Reverse Diffusion of Human Resource Management Practices from Emerging Market Subsidiaries: Leveraging the Multinational Potential to Overcome Liability of Inferior Origin

Abstract

Emerging markets offer substantial learning potential for multinational companies. While most recent studies explore the reverse diffusion of technology and product innovations from emerging markets, the diffusion of management innovations, in particular human resource management practices, remains largely unexplored. Putting under scrutiny both country and organization level factors affecting reverse diffusion of human resource management practices from emerging market subsidiaries, we conceptually analyse such diffusions. Specifically, we suggest which type of multinational company is best positioned to utilize the potential of its emerging market subsidiaries for advancing human resource management practices, and which types of practices are best suited for reverse diffusion. We also offer recommendations for practitioners and policy makers, and outline avenues for future research. Our work can advance research on organizational innovation, knowledge management, and organization of multinational companies.

Keywords: reverse diffusion, human resource management (HRM) practices, emerging markets, multinational company (MNC), subsidiaries, headquarters

Introduction

Emerging markets are increasingly becoming a source of new and valuable knowledge (Prahalad & Krishnan, 2008; Simon & Cao, 2009; The Economist, 2010). The subsidiaries of multinational corporations (MNCs) are best positioned to diffuse that knowledge to the developed market headquarters and other MNC units (Bartlett & Ghoshal, 1989; Nohria & Ghoshal, 1997; Doz et al, 2001, Forsgren et al., 2005; Minbaeva, 2007). Examples include subsidiaries of GE in India and Poland diffusing new technologies to the GE units in Japan and USA and P&G diffusing new products from South Africa (Bartlett & Beamish, 2011), or diffusion of quality management practices from GM subsidiaries in Poland to GM UK (Dobosz-Bourne, 2006). Some developed market companies even purposefully adopt innovations from emerging markets at their home base as a defensive strategy to “pre-empt” the room for their emerging market rivals (Immelt et al., 2009; Govindarajan & Ramamurti, 2011).

The potential for reverse diffusion of human resource management (HRM) practices from emerging markets, i.e. the adoption of HRM practices originating at the emerging market subsidiaries by the headquarters of the developed market MNCs is hindered by two sets of factors: organizational level issues and national level influences. The latter can be explained by the theory of dominance effects (Smith & Meiksins, 1995), which predicts that subsidiaries from the emerging market countries will be adopting practices from those countries which are perceived as more developed, and not the other way round. Indeed, empirical tests show that HRM practices in MNCs converge to the global “best practice” model of dominant countries (Pudelko & Harzing, 2007), and the dominance effect explain the extent of reverse diffusion of HRM practices in MNCs (Edwards & Tempel, 2010). For instance, within the emerging market region of Central and Eastern Europe, firms adopt practices from the more developed Western Europe (Michailova et al, 2007; Scholz & Boehm, 2008). Being tuned on the adoption of practices from the developed market headquarters, subsidiaries in emerging markets may not even make attempts to carry out reverse diffusion of their own practices.

The organizational level factors hindering reverse diffusion are, in an aggregated form, manifested by the "corporate immune system" (Birkinshaw & Ridderstrale, 1999; Birkinshaw, 2000). It predicts that within the MNC, subsidiary attempts to carry out reverse diffusion will be confronted with the headquarters' resistance based on ethnocentrism, suspicion of the unknown, and resistance to change. That reverse diffusion will be successful only if subsidiaries win credibility in the eyes of the headquarters (Birkinshaw & Ridderstrale, 1999; Birkinshaw, 2000; Williams & Lee, 2009). These restrictions are particularly burdening for the reverse diffusion of HRM practices from emerging market subsidiaries, which are often viewed by the developed market MNC managers as "the most foreign of all foreign places" (Selmer, 2005), and their HRM practices reflect significantly different host country environments (Budhwar & Debrah, 2005).

The national and organizational level "immune systems" hindering reverse diffusion from the emerging market subsidiaries pose a significant challenge to the MNCs, whose competitive advantage relies on the ability to explore the knowledge of *all* units (Bartlett & Ghoshal, 1989; Doz et al., 2001). While recent research shows that MNCs are increasingly focused on the exploration of product innovations in emerging markets (Govindarajan & Ramamurti, 2011), the innovative potential of the emerging market subsidiaries in the area of processes and administrative practices remains less explored in international business literature. It is, however, imperative for the competitiveness of the MNC that *each* subsidiary participates in the diffusion of innovative practices (Nohria & Ghoshal, 1997). In times when emerging markets are becoming increasingly important for the competitiveness of MNCs, to capitalize on their multinationality and to fully explore the potential of their network of subsidiaries, MNCs need to find ways to enable reverse diffusion of HRM practices from emerging markets overcoming the hindering factors.

To help MNCs solve this problem and to extend the theoretical understanding of this phenomenon which is potentially very significant, yet relatively new to management research, we conceptually explore the effects of company and country level "immune systems" on the reverse diffusion of HRM practices from emerging market subsidiaries. Specifically, we link streams of literature on reverse diffusion (Ferner, 1997; Edwards, 1998; Tempel, 2001; Tregaskis et al., 2010; Ferner et al, 2012) and subsidiary entrepreneurship (Birkinshaw, 2000; Birkinshaw et al., 2005) to suggest the type of a multinational company which is best positioned to utilize the potential of its emerging market subsidiaries for advancing human resource management practices, and identify the types of practices best suited for reverse diffusion to the MNC's developed market headquarters.

Our work is an answer to the recent calls for research on reverse diffusion of innovations from emerging markets (Govindarajan & Ramamurti, 2011), calls for research on MNC HRM practices in emerging markets (Arrau et al., 2012), and for research on the diffusion of subsidiary knowledge flows which would extend the scope of inquiry to multiple levels of analysis and incorporate search contexts beyond the developed markets (Michailova & Mustaffa, 2012). We attempt to contribute to those literatures, and more broadly provide insights which could extend the theories of diffusion, of management innovation and of the organization of multinational companies.

The paper proceeds as follows. In the next section, we review relevant literature to shed light on the importance of reverse diffusion of HRM practices from emerging market subsidiaries and present challenges to such diffusions. Drawing from that review of literature we delineate the national and organizational level factors hindering reverse diffusion from emerging markets, which we refer to as "immune systems". Afterwards we establish a set of propositions on the type of a company and the type of a practice optimally set for reverse diffusion from emerging market subsidiaries, and elaborate on them in the following discussion. We then proceed with a discussion of the implications for subsidiary and headquarters managers, as well as for policymakers in the MNC home and host countries. We end the paper addressing the limitations of our work, and suggest an agenda for further research.

Reverse diffusion of HRM practices in the literature

Relevance of reverse diffusion: learning from the world

International business literature conceptualizes the MNC as an organization whose competitive advantage depends on the ability to recognize and absorb knowledge from its network of internationally dispersed subsidiaries (Nohria & Ghoshal, 1997; Gupta & Govindarajan, 2000; Minbaeva, 2007; Michailova & Mustaffa, 2012). HRM practices, the primary means for influencing the behaviour of employees, are fundamental for competitiveness in an economy increasingly based on knowledge (Jackson et al., 2003; Vokic & Vidovic, 2008). For contemporary MNCs operating in a business environment where valuable practices are increasingly complex and developed in dispersed units, reverse diffusion is of primary importance. In fact, no MNC can rely on a single (home) country as a source of new practices (Doz et al., 2001).

Past research has shown that reverse diffusion can enhance the performance of both the MNC headquarters as well as other units (Ambos et al., 2006; Thory, 2008; Edwards & Tempel, 2010; Rabbiosi & Santangelo, 2012). Reverse diffusion also increases the pool of available practices and decreases the organizational costs of learning in the units receiving ready solutions (Doz et al., 2001), sometimes from distant subsidiaries, and helps headquarters to improve its central management processes (Birkinshaw, 2000). As markets and companies are internationalizing, their practices must become more international. And as emerging markets are becoming increasingly important for the MNCs, they should also explore their emerging market subsidiaries for innovative practices.

Relevance of learning from emerging markets

Most previous studies examined reverse diffusion from the developed market subsidiaries (Ferner et al, 2001; Tempel, 2001; Edwards & Ferner, 2004; Thory, 2008; Edwards & Tempel, 2010; Tregaskis et al, 2010; Ferner et al, 2012). The last two decades, however, has seen a global rise of the emerging markets, and MNCs have been the first in line to capitalize on this phenomenon. One of the impacts of this has been a change in the balance of the employee voice, which requires MNCs to learn new human resource management practices. The number of employees in emerging market subsidiaries now outweighs the number of employees in the home country operations of many MNCs. More importantly, that is not only true for the labour-intensive industries, but also for knowledge intensive companies like Accenture or IBM, which now employ more people in emerging markets than in their home country (Guillen & Ontiveros, 2012: 12-13). Emerging market multinational firms represent one-fourth of the 500 largest companies in the world and nearly one third of the total number of multinational firms (Guillen & Ontiveros, 2012). Since the power of

MNCs depends on their knowledge, and power of a particular MNC unit within the MNC depends on its knowledge (Mudambi & Navarra, 2004; Forsgren et al., 2005), the developed market MNC headquarters need reverse diffusion from their subsidiaries to learn about the growing emerging markets as they increase in importance, not least as a defensive strategy against the “emerging giants” competitors.

In a global war for talent, developed country governments establish special incentives to attract labour force from the emerging market countries (e.g. Austrian Red-White-Red card for highly skilled migrants from outside of European Union), while the developed market companies are actively sourcing employees from emerging markets (e.g. Western European companies in Eastern Europe). Such strategies reinforce the general migration trends, since economic and political challenges typical to emerging market countries cause migrations for jobs to developed countries (e.g. UN 2012)

Another reason why the developed market MNCs would need to learn HRM practices from the developed markets is rooted in temporal issues like the recent economic downturn. During the recent crisis, emerging markets economically outperformed the developed market countries (Guillen & Ontiveros, 2012), attracting greater attention of MNCs, who also examine the practices used in the emerging markets.

HRM practices in emerging markets

Companies operate according to different institutional principles and exhibit dissimilar organizational and inter-organizational structures that manifest those principles (Gooderham et al., 1999). HRM practices reflect the environments in which companies operate (Dickson et al., 2004, Björkman et al., 2007) and as emerging and developed market environments differ significantly, so do HRM practices used in both contexts. Due to historical reasons, some areas of organizational practices in emerging market companies, especially those related to work organization, remain underdeveloped (Budhwar & Debrah, 2005; Horwitz, 2011 and 2012). For example, in Central and Eastern Europe and Russia an inefficient use of human resources was a major weakness during the communist era, and HRM practices, at least to some extent, still reflect the heritage of closed economies. MNCs in the region still experience difficulties finding management talent, or even basic support with state-of-the-art recruitment techniques from the HR department (Larcon, 1998; Gurkov & Zelenova, 2009). Similar challenges are common to other emerging markets. For instance, in Turkey well into the 1980s HR management positions were occupied predominantly by retired officers and other people without business degrees (Duman et al, 2008), while professional HRM practices in African countries, in particular those least developed economically, are only beginning to emerge (Kamoche et al, 2012).

The business environment in emerging markets is very dynamic. Adjusting to the fast pace of change in the environment, companies in emerging markets either develop new HRM practices, or adopt practices from the developed countries. The former are normally set to compensate underdeveloped institutions, for instance deficiencies in state-sponsored healthcare and social insurance (Gurkov & Zelenova, 2009), while the latter build legitimacy in relations with foreign investors (Nolan, 2010). Since HRM in emerging markets is subject to rapid changes, MNCs should expect the development of new HRM practices in their emerging market subsidiaries (Budhwar & Debrah, 2005; Michailova et al, 2009; Warner & Rowley, 2010; Kamoche & Newenham-Kahindi, 2012), which creates potential for reverse diffusion.

Reverse diffusion from emerging markets

Practices embedded in the local subsidiary environment are difficult to diffuse (Lam, 1997). It is certainly true that many practices developed in an emerging market context may not be applicable to the developed market environment. Still, there are others which do not carry the burden of the emerging market origin and can be applied in different contexts, and are suitable for reverse diffusion to the developed market headquarters. The criterion is legitimacy, which is required for acceptance and utilization of the diffused practices (Kostova & Zaheer, 1999; Kostova & Roth, 2002).

Perceived legitimacy of HRM practices may, however, be difficult to achieve for emerging market subsidiaries. The perception of subsidiaries by the headquarters depends to a great extent on the local environment, in which subsidiaries are embedded and from which they can learn (Ferner & Varul, 2000; Forsgren et al, 2005). Since their business environment is relatively less developed, and often they are actually trying to equate their practices to the developed market standards (Michailova et al, 2009), the potential for learning practices which could be subsequently diffused to developed market headquarters is limited. Also, many individuals emigrate from the emerging market countries to the developed ones, frequently within the same MNC. Those migrants however often suffer from the "underdog syndrome" (Kozminski & Yip, 2000: 302) and to overcome it and succeed in their new environment quickly adopt headquarters' practices rather than try to promote practices from their home country subsidiaries. This further reinforces perceptions of the dominance of the developed market headquarters' practices.

The challenges posed by an inferior environment are coupled by organizational characteristics. Emerging market subsidiaries have less developed organizational systems and practices, since they are often younger, smaller, and serve less sophisticated customers than the MNC units in developed markets (Whitley, 2007; Vokic & Vidovic, 2008). Consequently, MNCs may not find good opportunities to learn new practices from them.

Under some circumstances, however, the emerging market practices can be perceived as legitimate to adopt in the developed market headquarters. Within developed countries of the West, companies facing pressures similar to those typical to the emerging market environment start seeking for new practices in the emerging East (Ming-Jer & Miller, 2010). For example, massive job losses and perceived job insecurity of employees, or for business conditions in the developed countries severely suffering from the economic crisis, like currently those in Southern Europe, do resemble at least some of the conditions typical to the emerging markets. Companies in such environments could potentially find practices developed by their emerging market subsidiaries useful in their current situation. There is already some evidence that companies in Western Europe have changed their HRM practices in response to the economic downturn, e.g. cutting expenditures on management development (Sheehan, 2012), and such cost rationalizations open room for the adoption of low cost practices of emerging market subsidiaries.

Lastly, there is some room left to chance, and reverse diffusion is not always predictable. Findings from the literature on subsidiary initiatives and entrepreneurship indicate that innovative practices *may* be developed in *any* subsidiary (Birkinshaw, 2000; Birkinshaw et al., 2005; Mol & Birkinshaw, 2010). Further, headquarters do not possess a perfect overview of the subsidiary practices (Forsgren et al., 2005). Reverse diffusion is thus a phenomenon which may emerge in an unforeseen way. The location of MNC units sensing and developing practices in response to new opportunities or challenges cannot be perfectly pre-designed. The time and geographic location of new organizational developments cannot be always predicted, and headquarters are simply not able to know or anticipate all the sources of new practices that may be of benefit to themselves of the whole MNC.

Corporate-level immune system

Although hindering some attempts of reverse diffusion is a critical task of the headquarters (Bartlett & Ghoshal, 1989), a general negative response of headquarters to all attempts to carry out reverse diffusion regardless of their potential value to the MNC can be seen as a manifestation of the "corporate immune system". This has been defined by Birkinshaw and Ridderstrale (1999: 153) as a "set of organizational forces that suppress the advancement of creation-oriented activities" such as the reverse diffusion of subsidiary HRM practices. The immune system is rooted in ethnocentrism, suspicion of the unknown, and the resistance to change of the corporate centre. It prevents proper evaluation of the impact of potential reverse diffusions, as headquarter managers are pre-disposed to rejecting reverse diffusion attempts by subsidiaries, and act to prevent sanctioning and funding for new ideas originating in subsidiaries (Williams & Lee, 2009).

While the corporate immune system and its variations like the NIH (Not Invented Here) syndrome can be found in many, if not all companies (Katz & Allen, 1982; Bartlett & Ghoshal, 1989: 118; Forsgren et al., 2005: 158), it can become particularly strong in the context of reverse diffusion of HRM practices from emerging market subsidiaries. Consequently, it can close off the MNC from the absorption of potentially valuable and innovative organizational solutions. Particularly one aspect of resistance to reverse diffusion specified by Birkinshaw (2000) sharpens the impact of the corporate immune system on reverse diffusion from emerging markets: misunderstanding and lack of trust. As the environment and practices used in the emerging and developed market units differ significantly, there is a greater room for possible confusion about the purpose and outcomes of adopting certain practices. The headquarters' perception of what the best practices are reflects the historic success of the MNC, and not the current developments in the business environment (Birkinshaw, 2000). For developed market headquarters, adopting ideas through reverse diffusion changes the pool of used practices, and requires adaptation to the new situation, which in turn may lead to resistance of those units (Jansen & Szulanski, 2004). This seems to be confirmed by the findings of Kossek (1989), who observed that HR innovations are better accepted by those groups in the organization who are not directly affected by the introduction of the new practices. Also, the emerging market subsidiaries, very often young organizations, have not yet gained headquarters' trust that is built with time and through subsequent successful initiatives (Birkinshaw, 2000; Birkinshaw et al, 2005). Their young age also negatively affects the perceived benefits of reverse diffusion by the headquarters (Rabbiosi & Santangelo, 2012).

Since the HRM practices of both the headquarters and subsidiaries are shaped by the environment of their home and host countries, it is reasonable to assume that national level factors will influence the corporate immune system and, through it indirectly, reverse diffusion, and at the same time to expect that same factors will pose direct influence of reverse diffusion. Therefore, we proceed with an examination of the national level immune system, investigating its double influence hindering the reverse diffusion of HRM practices from the emerging market subsidiaries.

National-level immune system

National characteristics influence the abilities of companies to produce and to absorb new organizational practices (Whitley, 2007), and past research has revealed country of origin effects on the type of practices that are diffused, and on the propensity of headquarters and subsidiaries to engage in reverse diffusion (Ferner, 1997, Ferner et al, 2005; Thory, 2008; Edwards et al, 2010). To identify the national-level immune system we set out from the definition of the corporate immune system by Birkinshaw and Ridderstrale (1999: 153) and adapt it to include national level factors hindering reverse diffusion, i.e. a set of national forces that suppress the acceptance of creation-oriented activities from another country.

Readiness to engage in reverse diffusion is shaped by perceptions of legitimacy based on the condition of national economies. Practices used by the developed market headquarters are subjectively perceived as a source of their economic success. Building on the dominance effects theory (Smith & Meiksins, 1995; Edwards & Ferner, 2004; Pudelko & Harzing, 2007), and arguments on the liability of origin faced by companies associated with the emerging market context (Ramachandran & Pant, 2010; Yildiz & Fey, 2012), we expect that managers of headquarters located in developed market countries will perceive practices used at their emerging market subsidiaries as less advanced (or at most copies of the headquarters practices), or even not fulfilling the standards of management in a developed market context. Thus, when managers believe their country business system is unique and well-performing, they will not be willing to incorporate practices from a different context, and from emerging market organizations in particular.

Besides the direct effects of reverse diffusion from emerging market countries, the national level factors induce the corporate immune system, influencing its elements, i.e. ethnocentrism, suspicion of unknown and resistance to change at the headquarters. Ethnocentrism in the sense of Birkinshaw and Ridderstrale's (1999) corporate immune system is used in a generic way, implying a perception that the practices of the corporate centre are superior to those coming from the corporate periphery. Indeed, despite globalization there is still a tendency to retain developmental and innovative activity in the MNC's home country (Tregaskis et al, 2010). In the case of reverse diffusion from emerging market subsidiaries, the dominance effect reinforces the perceived superiority of practices from own country operations, feeding the ethnocentrism of headquarters. Yet the national immune system imposes more complex barriers and while foreignness of practices is a factor hindering reverse diffusion because of the ethnocentrism, the nationality of origin and its different aspects may be more important (Stevens & Shenkar, 2012). Specifically, suspicion of the unknown is greater towards practices from the emerging market countries not only because they are foreign, but because the national characteristics of their origin are perceived as more different (Ramachandran & Pant, 2010). The influences of the national level immune system on the third pillar of the corporate immune system, i.e. resistance to change, is caused by the satisfaction of headquarters with own country practices, believed to be one of the factors making their home country more "developed", but also fears of adverse reactions of stakeholders within the MNC home country who, also subject to the national influences, may negatively perceive the adoption of practices from an emerging market (Stevens & Shenkar, 2012).

Propositions

The literature identifies numerous factors which potentially hinder reverse diffusion from subsidiaries in the emerging markets, but at the same time it also points out the value and importance of such diffusions. It is therefore crucial to learn under what conditions the developed country headquarters will engage in reverse diffusion from their emerging markets operations., i.e. when reverse diffusion will occur in spite of the existence of the “immune systems”. In this section we develop a set of propositions indicating the types of practices that can be readily diffused from the emerging market subsidiaries to the developed country headquarters, the organizational characteristics of the MNC in which such diffusions are likely to occur, as well as national level factors which facilitate the process.

Type of practices

Adaptation significantly increases the difficulty of cross-border diffusion of practices (Jensen & Szulanski, 2004), which puts an additional burden on diffusions from emerging market subsidiaries, where the need for adaptation is greater because of differences in institutional environments. Some valuable subsidiary practices embedded in the emerging market context are therefore often difficult to diffuse to the developed market headquarters.

Still, there are different practices and organizational structures that can be equally efficient in different countries (Orru et al, 1991). Some HRM practices, for example, may be developed and applied in both emerging and developed market units. These are explicit HRM practices, such as some IT HRM systems (e.g. IT solutions supporting HR management, like tele-meeting infrastructure or use of payroll software.), or practices reflecting the globally recognized principles like the United

Nations Declaration on Human Rights, universal human values like the so called "golden rule" found in all major religions, which are shared across many contexts and cultures, regardless of the level of their economic advancement. Such practices, being free of the limitations of any prejudice, in particular the liability of an emerging market origin, are used by both developed and emerging market MNC units. Examples include cost-saving practices like switching off the lights after leaving the place of work, recycling office equipment or emergency procedures for calling help for a person who collapsed during work. Such practices are legitimate in the eyes of the headquarters regardless of their origin. To facilitate acceptance, some MNCs may even promote denationalisation of their HRM practices (Tempel, 2001: 239-241).These should not be seen as "culture-free" practices, but practices free of the emerging market nature. Subsidiary level actors in countries that are perceived negatively by the headquarters will not be able to pursue reverse diffusion unless the practices they attempt to diffuse are perceived as compatible with the dominant models (Edwards & Tempel, 2010). The emerging market subsidiaries which develop practices based on universal or "dominant" values enjoy the perception of legitimacy. Hence, we propose that:

Proposition 1a

Developed market country headquarters will engage in reverse diffusion from emerging market subsidiaries when the diffusing practices are representing universally accepted values.

On the other hand, the emerging market environment facilitates development of some practices which may gain credibility and become valuable in the eyes of the headquarters precisely because of their emerging market origin. Earlier, we pointed out that subsidiaries operating in the emerging market context develop distinctive practices to cope with dynamic legal systems, or deficiencies of the infrastructure, or ineffective national social security systems. Under some circumstances, e.g. during a crisis of the national economy in the developed countries, headquarters may start seeking solutions to similar environmental challenges. Diffusion of practices initiated in the overseas subsidiaries of the MNC can win sanctioning and approval from headquarters managers if they are shown to be credible. Credibility is gained, among other ways, through a demonstrated successful usage (Birkinshaw, 2000). Hence, our next proposition:

Proposition 1b

Developed market country headquarters will engage in reverse diffusion from emerging market subsidiaries when the diffusing practices are set to solve an issue typical to the emerging market context, yet new to the headquarters' context.

MNC characteristics

The MNC characteristics play an important role in reverse diffusion of HRM practices (Edwards & Ferner, 2004; Edwards & Tempel, 2010). Subsidiary size matters since larger units are more likely to have developed fully fledged HRM practices (Vokic & Vidovic, 2008), while the subsidiary age matters since it influences perceived headquarters benefits from reverse diffusion of subsidiary knowledge (Rabbiosi & Santangelo, 2012). Headquarters' trust that reduces the impact of the corporate immune system is built with time and through subsequent successful initiatives (Birkinshaw, 2000; Birkinshaw et al, 2005), which further reinforces the importance of the age and experience of the diffusing subsidiary. That means subsidiaries in emerging markets are at a particularly disadvantaged position, since they are often younger and smaller than the MNC headquarters operations.

Yet within the corporate architecture, the HRM function is usually small relative to other corporate functions. The organization of the HRM function also very often follows a decentralized approach (Tregaskis et al, 2010). When HRM departments in the subsidiary and headquarters are both small, the relative size of the units involved in reverse diffusion at the subsidiary and the headquarters level is not at such a stark contrast like the size of all operations in both countries. When the HRM personnel are relatively small, they are responsible for a broader range of tasks and can develop practices for different sub-functions of the HRM system, like recruitment or remuneration. And in highly specialized HRM teams, the focused sub-teams responsible for particular areas of HRM are also small, which diminishes the effect of differences in the size of country operations. Relatively small headcount coupled with a similarity of work tasks in both instances create an incentive for the MNC to create international task forces and gives the HRM personnel better chances of diffusing practices (Edwards & Ferner, 2004). It also diminishes the effects of the corporate immune system related to the uncertainty, lack of trust, and the lack of knowledge about subsidiary practices. Hence we propose that:

Proposition 2a

Reverse diffusion of HRM practices from emerging markets is likely to occur in MNCs where the organization of the HRM function within the subsidiary network reflects the HRM organization in the headquarters.

The potential for reverse diffusion is also influenced by resistance to change by the headquarters. Previous research found that organizational slack diminishes the need of innovation and change of practices, and makes diffusion of practices abundant (Nohria & Ghoshal, 1997). The existence of organizational slack resources reinforces the satisfaction of the headquarters with their own practices based on their developed country status. Such headquarters are less versatile and willing to take the risks of adoption of new practices. When the emerging market subsidiaries do not possess organizational slack resources, they perceive themselves as dependent on their parent and are unlikely to become sources from which headquarters will diffuse practices (Mudambi & Navarra, 2004). Such units tend to comply with only implementer mandates coming from the headquarters (Kostova & Roth, 2002). Some slack is however necessary for reverse diffusion, since it allows experimentation and development of new organizational solutions. Thus, an MNC where reverse diffusion from emerging market subsidiaries is more likely to occur would be one with the headquarters suffering from no slack resources (e.g. home country operations in a crisis), and relatively resource-rich subsidiaries, i.e. such which need to innovate because of the dynamism of the emerging market environment, but which still have resources which allow experimentation. Hence, we put our next proposition:

Proposition 2b

An MNC where the headquarters do not possess organizational slack, but the subsidiaries do, is best positioned for reverse diffusion of HRM practices from emerging markets.

Country level factors

While the corporate context is very important for reverse diffusion to occur, national level factors also influence the process and some countries may be more favorable for the practice of diffusion than others (Kostova, 1999). Variations in social and economic institutions across countries create differences in MNC preferences for practices according to the country of origin (Ferner & Quintanilla, 1998), and these cross-country variations have implications for the reverse diffusion of knowledge in general, and diffusion of HRM practices from emerging market subsidiaries in particular. Developed countries possess strong regulatory and labour market institutional frameworks, which shape HRM practices. For example, a country's trade union policies and practices shape pay determination, union recognition, employee representation, collective bargaining, etc. in distinctive ways (Edwards, 2000). By contrast, the legal system can become very complicated during a market transition, which means that the emerging market subsidiaries would need to reflect the changes in the national business system adapting their HRM practices. Since frequent changes of HRM practices may cause confusion among employees and increase the complexity of people management, subsidiaries operating in such dynamic contexts respond by developing practices which make them more resistant to changes in the environment.

Previous research established that organizations operating in the same environment employ similar practices (Kostova & Roth, 2002). The increased similarity between the subsidiary and headquarters environments increases the potential for reverse diffusion of organizational practices (Edwards & Ferner, 2004). While the similarity of contexts is not a stimulus for diffusion per se, it is one of the enabling factors. During sudden economic changes the satisfaction of headquarters with current practices may drop, and as some characteristics of the headquarters country begin to resemble aspects of the emerging market environment, headquarters may be more open for practices from their emerging market subsidiaries, and their actions may be better understood by the MNC stakeholders (Ramachandran & Pant, 2010; Stevens & Shenkar, 2012). Since the similarity of contexts facilitates diffusion, and some phenomena which are influencing HRM practices and are typical to the emerging market countries can occur in developed countries as well, we propose that:

Proposition 3a

Reverse diffusion of HRM practices from emerging markets is likely to occur in headquarters located in a country experiencing sudden economic and/or social changes.

Still, differences exist between developed market countries. Although the forces of the national immune system hinder reverse diffusion in general, specific characteristics of each country make companies more or less adept at receiving new practices in comparison with other countries. For instance, the headquarters of MNCs embedded in a business system based on-the job-experience, flexible utilization of skills and the organic development of knowledge, like the Japanese MNCs are, may be less likely to adopt practices than headquarters of other developed market MNCs (Lam 1997: 973-996).

More generally, reverse diffusion from emerging markets is less likely to be accepted by headquarters of MNCs from coordinated market economies which tend to be dependent on home country labour in key positions and innovative activities (Tregaskis et al., 2010). Similarly, the headquarters of MNCs from countries which has been exposed to globalization only late or in a limited scope may be more reluctant to reverse diffusion from emerging markets, simply because the headquarters managers are less familiar with the environment of emerging markets. On the other hand the liberal markets typified more by a focus on radical innovation and external labour are more open for new ideas from abroad (Whitley, 2007; Tregaskis et al., 2010). Hence we propose:

Proposition 3b

Reverse diffusion of HRM practices from emerging markets is likely to occur in headquarters located in a country characterized by a liberal, rather than a coordinated market economy.

Discussion

We argue that liabilities of the inferior origin can be overcome under certain conditions. While cross-border diffusion of practices in never an easy process (Jensen & Szulanski, 2004; Edwards et al, 2005; Ferner et al, 2012), and reverse diffusion from emerging market subsidiaries is subject to additional obstacles, it is still possible when diffusing practices meet certain criteria, and in certain types of MNC, and its national environment. Factors forming the corporate immune system and national immune systems often block diffusion of HRM practices from the emerging market subsidiaries, but allow diffusion of other ones. In this paper we hint at factors at three levels: practice, company, and country, which enable and facilitate such diffusions

In line with the past research we acknowledge that, in general, practices diffused from the emerging to the developed market units require significant adaptations. But we indicate that there might be also practices which are more universal and do not cause additional burden to the adopting unit. Thus we add to the work of Edwards and Ferner (2004) who claimed that power relations will influence reverse diffusion irrespective of the characteristics of the diffusing practice, and we argue that the strength of influence of power relations on reverse diffusion will vary according to the characteristics of diffusing practices.

Further, we argue that even in the presence of a double immune system that attempts to reverse diffusion from emerging market subsidiaries are facing, subsidiaries can still demonstrate entrepreneurial efforts and reverse diffusion can occur. Our predictions go in line with the recent research on knowledge sharing in MNCs, which shows that autonomous motivation to share knowledge can overcome organizational obstacles (Reinholt et al, 2012). Some of the past studies seem to support these arguments. For instance Birkinshaw, Hood, and Young (2005) suggest that external actors and forces co-create available options, but it is up to the subsidiary to take the initiative and respond to the existing opportunities. We extended those arguments by pointing out few such opportunities and indicated conditions under which headquarters are more likely to accept reverse diffusion of subsidiary practices, even from inferior origin. We support the view that even when headquarters do not acknowledge subsidiary efforts, or when the organizational and national level environment of the headquarters are hostile to subsidiary initiatives, it is still up to the subsidiary to decide on whether to act in an entrepreneurial way. Adding to the recommendations of Birkinshaw (1998) who implicitly advices subsidiary managers to always take more initiatives, even initiatives that go against the official sanctioning of the headquarters, we suggest specific types of initiatives (i.e. practices), and types of contextual variables (i.e. situations in which the headquarters may be) which make the success of subsidiary initiatives more likely.

More generally we point out that the corporate and national immune systems may work selectively and filter off those elements of reverse diffusion which could hinder international acceptance of practices or trouble headquarters managers, yet it still allows a spread of some types of practices, i.e. those which were developed by the emerging market units, but are not specific to the emerging nature of their origin.

While we support the views from the past research that the emerging market origin of practices is a factor hindering reverse diffusion, we also argue that the specific nationality of origin and its different aspects may play an even more important. Extending predictions of Stevens and Shenkar (2012) on the liability of origin to the case of reverse diffusion from emerging market subsidiaries, we point out that just like the developed countries differ in terms of their openness to reverse diffusion from overseas units, so do the emerging market countries. While sharing many economic characteristics, emerging market countries also differ significantly on other dimensions. For example while on the average of numerous measures of economic development the Chinese economy falls under the category of emerging market, because of its size and political importance, it could also be perceived as dominant in some business relations. Following the success of the Chinese economy, there is a growing interest in Chinese business practices. We argue that headquarters in countries struggling with rapid economic changes or crisis, like for example some developed countries in Southern Europe, can become more open to adopting practices from their subsidiaries which successfully deal with such turbulent environment.

We also recognize what previous research has established that differences and similarities between national environments influences the propensity of headquarters to engage in reverse diffusion (Kostova, 1999; Kostova & Roth, 2002; Edwards & Ferner, 2004; Edwards & Tempel, 2010). But considering reverse diffusion as a way of increasing competitive advantage leads us to link it with country characteristics representing the internationalization and international competitiveness of the national economy (Ganter & Hecker, 2013). We argue that the level of liberalization and exposure to globalization and international competition increases the propensity of headquarters to accept reverse diffusion form emerging markets. For instance through competition with other international players, including the “emerging market giants”, the developed market MNCs learn more about their practices and possibly gain respect for emerging market companies. The negative perception of the country of origin derived from the general weakness of the national economy can be then outweighed by the relative strength of a particular company. The subsidiary in the respective emerging market, a home for the MNCs competitor, may then naturally become a source of knowledge about the rival’s background. If the emerging market competitor demonstrates advantages related to specific HRM practices, the developed market headquarters may want to use their subsidiary to absorb that knowledge from the original context. In more liberal economies a kind of a spillover effect can become visible, i.e. when one MNC headquarters start adopting practices from its emerging market subsidiaries, the headquarters of other MNCs may become more open for such diffusions.

Finally, as the emerging market countries are aspiring or “emerging” to the standards of the developed countries, they adapt their legal systems and even accept some culture norms of the developed countries. At the same time the economic success of emerging market countries and mixed performance of the developed market countries blur some aspects of the traditional dominance effects. Hence, we predict that reverse diffusion of HRM practices from the emerging market subsidiaries is to become a more frequent phenomenon.

Implications for future research

Our analysis also suggests several promising future research avenues. Firstly, as we elaborated on the national level influences on reverse diffusion and identified the national immune system, the question which emerges is whether there exists a regional level immune system? Since differences between regions are greater than within one region (House et al, 2004; Rugman & Verbeke, 2005), one could expect that practices from countries within the MNC home region may be accepted more readily than those from subsidiaries in other parts of the world. In Ferner et al. (2005)'s study of cross-national transfer of 'workforce diversity' policy in US multinationals, it was found that UK HR managers claimed that US policies are not applicable to the *European* context, and brought up regional level arguments to fence off the policies that the US headquarters wished to implement. A promising avenue for future research seems to lie in the regional aspects of ethnocentrism. In particular, future research could cross-compare the impact of economic and culture influences on reverse diffusion when studying diffusion from and between emerging market subsidiaries located in different emerging market regions, e.g. Eastern Europe and Latin America. In a similar vein, we call for large scale studies that would examine whether the persistence of the national, or possibly also regional immune system, has an impact on innovativeness of the developed economies. Since HRM practices affect the use of most valuable resources, i.e. people, the presence of the national immune system may limit the innovative potential of the national economy. Also, the immune systems may create some path dependency effects. For example, subsidiaries whose diffusion attempts failed may become reluctant to diffuse innovative practices in the future. Hence, we call for longitudinal studies to explore this dilemma.

Future research should also consider different, other than intra-corporate diffusion of practices, ways that MNCs can use for learning from emerging markets. One question to explore in future studies would then be whether developed market headquarters learn from subsidiaries of emerging market MNCs operating in the developed countries. Related question promising an interesting area of research is if reverse diffusion of practices from emerging market subsidiaries is subject to the same influences in the developed as the emerging market MNCs. Specifically, such research could explore if HRM practices are more likely to be diffused from emerging market subsidiaries to the emerging market headquarters, or do emerging market MNCs rather use their developed market subsidiaries to source new practices.

While the clustering of the emerging market countries, used in this work, enables the creation of some necessary generalizations, it also brings obvious limitations. For instance, frequent homogenisation of Central and Eastern Europe, or Brazil, Russia, India and China as the BRIC countries has good grounds in the analysis of the economic environment, but still falls short of capturing the unique characteristics of each of those countries. Thus, further research is needed to explore the varieties of influences on HRM practices that each of the emerging market national environments and the uniqueness of the HRM practices from subsidiaries located in those countries can bring to their MNCs.

Finally, those practices which are emerging market specific could possibly be amended and “stripped out” of the emerging market liabilities. By doing so, the headquarters could make those practices applicable to a broader variety of contexts. Indeed, headquarters can play an important role in reverse diffusion. Headquarters’ involvement in the process of diffusion increases chances of adoption, and headquarters do modify subsidiary practices to diffuse them further (Ciabuschi et al., 2011; Yamin et al, 2011), and there exists some evidence of headquarters managers diffusing practices developed by the emerging market subsidiaries without acknowledgment of their origin (Lemanski et al., 2012). Since such acts can significantly enlarge the pool of available practices and increase organizational potential for learning from subsidiaries, future research should explore the ways that the headquarters uses to refine practices from their emerging market subsidiaries for adoption in other contexts. Specifically, scholars could further explore the question of whether acknowledgement of the practice origin hinders reverse diffusion.

Implications for practitioners

Managers are informed by this study about the ways to break through the corporate and national immune systems that block the potential of their companies to learn new practices to fully capitalize on its multinational nature. Specifically we pointed out characteristics of practices, country, and the MNC for unlocking the potential of its emerging market subsidiaries for advancing human resource management practices. Headquarters managers of MNCs located in developed countries but experiencing crisis or rapid changes in the business environment should monitor their emerging market subsidiaries for practices suitable to cope with consequences of the economic challenges in the environment, or in the headquarters itself. Similarly, emerging market subsidiary managers who developed solutions to challenges which are typical to the emerging markets but can also appear in the developed countries should actively promote their practices to the headquarters. They should also actively engage in development and sharing of practices rooted in universally accepted or dominant values. To be able to exploit potential for learning practices developed at the emerging market subsidiaries, the MNC should possess certain characteristics. When the MNC managers discover those are missing, they may want to build them, and so make the MNC fully benefit from its multinational nature.

Finally, our research brings implications for policy makers, since it puts under scrutiny national-level factors affecting ability of MNCs to tap the innovative potential of the emerging market subsidiaries. As the success of companies contributes to the success of national economies, and reverse diffusion can increase the competitive advantage of both receiver and sender of practices, policy makers in both subsidiary and headquarters countries should support reverse diffusion. The headquarters are more likely to engage in reverse diffusion when their home country market is more liberal and exposed to globalization. More broadly, policy makers in the developed countries should promote openness to new knowledge from abroad, which increases innovativeness of the headquarters the country is hosting, not least during the times of rapid economic changes or during a crisis.

Limitations

This research inevitably suffered from some limitations. Notably, we have considered only few major perspectives on reverse diffusion. Analysis performed from more specific theoretical angles could lead to the generation of more fine-tuned propositions, and indicate further theoretical and practical implications.

We focused on the three levels of influence of reverse diffusion, and not considered the industry characteristics. Industry specific contingencies can potentially make an impact on diffusion. While previous studies on reverse diffusion in MNCs are inconclusive about that impact (Ambos et al., 2006), some sector specific studies (e.g. technology-based industries by Almeida, 1996, or service-based industries by Grosse, 1996) reported on varying results. Thus, following recommendations of Gupta and

Govindarajan (2000) we consider it important to control for industry effects as well, and hence our study may be limited in this respect.

We also limited the scope of this paper leaving out the individual level of analysis. Personal characteristics of people involved in reverse diffusion, e.g. bi-cultural employees, as well as the role of individuals like expatriates with multi-country experience, offer very promising areas to future research, especially when an increasing number of people migrate from the emerging to developed countries, often taking up employment in MNCs known from operations in the migrants' home countries.

Lastly, we acknowledge that although we identified practice, company and country specific factors facilitating, and some factors hindering reverse diffusion from the emerging market subsidiaries, our propositions do not cover a complete range of factors, and some room needs to be left to chance, since creative processes are to a large extent unpredictable, and in spite of all barriers subsidiaries can still diffuse their practices.

Conclusion

As emerging markets become increasingly important for the global economy, multinational companies should use their potential to learn new human resource management practices. The competitive advantage of modern MNCs rests on their ability to absorb new management solutions wherever they are created, putting the ability to learn from their emerging market operations at the forefront of tasks for MNC managers. Various factors provide opportunities or barriers for MNCs to successfully diffuse practices from their emerging market subsidiaries to the home country operations and other units. In addition, reverse diffusion of practices from emerging markets can benefit not only the recipient units and their economies, but also the diffusing units and the emerging market economies alike. This paper shows country, company, and practice level factors influencing the MNCs' ability to learn from their operations in emerging markets. It also offers practical recommendations for both headquarters and subsidiary managers, and for policy makers in both the host and home countries of the MNC. Empirical testing of our paper's propositions and future research along the lines identified here can further advance the literature on this important topic.

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