

Exploring Reverse Diffusion of HRM Practices in MNCs.

Abstract

This study contributes to a small but growing body of research on reverse diffusion of HRM practices in multinational corporations. The objectives for this paper are to examine in depth the process of reverse diffusion of HRM practices in MNCs, and to extend IB and IHRM literature, indicating avenues for advancing research on this very important topic. Thus, the research agenda is structured around areas identified in the literature as not reflecting the complexity of corporate practice in MNCs. In data collection we approached over 600 organizational units (headquarters and subsidiaries) of 238 MNCs operating in Central and Eastern Europe, and conducted 169 interviews. Data for this paper consists of illustrative cases selected on a basis of their ability to extend literature on reverse diffusion of practices in MNCs.

Introduction

In the contemporary international business research, multinational corporations (MNCs) are conceptualized as differentiated networks of units and relations that engage in exchange of knowledge (Ghoshal and Bartlett, 1990; Gupta and Govindarajan, 1991; Kostova and Roth, 2003). The advantage of MNCs over national firms is their ability to leverage and mobilize knowledge dispersed across borders and different organizational units (Doz et al, 2001: 169). Consequently, diffusion of new practices, as a means of transferring knowledge across borders, has become one of the three major areas of study in international business research (Kogut, 2005).

It is now well established in the international business literature that foreign subsidiaries are crucial for creation and global exchange of knowledge (Andersson, Bjoerkman and Forsgren, 2005; Bjoerkman, Barner-Rasmussen and Li, 2004; Gupta and Govindarajan, 2000). Still, despite acclaimed importance of knowledge creation in the MNC subsidiaries, research on knowledge transfers within MNCs and management of human resources in MNCs is overwhelmingly dedicated to analysis of transfers from headquarters to subsidiaries.

Further, although it is now becoming apparent that emerging markets can, and increasingly are becoming a source of new and valuable knowledge (Prahalad and Krishnan, 2008), research dedicated to diffusion of knowledge from emerging market subsidiaries of developed market MNCs is still scarce.

In the context of international human resource management (IHRM), literature on knowledge transfer focused on cross border diffusion of HRM practices, as visible means of transferring knowledge. Yet, with few notable exceptions (Ferner and Varul, 2000; Edwards and Ferner, 2004; Thory, 2008; Edwards and Temple, 2010), similar to the international business literature, it is focused on transfers from the corporate center, and adaptation of practices by foreign subsidiaries.

A very limited number of studies on reverse diffusion (RD) of HRM practices should attract attention, given that RD is potentially very significant for both subsidiaries, who as a source of new practices are diffused within their multinational parent organization may enhance their status and claim on resources (Ferner and Varul, 2000), as well as for the whole MNC,

which thanks RD has the potential to ameliorate its competitive position (Holm and Deo Sharma, 2006). Further, practices from the subsidiaries can help headquarters to fine-tune and coordinate their strategy, and improve processes in their own, or other units in the network (Ambos, Ambos and Schlegelmilch 2006). Entrepreneurial behavior of subsidiaries, expressed by serving as a source of new practices, can also lead to their better perception in the eyes of the headquarters (Birkinshaw et al, 2005).

Definitions

A common feature of the IB and IHRM literature is that they perceive knowledge transfers as a transfer in dyads, namely between two units of the same MNC, but consider different directions of the flow.

Buckley, Clegg and Tan (2003) categorized knowledge flows within MNCs as primary, secondary, and reverse knowledge transfers. Primary knowledge transfer being the transfer of knowledge from headquarters to the subsidiary, transfer of knowledge between subsidiaries as secondary knowledge transfer, and knowledge transfer from subsidiary to the headquarters as reverse knowledge transfer.

According to Thory (2008) MNCs diffuse their practices from the home country to subsidiaries in other countries. This method is called forward diffusion (FD). A process of transferring practices that are developed in the subsidiary to the MNC home country domestic operations or the headquarters is called reverse diffusion. Thory (2008) distinguishes between two possibilities of reverse diffusion. First the practice can be implemented in the domestic plant as well as in other subsidiaries, which is called “flow” diffusion. The other possibility is a “strict” diffusion, where the practice is just transferred from the foreign plant to the headquarters. Reverse diffusion, following similar but slightly different definitions of Edwards and Ferner (2004) is a diffusion of practices from the foreign operations to the home country, contrasting with ‘forward diffusion’: from the home country to the foreign subsidiary, and ‘horizontal diffusion’ in which practices travel from one foreign subsidiary to another one. Reverse diffusion

is completed when the operations at the home country of the MNC adopt a practice originating at a subsidiary of the same MNC.

For the purpose of consistency with literature most relevant to our particular study, we employed the definition from Edwards and Ferner (2004). Also, all the other definitions are taken from previous studies, and we define an HRM practice broadly as a practice related to the management of people (e.g. conducting formal tests during recruitment process).

Paper objectives

The objectives for this paper are to examine in depth reverse diffusion of HRM practices in MNCs, and to extend IB and IHRM literature, indicating avenues for advancing research on this very important topic. Specifically, our goal is to explore the process of reverse diffusion of people management practices from MNC units operating in emerging markets, and we focus on diffusion of HRM practices developed at operations of MNCs in Central and Eastern Europe (CEE). The research agenda is structured around areas identified in the literature as not reflecting the complexity of corporate practice in MNCs, and suggests ways in which findings of this study could be applied to help advance this research field reportedly in need of further theoretical development (Jain et al., 1998).

Methods

Because of the relatively small amount of research on the topic, and the novelty of using CEE as a region of focus to study diffusion of HRM practices, we decided to use qualitative research methods. Using exploratory research design this study aims at extending our understanding of phenomenon of reverse diffusion of HR practices in multinational corporations. Since we entered an emerging research field, and because of the exploratory character of this study, we applied method of semi-structured interviews, which would increase chances of capturing the studied phenomena (Brenner, 2009). Interview based studies are well suited for

exploratory and theory building, or theory extending research (Eisenhardt, 1989). The advantage of a semi-structured interview is that it allows asking “how” and “why” questions (Yin, 2003), and follow up inquiries.

All respondents were approached in their native language. The interviews which were conducted in language other than English were translated by a bilingual expert. They were first contacted via E-mail, and after establishment of contact via telephone to discuss focus and form of the study and technicalities associated with the interviews. Due to confidentiality reasons, in majority of cases the HR managers demanded to stay anonymous. All interviews are recorded and transcribed, and whenever possible, internal company material is collected.

Sample and respondents

In sampling we went beyond most of previous studies on this topic (e.g. Edwards and Tempel, 2009; Thory, 2008), which are mostly based on convenience samples. Using stock exchanges indexes and listings published by foreign investment agencies, we targeted largest companies of the Germanic culture cluster with operations in Central and Eastern Europe.

Overall we approached over 600 organizational units, both headquarters and subsidiaries, of 238 MNCs headquartered in Austria, China, Germany, Korea, Netherlands, Singapore, Switzerland, and subsidiaries located in Croatia, Czech Republic, Poland, Serbia and Slovakia, and conducted 169 interviews. Data for this paper were selected on a basis of their ability to illustrate phenomena new to the literature on diffusion of HRM practices in MNCs.

Choice of informants was based on their potential knowledge necessary to contribute to the study. Informants from similar management levels were chosen to be able to compare perspectives. Both HR managers and other personnel, or in cases when an organizational unit did not have a fully fledged HR department other individuals involved in the diffusion of given practices were approached, to ensure that the respondents possessed knowledge necessary to discuss issues and phenomena under study.

Research context

Central and Eastern Europe (CEE) offers a very interesting place for researchers, because the transition processes in these countries offers some unique societal quasi-experiments (Meyer and Peng, 2005). They suddenly changed their structure from central planning to market competition and quickly built up a high degree of industrialization. Thus, we can be able to test how universally applicable existing theories are. Furthermore it allows discovering assumptions that are often not seen when researching in mature market economies.

Results and discussion

Overall we found 102 instances of diffusion of HRM practices originating at MNC subsidiaries in Central and Eastern Europe. In this section we discuss illustrative cases to show how our study can contribute to the literature of reverse diffusion of HRM practices in MNCs, and point out areas opened by this project, where research can be advanced.

Firstly, this study is innovative in its focus on diffusion from subsidiaries in emerging markets in Central and Eastern Europe, and contributes to the international HRM literature by exploring new types of diffusion and enriching previous categorizations. The focus on diffusion from organizational units in emerging markets allows for a better understanding of how companies in developed nations can benefit from the current wave of globalization, in which emerging market organizations are increasingly active.

Our research conducted so far confirmed existence of reverse diffusion of HR practices from CEE, proving that MNCs can source valuable practices from their operations in emerging markets. We also found that specific characteristics of the CEE region, including negative phenomena like high unemployment or rapid and large-scale migration of talent, shape both channels of diffusion, and destinations of diffusion, as well as types of practices which are developed and transferred.

Edwards and Ferner (2004) pointed out that reverse diffusion does not occur in all firms. But to our best knowledge no studies have shown, how prevalent the phenomenon is. At this stage of the data analysis, and given a qualitative nature of this paper, we are not able to tell what

percentage of MNC subsidiaries in CEE engage in reverse diffusion of HRM practices. Still, our general observation is the lack of evidence of reverse diffusion at most contacted subsidiaries, and most of the contacted headquarters, thus there is no clear indication that the reverse transfer of HRM practices actually takes place at majority of firms/subsidiaries.

This is an important observation, and provides material for a discussion if multinational corporations are taking advantage of their multinationality, utilizing their human resources located at foreign subsidiaries, and sharing knowledge across locations, as advocated to be a primary source of competitive advantage of MNCs by all scholars in the research stream following the seminal writings of Bartlett and Ghoshal (1986, 1989). Findings from our research project, standing in line with suggestions of Whitley (2007: VI) should encourage future research to take a more sober view on the extent to which MNCs are really able (and managers and staff willing to) explore their multinational potential, and to limit taking over optimistic assumptions about the nature of multinational firm.

We now take a closer look at the reasons for non-existence of reverse diffusion , and try to explain lack of it in different firms, and at different subsidiaries, distinguishing between factors hindering reverse diffusion at various levels within the organization and its environment.

At the subsidiary level, the main reasons for the lack of reverse to the headquarters are lack of proper HR structure in subsidiaries, as some of them are mostly very small in the size, and limited in their business operations. However, even bigger subsidiaries, with their own HR departments and large number of employees do not engage in reverse diffusion of HR practices, primarily because they are still rather young, relatively inexperienced and mainly still working according to the specific instructions and guidelines from the headquarters. Finally, certain historical, social, political and legislative particularities of CEE countries represent potential barriers to the reverse transfer of HR practices from these subsidiaries.

At the headquarters, characteristics of particular business systems, as well as differences between business systems in which the subsidiary and the headquarters are operating in seem to play a major role in the occurrence of reverse diffusion of HR practices, which are rooted in national business systems - in Asian and Germanic countries in particular, given the complex structure of wage and pension systems as well as specific recruitment methods applied in the

companies, the question remains whether multinationals use the knowledge of their subsidiaries based in other countries by supporting reverse diffusion of HR practices.

Similarly, one of the important issues would be to explore the possible reasons for which why pure “reverse diffusion” originated in the CEE region has been so rare in the investigated companies as well as to discuss the potential losses caused by “unused” of HRM knowledge based in CEE subsidiaries.

Further, this study allowed identification of new types of diffusion flows, going beyond classifications in the existing literature. The division of diffusion flows into forward, horizontal, and reverse, while logical, coherent, and useful for initial sorting of data, does not stand to the complexity and varieties of corporate life, especially in. Let us consider the following cases found during our field work.

A hybrid type of diffusion we encountered most often was when regional HQs organize international workshops attended by all HR managers from CEE. Such workshops can be either a routine, usually quarterly meeting, or called as a special task force to address specific problem. At such meetings They posses characteristics of all types of diffusion: reverse, because new practices are developed by people from subsidiaries, forward, since the work on new practices is controlled by, and takes place at, the HQ, and horizontal as well, because diffusion happens immediately and simultaneously at all subsidiaries in the region. That type of diffusion is typical for many MNCs with subsidiaries in CEE, since they usually have regional organizations with a special unit dedicated to coordination of human resource management at operations in Central and Eastern Europe.

Another type of diffusion not described in the literature, and that we encountered during our study, is a case when two subsidiaries offer a very similar idea at the same time. That is at least to some extend more likely to happen within CEE, since on one hand subsidiaries in different countries of the region are at a similar stage of development, and on the other hand, because of similarities between host countries, subsidiaries at various geographical locations within the region face similar challenges and opportunities at the same time. Thus, it is not surprising that more than one unit can develop a practice to tap on those opportunities, or moderate threats from the environmental. We saw such a case in one of large German

companies, where both a subsidiary from Hungary and a subsidiary from Poland developed a practice of utilizing European Union funding for employee training and development. As explained above, such a case can be explained by similarities in both external environment - availability of EU funding appeared at the same time in both countries- and internal organization, as the two subsidiaries share similar history, and have comparable role and size within the corporation. Such cases resemble instances of bidding for mandates (Birkinshaw, 2001; Birkinshaw and Lingblad, 2005).

Occurrence of such situation could attract attention of researchers at least for two reasons. Firstly, because it increases complexity of diffusion and it can be recorded and analyzed which units are sourcing a new practice from which other unit when two relatively close sources are available. Secondly, it attracts attention to communication within the corporation, and in particular to signaling of development of new practices at subsidiary. Signaling work on a new practice can attract HQs attention and possibly lead to their involvement in the process, and consequently decreased autonomy of the subsidiary. Drawing from the literature on subsidiary initiative (Birkinshaw et al., 2005), we suggest that HR units at subsidiaries will be sharing a new practice only when the work on it is finished, and when they will be able to gain credit for their input, thus normally providing sister units with new ideas, at the same time presenting their achievement before their superiors. In the case described above, both subsidiaries gained same credit for developing a new practice. Assuming that due to its coordinator's role, we can suppose that in case they announced work on that practice earlier, the HQs would suggest rationalization of developmental work, and consequently shared credit for both subsidiaries.

In some instances of diffusion it was difficult to delineate between forward and reverse and diffusion HQs suggesting general direction (policy) and subsidiaries introducing a practice to execute that policy. Another factor influencing occurrence and intensity of diffusion of HR practices, as well as nature of diffusing practices, is HR policies. Future research could investigate links between HR policies and diffusion of HR practices, as well as to show how diffusion of one practice is influencing diffusion of following ones.

Regarding channels of diffusion of HR practices, the results suggest that knowledge transfers in the area of HR management often happen through trainings, which are usually delivered in the form of seminars and workshops. Specifically we found that transfers of HR

practices between subsidiaries in the CEE region are done via seminars and employee trainings, often as a result of international workshops, where employees from different subsidiaries in the region are exchanging their experience and practices, as well as contributing towards creating and developing new knowledge. That is typical to CEE because of cultural reasons, and to strategy of the firms, which open regional headquarters and apply unified management tools for the whole region

Concerning type of diffused practices, it can be said that reverse transfers were characterized by rather “evolutionary” character, which is, according to Edwards and Ferner (2000) directed towards changes or improvement of already existing practices (“modus operandi”) of the company. This means that the company is keeping its standardized way of doing business, and that it only “fine-tunes this through learning from its foreign plants”. Again, given that for this study we employed qualitative research methods, we are not able to show numerical results like a ratio of evolutionary to transformative instances of diffusion. Transfers that were mentioned by many respondents were related to the exchange of experiences between employees and suggestions about how to improve their local work environment. Yet, one issue which became clear is that a practice can be evolutionary and transformative at the same time, but in different dimensions. For example, in one transportation company we found a practice related to electronic HR evidence, which because of its outcome was transformative from the HR point of view, but evolutionary from the technical (IT) perspective, as it required only activation and simple development of one module in the electronic system already used throughout the whole corporation.

Literature also suggests potential recognition for initiative as one of the significant reasons for engaging in reverse diffusion, for subsidiaries, who as a source of new practices that are diffused within their multinational parent organization, may enhance their status and claim on resources (Ferner and Varul, 2000). As we learned, recognition is often also expressed through direct material bonuses, prizes, or non-material rewards like mentioning in corporate news or internal magazines. An underlying assumption in the previous studies was that an initiative of a subsidiary can be accepted or rejected, and if it is accepted, i.e. a practice is diffused, a contributing subsidiary is somehow rewarded. During our study we encountered also cases of ideas “stolen” by the HQs. In one case, a manager from Poland suggested a new variable pay

system for the salespeople. His idea was rejected by the HQs HR manager, who however after around two months announced and introduced companywide a new remuneration system for salesforce, based on variable pay. Another case happened in an Austrian company. A person responsible for HR in Bulgaria contacted his/her superior at the HQs in Vienna suggesting introduction of a new HRM practice, but that person rejected the idea. Still believing in the value of that practice, the person from Bulgaria on a next personal visit to Vienna approached a more senior executive and presented the new practice, only to learn that it is a great idea, but already developed by Person XYZ – the one who rejected initiative from Bulgaria. Perhaps interestingly, reactions at the contributing subsidiaries were completely different. In the case of new remuneration system, the subsidiary manager perceived the “new” ideas from the HQs as a compromise, and was relatively happy about such an outcome, while in the second case, we only found disappointment and frustration at the subsidiary which lost credit for its innovative ideas. Based on those two related cases, we suggest that future research addresses issues of post-rejection time, in particular the consequences for future initiative taking at the subsidiary, changes in subsidiary status, especially comparisons between contributors whose practices were diffused to those who were not accepted, as well as distribution of credit for contributors vs. credits for diffusers.

One other example of is how practices can flow within the organization. Previous literature focused on investigations of transfer from one unit to another one (Edwards and Ferner, 2004; Thory, 2008), or from organizational unit (usually headquarters) to many other units (Kostova and Roth, 2002, Lervik, 2006), and adoption or level of adoption (Kostova, 1999; Bjoerkman and Lervik, 2007), but have not considered how a practice can circulate within an organization. In our study we encountered instances when practices from “advanced” subsidiaries were first distributed among other subsidiaries, but then “climbing” to eventually reach the headquarters, which comes into discussion with the dominant view in the literature on diffusion of practices, and diffusion of knowledge in general, which suggested that practices will flow “down” from more to less advanced units.

A general contribution to the management practice is that both the headquarters and subsidiary managers are informed by the findings of this study about factors affecting diffusion of important practices within MNCs. Thus, the HQ managers can enhance their learning from

foreign operations, and subsidiary managers can better understand what practices under what circumstances can be diffused and enhance both corporate learning and subsidiary status.

Directions for future research

Since vast majority of MNC units did not engage in reverse diffusion, and the potential value for the MNCs lost due to that fact, future research should examine in more depth reasons for non-occurrence of reverse diffusion. We suggest that in search for factors hindering reverse diffusion look into various literatures, extending the current theoretical base, and also go beyond examining organizational and environmental factors, and examine in more detail personal characteristics of actors involved in the process of reverse diffusion. In particular, we believe that personal motivation is an important but relatively under-researched topic in literature on reverse diffusion of HRM practices, and we extend Jonsson and Kalling (2007) call for deeper insights into motivational factors influencing cross-border diffusion of knowledge.

Further, we suggest that future studies also explore path dependencies between success of reverse diffusion and intensity of new attempts to engage in the process of reverse diffusion at both headquarters and subsidiaries, as well as path dependency between reverse diffusion and subsidiary status in longitudinal studies. Also, future research could investigate the interplay between different roles played by the same unit, i.e. for example if being a receiver of new practices has an impact on initiative taking and attempts to transfer new practices.

In general, data from our interviews can inform development of survey instruments, where insights from the current study and a review of relevant literature can serve as a basis for building and statistical testing of more specific hypotheses

Limitations

This study suffered from several limitations. Firstly, as a multiple qualitative case study it inevitably cannot serve as a source of generalizations (Gibbert, 2008) about the population of

multinational firms. Also, narrowing the sample to West-European and Asian MNCs operating in Central and Eastern Europe excludes generalizations among regions, as we were not able to see how much national environment, including common cultural characteristics of Europe, which shaped informants' answers, and to what extent the results are comparable to other regions, in particular other emerging markets, like for instance Latin America. Thus, future research should look for samples with a broader geographical scope.

Similar to Williams (2009), attempts were made to screen companies and respondents to build a sample of experienced MNC managers responsible for HR, drawn from a broad range of industries and countries. Interpretation of interviews is also limited in this study, since a detailed descriptive analysis of the interviews examples were found that provided anecdotal support for the presence of subsidiary initiative in the area of HRM.

We also understand that some types of practices were not reported due to confidentiality or questionable impact on corporate image. We encountered instances of such HRM practices, and no evidence of diffusion of such practices. It could be that subsidiaries were not willing to make such practices visible to other units, or units who incorporated such practices were not willing to share that fact with anybody else, the researchers in particular.

Given the nature of the study, and limited time managers were able to dedicate to answering questions, as well as the nature of phone interviews, we were able to only those instances of diffusion which were reported by the informants. To limit our dependence on respondents' memory and readiness to answer our questions, we always tried to ask more units of the same MNC in different countries, and in case fact of diffusion of certain practice was not mentioned by our respondent, we were able to bring in into conversation examples obtained elsewhere, and obtain further details or clarifications.

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