

**THE (UN)PREDICTABLE FACTOR:
THE ROLE OF SUBSIDIARY SOCIAL CAPITAL IN INTERNATIONAL TAKEOVERS**

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ABSTRACT

When multinational corporations (MNCs) take over subsidiaries in other countries and institutional settings, the HQ quite often encounter employment relations systems that differs markedly from the one they know from the MNCs country-of-origin. As it has been well described in the literature, there are numerous clashes between the HQ-originated HRM policies and the employment policies practiced in the taken-over enterprises. This paper argues that by employing HRM practices that are sensitive to the local cooperative culture on micro-level and the IR-system on macro-level, MNCs win by receiving often unexpected return on their investment – advantages in work organization and cooperative culture. To argue for this we build upon the insights from the social capital theory.

With Denmark as a starting point and the story of a local enterprise developing from a family owned SME to a MNC-owned subsidiary over 16 years as the case, the analysis shows that MNCs do not always understand the complexity of the business system in the country they invest in. Confronted with employment practices that deteriorate the working conditions and ultimately threatens the subsidiary's survival employees and management use social capital to find common ground for voicing their dissatisfaction. Responses in the form of exit, loyalty or neglect are not used. Rather voice in different forms are the kind of response chosen, and a high level of social capital at enterprise level as well as on institutional level makes this the most obvious choice.

We conclude that social capital is underexposed when MNCs overtake subsidiaries and this could potentially result in a no-win situation for the MNC's as well as other stakeholders. The results also indicate that local management and employees (in cooperation) actually are capable of using social capital as one of the features of the local business system in the international competition with other subsidiaries in the same MNC. By 'selling' social capital as an important resource for the quality of the products and services provided by the subsidiary in question, management and employees are able to compete with other subsidiaries in the same MNC, even though labor costs in Denmark are considerably higher.

INTRODUCTION

The importance of social capital for the performance of multinational corporations (MNCs) has been addressed many times by various scholars (Kostova and Ross, 2003; Taylor 2006 and 2007; Li, Barner-Rasmussen, Bjorkman, 2007; Mäkela and Brewster, 2009; Gooderham, Minbaeva and Pedersen, 2011). Less often, the subsidiary social capital has been explicitly discussed. Even more seldom the studies specifically address the antecedents and the consequences of subsidiary social capital both for the focal subsidiary and generally for a MNC.

In the organizational social capital literature it has been argued that employment practices “can provide an effective means of managing organizational social capital, thus extracting its value for the organization and its members” (Leana and Van Buren III, 1999: 538). However, this logic cannot be taken for granted within MNC context. When MNCs take over subsidiaries in other countries, there are numerous clashes between the headquarters (HQs)-originated employment policies and the local practices-in-use in the subsidiaries that are taken over (e.g., Tayeb, 1998; Ferner and Quintanilla, 1998). Often those clashes are caused by the fact that MNCs encounter employment relations systems that differ markedly from those in their home countries (Edwards and Ferner, 2000; Collings et al., 2008; Gunnigle et al., 2009; Navrbjerg and Minbaeva, 2009). How do HQ-originated employment practices implemented at the subsidiary affect the subsidiary social capital and its organizational outcomes?

This paper argues that by imposing employment practices that support and maintain the existing social capital of the recently acquired subsidiary, HQs can gain unexpected returns on their investment in the form of individual commitment, flexible work organization and cooperative culture. Theoretically, we extensively draw upon Leana and Van Buren III’s (1999) theorization of components and consequences of organizational social capital. However, we take it significantly further by specifying complex relationships between employment practices and organizational social capital. We introduce two connecting variables between employment practices and social capital: collectively shared perception of employment practices in use and nature of collective response to the implemented employment practices.

We use qualitative insights on a Danish company to illustrate how a foreign MNC’s interference with the balanced structure of relations, norms, and roles, jeopardized existing social capital and failed to extract its value for the benefit of the organization as a whole. The company, which employed approximately 400 people, was taken over by an Italian/UK-based MNC in 2001. The availability of 16 years of data, spanning from before the takeover to ten years after the acquisition, makes it possible to analyze the immediate views of managers and employees on the takeover as well as those that developed over time.

The paper is structured in the following way. To ground our paper in the existing social capital literature, we begin with definitions of social capital and focus on conduits of subsidiary social capital. We then theorize about the black-boxed relations between employment practices and social capital and put forward two theoretical propositions explicating the relations. We use the case study to explore and further refine our propositions. After presenting and discussing our findings, we highlight the main conclusions of the study.

THEORETICAL BACKGROUND

Definitions of social capital

Social capital is broadly defined as an asset embedded in social relationships of individuals, communities, or societies. Social capital “is not a single entity but a variety of entities, with two elements in common: they all consist of some aspects of social structures, and they facilitate certain actions of actors – whether persons or corporate actors – within the structure” (Coleman, 1988: 15). The central propositions of social capital theory is that social capital is collectively-owned and that it is rooted in the social relations between individuals thereby facilitating the achievements of organizational goals that otherwise “could not be achieved in its absence or could be achieved only at a higher cost” (Coleman, 1994: 304).

Social capital has been extensively studied as a concept that can link the actions of individuals and collectives (Coleman, 1988; Portes, 1998) at different levels of analysis – individuals (Burt, 1992), organizations (Leana and Van Buren, 1999), communities (Putnam, 1993), industries (Walker, Kogut, and Shan, 1997), and nations (Fukuyama, 1995).

In the organizational social capital literature (Leana and Van Buren III, 1999; Adler and Kwon, 2002), social capital has been defined as “a resource reflecting the character of social relations within the firm that can be realized through members’ levels of collective goal orientation and shared trust, which create value by facilitating successful collective action” (Leana and Van Buren III, 1999: 538). Adler and Kwon (2002) characterize social capital as “the goodwill available to individuals or groups. Its source lies in the structure and content of the actor’s social relations. Its effects flow from the information, influence, and solidarity it makes available to the actor” (Adler and Kwon, 2002: 23). This notion of goodwill has been conceived of in various ways, but in general it involves norms of sharing that enable members of an organization to “tap into resources derived from the organization’s network of relationships without necessarily having participated in the development of those relationships” (Inkpen and Tsang, 2005: 151).

In the international management literature, the concept of social capital has also been used extensively (Nahapiet and Ghoshal, 1998; Kostova and Roth, 2003; Lengnick-Hall and Lengnick-Hall, 2006; Taylor 2006 and 2007; Gooderham, Minbaeva and Pedersen, 2011). It has often been assumed that “the existence of social capital to create an environment conducive to valued discretionary behavior on both sides of the relational dyad – in our case, headquarters and a foreign subunit” (Kostova and Roth, 2003: 302). Empirical studies found that MNC social capital increases the effectiveness with which the interdependence between HQs and subsidiaries is managed, promotes knowledge transfer between the units, supports effective coordination and collaboration across geographical and cultural borders (e.g. Li, Barner-Rasmussen, Bjorkman, 2007; Mäkela and Brewster, 2009; Gooderham, Minbaeva and Pedersen, 2011; Reiche, 2012).

Employment practices and social capital

As it was argued before, delineating employment practices that condition the development of a social capital is crucial for our understanding of value of organizational social capital. In unpacking the concept of organizational social capital Leana and Van Buren III (1999) consider possible ways in which the organizational social capital can be supported and maintained through the organization’s employment practices (see Figure 1, shadowed boxes). The authors suggest three groups of employment practices that support and maintain (1) stable relationships among organizational members; (2) organizational reciprocity norm; and (3) bureaucracy and specified roles. They also

define two components of organizational social capital - associability and trust, and stressed that both should be present at some level for a firm to have organizational capital. To achieve associability individuals should be willing to subordinate their goals and associated actions to collective goals and actions. Without some level of trust, collective goals are unlikely to be either agreed upon or attained. Overall, Leana and Van Buren III (1999) suggest that employment practices can provide "an effective means of managing organizational social capital", that "is realized through members' levels of collective goal orientation and shared trust, which create value by facilitating successful collective actions" (p. 538).

Despite the significance of Leana and Van Buren III (1999) contribution, there are some obvious shortcomings of their research. First, the exact employment practices that affect the level of organizational social capital within a firm and thus extract its value for the organization and its members are not specified. Second, and perhaps it is the underlying reason for the previous shortcoming, the causal relationships between employment practices and social capital are black-boxed. That is, Leana and Van Buren III (1999) suggest a causal relationship between the two focal variables (employment practices and social capital), but did not explain theoretically how these two variables relate. In the following we introduce two connecting variables between employment practices and social capital: shared perception of employment practices in use and nature of collective response to the implemented employment practices.

- INSERT FIGURE 1 AROUND HERE -

UNPACKING THE BLACK-BOX

Shared perception of employment practices

When employment practices are implemented, they produce some kind of employee reaction: "each employee processes the information in a way that elicits some reactions, be they affective (attitudinal), cognitive (knowledge or skill) and/or behavioral" (Wright and Nishii, 2006: 12). The differences in reaction are caused by differences in perception of the implemented practices: "variation in the schemas individuals employ in perceiving and interpreting HR-related information" (Wright and Nishii, 2006: 12). However, although perceptions are formed and necessarily assessed at the individual level, we argue that for the purposes of our paper it is more beneficial to focus on the shared perceptions of employment practices in use to predict employees' reaction to implemented employment practices. There is some level of consensus in perceptions of employment practices in a collective which is "likely to reflect a common set of beliefs concerning the nature of the exchange relationship and the cause-and-effect principles governing that collective" (Kehoe and Wirght, 2010: 5). Even if there are differences in individual perception, those differences will be filtered by individuals through the contextual influences and collective sense-making efforts of the collective (Bowen and Ostroff, 2004). What is important for the support and maintenance of organizational social capital is exactly this shared perception of the employment practices held by the collective. This shared perception will enable an autonomous individual to identify with a collective and make his/her individual goals and actions secondary to the collective ones. Collective response (action) will also be determined by the shared perception, just like individual action is determined by its conditions (Coleman, 1990).

We argue that if employees sharedly perceive the implemented employment practices as promoting stable relationships, strong norms and specified roles, the nature of collective response (actions)

would be towards pursuing collective goals and actions (over individual ones) and sustaining resilient trust even among individuals connected generally rather than personally. In such conditions organizational social capital provide benefits that outweigh costs. If the collective perceive the employment practices in use as sabotaging existing stable relationships, undermining norms and changing specified roles, the individual goals and actions will outweigh the collective ones, trust become fragile and dyadic, all resulting in losing the benefits of social capital and increasing costs. We further specify the proposed relationships by adding nuances to the nature of the collective response.

Nature of collective responses

What kind of collective response (action) can be expected? Recognition of the wide range of possible responses can be credited to Hirschman's (1970) work on exit, voice and loyalty. "Exit is equivalent to voluntary separation or turnover from the job" (Farrell, 1983: 597). This "painful decision to withdraw or switch" (Hirschman, 1970: 81) often means that "the employee believes the situation is unlikely to improve" (Farrell, 1983: 597). Some researchers considered "thinking about leaving, organizing a search, looking for another job, and quitting" as part of exit (Withey and Cooper, 1989: 525). Voice is defined as "any attempt at all to change, rather than to escape from, an objectionable state of affairs" (Hirschman, 1970: 30). Voice is defined as "actively and constructively trying to improve conditions through discussing problem with a supervisor or co-workers, taking action to solve problems, suggesting solutions, seeking help from an outside agency like a union, or whistle-blowing" (Rusbult, Farrell, Rogers and Mainous, 1988: 601). Loyalty is less clearly defined response. Hirschman sees loyalty as neither exit nor voice: "they suffer in silence, confident that things will soon get better" (Hirschman, 1970: 38). Withey and Cooper (1989) define loyalty as having both active elements (changing the situation, doing things that are supportive) and passive elements (being quiet, loyalty sharing to neglect). However, they urged future research "to operationalize loyalty as active support for the organization, using the most prototypical acts to measure the construct" (p. 537). Rusbult, Zembrodt and Gunn (1982) introduced a fourth response: neglect. It is not directed at recovery of the relationships and in that it differs from loyalty. "Neglect may be shown by putting in less effort, not working at a relationship, and letting it fall apart" (Withey and Cooper, 1989: 522).

Together, exit, voice, loyalty and neglect - commonly referred to as EVLN responses - represent a set of categories useful for describing collective behavioral responses (Farrell, 1983; Rusbult, Farrell, Rogers and Mainous III, 1988; Withey and Cooper, 1989; Turnley and Feldman, 1999). The EVLN responses relate to one another but differ along dimensions of constructiveness vs. destructiveness ("in terms of impact on employee-organization relationship", Rusbult et al., 1988: 602) and activity vs. passivity (in terms of "the impact of an action on a problem", Rusbult et al., 1988: 602) (see Figure 2).

- INSERT FIGURE 2 AROUND HERE -

Previous empirical research (e.g. Rusbult et al., 1988; Withey and Cooper, 1989) found that employees who had a higher level of overall job satisfaction before the emergence of the problem are more likely to engage in constructive responses such as voice and loyalty rather than destructive (neglect and exit). It was also found that constructiveness of the responses is positively related to employees' investment in their jobs. "By investment, we mean resources an employee has put into a job that have become intrinsic to that position, such as years on the job, nonportable training, familiarity with the organization and supervisor, and nonvested retirement funds, and resource that

were originally heterogeneous but have become connected to the job, such as convenient housing and travel arrangements and friends at work” (Rusbult et al., 1988: 604). The choice between active and passive response was found to be related to the presence or absence of attractive job opportunities and high-quality external alternatives. “Good alternatives ... create... motivation to do something (shape up or ship out) and provide a source of power for bringing about change... In the absence of good alternatives, the options are to wait quietly for conditions to improve (remain loyal) or to passively allow conditions to worsen (engage in neglect)” (Rusbult, 1988: 604).

Adding the EVLN variation to the nature of collective response in Figure 1, we suggest:

Proposition 1. If implemented employment practices are sharedly perceived by the collective as promoting stable relationships, strong norms and specified roles, then the nature of the collective response will likely to be constructive rather than destructive, that is the likelihood of the voice and loyalty will be higher than exit and neglect. Constructive responses will move the collective towards pursuing collective goals and actions (over individual ones) and sustaining resilient trust even among individuals connected generally rather than personally. In such conditions organizational social capital provide benefits that overweigh costs.

Proposition 2. If implemented employment practices are sharedly perceived by the collective as sabotaging existing relationships, undermining norms and changing previously agreed-upon roles, then the nature of the collective response will likely to be more destructive rather than constructive, that is the likelihood of the neglect and exit will be higher than voice and loyalty. Destructive responses will move the collective towards pursuing the individual goals and actions in the expense of the collective ones, trust will become fragile and dyadic, all resulting in losing the benefits of social capital and increasing costs.

Definitions of the main concepts are summarized in Table 1. To explore and further refine our propositions we use an exploratory case study.

- INSERT TABLE 1 AROUND HERE -

METHOD

The data used in this analysis are collected over 16 years. Since 1995, a production enterprise was visited every 3-5 years and a number of qualitative interviews were undertaken during each visit. This longitudinal design and qualitative method of the study made it possible to investigate changes in cooperative culture in an enterprise over 16 years.

The enterprise was established in the mid 1920's and was family owned until the mid-1970's. At that time, 75 percent of the company was bought by a (union controlled) domestically based investment fund. The remaining 25 percent was bought in the 1980s. In 2000 the enterprise was bought by an Italian company operating in the same branch as enterprise A, but ultimately owned by a London based equity fund. In 2005 the Italian multinational including subsidiaries was bought by an American equity fund, owned by a major bank.

The turnover for the company has over the years evolved around 95 million euros. The workforce was reduced from 550 in 1995 to 380 in 2005. The white collar workforce took the biggest blow

here: they were more than halved due to the fact that quite a few administrative tasks had been moved to operational HQs in Italy and financial HQs in London.

We formally visited enterprise five times over the 16 years: 1995; 2001; 2005; 2008; and 2011. In total, 30 interviews were conducted, with 14 interviews taking place in 1995-96, four occurring in 2001, two in 2005, five in 2007-08, and five in 2011. Interviewees included the CEOs, employee representatives, local union representatives, and HR managers and employees in the Danish subsidiary as well as the Italian HQs.

Issues of interest differed over the years. In 1995, the enterprise was chosen from a pool of companies that had presented themselves as vanguards of HRM issues at conferences, in the media, etc. As such, they were thought of as possible benchmarks for the development of HRM in a Danish context and the focus at the time was on new HR techniques and how they matched the Danish Industrial Relations (IR) system. At the time, HRM was a relatively new concept in Denmark. In 2001, the interest was on decentralization of the collective bargaining system, and in 2005 the focus was on internationalization and the foreign take-over. In 2008 and 2011, the focus again was on internationalization and the relationship between HQs and subsidiary. Even though the focus changed over the years, the comprehensive in-depth interviews had a common core focusing on cooperation between management and employees and employee representatives – both the Italian management and the Danish management. From 2005 and onwards, it became clear social capital was a variable of importance in the cooperative culture of the company and this became one focus point among others in the interview.

Interviews were a main method of data collection, supplemented with annual reports and other written material like employee handbooks, press releases etc. Although we had to use a convenience sample (often a ‘snowball’ method), we managed to collect data from a wide range of employees including the CEOs, employee representatives, local union representatives, and HR managers and employees both in Denmark and Italy. Interviews in Denmark were conducted in Danish, while interviews with Italian respondents were conducted in English.

Data processing was as follows. The gathered data has been analyzed and categorized, when possible, in different codes following original theoretical definitions (see Table 1). The first group of codes covers the description of shared perception of employment practices as signaling stable relations, strong norms, and specified roles. The second group described the nature of collective responses (the EVLN responses). The third group captures organizational social capital as being realized through members’ levels of collective goal orientation and shared trust. The final group contains codes describing the value of organizational social capital. This group is further divided into benefits (a justification for individual commitment, facilitator of a flexible work organization, means of managing collective actions and facilitators of intellectual capital) and costs (maintenance costs, foregone innovation, and dysfunctional stable power arrangements within the firm).

FINDINGS

Before take-over: The enterprise 1995

The first transgression for this company was in the 1970’s and 1980’s when the then family-owned enterprise was taken over by an investment firm. The general perception among employees was that this ‘*changed the tone*’ of management-employee relations. Efficiency became a main concern and middle managers as well as employees experienced a ‘*more cold*’ management approach with fewer social considerations for the employees. This was accentuated in the mid-1990’s by lack of reinvestments which was perceived by the employees as a sign that management was considering to

outsource the more simple parts of the production. The shared belief on employees' side was that the plant could be very competitive if only the necessary investments in new machinery and technology were made. Management did not deny the rumors and even used the threat of outsourcing in the yearly wage negotiations. In fact, local negotiations on wages and working conditions were characterized as *'tense'*, starting out with *'rather unrealistic demands from both sides'*. Back then, management ritually used the threat of *'outsourcing part or all of the production to Poland'* as leverage for adjusting the employees' demands.

While the management-employee representative negotiation style that was, within the Danish cooperative collective bargaining model, rather adversarial, the work design was continuously improving and employee satisfaction was quite high in 1995. The enterprise started experimenting with self-managing team production at shop floor level 1979, but it was not until the beginning of the 1990's that the concept was generally implemented on the plant. The introduction of self-managing teams was flawed with different barriers: resistance among foremen, employees' insecurity about the new roles and some resistance among union representatives regarding the teams as it was considered infiltration from management in the workers collective – even though it also entailed that management gave up part of the management prerogative. But at the end, the system found its ground, enhancing the quality by making smaller teams responsible for the production of a complete machine.

During take-over: The enterprise 2001 to 2010

In 2000 the enterprise was bought by an Italian MNC operating in the same branch as the enterprise, but in a lower quality segment. The company also owned a British and a German subsidiary within the same branch. The Italian MNC was ultimately owned by a London-based equity fund. The take-over changed the management structure drastically. All strategic decisions regarding the Danish plant were made by the Italian MNC, while the Danish management had now a role of a middle-management. While the take-over was thought to generate synergy between the companies, the Italian HQs made no secret of the fact that the take-over was financially motivated. Even though the product line was within the same area as the rest of the MNC's subsidiaries, the goal was to turn the Danish enterprise around and resell it with a profit within five years (time perspective typical for equity funds). Regarding the management style, the new Italian management was, as a manager as well as an employee representative describes it, *'very present'* at the enterprise. HQs representatives visited Denmark quite often, and their suggestions on changes were formulated as *'orders more than inputs to a discussion'*. All procurement decisions were centralized: the purchasing department as well as the major part of R&D was relocated to Italy. Management in Denmark lost competence and influence, and everybody at the Danish plant knew that the major strategic decisions were made in Italy.

The time after the take over the company can be divided into two phases.

Phase one: Redesign of the work organization

Immediately after the Italian take-over, the former partly team-based organization was turned into Tayloristic assembly lines, accompanied by a considerable investment in new machinery. This was a major surprise to Danish management as well as employees, as the team-based production was believed to be the major reason for foreign companies' interest. After all, the Danish company's dominance on the high end market was considered to be due to the quality conscious self-managing teams. The new work organization was perceived by employees as well as the domestic management as a major step back. The health and safety of the workers were jeopardized, since, for

example, the standardized job sites could not be adjusted to the different heights of the employees. On top of that, neither employees nor management were listened to by the Italian management, even though they voiced their concerns on several occasions. On top of changes in work design, the Italian management introduced lower quality materials: plastic instead of metal for the products. Since the Danish company was proud of producing state-of-art products within its segment, this was received by Danish employees very negatively. While the productivity has been climbing with the new production line, the in-process quality fell and more machines had to be adjusted after the product was finished. All these resulted in the lack of commitment and motivation, which was also noted by the Italian management.

“For sure, the style we have is characteristic for the Italian perspective; it is more direct even than collaborative. And this have created some shock, I think some problem in terms of motivation also with people in Denmark.” (HR-manager, Italy, 2008)

Since it seemed quite difficult to make themselves heard, the Danish employee representatives contacted the Danish health and safety authorities as health and safety are regulated by legislation and as such not open to negotiation. The move changed the work organization somewhat, but more importantly, it changed relations between HQ management and the subsidiary since an ‘outsider’ (the authorities) was brought in making it clear to the Italian management that a legal institution for voice could be applied if employees were not listened to on enterprise level.

As mentioned earlier, the Italian MNC had two other subsidiaries in the UK and in Germany. It soon became apparent that at least one of the three subsidiaries had to be shut down. The three companies went through a due diligence focused very much on productivity. The benchmarking showed a lower productivity per employee in the Danish subsidiary compared to the two other. Based on this information, the Italian management decided to shut down the Danish enterprise. In response to this, the Danish HR management and the employees representatives prepared and presented another benchmarking in which they emphasized (a) the high level of education and autonomy on behalf of the blue collar workforce and (b) the ease with which employee could be hired and fired in Denmark (high level of numerical flexibility, combined with relatively high income security - the so-called flexicurity system (Bredgaard et al, 2006)). The Italian management took the report under consideration and ultimately re-decided: the Danish subsidiary remained opened, but the German subsidiary (with a low level of numerical flexibility) was shut down. There was another positive outcome of this exercise: through collaboration and cooperation, a common ground and a mutual understanding of the challenges was developed and resulted in a higher level of trust between Danish management and employees was developed.

Nevertheless, annual negotiations on wages and work conditions on the Danish plant were still quite tough, and the negotiations were not eased by the fact that local management obviously had quite a limited mandate from the Italian HQs in those negotiations. The relationship between the Danish management and the employees became a nuanced game. However, the possibility of lower wages was never a part of the due diligence report that the Danish subsidiary presented for the Italian HQs, and that might have been an important factor for the Danish parties in keeping a high trust level – and hence social capital.

Phase two: Reverse diffusion

In 2005 the whole group was sold to an American bank and investment firm. For Danish subsidiary neither the economic future for the group as such nor the relationship with the Italian HQs changes.

However, there had been some changes in the dynamics of social capital. The Italian HQs started slowly learning the Danish way of organizing employment relations and started understanding the benefits of it. First, as described above, the employees criticized a work design that assigned them less discretion than before and a worse health & safety situation. They were used to having a high level of autonomy and to make decisions on their own. Even the Danish HR were reluctant to introduce the new work design, knowing that the self-managing team design entailed a high level of quality consciousness and hence better products.

Second, and more surprising to the Italian management, was the general approach to conflicts in the Danish system labor relations and among employees. While Italian management was used to conflicts in Italy entailing strikes and lower level of productivity for longer periods of time, in the Danish industrial relations system strikes are only allowed during the yearly wage negotiation. If there are disagreements or conflicts at other times, the system is build up around a mediations system with a clear order of how to resolve disputes without interrupting production. As an Italian manager expressed it, looking back at the experiences from the Danish subsidiary: "What is also interesting is the speed [in solving industrial conflicts]. If you have a controversy on the site, then you have a second level of judgements. And it is very fast in taking the decisions - and it is not always in favour of the union. This we don't have here [in Italy]!" (Plant manager, Italy, 2008).

Another manager is equally impressed of the Danish industrial relations system and not least the flexicurity model that was presented in the Danish due diligence and had been in action now for some years:

"I have now been through 7-8 yearly negotiations through Danish managers. (...) What we are very surprised to find is the flexibility to hire and fire people and other things. (...) My impression of Denmark is that if you are able to establish a discussion with them and to convince them Then you can do interesting thing. In the last years, the managers did very good things with the unions." (HR-manager, Italy, 2008)

The Danish management had to remind the Italian management 'to go easy on shop stewards in negotiations' on the Danish plant. As oppose to what the Italian management was used to, a higher level of mutual respect and discussions is part of the negotiation culture, and the Italian management had to be reminded to change attitude when participating in any kind of negotiations with Danish unions and employee representatives:

"Every year, I have to make a repetition course before the local negotiations starts: 'Remember, respect the shop steward....'" (HR-manager, Denmark, 2008)

Over the years the Italian management learned that the 'Danish package' of collaborative IR-system and responsible and quality conscious and loyal employees was a mutual benefiting. The introduction of assembly lines to replace the self-managing teams turned out to cost on quality, even though productivity did enhance. As such, the Italian HQs management did not have an eye for the social capital built in in the Danish subsidiaries' way of doing things, and ultimately lost some valuable features of the work organisation here. Only because the Danish management and employee were vocal about the qualities of the system did the enterprise survive in the first place – and in a later phase this became an interesting and educational case for the Italian company. As of

2008, the Italian HQs had decided to experiment with team organisations in the Italian site as a result of the experiences from the Danish enterprise and another subsidiary.

Also, the Danish subsidiary learned something in the meeting with the Italian HR-culture. Among those was the lessons on how many things are taken for granted. By meeting a foreign approach to HR, the Danish employees and managers realized how much inherent trust and shared perception were built in in the daily work organisation and negotiations on the Danish side. By contrasting their own ways of organising work and negotiating with *'the Italian way'*, it became clear that the level of conflict between management and employee representatives was quite low in an international comparison, even though the parties themselves considered the negotiation culture rather conflictual in a local national context. The meeting with the foreign HR-approach revived the social capital, and created a shared understanding of 'us' (the Danish plant) versus 'them' (the Italian HQs), or as it was referred to in several interviews 'the North team versus the South team'.¹ The Danish system came at a price in terms of labour costs. In 2008, the average expenses all included (pension, social security, etc.) per hour for a blue collar worker in Italy was 21 Euro, while a Danish employee was 31 Euro. But the pay back in the most measurable terms for the Italian management was (a) a lower absenteeism in the Danish enterprise, (b) way more liberal redundancy rules and (c) high quality consciousness on production lines. Less directly measurable issues were the aforementioned social capital, though this is an important factor for (a), (b) and (c) on micro-level (enterprise) as well as macro level (flexicurity).

So after a little less than a decade with the Danish enterprise in the portfolio, the Italian HR-manager was asked which employment relations system he prefers:

"I would see it as being very interesting if we could maintain the same level of collaboration with the union in Denmark and having a longer duration [of the local agreements]."(HR-manager, Italy)

Epilogue: The enterprise shut-down – 2011

In 2008, the Italian group including subsidiary was resold to a new equity fund. It did not per se change anything, but immediately after the take-over the financial crises hit these companies as hard as any other companies and in 2009 the sales for the whole group dropped by one third. The group as a whole had to be evaluated in terms of the new situation. In June 2010, the Italian HQs decided to shut down the Danish plant. The decisive point was scale and labour costs. The Italian plant produced 100,000 units per year while the Danish subsidiary produced 30,000. But as important was the fact that, over the decade under Italian ownership, synergy between the companies had taken place. As a consequence, know-how and R&D had been shared and ultimately transferred to the Italian HQs, and this made it less problematic to close down the Danish subsidiary. As of Spring 2012 the Danish subsidiary still existed, but only as a sales and service unit employing some 35 people. The original Danish brand was kept, but it was now produced in Italy. While in 2008, the Italian management praised the flexibility of the Danish subsidiary and the liberal Danish redundancy rules in 2010 this meant next to nothing. This flexibility was only interesting at the subsidiary level: when a whole MNCs had to make decisions on cut-backs, other factors came into play. Specifically, labour cost was weighing heavily in the Danish subsidiary disfavour.

¹ With explicit references to the reality game show 'Survivor'.

The day the message about the shutdown was presented, the reaction from the employees was highly unexpected for the Italian management:

“How different, and better, the culture is [in the Danish subsidiary], compared to the Italian one! When we came and announced the shut-down, they were obviously very silent... nobody said any word against the Italians way of seeing things. In Italy, I could not even imagine a meeting like that, in the South! You normally negotiate with the union without talking to the employees directly.”
(HR-manager, Italy)

Even on the day that the shut-down was announced, the employees focused as much on the survival of the brand they had been part of over many years as on their own future:

“Finally, there was a stage for questions, and there were very few questions. But the few questions were essentially on: Will X-brand continue to be, as a brand? Instead of being concerned about themselves, they were more concerned about the brand! That was really impressive, and in a way also moving. I was very, very impressed, and moved!” (HR-manager, Italy)

The company was shut down over a period of one year, finalising in June 2011. During that time, quite generous redundancy packages were given which is confirmed by the unions. After the announcement of the shut-down, employees and unions have 21 days to come up with an alternative in the form of a restructuring, but to no avail. The employees that remained for that year got a bonus to stay and finishing of the production and teach Italian managers and employees about the production.

The four phases: Summing up

The first phase described above is characterized by a situation where the company is rather independent in terms of international developments. The sales are affected by ups and downs in the economy, but employment practises are basically an internal affair at enterprise level, framed by the Danish industrial relations system. Even though employers as well as managers evaluate the employment relations and the cooperative culture as mediocre compared to other enterprises, the relations are stable. The parties agree on the overarching philosophy on the roles of the parties and the system for conflict resolution institutionalised in the collective bargaining system and the labour market system – the bureaucracy that defines the rules and procedure. The work organisation was based on self-managing teams. Despite disagreement and conflict, the trust between management and employees, framed in a flexicurity system, is a precondition for stable employment relations at company level.

In *the second phase*, right after the Italian take-over, the enterprise is confronted with internationalisation on a new level. Now, the dependence on international relations is not only through sales (and import of raw materials), but very much through employment practices introduced by the new Italian head quarter. The first and most visible change was the introduction of a new work design, replacing the self-managing teams with assembly lines. When employees voiced their dissatisfaction, Italian HQ ignored them. The response from employees was not neglect, exit or loyalty but voice through a more formal institutions, i.e. the health & safety authorities. Secondly, it became clear that a due diligence of the Danish subsidiary and two other subsidiaries would be decisive for which subsidiary to shut down. The take-over and the initiatives that followed had a profound effect on the shared perception of the employment relations at the subsidiary. While the

initiatives destabilized the relations between the enterprise and the Italian HQs and created a low-trust relationship, it also redefined the relations between management and employees on the Danish enterprise in a more cooperative direction. Before the take-over, the emphasis was on the disagreements and conflicts. But confronted with the possible consequences of the take-over, the parties find a new overarching common ground. In the meeting with another employment practice, it becomes obvious to the parties that they have a fine-tuned system for employment practices and cooperation that is very different than the Italian, and that could be an asset in the international competition for survival that the enterprise now is exposed to. To make the company attractive in this competition the parties (a) find a common ground, defining 'us' (employees and managers on the Danish plant) versus 'them' (the Italian HQs) (b) use the Danish model for flexicurity to introduce the important parameter of redundancy in the due diligence completion. As such, there is a mixture between the social capital in the enterprise as such and the overarching system of labour relations that makes the 'Danish package' attractive enough for the Italian HQs to make a decision in favour of this enterprise in the comparison with the other. But it is the take-over by the Italian MNC that becomes the catalyst for the parties in the Danish enterprise to understand that social capital is an asset and a competitive advantage. While the trust between the employees on the Danish subsidiary and Italian HQs is low, the trust between employees and the Danish management is enhanced in the meeting with another, more aggressive employment practice. The Danish management's buffer-function is an important part of the enhanced trust-level. Confronted with the quite drastic changes, the collective as well as collective response in the subsidiary is considered. The response on the new interference is voice – and a common voice from management and employees. Neglect was not an option as the employees were proud of the quality produced, and exit would be on an individual level. In a situation like that, loyalty is on a kind of 'stand-by'. Instead, employees and management consider the situation and decides that voice (in the form of an alternative due diligence) is the first response to try out. Interestingly, the common response is very much based on organizational social capital, but framed in the common understanding of flexicurity resourced in a strong institutionalised social capital.

In *the third phase*, the relations stabilized between the Italian MNC and the Danish subsidiary, with Danish management as mediator. Confronted with the Italian employment practices, social capital on the Danish subsidiary is re-emerges. But also a reverse diffusion is taking place. The Italian HQs learns that there are so many benefits in Danish package outweighing labour cost. The social capital in the Danish subsidiary embedded in the institutionalized social capital guaranteed flexibility in the employment relations on some parameters like hiring and firing - a flexibility that the Italian HQs has not seen in other subsidiaries. More surprising to the Italian HQs is the fact that redundancies do not seem to affect significantly the loyalty towards the company and commitment to the quality of the product among the employees who stays or among the employees that eventually get rehired. Over the years, it becomes clear to the Italian HQs that the social capital on the Danish enterprise is a factor that fully makes up for the higher labour costs. Loyalty is stabilized; neither exit nor neglect is an option; and the voice is heard. Interestingly, there is a reverse diffusion of employment practises and work organization from the Danish subsidiaries to Italian HQs.

In *phase four* of the Danish subsidiary' life, the financial crises hit hard and the enterprise is shut down in a relatively simple calculation of economic costs, benefits and possible synergies. In times of crises, labour costs are decisive and the benefits of social capital seems to fade in the mind of the Italian HQs. However, the Italian management acknowledges that even under this ultimate stress-situation, the employees' loyalty towards the enterprise and the brand remain unchanged. Even though the exit is forced upon the employees and management in the subsidiary, voice in protest is

only a symbolic gesture, and in this case it was even institutionalised in a given procedure and through unions.

The four stages are summarized in Table 2.

- INSERT TABLE 2 AROUND HERE -

CONCLUDING REMARKS

The purpose of the paper was to explore why and how HQ-originated employment practices implemented at the subsidiary affect the subsidiary social capital and its organizational outcomes. We theorized about the relationships between employment practices, social capital and its value and proposed two additional components of these relationships: collectively shared perception of employment practices in use and nature of collective response to the implemented employment practices. We used exploratory case study to further nuance and refine our propositions. In this section of the paper we reflect on our findings and suggest research implications.

Our main finding is in line with the understanding of social capital as “a variety of entities” (Coleman, 1988: 15): the subsidiary social capital has multiple routes. A subsidiary of a MNC is embedded in a network of specific business relationships, internally to the MNC (e.g. with HQs or sister-subsidiaries) and externally (with customers, suppliers, local institutions). This network consists of “set of direct exchange relationships with other counterparts and also of indirect exchange relationships which are connected to the direct relationships” (Andersson and Forsgren, 1996: 491). If we define subsidiary social capital as the goodwill available to the subsidiary’s collective (management and employees), sourced in the structure and content of the subsidiary network relationships (both direct and indirect, internal and external), this goodwill will enable subsidiary employees to “tap into resources derived from the organization’s network of relationships without necessarily having participated in the development of those relationships” (Inkpen and Tsang, 2005: 151). In the case study above, when HQs imposed the new work design, this was perceived by the subsidiary’s collective as lowering the discretion, questioning autonomy and jeopardizing the flexibility. We would expect that the shared perception of employment practices as sabotaging existing relationships, undermining norms and changing previously agreed-upon roles would result over time in destructive collective response (Proposition 2). However, this was not the case since subsidiary collective (management and employees) tapped into the resources available in institutionalized social capital and made sure that their voice was heard and listened to through other channels. In using subsidiary social capital as a resource for facilitating the achievements of organizational goals that otherwise “could not be achieved in its absence or could be achieved only at a higher cost” (Coleman, 1994: 304), management and employees of Danish subsidiary did not distinguish between the roots of the social capital. In the situation when internal MNC social capital was weak and next to non-existent, they relied on the resources from other social structures, other networks in which the subsidiary was embedded, i.e. the health & safety legislations, respectively the flexicurity institutionalized in the Danish labor system. First, the Danish employee representatives made their voice heard by trying to change the work organization through the (legally based) health & safety system, pointing out that the new assembly lines were unhealthy for the employees. Second, they used the flexicurity system as a frame for a different due diligence of the subsidiary.

Based on the above we suggest a modification to the research logic presented in Figure 1: there is a backward loop from social capital that modifies the relationships between shared perception of employment practices and collective response. We suggest this modification to both propositions as a guideline for future research:

Guideline 1: Existing subsidiary social capital moderates the relationships between shared perception of employment practices and collective response.

In our case study, we are able to show that a part of the background for the high level of social capital is institutionalized in the industrial relations system. The relatively high level of trust between the parties on the subsidiary level is possible because the collective framework agreements and the labour legislation are finely tuned to accommodate the expectations of the parties. For example, the employees accept liberal redundancy rules because the unemployment benefits are relatively generous and because the active labour market policy it designed to get unemployed back to work relatively fast. What is more surprising and more difficult to explain in institutional terms is the on-going loyalty and quality consciousness that seems to be embedded in the work force, despite turmoil, redundancies and ultimately the shutdown. Even faced with the shocking news that the enterprise is to be shut down, employees seems more concerned about the brand than their own future.

Another interesting finding was related to what we referred to as a reverse diffusion. Over time, especially after constructive collective responses from the subsidiary, Italian HQs started seeing the benefits from social capital in the subsidiary. Social capital that re-emerged in phase II showed much higher organizational value than Italian management expected. This changed their attitudes and eventually the ways they managed employment relations in the Danish subsidiary. Hence, we suggest another modification to the research logic presented in Figure 1: there is a backward loop from the value of organizational social capital to the employment practices intended for implementation at the subsidiary. As a guideline for future research we suggest:

Guideline 2: The value of subsidiary social capital moderates the relationships between the HQ-originated employment practices and shared perception of the implemented practices by minimizing the gap between the HQ-originated employment policies and the local practices-in-use in the subsidiary.

If the benefits outweigh the costs of organizational social capital, then the moderation effect will be positive. That is, over time the gap between the imposed and in-use practices will be minimized and potentially – as it was the case in our story – the reverse diffusion of employment practices may take place. If the costs of organizational social capital outweigh the benefits, then the HQs will push own agenda and rely on home-grown employment practices.

This research has a number of limitations that should be acknowledged. Due to exploratory nature of our paper, we only focused on constructive vs. destructive dimension of the EVLN responses. However, future research should consider further expanding our propositions to include active vs. passive collective responses. Considering voice and exit vs. passive loyalty and neglect may also be interesting, especially in a more liberal, “compliance-based, market-pricing HR systems” (Lepak, Bartol and Erhardt, 2005; Mossholder, Richardson and Settoon, 2011). Indeed, the fact that we did not observe neglect or exit as responses may be related to the flexicurity system and the work ethic more or less institutionalized as a norm. Firstly, while exit in other social settings might be very

traumatic and might have serious consequences for the individual or the groups, under flexicurity exit is (a) part of the system (flexibility) and (b) cushioned to a certain degree by generous unemployment benefits and an active labor market policy. Secondly, since exit is to a high degree a choice with less fatal consequences, the choice to stay is very much *a choice*; hence, there are limited legitimacy in not fulfilling the psychological contract as employee and deliver high-quality labor. Of course, economic fluctuations play an important role here as high unemployment rates makes exit more risky, even under a flexicurity system.

Indeed, in terms of generalizability, the obvious limitation is a one-country/IR system perspective. The use of voice “is heavily entrenched in the labour market policies of many advanced and industrialized countries” (Luchak, 2003: 115). This may not be a case for non-Western countries (Mellahi, Budhwar and Li, 2010). And as the case study above shows, even within the group of advanced and industrialized countries, the type and level of voice (and other responses) differs considerably, depending on the institutional context and norms.

Many interaction effects among employment practices can be imagined and hypothesized. Future empirical research should investigate whether different combinations of employment practices result in different collective responses. For example, employment practices supporting organizational norms may be more relevant for active and constructive collective responses such as activation of voice as a function of loyalty and activation of voice as a residual of exit, while for more passive responses such as passive loyalty and neglect employment practices that stabilize relationships among individual by developing rules and procedures are more relevant.

Finally, by adopting the EVLN typology we inherited all the definition and boundary problems of this typology. In retrospect we concur with some authors who argue that the EVLN responses may even be interdependent and that it is difficult to identify the exact sequence in the responses. For example, loyalty was named as a key concept in the battle between exit and voice (Hirschman, 1970: 82). Voice has been seen as a function of loyalty but also as a threat to exit. It has been proven difficult to draw a strict border between neglect and passive loyalty (Withey and Cooper, 1989). The more often agreed upon sequence begins with loyalty: “If nothing changes, and enough time passes, the next response is voice. If voice is unsuccessful, the employee will then resort to exit or neglect, the choice among these depending largely on the availability of alternatives.” (Withey and Cooper, 1989: 537). However, there may be a third alternative to exit and neglect - passive loyalty, simple settling with unavoidable workplace characteristics, not exiting or neglecting due bonds on interpersonal level rather than loyalty to the organization.

Despite of the limitations, we believe our research is timely as it adds more depth to the ongoing conversation among researchers and practitioners about what makes international take-over effective.

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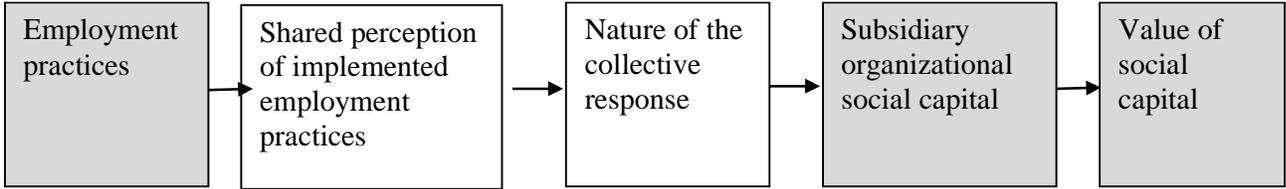
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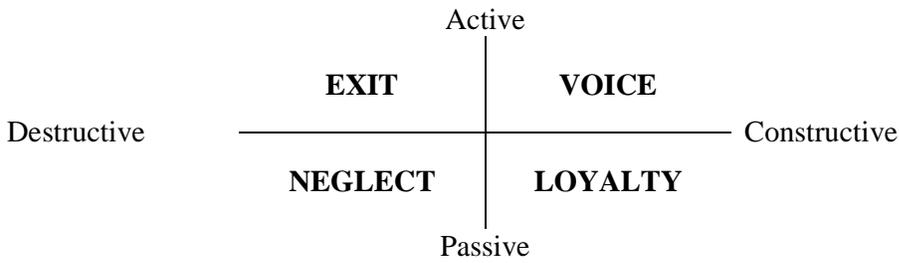
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Figure 1. Research logic



Source: Leana and Van Buren III, modified. Original boxes in Leana and Van Buren III's model are shadowed

Figure 2. The EVLN responses



Source: Rusbult, Farrell, Rogers and Mainous, 1988: 601

Table 1. Definitions

Shared perception of employment practices as promoting	
- Stability in employment relationships	To build relational contracts among employees and between employees and management
- Organizational reciprocity norms	To establish overarching philosophy and corresponding norms within which different individuals enact that philosophy
- Bureaucracy and specified roles	To circumvent the need for stable relationships among individuals by developing rules and procedures that define social structure in terms of positions rather than people

Nature of collective response	Constructive (voice and loyalty) and deconstructive (exit and neglect). Active (voice and exit) and passive (loyalty and neglect)
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Organizational social capital	
- Associability	Collective goals and actions
- Trust	Fragile/resilient. Dyadic/generalized

Value of organizational social capital	
- benefits	justification for individual commitment, facilitator of a flexible work organization, means of managing collective actions and facilitator of intellectual capital
- costs	maintenance costs, foregone innovation, and dysfunctional stable power arrangements within the firm

Table 2. Findings

	Shared perception of implemented employment practices	Nature of the collective response	Subsidiary social capital	Value of organizational social capital
Pre-take-over (1995-2000)	<p>Conflictual collective negotiations Threat of shut-down as part of negotiations High employee satisfaction Self-managing teams</p>	<p>Voice within a collective bargaining system institutionalized in the flexicurity system</p>	<p>Micro: Semi-conflictual in a cooperative Macro: Employment relations marked by stability Specified roles for management as well as employee representatives</p>	<p><i>To management:</i></p> <ul style="list-style-type: none"> • Industrial peace • Quality consciousness • Less external control • Brand loyalty • Flexi(curity) <p><i>To employees:</i></p> <ul style="list-style-type: none"> • (Fle)xicurity • Meaningful jobs (self-managing teams)
During take-over I (2001-2005)	<p>Dissolving self-managing teams lower commitment Introduction of Tayloristic work design → worsening of H&S and lower commitment/quality-consciousness</p>	<p>Voice - action in the form of due diligence report Continuation of the collective bargaining No exit or strikes</p>	<p>Macro: Stable employment relations Micro: Danish subsidiary employee-management: Enhanced trust Italian HQ-Danish subsidiary: Low trust</p>	<p>Minus: Losing social capital in the form of loyalty and quality consciousness Low moral due to the threat of redundancies Plus: Higher productivity</p>
During take-over II (2005-2010)	<p>Common understanding of Danish Employment relations in Italian HQ and Danish subsidiary</p>	<p>Stable collective bargaining framed by flexicurity system Voice the main collective response Italian HQ listens and communicates</p>	<p>Italian HQ realizes the assets of social capital, partly institutionalized in the Employment Relations system Diverse diffusion of social capital from Danish subsidiary to Italian HQ Not implementable in Italy due to different Employment Relations institutions</p>	<p>High trust High quality consciousness Brand loyalty Acceptance of the use of hiring and firing</p>
Epilogue (2011)	<p>Mass-redundancy and shut-down of enterprise</p>	<p>Acceptance – part of flexicurity</p>	<p>Industrial peace over the one-year shut-down period</p>	<p>High brand loyalty and quality consciousness Generous redundancy packages</p>