

An Anglo-German Foundation Report

# **Human Resource Management of US Multinationals in Germany and the UK**

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## **Summary**

This research examines human resource management (HRM) in subsidiaries of US multinational firms (MNCs) operating in the UK and Germany. Together with parallel studies in Ireland and Spain it explores the potential tensions resulting from a transfer of US-type human resource (HR) policies to Europe. Whilst we expected that the liberal market British economy would not provide a major challenge for the transfer of US practices, we foresaw that the more densely institutionalized German business system would constitute a more serious barrier to transfer.

This report is based on case studies of four large US MNCs. In all four firms we conducted interviews in the British and German subsidiaries, as well as the US and/or European headquarters, with HR managers, line managers and non-managerial employees. For three substantive issues – diversity management, employee participation and pay – as well as for the processual issue of ‘centralization–decentralization’ this report analyses whether the four US MNCs studied have global policies, how these are transferred to Europe and the extent to which they have to be adapted to the British and German contexts.

Our findings support previous research which suggests that HR policies in US MNCs are not only relatively standardised, but also build on US domestic policies. However, the mechanisms of transfer appear to have changed. Whereas in the past, written guidelines, the transfer of home-country employees and extensive reporting seem to have been the major mechanisms employed to ensure that global policies were applied, today HR information systems, regional European headquarters and international teams of HR managers seem to play a more important role. Over the last decade, national subsidiaries in both countries have lost autonomy in HR decision-making. However, this has not been primarily in the form of recentralization towards headquarters, but rather towards the regional level and/or business unit.

Turning to substantive issues, as expected, the German institutional environment represents a stronger challenge for US MNCs than the British one. Of particular importance is codetermination which affects all four firms and which in at least three of

them exerts pressure on local management to adjust global policies to local conditions. However, in most cases the observed deviations were only marginal. Similarly, the German system of multi-employer bargaining does not constitute a major hurdle for US MNCs seeking to apply global practices. Although in general German host-country pressures were stronger than those in the UK, we found that UK management was able to use its role of interpreter of the local environment to force some adaptation of global policies, particularly in the substantive area of diversity management, suggesting that the extent to which local adaptation occurs is not entirely dependent on the strength of employment-relations institutions in the host country.

Regarding practical implications, our research points firmly to the limits of global policies. With their knowledge of the local context subsidiary-level managers can and should have some freedom to adapt global policies to the local context. At least in Germany they have an additional role, as they have to manage a complex institutional environment. The system of collective bargaining and codetermination fosters collective HR policies that are often incompatible with the more individualistic global policies pursued by US MNCs. Nevertheless, as the case studies show, US MNCs are able to manage these institutions in such a way that the need for adaptation is minimized. This process of institutional arbitrage tends to be performed by local managers with a deep knowledge of the host environment.

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**Notes to the editor:**

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