THE CONFIGURATION OF EMPLOYEE RETENTION PRACTICES IN MULTINATIONAL CORPORATIONS' FOREIGN SUBSIDIARIES

B. Sebastian Reiche

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B. Sebastian Reiche, PhD
Assistant Professor
IESE Business School
Department of Managing People in Organizations
Ave. Pearson, 21
Barcelona 08034, Spain
Tel: +34 93 602 4491
Fax: +34 93 253 4343
E-mail: sreiche@iese.edu

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Abstract

This paper contributes to turnover research by deriving a typology of retention practices and investigating their applicability in multinational corporations' (MNCs) foreign subsidiaries in the light of home- and host-country effects. Linking institutional and strategic HRM perspectives, the paper then proposes a conceptual framework examining how MNCs can maximize their retention capacity. Specifically, MNCs need to align their transferable home-country retention practices with overall strategy and complement them with flexible context-specific practices to allow for adaptability across different subsidiaries. It is further argued that characteristics of the headquarters-subsidiary relationship will influence the relative importance of context-generalizable versus context-specific retention practices and that the relevant set of practices for each subsidiary then needs to be configured individually.

Keywords: Employee retention; MNC subsidiaries; Home- and host-country effects; Transfer of HR practices; Strategic HRM

1. Introduction

Voluntary employee turnover as an organizational phenomenon has long been recognized as leading to a number of unfavourable organizational outcomes. For example, researchers argue that workforce instability prevents employees from developing long-lasting interpersonal relationships and maintaining continuous knowledge transfer, both in a domestic (Inkpen & Tsang, 2005) and an expatriate setting (Lazarova & Tarique, 2005). Other consequences include increased recruitment, selection and training costs as well as reduced morale among the remaining organizational members (Mobley, 1982). Although voluntary turnover can entail positive implications such as the disposal of low-performing employees (Williams, 1999) empirical evidence points towards an overall negative impact on organizational effectiveness (Glebbeck & Bax, 2004; Huselid, 1995). These arguments raise the question of whether turnover is avoidable. While external predictors of turnover such as the economic situation and alternative job opportunities (e.g., Gerhart, 1990) may be more difficult to influence, there is a wide array of organizational turnover determinants that can be explicitly controlled to manage withdrawal intentions (Batt, 2002; Shaw, Delery, Jenkins, & Gupta, 1998). In this regard, research indicates that organizationally controllable factors contribute much more to turnover than uncontrollable factors, suggesting that withdrawal is primarily a problem of poor human resource (HR) practices (Khatri, Fern, & Budhwar, 2001). However, only very few studies have thus far addressed the active management of turnover (Griffeth, Gaertner, & Sager, 1999; McEvoy & Cascio, 1985).

In an international context, employee retention faces additional challenges, both with regard to the scope of turnover determinants and the applicability of specific retention-oriented HR practices. For example, research has discussed international staffing practices as distinct determinants of staff turnover in multinational corporations' (MNCs) foreign subsidiaries (Reiche, 2007). Likewise, the use of expatriates frequently entails high pay differentials between local staff and assignees, which are likely to reduce locals' perceived distributive justice (Toh & DeNisi, 2003) and thus the retention capacity of compensation practices. Furthermore, there is evidence that employees from diverse cultural backgrounds differ in how they respond to the same HR practices (Newman & Nollen, 1996). As a result, the retention capacity of HR practices may vary substantially across cultures and their undifferentiated use may potentially generate adverse effects for employee retention. However, the need for culturally contingent retention practices collides with the limited set of practices MNCs are inclined to apply in their foreign subsidiaries given the influence of MNCs' home-country culture and institutions (Noorderhaven & Harzing, 2003). Specifically, extant isomorphic pressures at home may prevent MNCs from choosing the most appropriate retention instruments in different cultural and institutional contexts and risk reducing MNCs' scope for managing turnover successfully.

This paper builds on these arguments and examines in more detail the factors determining the effective configuration of retention practices in MNCs' foreign subsidiaries, linking institutional and strategic human resource management (HRM) perspectives. In doing so, it extends research on the cross-border transfer of organizational practices in general (Kostova & Roth, 2002; Jensen & Szulanski, 2004) and HR practices in particular (Ngo, Turban, Lau & Lui, 1998; Rosenzweig & Nohria, 1994) along two lines. First, the focus on retention practices as a specific subset of HR practices is particularly relevant in the subsidiary context where local staff often serves as the main source of context-specific knowledge and social networks to leverage the business (Harvey, Novicevic, & Speier, 2000). Maximizing the retention capacity of local HR practices is thus a critical pre-condition for MNCs to establish competitive advantage abroad. Second, acknowledging the diverse cultural and institutional environments MNCs operate in, the paper integrates multiple subsidiary perspectives into an overarching framework for employee retention in MNCs' foreign subsidiaries. The paper begins by deriving a typology of retention-oriented HR practices. Subsequently, the ideas are transferred to the international context to discuss extant retention challenges that MNCs face in their foreign subsidiaries in the light of potentially conflicting home- and host-country effects. Finally, the paper develops a conceptual model and a set of testable propositions, exploring the determinants that influence how MNCs can maximize their retention capacity in its diverse subsidiary contexts. Implications for the transfer of retention practices in MNCs are discussed.

2. A typology of retention practices

Existing research has addressed employee turnover from two distinct angles. The labour market perspective concentrates on turnover predictors that are primarily determined by the organization's external environment and includes factors such as unemployment rate (Carsten & Spector, 1987) or alternative job opportunities (Gerhart, 1990). In contrast, the psychological perspective focuses on employees within the organizational context and their individual turnover decisions (Griffeth, Hom, & Gaertner, 2000), thus investigating turnover antecedents that are more readily within an organization's immediate control (Morrell, Loan-Clarke, & Wilkinson, 2001). Accordingly, whether an organization manages to avoid turnover or not will largely depend on the availability of internal retention incentives as well as the organization's propensity and ability to apply them (Maertz & Campion, 1998). In a first step, the paper will therefore derive a typology of available HR practices that possess retention capacity. These practices can be differentiated along two dimensions, (1) the time frame in which they can be deployed and (2) the nature of the employment relationship in which they will be more suitable to control turnover.

First, building on the notion that employees' turnover decisions result from shocks evolving over different time periods (Holtom, Mitchell, Lee, & Inderrieden, 2005), HR practices either have the capacity to control turnover on a short-term and responsive basis, or have a more long-term and preventive nature. For example, in the case of an employee voicing the intention to leave due to a job offer from a competitor, the organization may be able to respond immediately and offer a pay rise to encourage the employee to stay. In contrast, attractive working conditions can prevent employees from developing negative job attitudes in the first place and thus constitute a longer-term retention instrument. Second, the literature distinguishes between relational employment contracts that are characterized by broad, open-ended and long-term obligations, and transactional contracts involving specific, short-term, and mainly monetized obligations (Rousseau & Wade-Benzoni, 1994). These distinct employment relationships differ in terms of what constitutes functional retention for the organization (Williams, 1999) and will require different retention practices to effectively retain employees (Griffeth et al., 1999; Lepak & Snell, 1999). For example, while training, career development and job enrichment may be effective practices to keep core employees who maintain a relational employment contract, short-term retention needs in transactional relationships can be achieved through adequate remuneration and supervision.

Implicit to the classification of retention practices is the notion that bundles of HR practices result in more salient outcomes in terms of employee behaviour and organizational performance as it can be assumed that these practices display synergies, thus making a bundle greater than the sum of its parts (Delery & Doty, 1996). Accordingly, since varying HRM outcomes require different bundles of HR practices (Guest, 1997), effective retention calls for diverse bundles of practices to adequately respond to variations in turnover antecedents across different time frames and different employment relationships. The following sections discuss four distinct types of retention practices (see Figure 1), building on the aforementioned distinction between responsive versus preventive practices and practices in transactional vs. relational employment relationships.

- Insert Figure 1 about here -

2.1. Responsive retention practices in transactional employment relationships

In general, firms will only possess a limited number of retention practices that can be deployed in the short term towards employees in transactional employment relationships as both the time frame to respond and the scope of the retention needs are necessarily limited. One set of practices pertains to pay and benefits that serve as an important means to encourage employees to stay in the organization (Shaw et al., 1998) and entail sufficient room to be flexibly adjusted. In this vein, Coff (1997) differentiates between organization-level rent sharing, which includes stock ownership and profit-sharing schemes, as well as performance-based rewards at the individual and group level. Given the multidimensional nature of job performance, remuneration decisions need to also consider factors reaching beyond an employee's mere task performance. This may entail contextual performance, which encompasses voluntary help for co-workers or the maintenance of positive working relationships (Van Scotter, 2000). Cafeteria-style compensation plans may also help to adjust individuals' incentives in the short term (Mitchell & Lee, 2001). A related but more intangible facet is the company's allocation of office space. A wise distribution of offices can reduce turnover, for example by making the best offices contingent upon performance (Cappelli, 2000). Finally, responsive retention practices in transactional employment contracts include the reduction of role ambiguity and conflict that are associated with a higher degree of job satisfaction and thus inclination to stay (Glisson & Durick, 1988; Griffeth et al., 2000).

2.2. Responsive retention practices in relational employment relationships

In the case of relational employment contracts, responsive retention practices will need to entail longer-term incentives for the respective employees given their ongoing value to the organization. While monetary incentives may still be important for retention, they may not be the most effective as they are easy to imitate by competitors and thus insufficient to protect employees from alternative job offers. Instead, more far-reaching retention capacity can stem from an improvement in job design and content, for example in the form of job enrichment or increased job autonomy, which have been demonstrated to reduce turnover (McEvoy & Cascio, 1985; Pfeffer, 1998). Another responsive instrument for providing valuable employees with an incentive to stay is to boost their level of involvement in the organization's decision-making processes (Magner, Welker, & Johnson, 1996). In this vein, Batt (2002) demonstrated that increased employee participation and empowerment through work in self-directed teams not only offer more autonomy but also provide greater learning opportunities, thus reducing individuals' inclinations to leave. Employees' perceived participation can also be increased through short-term performance evaluations in combination with joint goal-setting activities (Tziner & Latham, 1989).

In addition, core employees can be motivated to stay through instant provision of training and development programs that will increase their future employability in the firm (Coff, 1997). In this vein, the development of firm-specific employee skills, knowledge or personal relationships plays a crucial role since these only unfold in the respective organization and cannot be deployed in the same productive way by other firms. An organization thus needs to increase the idiosyncrasy of its human resources through the introduction of firm-specific routines, extensive firm-specific training and subsequent promotion-from-within programs to capitalize on its investments in the long run (Koch & McGrath, 1996). At the same time, firm-specific qualifications not only increase the cost of turnover for the employer in terms of lost investments but also inhibit employees' mobility since they may not be able to apply their skills at other firms in an equally effective manner. Finally, employees may also be offered immediate promotions in order to avoid their departure. In this regard, frequent communication with subordinates will help managers to anticipate possible turnover incidents and better prepare potentially necessary training and promotion activities (Holtom et al., 2005).

2.3. Preventive retention practices in transactional employment relationships

In addition to retention practices that organizations can use to respond to turnover risks immediately, there are preventive measures whose retention effects unfold in the longer run. A first instrument concerns attracting and selecting the right people. In the case of employees in transactional employment relationships, this requires the selection system to identify potential job-hoppers by checking the candidate's past job mobility. Moreover, it is important to ensure an adequate level of person-job fit. This involves the tailoring of jobs to employee skills, which has been shown to lead to a higher degree of job satisfaction, motivation and thus inclination to stay (Cappelli, 2000; Glisson & Durick, 1988). The turnover of employees in transactional employment relationships can also be avoided by managing employees' job expectations right from the beginning. In this vein, evidence suggests that new recruits reveal less withdrawal intentions if they are provided with realistic job previews (McEvoy & Cascio, 1985). Again, timely performance feedback may help to sustain clear employee expectations. Specifically, ensuring recognition, praise, a supportive environment and open communication can foster employees' satisfaction with and personal attachment to supervisors, thereby preventing employees from developing negative job attitudes (Griffeth et al., 2000; Mobley, 1982). Finally, the presence of flexible and organic structures can increase lateral and face-to-face communication as well as more profound internal networks. These structural features will boost the development of firm-specific routines and social ties, thus addressing transactional retention needs (Coff, 1997).

2.4. Preventive retention practices in relational employment relationships

Organizations will place an important focus on retention practices that help to prevent the turnover of their most valuable employees, thus aiming to create a high-retention environment. A commitment to long-term employee retention will require the use of thorough selection procedures that are not only directed towards candidates' technical qualifications but also consider their future potential and their personal attributes including the ability to fit in with the corporate culture and the motivation to accept expandable job roles (Koch & McGrath, 1996; Pfeffer, 1998). In this regard, the provision of ongoing training measures with general content will help to maintain person-job fit in a constantly changing work environment. Additionally, finding out about non-work factors such as individuals' interests and community activities may enable a firm to better tailor specific incentives (e.g. compensation plans) to employees' needs which will increase employees' fit with their non-work environment and, in turn, boost retention (Mitchell & Lee, 2001).

A related instrument refers to the development of person-organization fit. Scholars argue that employees perceiving a strong match between their own and the organization's values will more likely be attracted to and remain in the firm (e.g., Chatman, 1991). While thorough recruitment and selection procedures may facilitate the identification of recruits with an initial level of value congruency, it is important to foster their idiosyncratic fit with the organization on a continuous basis, thereby reducing individuals' potential value congruency with alternative employers. These arguments highlight the importance of corporate socialization, for example through mentoring programs (Chao, Walz, & Gardner, 1992), or the development of a strong organizational culture (O'Reilly, Chatman, & Caldwell, 1991). In this vein, Sheridan (1992) found that a culture stressing interpersonal relationship values possesses a higher retention capacity than a culture emphasizing work task values. However, employees' fit with the organization will need to be complemented by social ties among co-workers. There is evidence for a possible shift from organization-based to boundaryless careers that are primarily driven by personal growth motives and reach beyond organizational boundaries (Arthur & Rousseau, 1996), thereby leading to a reduced level of corporate loyalty (Cappelli, 2000). Hence, despite weak organizational commitment, members who have strong interpersonal bonds with colleagues will more likely remain with the firm. In this respect, social activities or interdisciplinary teamwork help to create trust and a common understanding which may protect the company's social capital (Leana & Van Buren, 1999).

Furthermore, long-term retention also requires fair employee treatment. This can be achieved by ensuring distributive justice, referring to the perceived fairness of intra-firm pay differentials, and procedural justice, concerning the promotion of fairness, transparency and voice in decision-making, both of which are considered to be particularly salient for retention (Bloom & Michel, 2002; Shaw et al., 1998). Preventive compensation practices also include seniority-based remuneration structures (Barnard & Rodgers, 2000). Likewise, it is widely accepted that institutionalized career planning and advancement opportunities help to bind employees to the company (Coff, 1997; Mobley, 1982). By providing clear career paths, employers signal long-term commitment to the employee. The resulting job security is thought to facilitate retention (Batt, 2002; Pfeffer, 1998). In this vein, internal labour markets play a crucial role. Internal promotions for higher-level positions allow the firm to recruit from an already socialized and relatively homogeneous workforce. Moreover, inherent characteristics of internal labour markets such as job security and seniority-based status and rewards can serve as valuable barriers to withdrawal (Pinfield & Berner, 1994). Also, it is essential to reconcile both individual and organizational career plans to achieve favourable retention effects (Granrose & Portwood, 1987). Finally, improving the overall working conditions by creating flexible work schedules as well as recognizing and actively managing work-family conflicts can avoid turnover in the long run (Coff, 1997; Mobley, 1982).

3. Retention practices in MNC subsidiaries: Home- and host-country effects

The typology of retention practices provides firms with a comprehensive set of instruments to actively manage employee turnover. However, their application will be more difficult in MNCs' foreign subsidiaries given the additional turnover challenges that arise in these contexts. For example, substantial pay differentials between expatriates and local staff are common at the subsidiary level, leading to frustrations and withdrawal intentions among locals (Toh & DeNisi, 2003). Similarly, the centric nature of international staffing practices may reduce subsidiary employees' career prospects and organizational identification, thus boosting turnover (Reiche, 2007). In addition, language differences and insufficient cross-unit interactions may inhibit the development of an overall corporate culture that can foster the high-retention environment described earlier (Marschan-Piekkari, Welch, & Welch, 1999). Given the crucial role of subsidiary staff as knowledge and social brokers in the local context (Harvey et al., 2000), their retention is, however, indispensable for sustaining global competitive advantage. The following sections will therefore examine in more detail two key determinants that influence MNCs' choice and application of retention practices in their foreign subsidiaries: home-country effects that reflect MNCs' *propensity* to apply certain retention practices and host-country effects reflecting MNCs' *ability* to do so.

3.1. Home-country influences on the application of retention practices

A MNC's propensity to apply specific retention practices in its foreign subsidiaries is likely to be influenced by the design of retention practices the MNC applies at home. Such home-country effects are commonly explained from an institutionalist perspective (DiMaggio & Powell, 1991). Institutional theory contends that organizations face various isomorphic pressures from their external environment which lead them to strive for compatibility. In the case of MNCs, there are multiple and potentially rival isomorphic forces which stem from the different institutional environments these organizations operate in. Based on its embeddedness in and the achieved institutional fit with the home-country institutional context, a MNC will attempt to impose the learned structural patterns of its corporate headquarters (HQ) upon its subsidiaries (Rosenzweig & Singh, 1991; Westney, 1993).

Extending these ideas, a related domain examines the existence of nation-specific business systems that are contingent upon a nation's idiosyncratic historical developments, creating distinct social institutions and structures in which firms are embedded (Noorderhaven & Harzing, 2003; Whitley, 1999). Accordingly, there are alternative institutional arrangements across countries leading to different configurations of how economic activities are organized. In particular, scholars argue that different components of these systems such as market structures, corporate governance systems and labour market institutions display complex interrelationships, thus generating clusters of distinct and enduring business activities that translate into MNC behaviour abroad. For example, Harzing and Sorge (2003) demonstrate that MNCs' international control mechanisms are strongly impregnated by their home-country culture and institutions. With regard to corporate governance structures, Marginson and Sisson (1994) distinguish between the continental European, especially German, 'insider' system on the one hand, which is characterized by long-term bank credits, family ownership and a long-term commitment and stakeholder approach to employees, and the Anglo-Saxon 'outsider' system on the other. The latter is shaped by concerns for short-term performance outcomes and is less likely to recognize employees as long-term assets.

Given these home-country effects, the retention practices derived earlier are likely to vary across MNCs of different national origin. Drawing on the arguments by Marginson and Sisson (1994), the short-term orientation prevalent among U.S. and British firms will lead these organizations to place a relatively stronger focus on retention practices suitable for transactional employment relationships while the retention of core employees in relational contracts can be expected to be managed on a more ad hoc basis through responsive practices. For example, there is evidence that U.S. and British firms mainly concentrate on screening for employees with a strong job-specific fit to ensure an immediate match with both company and colleagues (Aycan, 2005; Pudelko, 2004). Also, applying realistic job previews and reducing role ambiguity instantly help to curb potential turnover, especially in the early stage of employment. Likewise, research shows that pay-for-performance schemes and rapid career advancement are prominent instruments in subsidiaries of U.S. MNCs with the aim of building strong short-term ties to employees, in particular to valuable high-performers (Ngo et al., 1998). Performance appraisal mechanisms will sustain these practices by determining performance-contingent rewards as well as job-specific and mainly short-term training needs. In contrast, continental European and, even more so, Japanese firms will rather focus their retention efforts on building a long-term commitment among their employees in relational employment contracts and use preventive practices to address their transactional retention needs. Accordingly, these retention practices will entail the long-term development of core employees, the provision of job security and the granting of stakeholder rights such as participation in decision-making. Research suggests that this also involves a wide use of internal labour markets and seniority-based compensation elements that are linked to internal career paths. Likewise, general training will supplement firm-specific investments to prepare employees for uncertain tasks in the longer term (Aycan, 2005; Pudelko, 2004). In this context, general training measures indicate employers' long-term commitment to employees and can thus serve as an important incentive to stay. Again, performance appraisal schemes will support these instruments, resulting in greater fit among the retention practices. While more responsive retention practices may still be necessary to address immediate turnover risks, these will be less relevant compared to Anglo-Saxon firms.

3.2. Host-country influences on the application of retention practices

While MNCs may be inclined to choose a certain set of retention practices based on specific home-country pressures and experiences, several factors may reduce MNCs' ability to successfully transfer and apply them in a particular subsidiary context. As mentioned earlier, MNCs face a range of potentially rival isomorphic forces that stem from the different institutional environments they operate in. In the subsidiary context, isomorphic pulls to take on characteristics of the local environment may be coercive in nature if they are caused by local regulation or they may be economically driven by the need to adapt to local preferences (Rosenzweig & Singh, 1991; Westney, 1993). From this perspective, the local culture and institutions constitute stickiness factors for the transfer of home-country retention practices abroad (Jensen & Szulanski, 2004). Research on the transfer of organizational practices to firms in Eastern Europe suggests that, even in the case of environments undergoing substantial institutional transformations and thus providing potentially more favourable conditions for change, such practice transfer may face strong resistance from local institutions (Clark & Soulsby, 1995; Whitley & Czaban, 1998). In general, practices such as wage determination, working hours and performance appraisal tend to be more tightly regulated by the local institutional environment than employee development or communication (Gooderham, Nordhaug, & Ringdal, 1999; Rosenzweig & Nohria, 1994). Accordingly, the latter will be shaped to a greater extent by home-country effects. Similarly, there is evidence that the success of transferring organizational practices across national boundaries depends to a large extent on the institutional distance between the context of the sending and the recipient unit (Kostova, 1999; Kostova & Roth, 2002).

In addition, cultural differences are likely to limit the transferability of practices and thus reduce their retention capacity. For example, researchers emphasize that the transfer of practices such as management-by-objectives or performance appraisal based on direct feedback may result in undesirable negative effects (Hofstede, 1998). In a related vein, Kovach (1994), using the example of Hungary, shows how the basic assumptions inherent in western HR practices such as performance appraisal may not fit with the underlying contextual conditions in the host country, thereby limiting their transferability altogether. Also, a wide use of imported practices may be regarded as an undesirable imposition of external culture (Jain, Lawler, & Morishima, 1998). As a result, local employees' commitment to, satisfaction with and psychological ownership of these practices will diminish, thus reducing the practices' effectiveness. Several other studies show that although compensation is generally considered an important means to curb turnover, remuneration schemes have to be tailored to different settings. Rewards based on individual performance might, for instance, conflict with collectivistic and uncertainty avoidance traits of local society. Also, in masculine countries the use of flexible benefits and workplace child-care or maternity-leave programs appears to be less important and thus less effective in retaining employees (Miller, Hom, & Gomez-Mejia, 2001; Schuler & Rogovsky, 1998).

The aforementioned constraints to the effective transferability of home-country imprinted practices indicate that only a limited set of retention practices is applicable in other settings. The mere use of home-country practices thus restricts a MNC's ability to retain foreign subsidiary staff, as these instruments are likely to collide with requirements of the host-country context. Instead, the use of home-country practices needs to be complemented with practices that can be adapted to the local cultural and institutional environment.

4. A model for the configuration of retention practices in MNC subsidiaries

The previous arguments point towards conflicting forces that influence the design of retention practices across subsidiaries. Therefore, MNCs will need to carefully differentiate between context-generalizable practices that can be successfully transferred from the HQ and context-specific practices that require local adaptation. In other words, the degree of context specificity will determine whether retention practices are transferable across and effective in different MNC units, thus affecting their retention capacity in diverse turnover environments. Building on the earlier notion that bundles of HR practices entail superior retention capacity than individual practices, systems of retention practices will not only need to differ across MNC subsidiaries but most likely display different degrees of internal coherence.

In this vein, the literature on strategic HRM provides a fruitful lens to further examine the effective design of retention practices in MNCs' subsidiaries. For example, Delery and

Doty (1996) discuss and test three modes for conceptualizing HRM outcomes: universalistic, contingency and configurational approaches. Whereas the universalistic mode adopts a best-practice approach to HRM, the contingency perspective holds that HR policies and practices are only effective if they are coherent with other aspects of the organization. In a cross-national environment, the latter argument highlights the role of different subsidiary contexts as contingency variables for retention capacity. In comparison, the configurational approach adopts a holistic perspective and examines how patterns or ideal typologies of HR practices lead to superior outcomes. Here, the effectiveness of a HR system is thought to derive both from developing internally coherent HR practices, thereby achieving horizontal fit, and from aligning the HR system with overall firm strategy, thus achieving vertical fit. Extending these arguments, other scholars argue that the fit among HR practices needs to be complemented with flexibility to enable adequate responses to different strategic requirements over time and across MNC units (Milliman, Von Glinow, & Nathan 1991; Wright & Snell, 1998).

These ideas can be translated into a framework for functional staff retention in MNCs' foreign subsidiaries (see Figure 2). It proposes that the combination of context-generalizable and context-specific retention practices requires the interplay between fit and flexibility to maximize their overall retention capacity and that the relative importance of these practices in each subsidiary is influenced by characteristics of the HQ-subsidiary relationship. Finally, the relevant set of retention practices needs to be configured in a subsidiary-specific way.

- Insert Figure 2 about here -

4.1. Overall retention system

To design an overall retention system, a MNC needs to first determine which retention practices are transferable across its different subsidiaries. Given the role of home-country effects, a MNC's home environment will serve as the main source of context-generalizable practices. Examples for generalizable practices include the use of multi-faceted selection criteria, realistic job previews, mentoring programs and training courses. In this regard, it is likely that the diversity of cultural and institutional environments the MNC operates in negatively affects the number of generalizable practices that are available (Noorderhaven & Harzing, 2003). Building on the earlier differentiation between Anglo-Saxon MNCs on the one hand and European and Japanese MNCs on the other, it can be assumed that the former group will place a stronger focus on transferring those context-generalizable retention practices that are suitable for transactional employment relationships or can be used to respond in the short term to retain employees in relational employment contracts. In contrast, the latter group of MNCs will mainly transfer those context-generalizable practices that address their relational retention needs or can prevent transactional turnover. In formal terms:

> *Proposition 1a: Anglo-Saxon MNCs will transfer those context-generalizable retention practices that address transactional retention needs or are responsive in nature.*

> *Proposition 1b: European and Japanese MNCs will transfer those context-generalizable retention practices that address relational retention needs or are preventive in nature.*

Implicit to the importance of retention is the idea that MNCs will only be interested in retaining those employees whose behaviours and skills can contribute to the attainment of organizational performance goals. In other words, retention needs to be functional. This, for instance, will be the case if retention supports the firm’s strategic needs (Delery & Doty, 1996). As a result, it will be important for MNCs to ensure that the context-generalizable practices are consistent with overall MNC strategy, thus achieving vertical fit. For example, the design of career development practices will depend on the overall orientation to international staffing prevalent at the MNC (Taylor, Beechler, & Napier, 1996). If the MNC adopts a polycentric approach to international staffing, it will not make strategic sense to transfer and apply retention practices focusing on the development of inter-subsidiary career paths. In this vein, Bird and Beechler (1995) found that U.S.-based Japanese subsidiaries had lower turnover rates if their strategic HR practices matched business strategy. Therefore:

> *Proposition 2: The relationship between context-generalizable retention practices and overall functional retention of subsidiary staff will be contingent on the fit between these practices and MNC strategy.*

As discussed earlier, other practices are more strongly affected by local cultural and institutional characteristics, requiring the MNC to modify their design across subsidiaries to effectively retain local staff. Retention practices that are more context-specific in nature include performance appraisal, performance-based rewards, employee participation (Gooderham et al., 1999) or approaches to procedural justice (Brockner et al., 2001). As the same practice will differ in its retention capacity across local contexts, context-specific practices will only be effective in retaining staff if they are sufficiently flexible to be adapted to different subsidiaries. For example, while a MNC may institutionalize reward allocation based on regular performance appraisal, the appropriate time frame of this evaluation and eligibility for receiving rewards may differ across subsidiaries. In this vein, Ngo et al. (1998) discovered in a sample of Hong Kong-based MNC subsidiaries of different national origin that retention-oriented compensation plans at U.S. firms were less successful in keeping local employees than at Chinese and Japanese firms, highlighting the negative retention effects that a lack of adaptation of HR practices can have. Flexibility thus entails both the extent to which the practices can be adapted to a specific host context as well as the degree to which they can be reconfigured and redeployed in a different subsidiary environment. Consequently:

> *Proposition 3: The relationship between context-specific retention practices and overall functional retention of subsidiary staff will be contingent on the degree of flexibility to which the practices can be adapted to different subsidiary contexts.*

4.2. Composition of the subsidiary-specific retention system

The combination of context-generalizable practices, which are consistent with MNC strategy, and flexible context-specific practices provides the MNC with an overall retention system that can be applied to its various foreign subsidiaries. However, the relative importance of context-generalizable versus context-specific retention practices for the design of a subsidiary-specific retention system is likely to vary across subsidiaries. In this vein, four factors will influence the relative composition of the retention system: MNC structure, uniqueness of the subsidiary country's culture and institutions, the subsidiary's relational closeness to the HQ, and subsidiary power. First, MNC structure will affect the level of interdependency between the HQ and its subsidiaries (Kostova & Roth, 2003; Taylor et al., 1996) and thus the role of context-specific organizational practices. Multidomestic MNCs are highly differentiated and localized organizations whose units engage in little cross-unit interaction. In contrast, global MNCs primarily display one-directional linkages that are based on strong subsidiary dependence upon the HQ. Finally, transnational MNCs are characterized by strong interdependence and complex interactions between the HQ and its subsidiaries (Harzing, 1999). We would assume that the level of interdependence corresponds to the relative importance of context specificity in a subsidiary's retention system, with subsidiaries of multidomestic MNCs placing a high, subsidiaries in transnational MNCs a moderate and subsidiaries in global MNCs a low focus on context-specific retention practices. Therefore:

> *Proposition 4a: MNC structure influences the relative importance of context-specific retention practices for the design of a MNC's subsidiary-specific retention system. In particular, subsidiaries in multidomestic MNCs will adopt the highest share, whereas subsidiaries in global MNCs will adopt the lowest share of context-specific retention practices.*

Another determinant concerns the degree of the subsidiary country's cultural and institutional uniqueness relative to all other MNC units. A high degree of uniqueness may, for instance, exist because a subsidiary is the MNC's only presence in a particular region. In general, research suggests that cultural and institutional differences inhibit the successful transfer of organizational practices between two MNC units (Jensen & Szulanski, 2004; Kostova & Roth, 2002). If a subsidiary is located in an environment that is culturally and institutionally highly distinct, the adoption of practices transferred from any other company unit will be difficult. As a result, the subsidiary-specific retention system will primarily involve the combination and design of context-specific rather than context-generalizable practices. Accordingly:

> *Proposition 4b: Subsidiaries located in a context that has a high level of cultural and institutional uniqueness relative to all other MNC unit contexts will more likely adopt context-specific retention practices.*

The applicability of context-generalizable retention practices will be relatively higher when a subsidiary maintains strong relational linkages to the HQ. This relational closeness is contingent upon the level of trust towards and identification with the HQ (Kostova, 1999), the intensity of interaction and communication with the HQ (Marschan-Piekkari et al., 1999) as well as the strength of shared values and norms (Nohria & Ghoshal, 1994). In the case of relational closeness, subsidiary staff will be relatively less influenced by local cultural and institutional factors given that their frames of reference are directed towards the HQ organization. Indeed, as Ashforth and Mael (1989) argue individuals tend to accept and become immersed in those institutions and practices that embody aspects of their social identity. Subsidiary staff's trust towards, identification with and understanding of HQ-based policies and practices may thus legitimize these policies and practices in the subsidiary context. Accordingly, if a subsidiary maintains strong relational linkages to the HQ, context-generalizable practices originating at the HQ will possess a high retention capacity and can be used to a relatively greater extent in the subsidiary-specific retention system. Thus:

> *Proposition 4c: Subsidiaries with strong relational linkages to the HQ will more likely adopt context-generalizable retention practices.*

Finally, subsidiary power will influence the configuration of a subsidiary-specific retention system. Subsidiary power is a function of the extent to which other MNC units depend upon a certain unit's resources (Gupta & Govindarajan, 1991; Taylor et al., 1996). When there is a high intensity of resource flows from the local unit to other parts of the MNC, the unit has more power. In this vein, Mudambi and Navarra (2004) demonstrate that this power can lead subsidiary managers to increase local rent-seeking behaviour and reduce their support for overall MNC interests. The HR practices that subsidiary managers embrace to foster such behaviour among subsidiary staff will therefore diverge from and reveal less vertical fit with overall MNC strategy. As a result, the retention practices used under conditions of high subsidiary power are also likely to be context-specific rather than HQ-based and context-generalizable in nature. In formal terms:

> *Proposition 4d: Subsidiaries with high power within the overall MNC network will more likely adopt context-specific retention practices.*

4.3. Internal coherence of the subsidiary-specific retention system

To maximize the retention capacity in each subsidiary, the bundle of relevant practices will need to be configured individually. The idea of horizontal fit (Delery & Doty, 1996) emphasizes that a HR system is more effective if it achieves internal coherence among its practices. Thus, for each subsidiary, the relevant set of context-generalizable practices needs to be reconfigured with the relevant context-specific practices to effectively bind local staff to the firm. In the international context, the idea of designing a subsidiary-specific retention system builds on the notion that practices transferred from one MNC unit to the other need to be recontextualized. Recontextualization refers to the transformation of meaning and applicability of practices and processes while they are adapted from one context to the other (Brannen, Liker, & Fruin, 1998). This is particularly salient for practices with high social embeddedness as in the case of retention practices whose effectiveness is contingent upon how they are perceived by subsidiary staff. Accordingly, failing to appropriately configure the bundle of context-generalizable and context-specific retention practices to the subsidiary context can change the way the practices are understood and may result in negative retention effects. At the same time, this configuration process is likely to be dynamic and continuous. For example, as Child (2000) argues success in the local market may help the MNC to weaken the effect of recontextualization needs and establish a commitment among subsidiary employees towards its home-country practices, thus giving the firm more scope for retention.

The comparison between a U.S. MNC's Chinese subsidiary and a Chinese MNC's U.S. subsidiary illustrates the alignment of context-generalizable and context-specific retention practices. To retain staff in its Chinese subsidiary, a U.S. MNC can bundle its universally applicable practices, such as selecting employees with a strong job-specific fit or providing rapid career advancement opportunities, with a range of context-specific instruments. Specifically, the relatively higher power distance, collectivism and long-term orientation prevalent in Chinese society (Hofstede, 2001) are likely to require more hierarchy- and status-based structures, a group-based reward system and an extension of performance evaluation cycles. Horizontal fit among the practices can be achieved by providing regular but incremental team promotions while maintaining a pronounced hierarchical structure. Also, the definition of a core group of employees with extended employment security, training and career advancement opportunities, and seniority-based pay components may boost retention. In contrast, retaining U.S. subsidiary staff will require a Chinese MNC to bundle its context-generalizable practices such as seniority- and group-based reward structures with the provision of more individualized incentives. These may entail the continuous identification, development and promotion of high-performing employees who are then responsible for training and developing their immediate subordinates to qualify for variable pay. At the same time, this strong focus on training and development may enhance overall retention rates. Taken together, it is proposed:

> *Proposition 5: In a given subsidiary context, the degree to which the relevant context-generalizable and context-specific retention practices are locally aligned will be positively related to functional subsidiary staff retention.*

5. Discussion and conclusion

This paper contributes to the scarce research on how MNCs can retain their foreign subsidiary staff. Although a wide range of retention practices exist that are contingent upon the time frame in which they can be deployed and the nature of the employment relationship in which they will be more suitable to control turnover, MNCs' tendency to transfer home-country practices abroad reduces their ability to effectively retain staff across different subsidiaries. Accordingly, linking institutional and strategic HRM perspectives, it was argued that MNCs need to complement their context-generalizable home-country practices that are coherent with overall MNC strategy with context-specific practices that are flexible across different host environments. To increase the retention capacity in each subsidiary, these practices then need to be bundled in a subsidiary-specific way.

Building on the proposed framework, HQ managers concerned about turnover in the MNC's foreign subsidiaries need to make several decisions to effectively retain local staff. First, based on the range of countries the MNC operates in managers will need to decide which retention practices are effective across these different subsidiary environments. In this respect, the context-generalizable practices will be rooted in the MNC's home country context that influences the choice of practices that are potentially available to MNCs. To ensure functional retention, the context-generalizable practices will need to be aligned with MNC strategy. Second, to increase retention capacity, MNCs need to complement these home-country practices with context-specific practices that can be flexibly adjusted in a given subsidiary. For example, a MNC may provide an individual pay rise to respond to the risk of turnover in a British subsidiary while using group-based increases in a Mexican unit. Third, taking into account characteristics of the HQ-subsidiary relationship to decide on the most effective composition of the local retention system, the relevant universal and context-specific practices need to be aligned for each individual subsidiary.

The complementary perspective to the application of context-generalizable and context-specific retention practices also links to the current debate on co-existing forces for convergence and local differentiation (Djelic, 1998; Mayer & Whittington, 1999). We would assume that MNCs' historically rooted experience with home-country imprinted practices leads to a push towards converging retention instruments across subsidiary contexts but that, over time, distinct turnover experiences across its various subsidiaries will result in dynamic and continuous re-adjustment and contextualization. While some retention practices may remain stable they will be supplemented with more contingent practices, thus loosening the structure of the aggregate MNC retention system. Several strategies may support this process.

First, home-country effects are reinforced through the ongoing recruitment of home-country nationals and an inert process of creating HQ corporate elites (Mayer & Whittington, 1999; Noorderhaven & Harzing, 2003). Accordingly, MNCs need to diversify their workforce, not only at their subsidiaries but also at the HQ. In this vein, the inpatriation of subsidiary staff to the HQ (Harvey et al., 2000) appears to be fruitful. Through their interaction with HQ staff, inpatriates are able to enhance a MNC's understanding of culture-bound turnover attitudes among the local workforce and thus facilitate the selection of culturally contingent retention practices (Reiche, 2007). Institutionalizing intra-regional staff exchange between MNC units is another means to raise the awareness for differences in HR practices and their embeddedness in different institutional contexts. Second, Taylor and Beechler (1993) found that a locally oriented management style can moderate the effect that HR practices in MNCs may have on the level of satisfaction and commitment of subsidiary staff. This suggests that the increased use of local staff in foreign subsidiaries may enable the effective juxtaposition of stable home-country and flexible local practices. Finally, the application of culturally contingent retention practices requires a more pluralist approach to international HRM. The traditional focus on central HR decisions that are subsequently imposed on the respective subsidiary may fail to give foreign units the required flexibility to integrate and combine context-generalizable with the culturally and institutionally most appropriate retention practices (Novicevic & Harvey, 2001).

The developed framework entails various directions for future research. First, employee retention is likely to be a mutual process between the organization and its members and, at the individual level, linked to complex factors such as commitment and loyalty, perceptions of the employment contract as well as employee expectations, all of which have been shown to influence individual turnover decisions (see Griffeth et al., 2000). Accordingly, individual responses to specific retention practices will form an integral part of a firm's overall retention success. While the aim of this paper was to adopt a macro-level perspective and examine the design of those retention instruments that are organizationally controllable, these practices will, to some extent, differ in their impact on the individual employee. Future research would therefore benefit from linking the developed framework with individual predictors of retention that are relevant in different cultural contexts. Second, the argument that internally coherent retention practices, which are configured in a subsidiary-specific way, display the most favourable retention outcomes points towards the question of whether there are alternative, i.e. equifinal (Delery & Doty, 1996), bundles of retention practices that are equally applicable in a given subsidiary context. More empirical research is needed to evaluate and compare the effectiveness of diverse sets of instruments in and across different host countries. Finally, MNCs may face isomorphic pressures that reach beyond home- and host-country effects. For example, there is evidence that inter-organizational networks and pressures to conform to international competitors influence the transfer of organizational practices (e.g., Kraatz, 1998) and thus can act as an additional source for determining context-generalizable retention practices. Investigating these factors in more detail would provide a fruitful extension to the present framework.

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Figure 1. A Typology of Retention Practices

Relational employment contract	**Responsive practices in relational employment contracts** ▪ Job enrichment ▪ Job autonomy ▪ Teamwork ▪ Employee participation / empowerment ▪ Joint performance evaluations ▪ Firm specificity of training ▪ Promotions	**Preventive practices in relational employment contracts** ▪ Review of candidates' personal attributes/interests ▪ Training with general content ▪ Mentoring programs ▪ Nurturing of a strong corporate culture that stresses interpersonal relationships ▪ Distributive and procedural justice ▪ Seniority-based pay ▪ Career planning and internal labour markets ▪ Attractive working conditions
Transactional employment contract	**Responsive practices in transactional employment contracts** ▪ Pay / benefits contingent on task and contextual performance ▪ Allocation of office space ▪ Reduction of role ambiguity/conflict	**Preventive practices in transactional employment contracts** ▪ Assessment of candidates' job mobility ▪ Tailoring of jobs to employee skills ▪ Realistic job previews ▪ Timely performance feedback ▪ Flexible and organic work structures
	Responsive nature	Preventive nature

Figure 2. Framework for Functional Staff Retention in MNCs' Foreign Subsidiaries