Human resource (HR) flexibility is highly desirable in firms. Yet very little is known about the characteristics of firms that are conducive to HR flexibility, particularly in multinational corporations (MNCs). In this study, we investigate the determinants of HR flexibility in foreign subsidiaries of MNCs. We argue that the relationship between headquarters (HQ) and its foreign subsidiary plays an important role in this regard. Our data was collected via a survey of HR directors/managers of foreign subsidiaries operating in Hong Kong. The results of regression analysis show that HQ’s resource allocation, but not HQ’s control, is positively related to the level of HR flexibility in its foreign subsidiary. We further find that the presence of a high-performance work system (HPWS) mediates the relationship between HQ’s resource allocation and subsidiary’s HR flexibility.

Keywords: human resource flexibility, high-performance work systems, multinational corporations, headquarters’ control, resource allocation

I. INTRODUCTION

There is little dispute in the literature that human resource (HR) flexibility, a dynamic capability of a firm, is highly desirable (Bhattacharya, 2010; Bhattacharya, Gibson, & Doty, 2005). With high flexibility in HR systems and processes, a firm can adapt much better to a complex and dynamic environment (Wright & Snell, 1998; Ketkar & Sett, 2010). Previous research has shown that the HR flexibility of a firm is positively related to its performance (Ketkar & Sett, 2009; Ngo & Loi, 2008).

Despite the growing importance of HR flexibility, very little is known about its antecedents, particularly in the context of multinational corporations (MNCs). We argue that headquarters (HQ) may influence the level of HR flexibility in foreign subsidiaries through the mechanisms of control and resource allocation. These two factors best capture the relationship between an MNC’s HQ and its subsidiaries, which determine the internal systems and operations of the latter (Dellstrand & Kappen, 2011; Paterson & Brock, 2002). We further suggest that a high-performance work system (HPWS) acts as a mediator that explains why HQ’s control and resource allocation are related to HR flexibility in foreign subsidiaries. In previous studies, a positive association has been reported between the adoption of HPWS and the level of HR flexibility of a firm (Beltran-Martin, Roca-Puig, Escrig-Tena, & Bou-Llusaer, 2011).
Informed by management control theory and resource dependence perspective, we develop a theoretical framework that links together HQ’s control, HQ’s resource allocation, HPWS, and the HR flexibility of foreign subsidiaries. By testing several hypotheses regarding the relationships among these variables, we attempt to contribute to the literature on international human resource management (IHRM).

Our investigation takes place in Hong Kong, a commercial city where East meets West. It is an ideal research site for studying foreign subsidiaries since many MNCs set up operations in Hong Kong as their Asian base for strategy setting, market planning, and HRM activities (Enright, Scott, & Chang, 2005; Ngo & Loi, 2008). As our sample firms are all located in a single place, the impact of institutional factors, such as labour market, unionisation and legal regulations, are assumed to be constant among firms. We then focus on internal factors of MNCs to explain the variation in HR flexibility among foreign subsidiaries.

II. LITERATURE REVIEW

Wright and Snell (1998: 761) defined flexibility in HRM as “the extent to which the firm’s human resources possess skills and behavioural repertoires that can give a firm options for pursuing strategic alternatives in the firm’s competitive environment, as well as the extent to which the necessary HRM practices can be identified, developed, and implemented quickly to maximise the flexibility inherent in those human resources”. Viewed as an internal trait or characteristic of a firm, HR flexibility has been conceptualised as a multidimensional construct with three different conceptual components (Bhattacharya et al. 2005; Wright & Snell, 1998).

The first one is employee skill flexibility, which refers to the “number of potential alternative uses to which employee skills can be applied” and “how individuals with different skills can be redeployed quickly” (Wright & Snell, 1998: 764-765). If employees of a firm possess a broad variety of skills and they can perform different job duties upon request, the firm is said to have a high degree of employee skill flexibility.

Second is employee behaviour flexibility, which refers to the extent to which employees possess a broad repertoire of behavioural scripts that can be adapted to situation-specific demands. If employees are able to apply these behavioural scripts appropriately under various conditions, rather than follow standard operating procedures, the firm can adjust and respond to the changing situations and thereby increase its competitiveness (Wright & Snell, 1998).

The last one is flexibility of HR practices. It has been defined by Bhattacharya et al. (2005: 624) as “the extent to which the firm’s HR practices can be adapted and applied across a variety of situations, or across various sites or units of the firm, and the speed with which these adaptation and application can be made”. Bhattacharya et al. (2005) further argued that firms that possess this type of flexibility not only create value such as achieving strategic consistency across different units and enhancing responsiveness to environmental changes, but also build a capability that is difficult to imitate and non-substitutable.
From the resource-based view, HR flexibility could be seen as a source of competitive advantage for firms (Bhattacharya et al., 2005; Ngo & Loi, 2008). In a dynamic environment, HR flexibility can be seen as a dynamic capability that helps the organisation to adapt to changing environmental contingencies (Ketkar & Sett, 2010). Based on Wright and Snell’s (1998) framework, Bhattacharya et al. (2005) developed and validated a measure of HR flexibility that consists of three sub-dimensions. They found that all these sub-dimensions were positively related to firms’ financial performance. Some recent studies (e.g. Ketkar & Sett, 2009; Ketkar & Sett, 2010; Ngo & Loi, 2008) obtained similar results, though different measures of firm performance were used. In another study of Spanish firms, Beltran-Martin et al. (2008) found that HR flexibility acts as a mediating variable between HPWS and firm performance.

To our best knowledge, no study has explored the determinants of HR flexibility. Some firm-level characteristics (e.g. competitive strategy, corporate culture, and organizational structure) are likely to influence the degree of HR flexibility in a firm (De Cieri & Dowling, 2006; Ketkar & Sett, 2009; Ngo & Loi, 2008). In the context of MNCs, the way that the HQ manages its overseas subsidiaries may be crucial in determining the level of HR flexibility in these subsidiaries. We argue that control and resource allocation from the HQ are two salient factors in this regard (Birkinshaw & Hood, 1997; Foley, Ngo, & Loi, 2011).

There is a large body of literature on control of subsidiaries by the HQ (Coller, 1996; Jaussaud & Schaaper, 2006; Yu, Wong, & Chiao, 2006). Control refers to the process by which the HQ of an MNC determines or intentionally affects what subsidiaries should do and should not do (Chang, Mellahi, & Wilkinson, 2009). The HQ may use various types of control to shape the internal systems and managerial practices of their overseas subsidiaries (Gomez & Sanchez, 2005; Jaussaud & Schaaper, 2006; Yu et al., 2006). One may expect that the HR flexibility in these subsidiaries is related to the types and degree of control exerted by the HQ.

Drawn on resource dependence theory, Jaw and Liu (2004) contended that when a subsidiary relies heavily on the flow of crucial resources from the HQ, its management practices would be strongly influenced by the HQ. To a certain extent, the vital resources and support provided by the HQ will determine the power relationships between the two (Festing, Eidems, & Royer, 2007). As pointed out by Jackson and Schuler (1995: 240), “HRM activities and processes are assumed to reflect the distribution of power within a system”. It follows that resource allocation from the HQ acts as a crucial factor affecting the development of the HRM system and its resultant HR flexibility in the subsidiary (Taylor, Beechler, & Napier, 1998).

**III. HYPOTHESES DEVELOPMENT**

A major stream of research in international management focuses on the HQ-subsidiary relationship (Birkinshaw & Hood, 1997; Paterson & Brock, 2002). Among others, HQ’s control and resource allocation to its foreign subsidiaries are two salient factors, which play a key role in affecting the internal structure, systems, and operations of these subsidiaries (Dellstrand & Kappen, 2011; Paterson & Brock, 2002).

According to Ittner and Kogut (1995), organisational control mechanisms direct the behaviour of employees toward organisational objectives. Organisational controls
constitute an important signalling device and provide management with powerful symbols to focus attention on the strategic goals and the development of capabilities. At first glance, control and flexibility may sound contradictory, but they are not when one considers how a control system serves as a guide to support a company’s development of organisational capabilities (Ittner & Kogut, 1995). In a complex organisation like an MNC, some kinds of control from the top level are deemed necessary for the sake of integration and coordination across units.

It has been well documented that MNCs often use various mechanisms to control their foreign subsidiaries (Yu et al., 2006). These include appointing the board of directors, assigning expatriates, transferring corporate culture, developing job descriptions, and periodic reporting (Jaussaud & Schaaper, 2006; Welch & Welch, 2006). They do so to ensure that their overseas employees will act in the best interests of the HQ (Foley et al., 2011; Jaussaud & Schaaper, 2006). Arguably, a high degree of control by the HQ over its foreign subsidiaries can direct their operations to align with its global strategy, and in turn leads to higher performance (Dong, Zou, & Taylor, 2008).

Given that HR flexibility is a desirable firm capability and is positively associated with firm performance, it is likely that the HQ has a strong intent to influence its subsidiaries to move towards greater HR flexibility. When the HQ exerts tighter control, decision-making in major functions such as HRM becomes more centralised (Williams & van Triest, 2009), and it is easier for the HQ to enhance HR flexibility in their foreign subsidiaries. In case of loose HQ control, the subsidiaries would have greater autonomy, and it becomes difficult for the HQ to develop and implement a flexible HRM system in them. With more discretion, the managers in foreign subsidiaries are likely to choose their own actions, and they have more room to act in ways that are not aligned the HQ’s goals (Williams & van Triest, 2009). They may not be eager to enhance employees’ skill and behaviour flexibility. Arguably, a high level of HQ’s control can facilitate the implementation of a global HRM strategy, which emphasises standardisation, integration, and coordination across units (Dong, Zou, & Taylor, 2008). Furthermore, with greater control from the HQ, the foreign subsidiaries tend to pay more attention to external adaptability in the dynamic environment, rather than to internal stability and local adaptation (Gunnigle et al., 2002; Ngo et al., 2011). Hence, HR flexibility would become a main concern for managers in these subsidiaries. Based on the above arguments, we develop the following hypothesis:

**Hypothesis 1**: Control from headquarters is positively related to HR flexibility in foreign subsidiaries.

To enhance the HR flexibility, MNCs need to deliberately design and invest in the HRM system in their foreign subsidiaries. The resources allocated from the HQ are particularly important. Previous studies based on the resource dependence perspective showed that when a subsidiary depends on a flow of valuable resources from the HQ, its HR practices will be strongly influenced by the HQ (Jaw & Liu, 2004; Martinez & Ricks, 1989; Taylor et al., 1996). This is because the HQ tends to exercise greater power and control over its subsidiaries (Festing, Eidems, & Royer, 2007; Myloni, Harzing, & Mirza, 2007). In addition, when the HQ allocates more financial support and resources, a sophisticated HRM system that is conducive to HR flexibility is more likely to emerge in the foreign subsidiaries (Ngo et al., 2011). We expect that with
more resources allocated from the HQ, the level of HR flexibility will be higher in the foreign subsidiaries.

**Hypothesis 2**: Resource allocation from headquarters is positively related to HR flexibility in foreign subsidiaries.

A HPWS consists of a group of separate but interrelated HR practices that are designed to enhance employees’ skills, ability, and efforts. It generally includes selective hiring, extensive training, sophisticated performance appraisal, performance-based compensation, self-managed teams, and internal promotion (Huselid, 1995). For MNCs, HPWS can also be viewed as an important control mechanism by which it can ensure that overseas employees carry out the plans and targets set by the HQ (Gomez & Sanchez, 2005; Myloni et al., 2007). This is because staffing, performance appraisal, compensation, training and development can all be used to direct and modify employee behaviours (Delery & Doty, 1996; Macky & Boxall, 2007). In other words, HPWS can be used as a management tool to enforce tight control of overseas employees by MNCs (Foley et al., 2011). It is logical to expect a linkage between HQ’s control and the adoption of HPWS in foreign subsidiaries.

Some research evidence indicated that certain HR practices, when designed properly and used in the appropriate context, can promote adaptable skills and behaviours of employees (Ketkar & Sett, 2009). These HR practices could be considered part of the HPWS, and thus its presence would be positively related to the development of HR flexibility. As argued by Lawler et al. (2000), the effective use of HPWS can create and develop organisational capabilities, which make MNCs more competitive, innovative, and flexible in the global dynamic market. For that reason, HPWS can enhance the HR flexibility of a firm. Some previous studies have demonstrated a positive relationship between HPWS and the HR flexibility in a firm (Beltran-Martin et al., 2008; Bhattacharya et al., 2005). In line with these studies, we expect that HPWS may act as a mediating mechanism that links HQ’s control to HR flexibility in foreign subsidiaries. The following hypothesis is thus proposed.

**Hypothesis 3**: High-performance work system mediates the relationship between HQ control and HR flexibility in foreign subsidiaries.

Furthermore, how HQ allocates resources to its subsidiary would be related to the subsidiary’s adoption of HPWS (Foley et al., 2011). For example, extensive staff training requires a heavy investment in human resources, which means a substantial amount of financial resources committed by the HQ. The adoption of other HRM practices, such as self-managed team and internal labour markets, also requires the long-term financial commitment of the top management. In other words, the use of HPWS in foreign subsidiaries requires a heavy investment by MNCs in their overseas employees. To a large extent, such an investment is determined by the amount of resource allocation and support from the HQ to its foreign subsidiaries (Subramony, 2006; Taylor et al., 1996). Following the above logic, we expect resources and support provided by HQ to foster the adoption of HPWS, which in turn leads to a high level of HR flexibility in foreign subsidiaries. We put forward the following mediating hypothesis.
**Hypothesis 4**: High-performance work system mediates the relationship between resource allocation from headquarters and HR flexibility in foreign subsidiaries.

### IV. METHOD

**Data and Sample**

The data for the present study were collected from a survey administered to HR directors/managers of foreign subsidiaries of MNCs operating in Hong Kong in 2006. Dun and Bradstreet (2006) provided the names and addresses of the target respondents. A self-administered questionnaire in English was mailed to 1400 potential respondents, together with a cover letter that explained the purpose of the survey and assured the anonymity and confidentiality of their responses. Respondents were asked to return the completed questionnaire to the researchers in a postage-paid return addressed envelope. Two weeks after the initial mailing, a follow-up mailing was sent to the respondents with another copy of the survey. A total of 182 completed questionnaires was finally received, representing a response rate of 13.0%. Although it is desirable to have a higher response rate, the response rate for company surveys in Hong Kong is typically lower than in the West (Chan, Shaffer, & Snape, 2004; Harzing, 1997; Lui et al., 2004; Ngo et al., 1998).

A critical issue of mailed surveys is the possible non-response bias that may affect the generalizability of the findings to the whole population (Fowler, 1993). We employed two procedures (Dooley & Lindner, 2003) to tackle this issue. First, we compared our sample to the population on some characteristics known *a priori* (based on information in Dun and Bradstreet’s directory of foreign firms in Hong Kong, 2005/06). No significant differences were detected between the two regarding the distribution of industry and region-of-origin. Second, we also compared early and late respondents on some organisation-level variables and the variables under study, since late respondents are expected to be similar to non-respondents (Armstrong & Overton, 1977). Early respondents (i.e. those who returned the questionnaires within two weeks) comprised 56.4% of our sample. Using chi-square tests and t-tests, we found no significant differences between the two groups with respect to number of employees, industry, headquarters’ location, firm age, and all the study variables. This implies that non-response bias should not pose a serious threat in our study.

Among our sample firms, 60 (33%) were from North America, 53 (29.1%) were from the European Union (EU), and 50 (27.5%) were from Asian countries. In terms of industrial distribution, 16.0% were in manufacturing, 11.0% were in transportation and logistics, 21.0% were in trading, 16.6% were in marketing and sales, 12.7% were in financial services, and 13.3% were in professional services. The average employee size was 315.9 (s.d. = 956.1) and the average number of years in business was 24.7 (s.d. = 20.7) among them.

**Measurement of variables**

Respondents used a six-point Likert-type scale (1 = “strongly disagree”; 6 = “strongly agree”) to respond to the items in the following measures.
Headquarters’ control. Based on previous research (e.g. Gomez & Sanchez, 2005; Jaw & Liu, 2004; Myloni et al., 2007), we used a three-item scale to tap the degree of formal and informal control from the headquarters to the local subsidiary. The items are: “Formal control mechanisms (e.g. manuals, budgets and periodic reports) are widely used by the headquarters to monitor the local subsidiary”, “The headquarters has a strong organisational culture which is transferred to the local subsidiary”, and “Approval from headquarters is needed before the local subsidiary introduces new HRM policies and practices”. In this study, the alpha coefficient for this scale was 0.64.

Headquarters’ resource allocation. We developed two items to measure the resource allocation from the headquarters to the local subsidiary. The two items are: “The headquarters allocates sufficient resources to the local subsidiary” and “A great deal of support (e.g. financial and HR) is provided by the headquarters to the local subsidiary”. The alpha coefficient of this new scale was 0.79.

High Performance Work System (HPWS). This variable was measured using a composite index consisting of 18 items selected from Bhattacharya et al. (2005), Evans and Davis (2005), and Lui et al. (2004). These items cover various HR activities such as selection and recruiting, training, compensation, performance appraisal, job description, employee participation, and career development.

Employee skill flexibility. We used a shortened version of the scale developed by Bhattacharya et al. (2005) to measure this variable. It has the following three items: “Our firm can shift employees to different jobs when needed”, “Our employees can put new skills to use within a short time”, and “We employ people with a broad variety of skills”. The alpha coefficient of this scale was 0.75.

Employee behavior flexibility. This variable was measured by a three-item scale. The items were selected from the original scale of Bhattacharya et al. (2005), based on their high factor loadings. The items include: “The flexibility of our employees’ work habits helps us to change according to market demands”, “Our employees respond to changing situations within a short time”, and “Most of our employees are flexible enough to adjust to dynamic work requirements”. This scale had an alpha coefficient of 0.85.

HR practice flexibility. A three-item scale was used to measure HR practice flexibility. We selected the three items with the highest factor loadings in the original scale developed by Bhattacharya et al. (2005). The items are: “Flexibility of our HR practices helps us to adjust to the changing demands of the environment”, “Our firm modifies its HR system to keep pace with the changing competitive environment”, and “Our HR practices are designed in such a way that they can adjust quickly to changes in business conditions”. The alpha coefficient for this abbreviated scale was 0.87.

Control variables. Three control variables are included. First, firm size is measured by taking the natural logarithm of the number of employees in the subsidiary. Second, industry is a dummy variable with manufacturing firms coded as 1 and others coded as 0. Third, region of origin is indicated by the location of MNC’s headquarters. Based on the classification scheme of Dun and Bradstreet’s directory, four responses were provided in the questionnaire (i.e. United States, European Union (EU), Asia, and others). We then recoded and measured region of origin of MNCs by three dummy variables, namely, North American, EU, and Asian.
Analyses

Since the same respondents provide all the information about the dependent and independent variables, we acknowledge that our study might be affected by common method bias. To tackle this issue, we conducted Harman’s single-factor test on the study variables (Podsakoff, MacKenzie, Lee, & Podsakoff, 2003). The results revealed that, using the criterion of eigenvalue greater than one, nine factors were identified which together explain 69.9% of the total variance, which the first factor only accounted for 27.0%. In addition, we also performed marker variable correlation analysis to deal with the issue (Lindell & Whitney, 2001). The professional tenure of the respondent, a variable theoretically unrelated to the study variables, was used as a marker variable. We found that most of the significant zero-order correlations of study variables remained statistically significant after the partial correlation adjustment by incorporating this marker variable. Based on these two analyses, we believe that common method bias should not pose a serious threat in the present study.

To evaluate the effects of independent variables on HR flexibility, a series of ordinary least squares regression equations are estimated. We conducted separate analyses for the three sub-dimensions of HR flexibility and HPWS. In testing for the mediating effect of HPWS, three conditions need to be fulfilled. First, there is a significant relationship between independent and dependent variable in the model. Second, the relationship between the independent and dependent variables will be reduced when the mediator is introduced into the model. Third, the mediator is significantly related to the independent variable.

V. RESULTS

Descriptive Statistics

Table 1 presents the means, standard deviations, and correlations among study variables. The mean value of HQ’s control was 4.40, suggesting that the HQ exercised tight control over their foreign subsidiaries. The mean value of resource allocation from HQ was 3.78, much lower than that of HQ’s control. Our sample firms also had a relatively high level of HPWS adoption, as indicated by a mean value of 4.04. Among the three sub-dimensions of HR flexibility, employee skill flexibility had the highest mean value (\(\bar{x} = 4.31\)). These sub-dimensions were highly correlated with each other (ranging from \(r = 0.42\) to 0.59). HQ’s control was positively correlated with HQ’s resource allocation (\(r = 0.61\)). As expected, these two variables were also positively correlated with HPWS (\(r = 0.32\) and 0.42, respectively). However, only HQ’s resource allocation, but not HQ’s control, was significantly correlated with the three sub-dimensions of HR flexibility (ranging from \(r = 0.21\) to 0.33).
**TABLE 1: MEANS, STANDARD DEVIATIONS, AND CORRELATIONS AMONG STUDY VARIABLES**

<table>
<thead>
<tr>
<th>Variables</th>
<th>Mean</th>
<th>s.d.</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
<th>9</th>
<th>10</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Firm size</td>
<td>4.46</td>
<td>1.45</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Industry (manufacturing = 1)</td>
<td>0.18</td>
<td>0.38</td>
<td>0.35**</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. US origin</td>
<td>0.37</td>
<td>0.48</td>
<td>-0.03</td>
<td>0.01</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. EU origin</td>
<td>0.33</td>
<td>0.47</td>
<td>0.03</td>
<td>0.10</td>
<td>-0.53**</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Asian origin</td>
<td>0.31</td>
<td>0.46</td>
<td>-0.00</td>
<td>-0.11</td>
<td>-0.51**</td>
<td>-0.46**</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. HQ's control</td>
<td>4.40</td>
<td>0.91</td>
<td>-0.22**</td>
<td>0.05</td>
<td>0.14</td>
<td>-0.07</td>
<td>-0.07</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. HQ's resource</td>
<td>3.78</td>
<td>1.21</td>
<td>-0.24**</td>
<td>0.09</td>
<td>0.28**</td>
<td>-0.12</td>
<td>-0.17</td>
<td>0.61**</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8. HPWS</td>
<td>4.04</td>
<td>0.61</td>
<td>0.11</td>
<td>0.10</td>
<td>0.17</td>
<td>0.02</td>
<td>-0.20**</td>
<td>0.32**</td>
<td>0.42**</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9. Employee skill flexibility</td>
<td>4.31</td>
<td>0.76</td>
<td>0.07</td>
<td>-0.05</td>
<td>0.02</td>
<td>0.04</td>
<td>-0.07</td>
<td>0.15</td>
<td>0.33**</td>
<td>0.50**</td>
<td></td>
<td></td>
</tr>
<tr>
<td>10. Employee behaviour flexibility</td>
<td>4.14</td>
<td>0.84</td>
<td>-0.07</td>
<td>-0.02</td>
<td>0.29**</td>
<td>0.02</td>
<td>-0.32**</td>
<td>0.14</td>
<td>0.28**</td>
<td>0.54**</td>
<td>0.53**</td>
<td></td>
</tr>
<tr>
<td>11. HR practice flexibility</td>
<td>4.20</td>
<td>0.84</td>
<td>0.13</td>
<td>0.06</td>
<td>0.22**</td>
<td>0.01</td>
<td>-0.24**</td>
<td>0.08</td>
<td>0.21**</td>
<td>0.59**</td>
<td>0.42**</td>
<td>0.56**</td>
</tr>
</tbody>
</table>

NOTES: N ranges from 143 to 181; * p < 0.05; ** p < 0.01.

**Regression analyses**

Table 2 reports the results of regression analyses on the three sub-dimensions of HR flexibility. All the models were significant as indicated by the F-statistic. In Model 1 with employee skill flexibility as the dependent variable, only resource allocation from HQ ($\beta = 0.43, p < 0.001$), but not HQ’s control ($\beta = -0.05, \text{n.s.}$), had a significant and positive effect. Similar results were obtained in Models 3 and 5 that HQ’s resource allocation was a significant predictor of both employee behaviour flexibility and HR practice flexibility. Its standardised regression coefficients were 0.30 ($p < 0.01$) and 0.27 ($p < 0.05$) in these two models, respectively. However, the coefficient for HQ’s control was not significant in all the models. Taken together, our findings provided support for Hypothesis 2, but not for Hypothesis 1.

Hypothesis 3 states that HPWS serves as a mediator between HQ’s control and HR flexibility, while Hypothesis 4 states that HPWS serves as a mediator between HQ’s resource allocation and HR flexibility. In Model 7 with HPWS as the dependent variable, we found that HQ’s resource allocation ($\beta = 0.41, p < 0.001$), but not HQ’s control ($\beta = 0.11, \text{n.s.}$), exerted a significant effect on HPWS. Since HQ’s control had no direct effect on the dependent variables (i.e., the first condition of mediation, as indicated in earlier analyses) and the mediator (i.e., the third condition of mediation), Hypothesis 3 was not supported.
TABLE 2: RESULTS OF REGRESSION ANALYSES

<table>
<thead>
<tr>
<th>Variables</th>
<th>Employee Skill Flexibility</th>
<th>Employee Behaviour Flexibility</th>
<th>HR Practice Flexibility</th>
<th>HPWS</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Model 1</td>
<td>Model 2</td>
<td>Model 3</td>
<td>Model 4</td>
</tr>
<tr>
<td>Firm size</td>
<td>0.11</td>
<td>0.03</td>
<td>0.01</td>
<td>-0.09</td>
</tr>
<tr>
<td>Industry (manufacturing = 1)</td>
<td>-0.08</td>
<td>-0.07</td>
<td>-0.07</td>
<td>-0.06</td>
</tr>
<tr>
<td>US origin</td>
<td>-0.01</td>
<td>-0.04</td>
<td>0.35***</td>
<td>0.30***</td>
</tr>
<tr>
<td>EU origin</td>
<td>0.07</td>
<td>-0.28</td>
<td>0.21*</td>
<td>0.17*</td>
</tr>
<tr>
<td>HQ’s control</td>
<td>-0.05</td>
<td>-0.08</td>
<td>-0.04</td>
<td>-0.09</td>
</tr>
<tr>
<td>HQ’s resource allocation</td>
<td>0.43***</td>
<td>0.28**</td>
<td>0.30**</td>
<td>0.09</td>
</tr>
<tr>
<td>HPWS</td>
<td></td>
<td>0.37***</td>
<td>0.50***</td>
<td>0.57***</td>
</tr>
<tr>
<td>Adj. R²</td>
<td>0.11</td>
<td>0.22</td>
<td>0.17</td>
<td>0.36</td>
</tr>
<tr>
<td>F statistic</td>
<td>3.90***</td>
<td>6.45***</td>
<td>5.63***</td>
<td>12.05***</td>
</tr>
</tbody>
</table>

NOTES: Standardised regression coefficients are reported; N = 139; * p <0.05; ** p <0.01; *** p <0.001.

Turning to Hypothesis 4, HQ’s resource allocation had a significant and positive effect on all the three sub-dimensions of HR flexibility (i.e. in Models 1, 3, and 5) and HPWS (i.e. in Model 7), thereby fulfilling the first and the third conditions of mediation. In Model 2 when we included HPWS as an additional predictor, this variable had a significant and positive effect (β = 0.37, p <0.001) on employee skill flexibility. More importantly, the original effect of HQ resource allocation was reduced substantially (β = 0.28, p <0.01). In Model 4 with employee behaviour flexibility as the dependent variable, we obtained similar results that the effect of HPWS was highly significant (β = 0.50, p <0.001), and the original effect of resource allocation from HQ has disappeared (β = 0.09, n.s.). Similarly, in Model 6 with HR practice flexibility as the dependent variable, we found a significant positive effect of HPWS (β = 0.57, p <0.001) and a non-significant effect of resource allocation from HQ (β = 0.04, n.s.). These findings indicated the fulfilment of the second condition of mediation. In view of the above results, Hypothesis 4 was supported by our data that HPWS acts as a mediator between resource allocation from HQ and the three sub-dimensions of HR flexibility.

VI. DISCUSSION AND CONCLUSION

The primary objective of this study is to explore the antecedents of HR flexibility of foreign subsidiaries. We focus on the HQ-subsidiary relationship and evaluate the impact of HQ’s control and resource allocation on the various sub-dimensions of HR flexibility. We further investigate whether HPWS serves as a mediator in the above relationships. The empirical results revealed that resource allocation from HQ, but not HQ’s control, was significantly and positively related to the outcome variables. Additionally, we also found that the relationship between HQ’s resource allocation and HR flexibility was mediated by HPWS.
Contrary to our prediction, HQ’s control was not related to the HR flexibility of foreign subsidiaries. There are two possible reasons for this finding. First, although the presence of control systems may contribute to organisational flexibility (Ittner & Kogut, 1995), excessive controls from the HQ are likely to bring about negative consequences (Dong et al., 2008; Zhang, George, & Chan, 2006). In particular, when the HQ exerts too much control, it becomes difficult for the subsidiary to be flexible in contextualising the demands, policies, and strategies from the HQ to the local environment. Second, a high degree of control at the top level (i.e. in our case, the HQ of MNCs) implies centralisation, standardisation, and formalisation (Martinez & Jarillo, 1991; Williams & van Triest, 2009), which would reduce flexibility at the lower levels (i.e. the foreign subsidiaries).

We further found that HPWS mediated the positive relationship between HQ’s resource allocation and HR flexibility. The use of HPWS seems to be a mechanism for MNCs to enhance HR flexibility in their foreign subsidiaries, provided that sufficient resources are allocated from the HQ. The adoption of HPWS in foreign subsidiaries often requires substantial investment and long-term commitment provided by the HQ (Foley et al., 2011; Subramony, 2006).

Our research contributes to the existing literature in a number of ways. First, it builds upon recent work studying the MNC-subsidiary relationship (e.g. Dellstrand & Kappen, 2011; Kim et al., 2005; Yu et al., 2006). Specifically, our study fills a research niche by enriching the literature on the HQ-subsidiary relationship and IHRM, a growing area of research. Second, we explore the internal factors that determine HR flexibility within the MNC context, whereas previous studies focused largely on the outcomes of HR flexibility and ignored its antecedents. The roles of control and resource allocation from the HQ are evaluated in the present study as possible antecedents of HR flexibility. Third, we identify the mediating role of HPWS in the relationship between resource allocation from the HQ and HR flexibility. In practice, to enhance HR flexibility in their subsidiaries, MNCs may consider implementing HPWS and allocating sufficient resources accordingly.

Despite the above contributions, this study also has several limitations. First, our research design was cross-sectional in nature, which makes causality difficult to determine. Second, given that our data were collected from single informants, common method variance could be an issue. Third, our measures of the HQ-subsidiary relationship are rather simple. For example, we used two items to capture the effect of resource allocation from HQ, and the scale reliability of HQ’s control was relatively low. Lastly, since our sample is from Hong Kong, the generalizability of our findings is restricted.

For future research, we recommend a research design with data collected longitudinally from both HQ and the subsidiary. This design overcomes the issues of causality and common method variance, and better tests the proposed relationships. More sophisticated measures should also be developed to fully capture the HQ-subsidary relationship. In addition, researchers may try to identify additional mediating and moderating variables to help explain why HQ-subsidary relationships are related to HR flexibility. Our model should also be tested in other cultural contexts.
REFERENCES


Dellström, H., & Kappen, P. 2011. Headquarters allocation of resources to innovation transfer projects within the multinational enterprise. *Journal of International Management*.


