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Abstract

As multinational corporations operate in multiple countries, headquarters must take into account differences in local settings when seeking the means to coordinate and control subsidiaries. The local system of industrial relations sets the framework for what kind of human resource management a multinational corporation can implement. Yet another question is whether the still stronger multinationals can change the existing systems of industrial relations, directly or indirectly.

The paper analyzes four Danish enterprises over a ten-year period. This longitudinal study shows that none of the multinationals directly try to interfere in local industrial relations. However, by exercising their management prerogative in a way that differs from the Northern European tradition of industrial relations, they do influence the cooperation between employers and employees. In particular, the results show that a shift from a stakeholder to a shareholder management style and the increased degree of HQ control have an effect on the whole cooperative atmosphere in each of the companies. In the long run, they may affect the collective bargaining system as such.

Keywords: human resource management, industrial relations, multinational corporations

INTRODUCTION

Multinational corporations (MNCs) have been seen as a means to integrate national economies into a global economy, with a small number of very large companies accounting for a disproportionately large number of people in employment (Torrington, 1994). Growing globalization is a big challenge for MNCs, especially from a managerial perspective (Kristensen and Zeitlin, 2005). In their attempt to meet the requirements of local environments (institutions, markets, cultural values, etc.) at the subsidiary level, MNCs have to differentiate their management structures. On the other hand, MNC headquarters are pushing to integrate management structures to reduce costs and maximize global efficiency (e.g. Prahlad and Doz 1987; Edwards 2000; Almond et al. 2005; Whitley 2001).

Human resource management (HRM), probably more than other managerial practices, is subject to such conflicting demands. HQ has an interest in developing HRM policies that are broad enough and appropriate enough for several local units to adapt to their local environmental and competitive strategic needs (Schuler, Dowling and De Cieri, 1993). However, empirical research (extensively published in outlets such as *International Journal of Human Resource Management*) shows that parent companies have often failed to homogenize and transfer home practices overseas. The failure is explained by the differences in national business systems and corporate isomorphism (e.g. Ferner and Quintanilla, 1998), the socio-cultural and political economic characteristics of the location (e.g. Tayeb, 1998), norms and regulation in the host countries (e.g. Adler, 1986; Dowling, 1989), etc.

The diversity of Industrial Relations (IR) systems across countries poses another challenge to MNCs (Edwards and Ferner, 2000). Numerous studies provide empirical evidence for the fact that local IR systems set the framework for what kind of HRM an MNC can implement. The overall conclusion seems to be that MNCs tend to adjust their HRM to the requirements of local institutional environments and differentiate their HRM practices in the countries with strong traditions for collective bargaining (Fenton-O’Creevy, Gooderham and Nordhaug, 2008; Collings, Gunnigle and Morley, 2005). If unions are strong or if labor market legislation is strict, the leeway for HRM practices is limited – and vice versa.

What has not been studied extensively is whether the local IR systems in stronger and more regulated countries are adjusting to the needs of powerful MNCs. Is it possible that “national industrial relations systems transform or mutate as a result of a new actor – a global multinational – entering a domestic field”? (Peltonen, 2006: 1594). We need to understand what exactly is happening in the interaction between the HQ-originated HRM practices of MNCs and local IR systems at the company level. In this paper we explore this question by analyzing various alternatives for collaboration between HRM and IR in the context of a coordinated market economy (CME) (Hall and Soskice, 2001). The CME context is particularly interesting since firms operating in such a context are constrained by the legal frameworks and systems of IR with regard to managerial autonomy in applying HQ-originated practices (Fenton-O’Creevy, Gooderham and Nordhaug, 2008). As Hall and Soskice (2001) point out, HRM practices of foreign firms operating in CMEs are distinctly different from HRM practices of firms operating in liberal market economies (LMEs). In CMEs “firm governance is characterized by attention to a wider set of stakeholder interests”. All of these factors add to the complexity of the analysis of MNCs operating in CMEs, especially if the MNCs originally come from countries with LMEs.

To foreshadow our conclusions, we argue that HRM implemented by MNCs could affect the local (traditional) work organization and IR systems, even in countries with a high level of regulations, be that via legislation or via strong traditions for collective bargaining. The paper is structured in the following way. We begin by introducing the key concepts and theoretical perspectives within which our discussion will be framed. Next, we present the Danish IR system. We use Denmark as an extreme case of a country where there is a high level of regulation by labor market parties and where modern HRM business strategies prevail. The empirical basis is an analysis of four industrial plants during a ten-year period, three of which were acquired by foreign MNCs while the fourth remained Danish. Our analysis is based on 103 interviews conducted in 1995, 2000 and 2005. The final discussion of the findings, followed by assessments of the implications for various actors, reveals interesting discrepancies, suggesting avenues for further conceptual and empirical research.

THEORETICAL BACKGROUND

International HRM

The globalization of business has inspired HRM scholars to address issues associated with how human resources are managed in a global environment. In particular, the field of international human resource management (IHRM) involves the study of a wide range of human resource activities in the context of MNCs. Taylor, Beechler and Napier (1996) define IHRM as "the set of distinct activities, functions and processes that are directed at attracting, developing and maintaining MNCs' human resources." (p. 960).

Linking IHRM with the strategic needs of international business has led to the development of the emerging field of *strategic* international human resource management (SIHRM). Schuler, Dowling and De Cieri (1993) define SIHRM as "human resource management issues, functions, policies, and practices that result from the strategic activities of multinational enterprises and that impact the international concerns and goals of those enterprises" (Schuler, Dowling and De Cieri, 1993: 720). SIHRM borrows many of its ideas from work on the strategic HRM of domestic companies, but SIHRM policies and practices are most closely associated with needs of "*interunit linkages*" (Bartlett and Ghoshal, 1991), that is, developing the practices systematically and ensuring that they are in tune with the corporate approach but at the same time locally sensitive. Schuler, Dowling and De Cieri (1993) argue that at first, HQ needs to decide "how much *control* it will exert over the internal operations of the local unit, particularly how much sensitivity to the local environment is needed" Schuler, Dowling and De Cieri, 1993: 724). The implemented practices at the subsidiary level will vary in terms of (a) the extent to which control of local activities is centralized or decentralized; (b) the amount of financial and time resources committed to the development and management of international managers; and (c) where activities are located.

Industrial Relations

Any country's IR system could be defined as a balance between the state (governmental agencies), employers (employers' organizations) and employees (employees' organization, i.e. unions) or, as Dunlop (1958) describes it: "The actors are: (1) a hierarchy of managers and their representatives in supervision, (2) a hierarchy of workers (non-managerial) and any spokesmen, and (3) specialized governmental agencies (and specialized private agencies) created first by the first two actors.” (p. 7). The strengths of each of the three parties can vary considerably. In some IR systems, governmental agencies may have functions “so broad and decisive as to override the hierarchies of managers and workers on almost all matters.” (Dunlop, 1958: 8). However, in other IR systems, the role of the governmental agencies may be much more limited, allowing direct relations between employers and employees organizations.

The balance in the tripartite system is one of the central issues in defining different kinds of welfare states. One of the best known typologies is Esping-Andersen’s (1990) three welfare states: the ‘liberal’ welfare state (e.g. USA, Canada, Australia), the ‘corporatist’ welfare state (Austria, France, Germany, Italy) and the ‘social democratic’ welfare state (Scandinavian countries). To these, Hyman (2004) added a fourth type, resulting in the following: the Anglo-American, the North European, the South European and the Japanese welfare states. Hall and Soskice’s (2001) ‘varieties of capitalism’ approach addresses many of the same issues using the liberal market economy (LME) and the coordinated market economy (CME) as the two main economic systems. These types also define the frame for and the modes of labor market regulation and, in particular, IR. The Anglo-American system has a liberal approach to ownership and the level of social security is low. In contrast, the North European welfare state has a strictly regulated approach to ownership and a high level of social security. The corresponding IR systems differ in the same way. Union density is generally low in the Anglo-American system. As is well known, unions have been rolled back over the last 25 years in the UK. This is not the case in the North European countries, where union density remains high and social partners, i.e. unions and employers’ organizations, have a big say in any major welfare changes, even though they may be initiated by the state.

When HR meets IR

The literature considering how MNCs structure and manage their operations in foreign environments has traditionally focused on the extent to which home-made practices might be transferred to the host environment or adapted to fit the host environment or on finding a third way, i.e. some form of hybridization. Only recently has an emerging body of work begun considering whether “MNCs are able to exert considerable influence over their environment…. since they not only have the power to manipulate national level regulations but can also exert influence on the way that international and regional institutions function” (Rees and Edwards, 2006: 39). The main argument of this more interactive perspective is that there are certain shifts in national business system characteristics which could be ascribed to the scope of MNCs control over economic resources and activities. This shift occurs since the entry of an MNC “can be seen to affect the ongoing shaping of the identities and power positions of the traditional industrial relations protagonists, employers’ and employees’ collective organizations, providing opportunities to institutional players to redesign their classical roles in ways that take into account the threats and opportunities of the globalizing employment management agenda” (Peltonen, 2006: 1595). The extent to which the shift occurs is defined by the strength of the “particular institutions connected to the different spheres of activity” (Rees and Edwards, 2006: 20) of the MNC. But even when the particular institutions are strong (e.g. North European IR systems) increased globalization, high inward FDI and capital-market internationalization may affect the “rules of the game” in the host business system.

In this regard, the influence of the US FDI over the Irish economy is an apparent example. Collings et al. (2008) argue that some evidence of change in the Irish IR system may be traced directly to the US MNC sector. In particular, the authors observe a change in the prevailing pattern of behavior at the workplace which manifests itself in two aspects: decreasing voluntarism and increased management prerogative with regard to workplace level change and increased functional flexibility. They predicted a shift away from traditional IR so that “configuration of the IR policy and practice in these firms differed on a number of significant characteristics of the archetype of the Irish IR system” (p. 257). Collings et al. also note that the research on “the nature of change in a specific by critical element of business systems”, namely IR, has received “comparatively little attention” and empirically is “largely underrepresented” (p.241).

One explanation for the absence of the research noted by Collings et al. is the domination of quantitative cross-sectional research both in HRM and IR fields. In order to understand whether, in the light of globalization, local IR systems are adjusting to the needs of powerful MNCs, longitudinal qualitative studies are necessary. Another potential explanation might be the lack of multi-theory studies. HRM and IR researchers often have conflicting views on the role of employees in organizations, approaches to management and their own respective roles. HRM practitioners as well as researchers have often perceived IR as being subsumed under HRM: "… increasingly a resurgent management has sought to determine many aspects of pay and working conditions at enterprise level on a unilateral and unitaristic basis, linked with the overall business strategy of the firm and the striving for competitive advantage in the market place" (Poole, 1998: 786). On the other hand, IR researchers, especially in the Northern European context with long traditions for balanced IR, perceive some HRM techniques as an unbalancing force in favor of management.

We attend to both shortcomings and intend to bring these conflicting theoretical perspectives together to get a better understanding of what happens when HRM meets IR at the company level within the context of a CME.

THE DANISH IR SYSTEM

The Danish IR system is characterized by having central collective agreements that (a) cover the majority of the labor market and (b) set the frame for local negotiations. The collective (framework) agreements give management and local employee representatives room to make flexible agreements adjusted to the needs of that particular enterprise. The room for local negotiations has expanded over the last 20 years, and this process of 'centralized decentralization' (Due et al., 1994) has arisen from a need for more flexibility at the company level in the face of still sharper competition. In two areas, the flexibility has been enhanced over the years. A minimum wage is decided in the central collective agreements, but with considerable room for local negotiations of the actual level. Likewise, the collective agreements have opened up for considerable latitude for working time flexibility. However, only if the management and employee representatives can find a common solution to these flexibility arrangements can the local agreement be 'closed'. If not, the less flexible framework agreement applies.

Overall, the institutionalization of the IR system is high, and the system can be characterized as *voluntary* since the social partners to a very high degree make the rules themselves (Due et al., 1994). With a union density of around 75 percent (Rogaczewska et al., 2004), the legitimacy of collective agreements is very high, and spillover to sectors not covered by collective agreements is considerable. Denmark is an example of a CME in which the development of the welfare state is closely connected to balances in the IR system. Unions and employers' organizations are to a high degree the coordinators in the Danish CME, together with the state, and legislation basically plays a minor role in the regulation of the labor market.

The precondition for such a relatively decentralized system is high trust between the parties: at the central level, between the state, employers' organizations and unions, and at the local level, between management and employee representatives. This trust provides actors with a common understanding of the premises of the local negotiations. The lack of such understanding can erode the high trust system at the central level as well as locally. If the parties do not adhere to the ground rules of the collective bargaining game locally, including the meaning of trust, the basis of a centralized decentralization is eroded, and the IR system will have to revert to a more centralized set-up.

METHODS

Our interest here is *whether* foreign ownership can tip the balance, on *what level*, and what *consequences* this might have.

The level of analysis

As pointed out earlier, the longitudinal design and qualitative method of the study made it possible to investigate changes in the degree of subsidiary autonomy and the implemented management style in four Danish enterprises over ten years. The focus of our analysis is the subsidiary, since at this level, the conflicts between the IR and HRM are more visible and the effects are most detectable. It is in the meeting between the HQ originated HRM and the local IR that the practical problems as well as possibilities arise (De Silva, 1998). Conflicts in domestically owned companies will generally be more or less institutionalized since the employers as well as employees are 'born into' the IR system. There are grievances, but these are dealt with in manners known to the parties, although the parties may try to reformulate the existing order. However, when a foreign MNC takes over a domestic company, a new potential for conflict arises. The MNC and the subsidiary might be embedded in two quite different IR systems, potentially causing a clash between the two parties that may result in a change in prevailing patterns of behavior at the workplace, ultimately eroding the IR system from below.

The choice of companies

Four companies were chosen for this study: three of them were the main sources of empirical material and the last one was used as a control. The companies were visited three times: in 1995, in 2001, and in 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. Generally, companies with less than 35 employees seldom have an HRM function dedicated to that one task (Miner and Crane, 1995).

Methodologically, the two later investigations were spin-offs of 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 were bought by foreign MNCs and the last one remained Danish. We observed interesting dynamics in the interplay between the HQ-originated HR and the Danish IR system. This pushed us 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. We revisited all the companies in 2005 when the HR relations were expected to have stabilized after the turmoil of the takeovers. We kept the fourth company that did not experience changes in the ownership as a control since that allowed us 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.

Table 1 summarizes the background of the companies. 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 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 ten-year period.

- INSERT TABLE 1 AROUND HERE -

RESULTS

Enterprise I – US owned

The enterprise was taken over by an American MNC in 1999. Until then, the company was domestically owned. Initially, Enterprise I went on the US market and got sued by an American firm producing the same products. The court proceedings drained the Danish company economically at the same time as the company's dominating position as main supplier of high quality product vanished. Ultimately, Enterprise I was taken over by the very same American MNC that had sued the enterprise.

Enterprise I's products were not part of the mother company's core products. Both management and employee representatives described the enterprise as '*the HQ's cash cow*': as long as it delivers a profit - it lives. Through the 1990s, Enterprise I had built itself a platform and an uncontested niche for state-of-the-art products. Using this product, customers were able to run their expensive machinery four times faster. However, during the next ten years the market conditions changed drastically. Gradually, the demand for customers' products on the market was satisfied and even oversupplied. Hence, Enterprise I's customers did not need to go high speed and consequently did not need the high quality products from Enterprise I. The company had become just '*one among many*' instead of being the prime mover.

Before the takeover, the relations between a charismatic CEO and an equally charismatic shop steward were based on high trust and confidence. Wages for unskilled workers were the highest in the country, and a local agreement between management and the employee representatives ensured that the enterprise recruited mainly among unemployed and/or people living more than 25 kilometers from the plant. The motivation was (1) '*not to steal employees'* from low-wage companies in the neighborhood and (2) to secure integration of a potentially marginalized work force. The enterprise was clearly managed according to a stakeholder philosophy, and this approach ensured a high level of flexibility on the employee side.

After 1999, this had changed. The American HQ did not directly interfere with production and line management, but the mother company had implemented a system of '*head counts*', i.e. measurements of performance per employee. Accordingly, every three months, trimming of the company took place. The constant redundancies made it difficult to keep up the product quality due to a lack of high- and well-trained employees. The whole situation affected the level of absenteeism: in 1995, it was 2 percent, in 2005, it rose to 4-5 percent. The number of employees was almost halved over ten years: from 360 in 1995 to 185 in 2005, adding to the insecurity of the workforce. As a shop steward said: '*We try to do as best we can, being as flexible as possible. But the employees are shaken now… it is not really fun anymore*.' A low trust spiral had replaced a high trust relation.

The HQ did not obstruct the IR systems as such; it was up to the subsidiary management to negotiate the collective agreements locally. However, by interfering in hiring/firing and direct operational control (e.g. reduction of waste was under close surveillance), the local negotiations were affected indirectly: management and employee representatives had to discuss how to keep up the quality and avoid redundancy. One of the solutions found was to freeze the wages or even cut them (since as local management put it: '*they were already among the best in the country*'). Hence, even though HQ did not influence the IR relations directly, the implemented HRM policies had a strong effect on local negotiations.

Enterprise II – US owned

Enterprise II had been family owned for three generations. In 2000, the enterprise was taken over by an American MNC. The takeover was relatively painless as a new generation of management had to take over anyway within the next three to five years. Though the company had an '*outsider*' CEO, the family has always had a great deal of weight in the board and thereby in all personnel matters.

The takeover MNC was an investment company with some 675 enterprises (in 2005) all over the world. They expanded by 50-75 companies a year within quite different sectors: building and construction, food production, equipment for planes etc. The HQ had an overarching philosophy concerning which companies were chosen for acquisition and according to which the companies acquired were then managed. First, the subsidiaries had to have approximately the same size and turnover – a maximum of around 100 employees and 15 million dollars. If a company was bigger than this, it would be split into divisions. The philosophy behind this was that bigger companies risked losing their synergy. Enterprise II fit quite perfectly into this scheme. Second, the subsidiaries' operations were controlled through key performance indicators that subsidiaries had to deliver once a month. Overall, it was generally expected that each subsidiary should deliver a surplus of 15 percent, but variations in different branches due to specific market conditions were accepted. Once a year, subsidiaries' top management within the same sector met up at a seminar to share knowledge and exchange experiences, introducing another synergetic element. Third, the whole enterprise was managed along the lines of the old Pareto Principle. Instead of spending 80 percent of the organization's resources to achieve 20 percent of the output, management and employee were encouraged to identify their core competencies and invest the majority of human and financial resources to develop them further, thereby constantly optimizing the company's performance. This principle prevailed in all acquired companies and was supposed to be part of all employees' mindset – from shop floor to CEO, internally as well as externally. It was a principle aimed at trimming the organization, but very importantly, it was not used to trim the workforce. The streamlining of production meant a more Tayloristic and less challenging work routine. This was broadly accepted among employees because HQ management explained thoroughly how this change would create greater job security. Employees had already realized that the old work organization was less effective. In fact, the range of models produced was reduced from 105 to eight platforms as part of the Pareto Principle. Decisive for the acceptance from shop floor to management of the new work organization and the Pareto Principle was (a) a high level of information about the changes; (b) a clear message from the MNC that management was very concerned about the employees and their job security; and (c) a positive financial balance. Combined, this created a positive atmosphere in the enterprise, with room for communication about the future of the enterprise, the work organization and the employees.

In this Danish subsidiary, the workforce diminished over the next ten years, but, as was emphasized during the interviews, job security today is significantly higher than ten years ago. Absenteeism in Enterprise II did not change over the years – it stayed at the level of 2 percent. This was ascribed to the fact that employees were '*informed and heard*' from the very beginning.

The cooperative culture was described as a high trust culture, before as well as after the takeover. The level of information during the whole process was high. Before the takeover, Enterprise II had been a stakeholder company for three generations, and this did not change significantly after the takeover. In fact, the enterprise was in a situation where it could choose who would take it over. The basic philosophy of the American MNC seemed to fit very well into the stakeholder culture of the local company, at the same time as the company's management had realized that a different kind of management was necessary in the light of harder international competition.

The IR system as such was not affected by the takeover. HQ requested information on working hours rather '*out of curiosity*' than because they wanted changes. One of such requests suggested changing an agreement on overtime. The request was sent to management and employee representatives but was not forced upon the enterprise.

Enterprise III – Italian owned

The enterprise was taken over by an Italian owned London headquartered MNC in 2000. Originally, the company was a family owned enterprise, but in the 1970s, 75 percent of the company was bought by a (union controlled) domestically based investment fund. The remaining 25 percent was bought in the 1980s. These buy-outs changed the management style from a very personal paternalistic style to a more cold and maverick management style. Already then, a move from a stakeholder approach in the direction of a shareholder approach to management could be identified.

The Italian MNC made no secret of the fact that the takeover in 2000 was financially motivated. Even though the product line was within the same area as the rest of the MNC's subsidiaries, the goal was to turn the Danish enterprise around and resell it with a profit within five years. At the time of the last visit in the autumn of 2005, the enterprise had just been sold.

The Italian management was '*very present*' at the enterprise. HQ representatives visited Denmark quite often, and their suggestions on changes were formulated as '*orders more than inputs to a discussion*'. All procurement decisions were centralized: the purchasing department as well as R&D were located in Italy. Management in Denmark lost competence and influence, and everybody at the Danish plant knew that the major strategic decisions were made in Italy.

Immediately after the Italian takeover, the former partly teamwork based organization was turned into a Tayloristic assembly line. This was a major surprise to domestic management as well as employees, as the teamwork-based production was believed to be the major reason for foreign companies' interest. The new work organization was perceived by employees as well as the domestic management as a major step back. The health and safety of the workers were jeopardized, since, for example, the standardized job sites could not be adjusted to the different heights of the employees. In 2000, this was already a problem – and it had not changed in 2005.

Productivity wise, the Danish plant was benchmarked against other similar plants in the organization. Benchmarking showed a lower productivity per employee than in other subsidiaries. Interestingly, productivity increased by some five percent after the introduction of the assembly line.

The challenges from foreign owners to some extent strengthened management-labor cooperation in Enterprise II. For example, together local management and employee representatives tried to communicate with the management and employee representatives in Italy about the new work organization and not least its consequences for health and safety. However, the communication on these issues turned out to be problematic. First, management style and traditions for cooperation were very different. Second, working conditions in Italy are to a high degree regulated by legislation while in Denmark they are to a high degree regulated by collective agreements. Finally, on the Italian side, only the top manager and his assistant spoke English, which made any discussions with managers on lower levels very difficult. Since it seemed quite difficult to make themselves heard, the Danish employee representatives contacted the Danish health and safety authorities as health and safety are regulated by legislation and as such not open to negotiation. The move changed the work organization somewhat, but more importantly, it changed relations between local management and employees, since an ‘outsider’ (the authorities) was brought in. Such a move is bound to change the trust level locally.

Absenteeism remained at the same level over the ten-year period: around four percent. However, the workforce was reduced from 550 in 1995 to 380 in 2005. The white collar workforce took the biggest blow here: they were more than halved due to the fact that quite a few administrative tasks had been moved to operational HQ in Italy and financial HQ in London.

Local negotiations on wages and working conditions were, even before the takeover, characterized as ‘*tense*’, starting out with ‘*rather unrealistic demands from both sides*’. Back then, management ritually used the threat of ‘*outsourcing part or all of the production to Poland*’ as leverage for adjusting the employees’ demands. However, after the Italian takeover, a certain understanding seemed to have developed on both sides (domestic management and employees) that there was now a new threat, namely, HQ in London and management in Italy, and this has enhanced the trust between domestic management and employees. Nevertheless, annual negotiations on wages and work conditions are still quite tough since local management has quite a limited mandate from the Italian HQ.

Enterprise IV – Danish owned (control group case)

The enterprise was 100 percent domestic and family owned. It was established in the 1950s. In contrast to all other companies in this survey, this company could not be characterized as truly global but rather international. The raw materials were from abroad, and the primarily markets were foreign. Nonetheless, there was no foreign capital invested in Enterprise IV. This set-up is typical for the many SMEs in Denmark.

This company represents the archetypical domestically based enterprise with family ownership through several generations. Externally, relations to the local environments were to a very high degree stakeholder oriented. Located in a small municipality, the company was a main employer, and thus any action on the part of the company affected the community. Management was very much aware of that. Among other things, there was a practice of hiring disabled and potentially marginalized people. Internally, there was great tolerance towards long-term sick leave and absenteeism. Yet, over the ten years, the level of absenteeism rose only slightly (from 4 percent to 4.6 percent) while the workforce expanded from 250 to 450 employees.

The four enterprises compared

The four companies have experienced drastic changes in their position on the global market. Three enterprises (Enterprises I, II and III), which in 1995 were domestically owned, were trying to acquire enterprises in Europe, US, France, China or Germany back then with the aim of becoming big players in their industries. In 2005, these three companies were taken over by foreign MNCs and became rather insignificant players, strongly dependent on other companies. Today, only Enterprise IV is Danish owned.

Although we encouraged people to talk about their work organization, social environment, cooperation, etc., certain common concerns have emerged during our interviews with managers and employees. Those concerns were about (1) the decreased degree of subsidiary autonomy and (2) the shift in management style implemented at the subsidiary from stakeholder to shareholder. These two things manifested themselves in the increased level of (3) absenteeism and (4) turnover. In the following we compare changes happening over ten years in four companies using those four indicators.

A crucial element in any takeover is decisions regarding the level of *autonomy* – if it is a conscious decision at all. The central question is: How much does HQ decide – and how much is decided at the subsidiaries? Inductively, we constructed a framework that was quite useful in comparing the enterprises. Overall, there are five levels of control from HQ over subsidiaries:

- **Level 1** consists of the most autonomous enterprises. Here, the subsidiary has control over tactical decisions and finances, work organization, HR issues and IR. The HQ makes only long-term strategic and economic decisions.
- **Level 2** comprises subsidiaries with autonomous control over work organization, HR issues and IR. However, here HQ decides on local tactical and economic decisions. The subsidiary is clearly a *sub;* its overall fate is decided by the parent company, and any local decision has to take the overall business plan into account.
- **Level 3** subsidiaries are in a situation where HQ makes decisions on all major areas including HR. The subsidiary has control over the actual work organization. However, the parent company may impose HR elements (like head counts) on the subsidiary, thereby indirectly influencing the work organization.
- At **Level 4**, HQ controls all areas except IR issues. Not only HR policy, but also the actual work organization at line level is decided by the parent company with no regard to local tradition and culture. IR issues, i.e. the wage and working conditions if decided by collective agreements, are not touched upon directly by the parent company.
- Finally, on **Level 5**, HQ imposes control over all issues, including the IR traditions of the country in which the subsidiary is inscribed. This is potentially the most critical case since the takeover of a company might undermine the national IR relations and the local resistance might be strong. However, the latter is dependent on the strength of unions and the national government's attitude towards foreign investments.

Though we have suggested a typology of five levels of influence, empirically the line of demarcation may be blurred. If an MNC sets up conditions regarding working conditions before it actually invests in a host country, this might affect elements of the collective agreement – and thereby IR traditions. Enterprise I is illustrative in this regard. Here, we find a Level 2 situation, approaching Level 3. HQ controls the local economy, and by using head counts, HQ also exercises massive influence on recruitment and dismissals. Hence, it is very close to Level 3 dominance (see Table 2)

- INSERT TABLE 2 AROUND HERE -

Enterprise II is the most autonomous of the foreign owned enterprises. HQ only has control over the key performance indicators that the subsidiaries had to deliver once a month. Decisions regarding work organization, HRM policy and local economy were made on enterprise level, but the local management had to adhere to the Pareto Principle. Though it was basically a Level 1 enterprise, its autonomy was limited by that overall principle that pertains to the whole company – from finances over work organization to HR policy.

Enterprise III was the most controlled company in this study. Only IR issues were untouched by HQ. Right down to the actual division of labor and the work organization, HQ wanted control, and the Enterprise III can thus be classified as a Level 4 organization. Obviously, we are not able to place Enterprise IV, the domestically owned enterprise, in this table.

Another aspect of takeover is the shift in *management style* from stakeholder to shareholder. As shown in Table 3, management style in Enterprise I changed from a shareholder to a stakeholder enterprise after the takeover, while the management style of Enterprise II remained stakeholder oriented even after the US takeover. Enterprise III was already on the move from the stakeholder to shareholder style of management, but according to our respondents was given '*the last push*' by the takeover in 2000. As expected, Enterprise IV remains a strong stakeholder organization. If we consider together data on absenteeism and management style, we can observe a potential trend: absenteeism goes up if the management style changes from stakeholder to shareholder (see Table 3). Enterprise I is an example of this, while the data on the other enterprises are less clear-cut.

- INSERT TABLE 3 AROUND HERE -

Interestingly, two companies – Enterprise II and Enterprise III - moved towards more Tayloristic work organizations. However, the employees in different companies perceived this change very differently. While employees from Enterprise II accepted the change, the employees on Enterprise III saw the change as a clear deterioration of their working conditions. The differences in perception could be associated with two factors: First, the two companies were approached very differently by the respective MNCs. At Enterprise II, the level of information on why new work organizations were necessary was high, and all employees understood the motivation behind the changes. At Enterprise III, the information was one-way, top-down and work organization practices were transferred from HQ and imposed without adaptation on the Danish subsidiary. Second, there were significant differences in cooperative culture and trust, before as well as after the takeover. Before the takeovers, Enterprise II was a high-trust stakeholder enterprise while the level of trust between management and employees in Enterprise III was lower. Further, employees' skepticism towards foreign management in general was profound in Enterprise III compared to Enterprise II. Employees of Enterprise III felt that the existing Danish work organization was given very little chance. When the work organization went from teamwork to Taylorism, the change created considerable turbulence in the work force. Employees tried to make their voice heard collectively in two ways: (1) by making a petition to HQ in Italy explaining '*the different Scandinavian IR approach*' to cooperation and negotiations; and (2) by trying to change the work organization through the (legally based) health and safety system, pointing out that the new assembly lines are unhealthy for the employees. The second approach was obviously a last resort that was only suggested since it seemed impossible to be heard in the cooperative system, and the importance of this step should not be underestimated: In a system where negotiations on wages and working conditions traditionally have been dealt with by employees and employers locally and in the cooperative system or the system of collective agreements, contact with a governmental body is a sign of a low point in a low trust relationship.

Absenteeism is a classic indicator of employee satisfaction, and in HRM studies it is often used as an organizational-level performance-related indicator of poor morale or low work satisfaction. In a Danish context, absenteeism of around two percent is considered very satisfactory. At Enterprise I, absenteeism was less than two percent in 1995, but had doubled in 2005. Local management as well as employee representatives stated that the continuous head counts, lay-offs and problems with keeping up the quality of work were to '*blame*' for this and might affect flexibility on the shop floor. At Enterprise II, absenteeism remained unchanged at less than 2 percent over the years. The level of communication has remained high: already from the very beginning of the takeover the MNC management has informed local managers as well as employees about the premises of the takeover, the management style and the future of the company. At Enterprise III and Enterprise IV, absenteeism has always been quite high, around four percent. It has not changed much over the past ten years, though both companies have experienced a little rise. It should be noted that the domestically owned Enterprise IV has always had a high level of absenteeism, partly due to the fact that the company used to hire people with disabilities, people who have had problems getting jobs, first generation immigrants etc.

Turnover of personnel is another indicator used in HRM studies. An excessively high turnover rate is often a symptom of problems within the organization. Various researchers have concluded that turnover rate might be influenced by the perception of job security, the presence of unions, compensation levels, job satisfaction, organizational tenure, organizational diversity, employee commitment, etc. Every company taken over has lost a significant number of employees over the last ten years, while the only Danish owned company expanded. Specifically, the MNC owned companies have lost between 31 and 49 percent of their employees, while the Danish owned company has expanded by 82 percent. Some of this can be explained by rationalization in general and the introduction of new technologies in the different sectors. However, other intra-organizational factors played a part too. Interviewees from Enterprise III revealed that the MNC had chosen to move administrative functions and some sales functions to HQ. That explained this company's loss of more than half their white collar employees. Enterprise IV shows an increase in the numbers of both blue collar and, in particular, white collar employees

CONCLUSION

In countries with CMEs, IR 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, as Edwards and Ferner (2002) claim, "we know relatively little about how a particular company-wide initiative is implemented and operationalized in highly regulated countries“ (p. 107). The paper 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. We analyzed four enterprises located in

Denmark over a ten-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.

We 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 the reign of 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.

Implications

As pointed out earlier, we have made an attempt in this paper to bring together two theoretical approaches which seldom meet - HRM and IR. We have illustrated how those two approaches might be fruitfully combined in an analysis of MNC takeovers. From the SIHRM point of view, the increase in HQ control and shift in management style could be considered signs of the MNC's effort to transfer know-how to their subsidiaries, to homogenize and transfer home practices overseas. Not surprisingly, we found that although internal consistency may be of some importance especially from the HQ's point of view, it is apparent that overall, HRM practices are primarily shaped by local isomorphism (Rosenzweig and Nohria, 1993). However, the tendency has been that HRM as a theory seems to underestimate the power of the IR institutions. Especially in CMEs, HRM practices are not just shaped by IR institutions but rather derived from them: “These principally involve pay policy, the degree of job security and employee training” Fenton-O’Creevy, Gooderham and Nordhaug, 2008: 152). Furthermore, in CMEs like Denmark, the main attraction for FDI is a highly skilled and flexible labor force. However, managers can only take advantage of this if trust is high and cooperation good. For MNCs, it is more beneficial to respect the local IR system and the cooperative system on which it is based. Otherwise, the very thing the MNC has paid for – the highly skilled and flexible labor force – might be lost.

Likewise, IR researchers often seem to underestimate the power of MNCs. Originally, IR theory depicted IR systems as relatively closed, national systems. While recent IR research only touches upon the influence that FDIs have on local IR traditions in LMEs, the impact of MNCs on IR systems in CMEs is a relatively under-researched area. The Danish IR system has been finely tuned through negotiations over many years, but the results from this investigation indicate that even an IR system as strong as this can be challenged by MNC management action (the decreased degree of subsidiary autonomy and shift in implemented management style from stakeholder to shareholder). This can mean a retraction of the decentralization of the collective negotiations. In the Danish case, the retraction of decentralization could mean less flexible options locally and hence the potential erosion of the competitive edge of the last ten years.

Our research was explorative in nature and used inductively constructed frameworks. More studies of this kind are necessary if we are to construct an overarching theoretical framework, utilizing the insights of IHRM theory as well as IR theory that could shed light on the relationship between MNC management and local IR systems. Such a framework should consider the differences in the countries of origin of MNCs as well as the differences in host countries’ business systems (LMEs vs. CMEs) and in local IR systems (e.g. the balance between state, employers’ organizations and unions and the importance of legislation versus voluntarism in the IR system). The bottom line in this framework is merging the knowledge of the IHRM theory regarding MNCs’ HR approaches with traditional IR theory, which takes into account the quite different national business and regulation systems. By doing so, major shortcomings in both approaches are met. IHRM theory is unable to better explain how the same HR initiatives are received so differently across nations. IR theory opens up to the fact that internationally operating companies have indirect effects on national IR systems that are not directly measurable at the national level and can only be detected at company level.

Our research also has practical implications for unions as well as employers organizations. FDI is unlikely to diminish in the future, but are the national IR systems geared to deal with different management styles? Some HQ-originated management practices incorporate the needs of the employees to such a high degree that collective representation of their interests (via unions) becomes obsolete from the employees' point of view. That approach might also create problems for IR systems with strong unions and labor market regulations through social partners. However, the perception might change if economic conditions worsened or if management altered employee benefits.

Limitations

Naturally, our research has its limitations. First, as our study is solely qualitative we have been restricted from any 'thick' generalization. Our empirical contribution lies in "testing" within the context of CME, Denmark being one of the extreme cases. Further, empirical focus was limited to examining four industrial plants. Clearly, there is a need for a similar study with a much larger sample and country representation representing various types of IR systems, in the hope that some of the overlooked relations will be possible to consider. If that is possible, the above-mentioned limitations become opportunities to be explored.

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Table 1. Background information

	Enterprise I		Enterprise II		Enterprise III		Enterprise IV	
	1995	2005	1995	2005	1995	2005	1995	2005
Industry	Plastics		Electro mechanics		Automats		Plastics	
Ownership	DK	US	DK	US	DK	IT	DK	DK
Number of employees	360	185	80	53	550	380	250	456
Number of blue collar employees	260	138	50	26	350	295	175	243
Number of white collar employees	100	49	30	27	200	85	75	213
Ratio white collar/blue collar	1:2.6	1:2.8	1:1.7	1:1	1:1.8	1:3.5	1:2.3	1:1.15

Table 2. Level of influence from HQ to subsidiary

Grey indicating HQ control, white indicating subsidiary autonomy

	Enterprise I	Enterprise II	Enterprise III	Enterprise IV
Level 1: Strategy and overall finance				
Level 2: Tactics and local economy				
Level 3: HR policy				
Level 4: Work organization				
Level 5: Industrial Relations				

Table 3. Four enterprises compared

	Enterprise I		**Enterprise II**		**Enterprise III**		**Enterprise IV**	
	1995	2005	1995	2005	1995	2005	1995	2005
Absenteeism	< 2 %	4-5 %	< 2 %	< 2 %	4 %	4,5 %	4 %	4,6 %
Management style	Stake-holder	Share-holder	Stake-holder	Stake-holder	Between stake & share	Share-holder	Stake-holder	Stake-holder
% of employees compared to 1995	51		66		69		182	

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