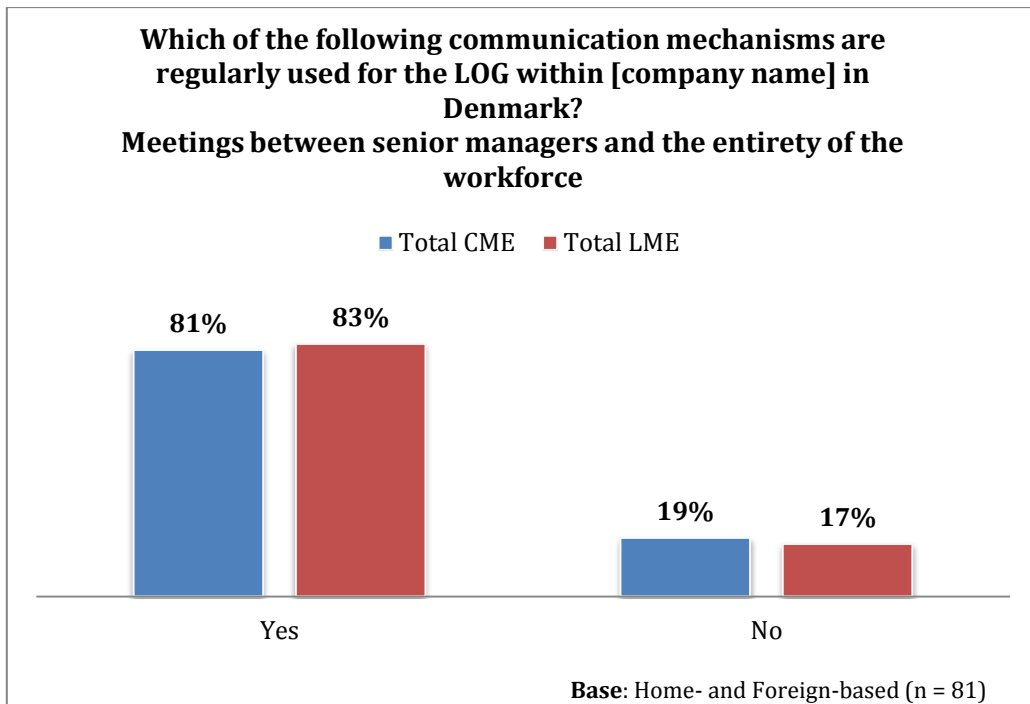
**Future Research**

Using our data, we have tested these two hypotheses and compared the firms in our sample along a number of various dimensions, ranging from employee involvement to employee representation and discretion. Overall, although we find a number of differences in our tests of these hypotheses, none were statistically significant.<sup>28</sup> This is an interesting finding in light of both theory and recent work in the area. Below we will elaborate on our findings under three sub-headings: communication, employee representation and country-of-origin.

**Communication**

MNCs operating from CMEs would traditionally take all stakeholders into account when making decisions. Hence, a higher level of information on the enterprise level would be expected in companies from CMEs than in those coming from LMEs. However, the results show that there is no difference in the use of various information-sharing techniques, such as meetings with the entire workforce. This means that the proportion of *managers that hold meetings with the entire workforce* as a communication mechanism in companies originating from CME countries is not significantly different from the proportion of companies originating from LME countries.

**Figure 0-1: Communication: Meetings between Management and the Workforce – LME/CME**



For other communications techniques, like *meetings between line managers or supervisors and employees; attitude and opinion surveys; suggestion schemes; and systematic use of management chains*

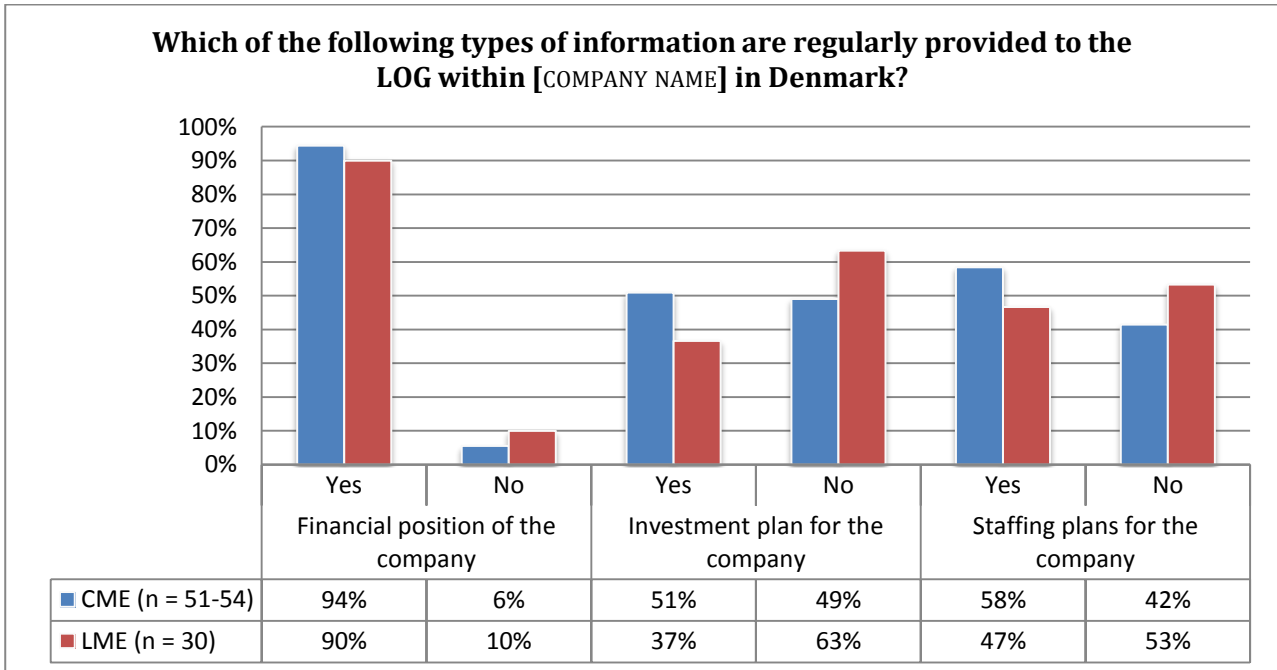
<sup>28</sup> Chi-square test significant at the 5% level.

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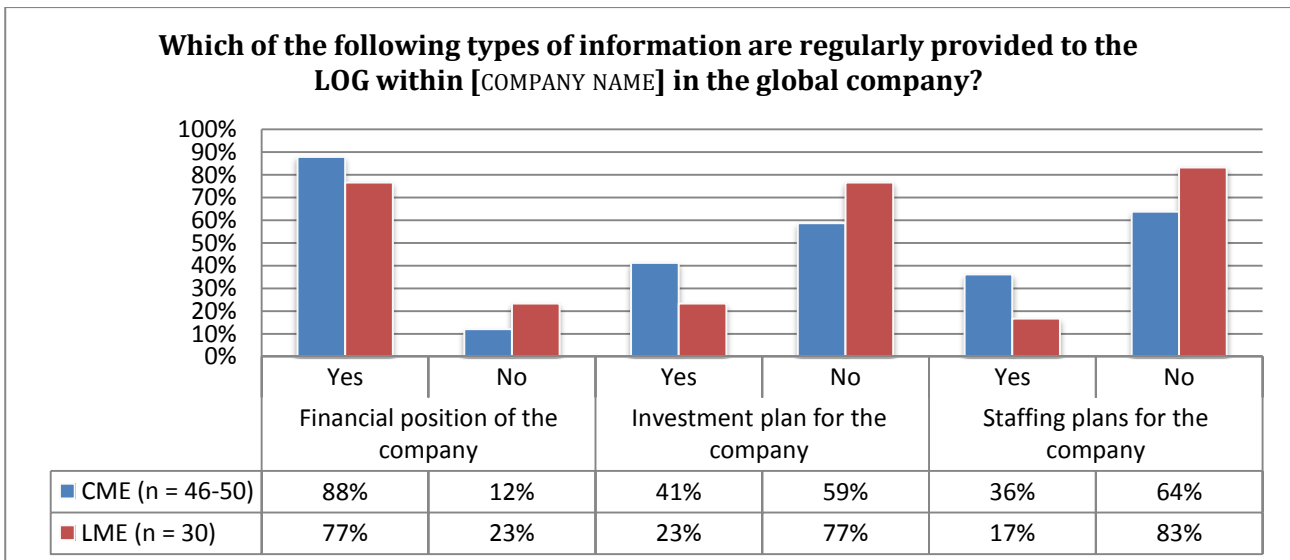
to cascade information, the same pattern emerges. There is no significant difference between companies originating from LMEs and CMEs.

In terms of information on more sensitive issues, like the financial position of the company, investment plans and staffing plans, Figures 10-2 and 10-3 show similar results.

**Figure 0-2: Types of information to LOGs in DK - LME/CME**



**Figure 0-3: Types of information to LOGs in the global company - LME/CME**



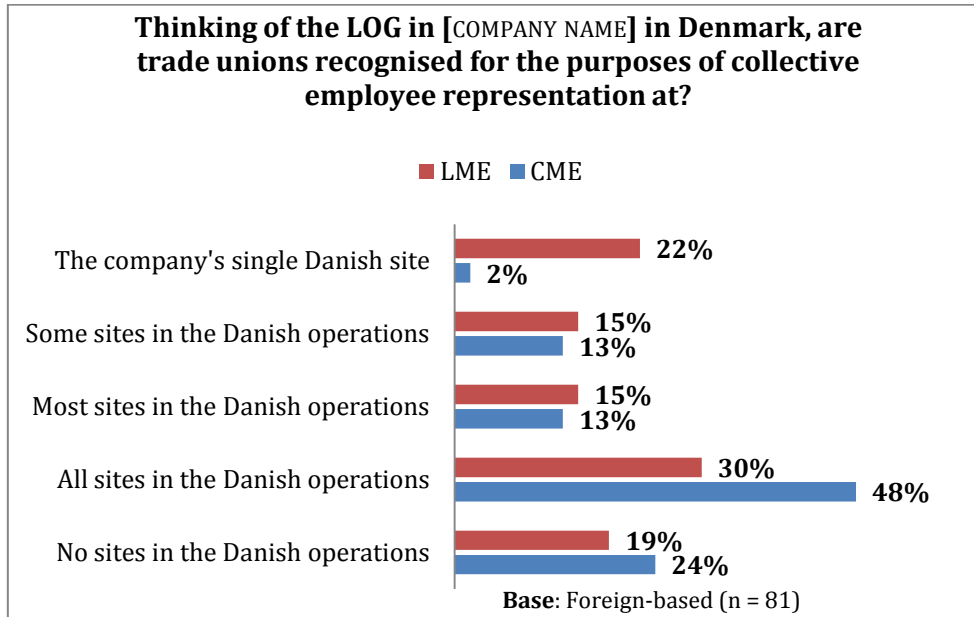
The expectation that foreign-based MNCs originated from CMEs share information in general with employees to a higher degree is not supported by these data.

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Employee Representation

An even more sensitive issue is employee representation. Union density and the strength of unions are often considerably higher in CMEs than in LMEs. Hence, the expectation is that companies originating from CMEs will be more likely to involve union representatives than companies from LMEs. The most decisive question here is union recognition. While Figure 10-4 shows differences between CMEs and LMEs, there are too few observations in our data set to run a statistical test.

Figure 0-4: Trade union recognition - LME/CME



With regard to whether MNCs involve unions on different matters or make decisions on their own, we see very little differences between companies from LMEs and CMEs. Due to too few observations, answers from 1+2 (*management decides on its own*) and 3+4+5 (*management consults or decides jointly with union representatives*) are merged. As shown in the figures below, though the results are not statistical significant.

Future Research

Figure 0-5: Unilateral or bi-lateral management decisions - LME/CME (work organization)

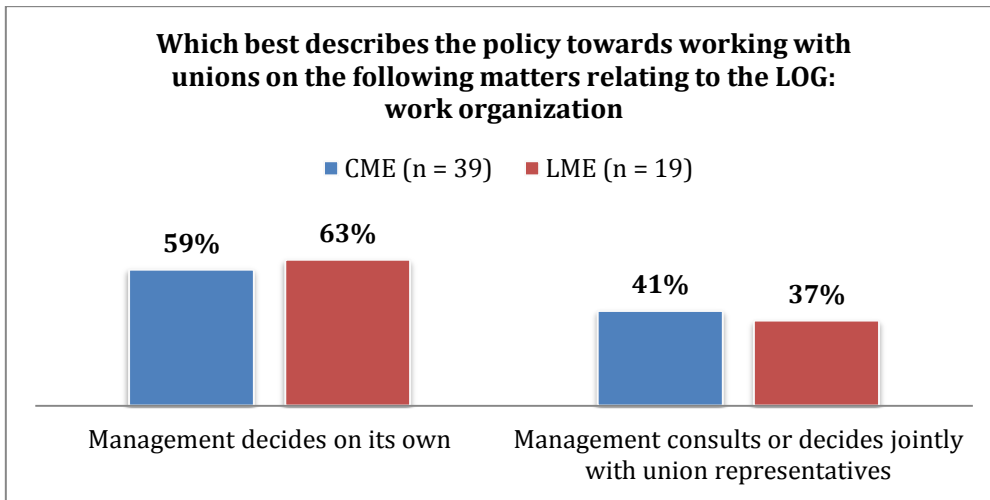
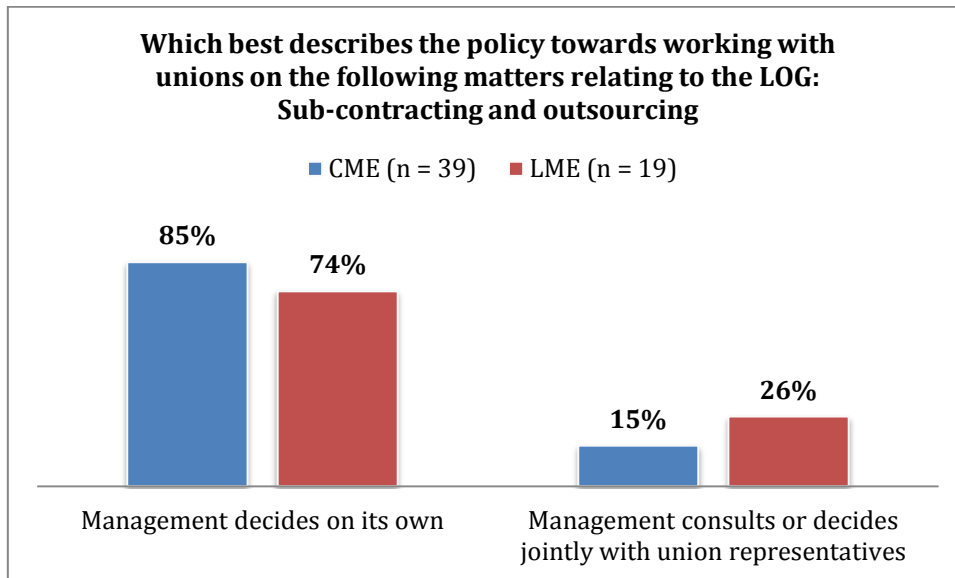


Figure 0-6: Unilateral or bi-lateral management decisions - LME/CME (Sub-contracting and outsourcing)



Future Research

Figure 0-7: Unilateral or bi-lateral management decisions – LME/CME (variable pay schemes)

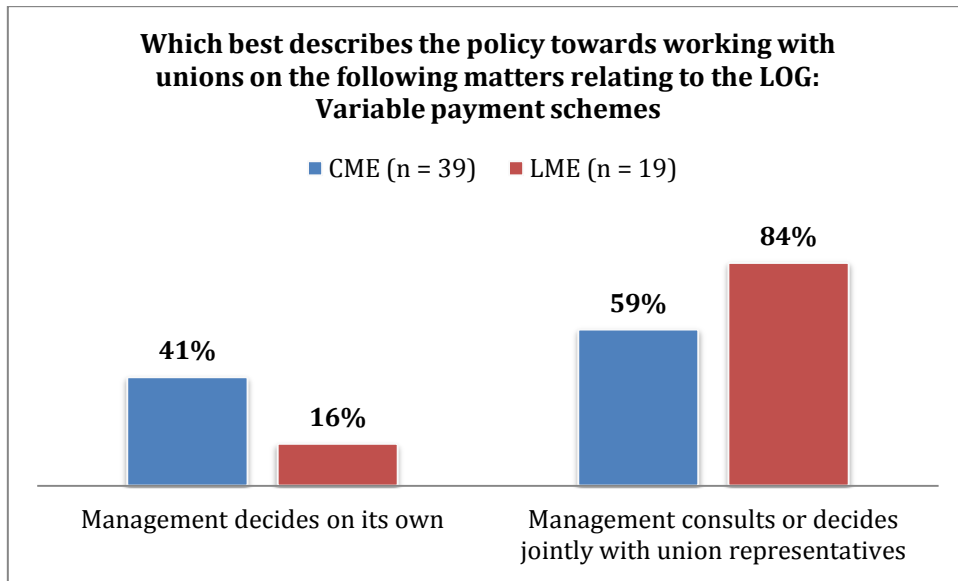
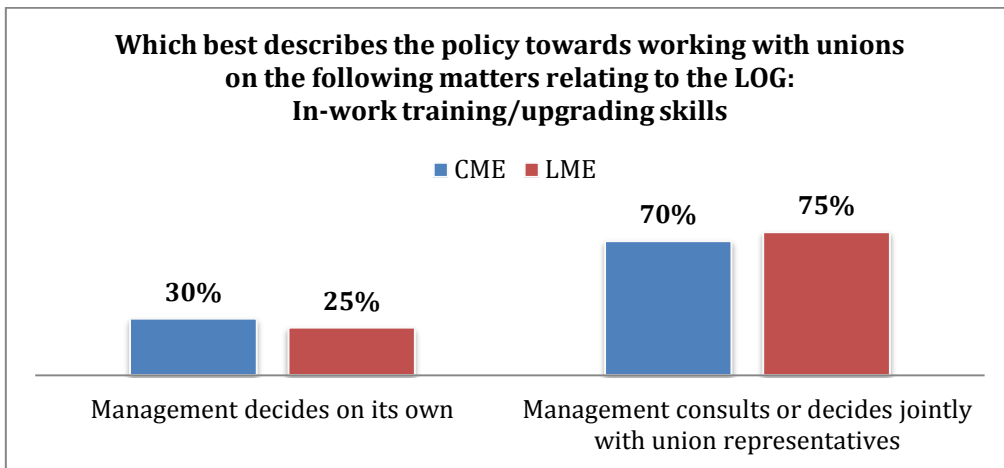
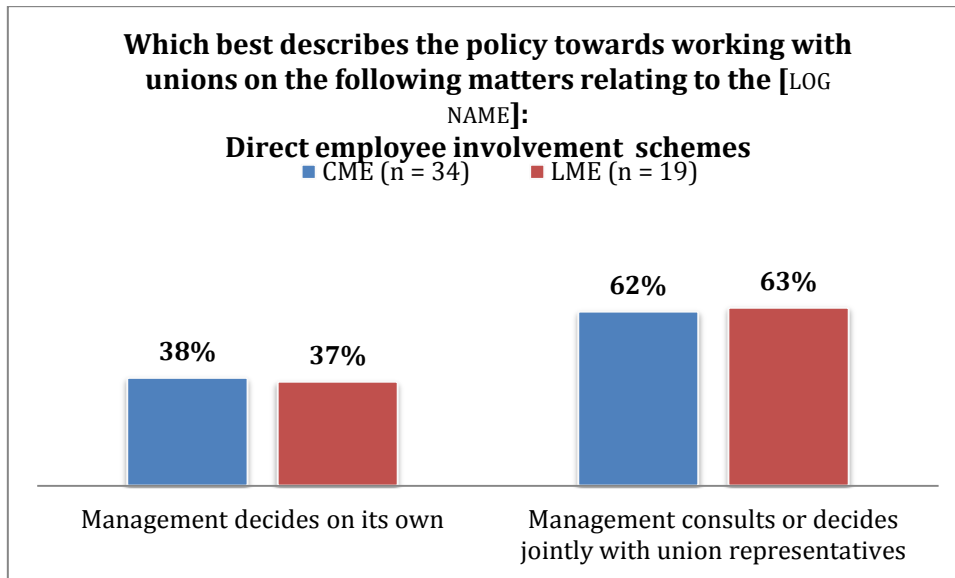


Figure 0-8: Unilateral or bi-lateral management decisions – LME/CME (in-work training/upgrading skills)



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Figure 0-9: Unilateral or bi-lateral management decisions – LME/CME (direct employee involvement schemes)



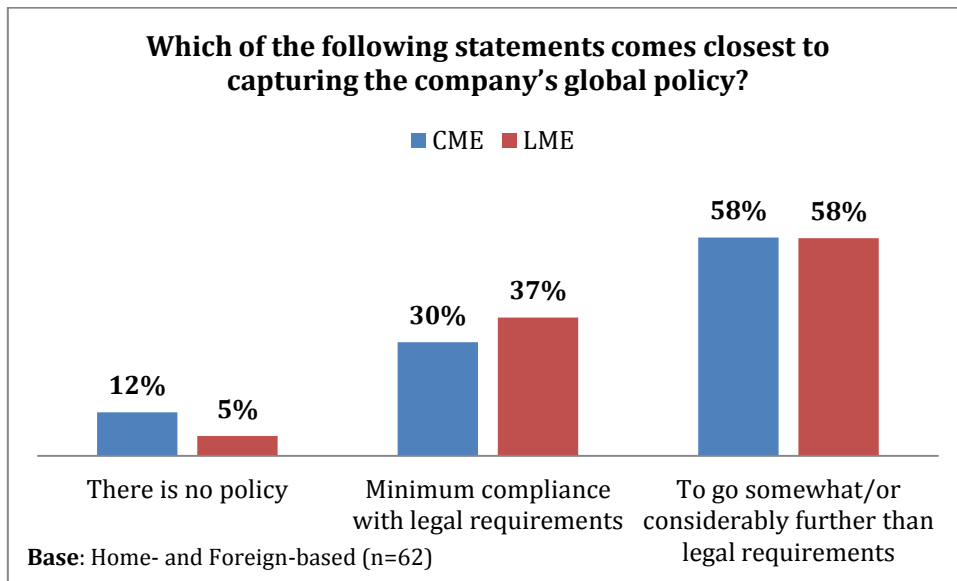
Although none of the results are statistically significant, some of the results point in directions that are contrary to expectations. For example, it might be expected that variable pay schemes would be more unilaterally used in MNCs originating from LMEs. However, the data indicate the opposite: while management decides on its own in 41% of the CME companies, it does so in only 16% of the LME companies. Furthermore, 84% of the LME-based companies consult or decide jointly with union representatives.

**Country of origin – no relevance in a Danish context?**

Overall, we might conclude that there are no statistically significant differences between MNCs originating from LMEs and CMEs with regards to their levels and kinds of employee involvement, communication and union recognition. This is a strong indication that MNCs adjust their overall HR policies to the local Danish conditions to a very high degree and that the Danish business model seems to be able to force MNCs to adhere to the general rules of the game on the Danish labor market. This is also confirmed by the fact that 58% of the companies have a policy to go considerably or somewhat further than the legal requirements of the host country.

Future Research

Figure 0-10: Policy towards Local Legal Requirements



However, this is only the HR managers' view of the situation. More comprehensive qualitative analyses, which encompass views from managers and employee representatives, indicate that foreign ownership changes HR policies and management-employee relations, albeit in the "softer" areas (see Textbox 8). These partly contradictory data indicate a need for more detailed research on this issue.

The comprehensive international database covering nine countries will undoubtedly be of great value for further research, not least because several of the results from the Danish survey are not statistically significant because there are too few observations. Given a bigger database, researchers will be able to run tests that might make border-line results more concrete.



## Future Research

### Textbox 8: Foreign ownership changes HR policies and management-employee relations

In countries with CMEs, Industrial Relations systems are centered on high trust between the state, employer and employee organizations, which has been built and sustained over the years. However, by employing HQ-originated work organization practices, foreign investors might undermine this trust, questioning the resilience of the IR systems. Yet, we know relatively little about how a particular company-wide initiative is implemented and operationalized in highly regulated countries. The paper by Navrbjerg and Minbaeva published in *International Journal of Human Resource Management* contributes to this gap by analyzing whether and how a change in work organization practices following a takeover by a MNC affects the local IR system in CMEs.

The authors analyzed four enterprises located in Denmark over a 10-year period to shed light on how the cooperation at the enterprise level and consequently, the Danish IR system, are affected by the foreign takeovers. The companies were visited three times: in 1995; 2001; and 2005. For the first investigation, the four companies were chosen because they had interesting HR relations and work organizations (teamwork, just-in-time, total quality management etc.) and not least, HRM, which at the time was a relatively new concept in Denmark. The purpose of the investigation was to explore how the Danish IR system matched these new management concepts. All companies were industrial plants and as such the classical arena for industrial relations. Moreover, the companies were chosen from a pool of companies that had presented themselves as vanguards of HRM issues at conferences, in the media, etc. As such, they were thought of as possible

benchmarks for the development of HRM in a Danish context. Another parameter was that companies were big enough to employ an HRM manager.

Methodologically speaking, the two later investigations were spin-offs from the first one. At the time of the first investigation, all four companies were Danish owned, and at least two of them were on the verge of becoming MNCs, buying subsidiaries in other countries. When the companies were revisited in 2001, three of the four had been bought by foreign MNCs and the last one remained Danish. There were some interesting dynamics in the interplay between the HQ-originated HR and the Danish IR system. This pushed the authors to refine the original goals of the study and focus on the consequences of managerial interventions following acquisitions (in the form of the imposed HRM) on the cooperation and IR system locally. All the companies were revisited in 2005 when the HR relations were expected to have stabilized after the turmoil of the takeovers. The authors kept the fourth company that did not experience changes in the ownership as a control since that allowed them to make sure that the observed changes were not caused by the general development in Danish economy or changes in the dynamics of the Danish labor market.

The analysis in 1995 was the most comprehensive: 15 to 18 interviews were carried out within each enterprise, with top management, middle management, union representatives and rank and file employees. All in all, 73 interviews were made in the four enterprises in 1995. The interviews in

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2000 and 2005 were less comprehensive. Then, three to five interviews with main actors like HR managers and shop stewards were carried out in each enterprise. In 2000, 14 interviews were carried out in three enterprises, and in 2005, 16 interviews in four enterprises. In total 103 interviews were conducted over a 10-year period.

It was found that none of the MNCs studied tried directly to interfere in the local IR. To a high degree, management seems to accept the Danish written and unwritten rules of the game. Neither local management nor employees could point out situations where the MNC HQ had tried to question the collective agreement reached.

Still, a number of HQ initiatives that are within management prerogative *indirectly* affect relations between employees and local management. In the long run, they may affect the collective bargaining system as such. In particular, the results show that a shift from a stakeholder to shareholder management style and the increased degree of HQ

control have an effect on the whole *co-operative atmosphere* in each of the companies. To changes like these, employees first react with increased absenteeism and consequently turnover. If the employees' 'voice' is unheard and foreign management continues tightening up work organizational practices, employees pull back flexibility which was previously reached in local agreements between management and employees' representatives. That jeopardizes the fine-tuned balance achieved between the centralized and decentralized agreements that are at the core of the Danish IR. So, by exercising their management prerogative, the MNC management disturbs the finely tuned balance between management and employees to such a degree that it undermines a long and strong tradition for cooperation, possibly giving rise to long-term consequences for national IR systems.

Source: Navrbjerg, S. and Minbaeva, D. (2009) HRM and IR in Multinational Corporations: Uneasy Bedfellows? *International Journal of Human Resource Management*, 20(8), pp.1720-1736.