

SSE Russia Working Paper #06-102

**INSTITUTIONAL THEORY AND MNC SUBSIDIARY HRM PRACTICES: EVIDENCE
FROM A THREE-COUNTRY STUDY**

INGMAR BJÖRKMAN

Swedish School of Economics

P.O. Box 479, 00101 Helsinki, Finland

Tel: (358-9)-9-431-33273

Fax: (358-9)-9-431-33275

ingmar.Bjorkman@hanken.fi

and

INSEAD Euro-Asia and Comparative Research Centre

CARL F. FEY

Stockholm School of Economics

S-11383 Stockholm, Sweden

Tel: (46-8)-736-9501

Fax: (46-8)-31-9927

iibcf@hhs.se

and

Stockholm School of Economics Russia

HYEON JEONG PARK

Georgia State University

J. Mack Robinson College of Business

Department of Managerial Sciences

P.O. Box 4014, Atlanta, GA 30302-4014

Tel: 404-651-2006

Fax: 404-651-2896

hjpark@gsu.edu

January 3, 2006

Running title

Institutional Theory and MNC Subsidiary HRM Practices

ACKNOWLEDGEMENTS

We would like to thank the Swedish Research Council and the Academy of Finland for financial support of this project and Sergey Morgoulis-Jakoushev and Marina Libo for research assistance.

We are grateful to two anonymous reviewers and Departmental editor Mary Ann Von Glinow for their insightful comments and helpful suggestions.

**INSTITUTIONAL THEORY AND MNC SUBSIDIARY HRM PRACTICES: EVIDENCE
FROM A THREE-COUNTRY STUDY**

ABSTRACT

This study sets out to explore HRM practices in MNC subsidiaries within an institutional theory framework. Based on a sample of 158 subsidiaries of multinational corporations operating in the United States, Russia, and Finland, the paper examines factors hypothesized to influence the HRM practices adapted in US, Japanese, and European MNC subsidiaries located in Russia, Finland and the US. The results indicate significant differences in HRM practices used across host countries. Both the status of the subsidiary HR department and the degree to which the subsidiary was involved in knowledge transfer with other parts of the MNC had a significant impact on the selection of HRM practices.

Key Words

Human resource management

Multinational corporations

Institutional theory

INSTITUTIONAL THEORY AND MNC SUBSIDIARY HRM PRACTICES: EVIDENCE FROM A THREE-COUNTRY STUDY

With the continued globalization of large corporations and an increased awareness of the importance of employees for company competitiveness, the question of how to manage people in foreign affiliates has become increasingly important. For a number of years, scholars have argued that human resource management (HRM) practices aimed at the acquisition, development and motivation of firm employees help produce human assets that are valuable, rare, nonsubstitutable, and difficult to imitate, hence providing a source of competitive advantage (Barney, 1991; Becker and Huselid, 1998). A range of empirical studies carried out in different countries have shown a positive relationship between the extensive use of ‘high performance’ HRM practices and organizational performance outcomes such as financial performance or market value (e.g., Huselid, 1995; Delaney and Huselid, 1996; Kock and McGrath, 1996; Huselid, Jackson and Schuler, 1997; Bae and Lawler, 2000; Fey and Björkman, 2001; Buck et al., 2003). Given the theoretical arguments and the empirical evidence of a positive relationship between high performance HRM practices and firm performance presented over the last decade, and the increasing flow of people and ideas around the world, convergence in the HRM practices found in different parts of the world might be expected as firms strive to implement practices conceived as being associated with ‘high performance’ (Pil and McDuffie, 1996; Purcell, 1999).

Institutional theory is a theoretical lens which has been widely used to study the adoption and diffusion of organizational forms and practices. The basic thesis within the institutional perspective is that organizations are under social influence and pressure to adopt practices – such as HRM – which are viewed as being appropriate for the situation (DiMaggio and Powell, 1983; 1991; Scott, 2001). The positive effects of “appropriate” high performance HRM practices have

been stressed and given support in the business community by such legitimizing forces as management scholars (e.g., Pfeffer, 1994), consulting firms and certification programs. For example, leading international consulting companies such as McKinsey have urged companies to take appropriate HRM measures to 'win the war for talent.' Furthermore, certification programs for HR professionals in many countries -- among others, the United States, the United Kingdom and Australia-- include sessions on the contribution of HRM practices to firm performance. Hence, consulting companies, HR professional organizations, and business schools combined with the fluidity of information have contributed to the increasing view that high performance HRM practices are appropriate for most organizations. However, a tension exists between the need for MNCs to adapt policies in response to pressures to conform to the local environment versus the use of standardized 'best' practices in all locations of the MNC (Rosenzweig and Singh, 1991; Taylor, Beechler and Napier, 1996)), and research has shown there to be considerable differences in the HRM practices found across the subsidiaries of multinational corporations (MNCs), reflecting among others the local institutional influence on the subsidiaries (e.g., Rosenzweig and Nohria, 1994; Hannon, Huang and Jaw, 1995; Bae, Chen and Lawler, 1998). The objective of this research is to augment our understanding of *why* MNC subsidiaries located in various countries differ in the extent to which they have adopted high performance HRM practices.

The HRM practices implemented in foreign affiliates have received much interest among international HRM scholars. Some researchers (e.g., Rosenzweig and Nohria, 1994; Hannon et al., 1995) have framed their analyses in terms of institutional theory and examined how host country regulatory, normative and cognitive (Scott, 2001) institutional processes influence the HRM practices of foreign-owned subsidiaries. In spite of the important contributions of this

stream of research, however, little is known about the extent to which high performance HRM practices are found in foreign subsidiaries across countries. First, rather than examining actual subsidiary practices, most researchers have relied on perceptual measures of the degree of similarity between MNC subsidiary practices and those found in local firms and/or the MNC parent company. Second, extant research has typically focused on MNC subsidiaries in one country only, such as the US (Rosenzweig and Nohria, 1994), Taiwan (Hannon et al., 1995) or China (Björkman and Lu, 2001), limiting the ability to draw conclusions about the impact of host country factors on firm practices. Third, little effort has been made to examine the influence of MNC subsidiary factors on their HRM practices. Fourth, researchers have been repeatedly urged to include groups of organizational actors that may influence the selection of organizational practices and structures in their analyses of institutionalization processes (e.g., Oliver, 1991; Scott, 2001; Dacin, Goodstein and Scott, 2002; Kostova and Roth, 2002). In this study we investigate not only the likelihood of MNC subsidiaries to be exposed to institutionalized notions of what constitutes appropriate HRM but we also examine the influence that organizational actors may have on firm practices. In order to fill some of the gaps in the literature, we analyze the relationship between a variety of host country and MNC subsidiary factors and the HRM practices implemented in MNC subsidiaries operating in three very different economies (Russia, the US, Finland).

This paper is structured in the following manner. The introduction is followed by the development of hypotheses concerning the expected differences across host countries and the impact of MNC subsidiary factors on HRM practices. The subsequent sections describe the research methodology and the results of our empirical study. Our findings indicate the existence of significant differences across host countries. We also found that several subsidiary factors –

in particular the status of the HR function and the involvement of the subsidiary in MNC internal knowledge flows were associated with more extensive use of HRM practices. In the concluding portion of the paper, the implications of our findings are discussed and avenues for future research are suggested.

THEORETICAL BACKGROUND

During the last decade, there has been considerable interest in the notion that employees are an important source of competitive advantage for firms (Barney, 1991; Pfeffer, 1994) and, as a result, that it is important for firms to adopt HRM practices that make the best use of its employees. Indeed, it has been argued that HRM practices that focus on the acquisition, development and motivation of employees may produce human assets that are valuable, rare, difficult to imitate, and non-substitutable (Barney, 1991; Becker and Huselid, 1998). Under the resource-based view of the firm, successful firms can achieve sustainable competitive advantage by acquiring and maintaining valuable idiosyncratic resources which are rare, imperfectly imitable, and non-substitutable; and a firm's human resources can be a source of this sustainable competitive advantage (Barney, 1991; Wright, et al., 1994).

Human capital theory, which focuses on the effects of variance in employee skills on performance (Becker, 1964), complements the resource based view of the firm's view of human resources as a source of competitive advantage. Within human capital theory, human resources are defined as the pool of human capital under the firm's control in a direct employment relationship (Wright and McMahan, 1992). Applications of human capital theory focus directly on the skills or competencies of employees in organizations (McKelvey, 1983). Wright et al. (1994) propose that high levels of human capital lead to greater capabilities to develop more

efficient means of accomplishing task requirements, and greater capability to respond to environmental changes leading to a sustained competitive advantage. HRM practices are the levers or mechanisms through which human capital can be developed. Firms may do this by implementing practices which place an emphasis on investment in human resources to build the skills of employees. Hence, both the resource-based view of the firm and human capital theory suggest that investments in extensive HRM practices will be positively associated with firm performance. Recent empirical research conducted in various industry and geographic contexts does indeed suggest that a positive relationship exists between the extensive use of high performance HRM practices or “bundles” of practices and organizational performance (e.g., Arthur, 1994; Huselid, 1995; McDuffie, 1995; Delery and Huselid, 1996; Youndt et al., 1996; Huselid, et al., 1997; Wright et al., 1999; Wright et al., 1999; Fey and Björkman, 2001; Buck et al., 2003).

However, this body of work has recently been put under considerable scrutiny (Gardner et al., 2001; Guest, 2001; Truss, 2001; Wall and Wood, 2005). The implicit or explicit assumption of the existence of a universalistic set of high performance work practices suitable for all situations and national contexts has been criticized by various researchers (e.g., Delery and Doty, 1996; Schneider and Barsoux, 2003). If a certain set of HRM practices actually produced positive performance effects in different contexts, one would expect a strong global convergence toward the use of this set of HRM practices across different environments through the influence of global normative and cognitive institutional processes (Scott, 2001). Although there are indications that some international convergence of HRM practices may be taking place, especially within the context of multinational firms (see e.g., Ferner and Quantanilla, 1998; Faulkner, Pitkethly and Child, 2002), both firm-specific and host country institutional factors

continue to play significant roles in determining the kind of HRM practices found in the foreign subsidiaries of MNCs. Thus, institutional theory is likely to be instrumental in explaining some of the differences found across MNC subsidiaries.

Institutional theory and HRM

While the institutional perspective is far from homogenous (Scott, 1987; 2001; DiMaggio and Powell, 1991; Tolbert and Zucker, 1996), a common point of departure for most scholars is that organizations are under pressure to adapt to and be consistent with their institutional environment. Organizations attempt to acquire legitimacy and recognition by adopting structures and practices viewed as appropriate in their environment. DiMaggio and Powell (1983) suggest that there are three major types of 'isomorphisms' which affect organizations: coercive isomorphism, where a powerful constituency (e.g. the government) imposes certain patterns on the organization; mimetic isomorphism, where organizations in situations of uncertainty adopt the pattern exhibited by organizations in their environment that are viewed as successful; and normative isomorphism, where professional organizations act as the disseminators of appropriate organizational patterns which are then adopted by organizations which are under the influence of the professional organizations. More recently, Scott (2001) has suggested that there exist three 'pillars' of institutional processes: regulatory (corresponding to DiMaggio and Powell's coercive), cognitive (cf. mimetic) and normative processes which are the terms that we will adopt in this paper. 'Institutionalization' is the process through which activities are repeated and given common meaning (Scott, 2001), over time leading to actors beginning to take for granted the appropriateness of the activity in question.

Applying the tenets of DiMaggio and Powell's work (1983), an MNC subsidiary located in a foreign country is influenced both by potentially contradictory pulls from institutional factors in the local environment and international isomorphic processes (Rosenzweig and Singh, 1991; Westney, 1993). First, the institutional perspective points to local forces that influence organizational practices. For example, local legislation may restrict the latitude of the firm in terms of its HRM practices. Local managers often have taken-for-granted views about good HRM practices that are likely to influence the practices they suggest for implementation in the subsidiary. The HRM practices viewed as appropriate in the local context are likely to be embedded in the values and behavioral norms shared by people in this environment. Further, local labor market characteristics tend to influence the development of institutionalized views about HRM practices. Hence, cognitive and normative institutional processes enfolded in the local context may play an important role in explaining the practices found in MNC subsidiaries, especially in situations of uncertainty about the practices that would be particularly suitable for the focal firm (DiMaggio and Powell 1983; Levitt and March 1988). It has also been shown that organizations tend to become embedded in an institutional context through cognitive processes that develop into templates around which groups of firms converge (Greenwood and Hinings, 1996), facilitating organizational legitimacy (Aldrich, 1999; Kostova and Zaheer, 1999).

Second, the existence of a set of HRM practices that are taken for granted as being associated with superior firm performance is not likely to be uniform across MNC subsidiaries, even in the same host country, as subsidiary decision makers are likely to differ in their exposure to global and local institutional processes concerning HRM. For instance, both cognitive and normative processes may lead to differences in views about what constitutes appropriate HRM practices between subsidiaries with a large number of expatriate managers and those in units

with few or no expatriates. Neither do subsidiary actors have the same power to influence the HRM practices that are implemented (Ferner, Almond and Colling, 2005). Therefore, the extent to which MNC subsidiaries adopt certain organizational practices are influenced by both the extent to which organizational actors have internalized a belief in these practices and by their influence on firm decision making.

In this study we will examine the influence of both the host country and MNC subsidiary factors on the HRM practices adopted in foreign-owned units. This research aims not only at shedding light on the determinants of high performance HRM practices in the overseas affiliates of MNCs; it also contributes to the long-standing debate in the international HRM area on factors impacting on the proposed process of global convergence of HRM practices (Rowley and Benson, 2002).

High performance HRM practices

Although there is no established list of 'high performance' HRM practices (Pfeffer, 1995; Becker and Gerhart, 1996; Guest, 1997), rigorous recruitment and selection processes, performance-contingent compensation systems, extensive development and training activities and commitment to employee involvement are generally considered parts of high performance work systems (Becker and Huselid, 1998). Becker and Huselid (1998) note that researchers may either examine the total HRM system or develop key dimensions of the HRM system. The majority of research on HRM in MNCs has focused on the degree to which the total subsidiary HRM system, the HRM practices implemented in all the MNC's subsidiaries, is locally adapted or globally standardized (e.g., Rosenzweig and Nohria, 1994; Hannon et al., 1995; Björkman and Lu, 2001). However, it has been noted that significant differences may be found across

subsidiaries within a single MNC in terms of the degree of standardization or localization, and it has also been stressed “that to arbitrarily combine multiple [HRM] dimensions into one measure [of a high performance HRM system] creates unnecessary reliability problems” (Becker and Huselid, 1998: 63). Thus, there is a need to describe and analyze each HRM practice separately rather than to use an aggregate measure of the total HRM system.

To this end we examine five separate HRM practices: employee training, performance-based compensation, competence/performance appraisal, merit-based promotion, and internal communication. While there exists no commonly accepted theoretically or empirically derived list of practices that we can build our work on (Becker and Gerhart, 1996), we believe our range of practices to be quite comprehensive and similar to those examined in previous studies on international human resource management. For instance, Hannon et al. (1995) included promotion and career system, corporate culture, training program, compensation policy, appraisal program, and staffing policy in their study of foreign MNCs in Taiwan, and Rosenzweig and Nohria (1994) studied time off, benefits, gender composition, training, executive bonus, and participation in foreign MNCs operating in the US. Thus we find support for the examination of employee training, performance-based compensation, competence/performance appraisal, merit-based promotion, and internal communication.

Next we develop hypotheses concerning how different factors impact the HRM practices utilized by MNCs in their subsidiaries located in the United States, Russia and Finland.

Host country effects

As discussed above, as the world continues to globalize and business school professors, consultants, and HR professional certification organizations continue to point to the existence of

a positive relationship between high performance HRM practices and firm performance, there is some pressure for organizations to conform and adopt a “standard” set of HRM practices. At the same time, there are local institutional pressures on MNCs to adapt their HRM practices to the different local environments in which their subsidiaries operate. Subsidiary actors may also refer to local institutional circumstances as reasons for why the subsidiary needs to implement certain, locally suitable HRM practices (Ferner et al., 2005). Hence, it is not surprising that extensive comparative research has shown that HRM practices tend to differ across countries. Indeed, a number of scholars have argued that the national environment exerts significant influence on HRM practices in the focal nation (Budhwar and Sparrow, 2002), including MNCs (Rosenzweig and Nohria, 1994; Gunnigle et al., 2002). Therefore we expect there to be distinctions in the HRM practices used by MNC subsidiaries in the three countries included in this study as a result of the external forces that exist in the United States, Russia and Finland and we propose the following:

Hypothesis 1: All other things being equal, there will be variations in the HRM practices implemented in MNC subsidiaries located in the United States, Russia, and Finland.

Next we will explore specific country differences that exist in each of the HRM practices examined in this study. In particular, we focus on the differences between the US (our base case for empirical analysis) and Russia where differences are likely to be the most substantial. Existing research emphasized the large differences between the US and Russia in terms of the institutional environments and how the contexts in these countries contribute to shaping organizational practices. Scholars point to the impact of the former socialist planned economy on the work force in Russia, and the implications of the previous economic system on the

development and management of human resources in MNC subsidiaries in today's Russia (e.g., Puffer and Shekshnia, 1994; May, Young and Ledgerwood, 1998; Fey et al., 1999). The personnel system of the socialist planned economy has to a large extent been de-institutionalized, and new HRM practices have emerged largely as a reaction against the old system. Research indicates that foreign subsidiary executives in Russia are increasingly convinced of a need to implement HRM systems where practices such as training and performance-based compensation are pursued vigorously (May et al., 1998; May, Puffer and McCarthy, 2005).

We refrain from developing specific hypotheses for differences between the US and Finland as both countries are economically advanced Western economies with institutional environments that arguably are much more similar to each other than to that of Russia. Further, no US-Finnish comparative research exists on HRM practices to guide hypothesis development. In the following paragraphs we discuss each of the HRM practices in order to better understand what differences in HRM practice use we may expect to see across host countries.

Training is the practice through which organizations develop the skills of its employees. Many Russians lack basic business skills due to the historical absence of capitalist-style businesses in Russia, and research has revealed that foreign MNCs view employee training as being crucial for the competitiveness of their operations in Russia (Shekshnia, 1998). A study of 18 Western firms operating in Russia pointed to the importance of competence development and training (Fey, et al., 1999), and a study of 101 foreign-owned subsidiaries in Russia found that training managers as well as non-managerial employees were significantly related to subsidiary performance (Fey and Björkman, 2001). Because of the changes in the types of jobs available in the new economy, many people in Russia are working in jobs for which they have not received any formal training. For example, it is not uncommon to find a nuclear physicist working as a

furniture salesman or a medical doctor working as a marketing director for a large food factory.

As a result, there is common agreement that a great need exists for companies to devote significantly more attention to training in Russia than in the United States (May et al., 1998).

Thus we hypothesize:

Hypothesis 1a: MNC subsidiaries located in Russia will implement more extensive employee training than will subsidiaries in the United States.

A performance appraisal system contains evaluations of employee job performance and an assessment of the employee's training and development needs. Many people in Russia are working in different jobs than what they were formally trained to do due to the need for a different distribution of jobs in Russia's emerging market economy compared to that needed in communist times. Modern foreign companies in Russia also have differing demands and styles than companies where many employees worked previously. As a result, performance appraisal systems may well be more needed in Russia than in the US to ensure that clear personal objectives are formulated and understood, and that employees obtain extensive and regular feedback on their actions and performance. Shekshnia (1998) found that many subsidiaries of MNCs in Russia began implementing basic systematic appraisals of employees between 1994 and 1997 and other scholars (e.g., Fey, Pavlovskaya, and Tang, 2004) have indicated that the use of appraisal systems is becoming even more common. Russian managers' instrumental value orientation (Jackson, 2002) also fits well with extensive use of performance management systems, thus providing a conducive foundation for the emergence of normative pressures (Kostova and Roth, 2002) to adopt performance appraisal systems in foreign subsidiaries located in Russia. Thus, based on the above we hypothesize that:

Hypothesis 1b: *MNC subsidiaries located in Russia will use performance appraisal systems more extensively than will subsidiaries in the United States.*

While historically few local Russian companies used pay for performance for their employees (May et al., 1998), Fey et al. (1999) reported that approximately 80 percent of the Western firms operating in Russia in their study used some form of performance-based compensation system, most typically with bonuses being linked to the performance of the firm. The positive outcomes of bonus systems have been validated in various settings (Juplev et al., 1998, Puffer and Shekshina, 1994). Puffer and Shekshnia (1994) note that pay for performance systems are especially helpful in Russia since they help to motivate employees to work towards the company's objectives (e.g. profitability) which are often quite different from the objectives to which local employees have been previously exposed. Hence, extensive and aggressive use of performance-based pay is likely to be viewed as a more important way to ensure alignment of individual and company objectives than in the US where companies have historically been concerned about profitability. Shekshnia (1998) reported that performance-based compensation works well in Russia and is therefore becoming very prevalent. He also reported that on average Russian executives receive 40% of their compensation as variable pay and on average 80% of sales staff's pay is performance-based. In summary, the historical labor market system in Russia appears to have led to the emergence of a widespread belief that performance-based pay is especially important in the Russian context. Thus, based on the above we hypothesize:

Hypothesis 1c: *MNC subsidiaries located in Russia will implement more extensive performance-based compensation systems than will subsidiaries in the United States.*

The last decade has created a shake-up in the Russian labor market where the types of well-paying jobs available has changed radically. There is a huge mismatch in the formal training and experience that many people have as compared to what is needed in the labor market. As Russia has transitioned from Communism to Capitalism over the last fifteen years, the types of businesses and jobs needed has changed leading to a serious dearth in the supply of qualified skilled individuals in the Russian labor market. The institutionalized view seems to be that older and more experienced people lack proper skills and have difficulty adjusting to current requirements. Therefore, it is better to recruit younger less experienced but ambitious people who are easier to develop and mold (Fey, Pavlovskaya, and Tang, 2004). Today, it is not uncommon to see 30 year old general directors in Russia and fast promotions are expected for people with excellent performance records. The result of these practices is that age and experience are seen as largely being unimportant – or even negatively correlated - with promotion decisions (Fey et al., 2004). In other words, firms in Russia are likely to place more focus on performance-based promotion decisions than in the US where age and experience are also likely to play a role. Thus, we arrive at the following hypothesis:

Hypothesis 1d: MNC subsidiaries located in Russia will implement more extensive merit-based promotion systems than will subsidiaries in the United States.

Russian managers have been found to be reluctant to share information (May et al., 1998), and it has been noted that knowledge-sharing hostility is widespread in Russian organizations (Michailova and Husted, 2003; Puffer and McCarthy, 1995). In addition to the lack of information sharing, employees appear to mistrust their superiors deeply (May et al., 1998). Thus, actions which can be taken to minimize this mistrust may be particularly helpful in

Russia (compared to the US). Increasing internal communication can help to decrease mistrust and thus firms in Russia have extra incentives to have higher levels of internal communication. Indeed, several studies have suggested that company-internal communication may have positive performance effects in both Russian (Welsh et al., 1993) and foreign-owned companies in Russia (May et al., 1998; Shenkshnia, 1998; Fey and Björkman, 2001). Therefore, and although significant internal communication is not a historical tradition in Russia, there is likely to be increasing agreement among MNC subsidiary managers that when internal communication is used, organizations in Russia benefit significantly. Therefore, we hypothesize:

Hypothesis 1e: *MNC subsidiaries located in Russia will have a higher level of internal communication than will subsidiaries in the United States.*

Subsidiary factors

Several subsidiary factors can be expected to influence the likelihood that decision makers have been exposed to international institutional factors concerning how to manage human resources. We propose that the role of the HR function, the number of expatriates, and the extent to which the subsidiary is embedded in international knowledge exchange relationships will influence the propensity of the unit to have implemented high performance HRM practices. While the number of expatriates in foreign subsidiaries has been found to influence the subsidiary HRM practices (Rosenzweig and Nohria, 1994; Björkman and Lu, 2001), the two other factors have not been examined in previous research.

As HR managers are likely to have been particularly influenced by global cognitive and normative institutional factors within their profession, we expect HR professionals to invest in and promote the extensive use of high performance HRM practices in their organization. It has

also been noted in several studies that HR managers in MNC subsidiaries are likely to be part of networks consisting of managers from other foreign companies, and that these networks are important vehicles for institutionalization of what constitutes appropriate HRM practices (Evans, Pucik and Barsoux, 2002). However, the ability of HR managers to influence firm practices depends on the status of the function in the subsidiary. The role played by the HR function is contingent on the expectations towards the function held by top and line managers, key actors in the role set (Katz and Kahn, 1978) of the HR organization. As organizational roles are at least partly socially constructed, an HR function that is perceived by key actors in the corporation to already have a high degree of 'reputational effectiveness' (Tsui, 1984) is more likely to succeed in enacting a more influential role (Truss et al., 2002). Thus, in organizations where the HR department is highly valued, it is likely to receive more resources, and to have a greater influence on the way people are managed. Applied to the MNC setting, the degree to which the subsidiary's HR department is highly regarded within the firm will likely influence the use of high performance HRM practices in the subsidiary.

Unfortunately, limited research exists on the role of the HR department and its influence on the HRM practices adopted, and virtually no work exists on the role of the subsidiary HR department in MNC subsidiaries. One of the few existing empirical studies in this area found a positive relationship between the status of the HR department in domestic companies and 'organizational capability' in most of the ten countries included in the study (Bowen, Galang, and Pillai, 2002), providing some indirect support for the following hypothesis:

Hypothesis 2: The higher the strategic status of the HR department, the more likely the subsidiary is to implement extensive employee training, competence/ performance appraisal, internal communication, performance-based compensation, and merit-based promotion.

Several studies have shown that the national background of the subsidiary managers is likely to influence the HRM practices of the MNC unit (Rosenzweig and Nohria, 1994; Björkman and Lu, 2001). Compared with local managers, expatriate managers tend to have worked in multiple countries and therefore have extensive international social networks and serve as ‘bearers’ of particular ideas concerning HRM (Coller and Marginson, 1998). Therefore they are arguably more likely to have been exposed to and influenced by global institutional processes concerning the appropriateness of the use of high performance HRM practices than local managers. Expatriate managers are less likely to be influenced by local cognitive and normative pressures concerning HRM which first must be de-institutionalized before new institutionalized views about appropriate HRM practices can be spread in the local environment of the subsidiary (see Tolbert and Zucker, 1996). Research on MNC subsidiaries in Central America (Arias and Guillen, 1992) and China (Björkman and Lu, 2001) have shown expatriate networks to be key forums for the creation and diffusion of views among foreign affiliate managers about HRM practices that are appropriate for MNCs, practices that indeed may differ from traditional local practices. Since expatriate managers typically have considerable power to influence subsidiary management practices, it is likely that they also will implement the high performance HRM practices that they ‘know’ to be appropriate. Hence,

Hypothesis 3: The higher the number of expatriates, the more likely the subsidiary is to implement extensive employee training, competence/performance appraisal, internal communication, performance-based compensation, and merit-based promotion

The connections that exist between firms have a significant effect on the spread of organizational practices (Abrahamson and Rosenkopf, 1997). Within the context of an MNC, the relationships and interactions between the focal subsidiary and units located in other countries can be powerful conduits of taken-for-granted views about appropriate ways to manage people (Coller and Marginson, 1998). In this study we argue and empirically test the proposition that subsidiaries which are extensively globally connected are likely to differ in terms of their HRM practices from units that are not deeply embedded in cross-border relationships. Subsidiaries that are heavily involved in processes of knowledge transfer with units located in other countries are particularly likely to be exposed to international institutional forces concerning appropriate ways to manage people. Both cognitive and normative institutional processes may motivate subsidiaries to adopt high performance HR practices. Based on these arguments, we develop the following hypothesis:

Hypothesis 4: The more the subsidiary is involved in knowledge exchange within the MNC, the more likely the subsidiary is to implement extensively employee training, competence/performance appraisal, internal communication, performance-based compensation, and merit-based promotion.

The conceptual framework of the study is summarized in Figure 1.

-----INSERT FIGURE 1 HERE-----

DATA AND METHOD

This paper examines foreign-owned subsidiaries located in three host countries: Finland, Russia and the US. These countries are different in terms of culture, institutions, and competitive context, making it a good sample for testing the proposed impact of host country factors on HRM practices. The headquarters of the subsidiaries sampled are located in five countries: Sweden, Germany, Japan, US, and Finland. We chose these countries because they were among the more active investors in Russia, Finland, and the US while still representing a reasonably diverse sample including countries from each of the triad regions of North America, Europe, and Asia.

Lists of subsidiaries of firms with headquarters in Japan, Germany, Sweden, and Finland operating in the US were obtained from the foreign commercial sections of the respective embassies in the US. In the US, 320 subsidiaries were randomly selected from the lists, and HRM managers or General Managers of the subsidiaries were contacted via telephone and asked if they would participate in the study. Of these, 28 did not meet the age or size sampling criteria to be considered for participation as we required that subsidiaries have at least 15 employees and be at least two years old to allow for experience in the local environment to develop. This resulted in a base sampling of 292 firms in the USA. These 292 firms were sent a questionnaire and non-respondents were repeatedly contacted as necessary resulting in 79 responses or a 27 per cent response rate. In Finland, 188 firms were contacted which met the size and age sampling requirements and a similar procedure to that employed in the USA was used to obtain 62 responses reflecting a 33 per cent response rate. In Russia, however, where there is little tradition of completing questionnaires and much worry about disclosing company information exists, interviews were set up with the managers at which time managers were asked to complete the questionnaires. In a few cases, at the manager's request, the questionnaire was left with the

manager and collected a few days later. In Russia, 100 of the 357 contacted firms, which met the size and age sampling conditions, took part in the study (a 28 per cent response rate). Of the total responses from all three countries, 158 observations were used in our data analysis due to missing data issues. On average, the MNC subsidiaries were 15 years old and employed 173 people of which 7 were expatriates. Furthermore, on average MNC had subsidiaries located in 28 different countries.

Seventy per cent of our respondents were general managers or deputy general managers and 30 per cent of our respondents were HR managers. No significant differences in responses were found between these sub-groups and thus, following Guest (2001), the questionnaires were combined into one data set for analysis.¹ Twenty-six per cent of these respondents were less than 30 years old, 33 per cent were between 30-39, 32 per cent were between 40-49, and 9 per cent were over 50 years old.

A careful process was used to develop the questionnaire for this study. The items/scales used in the study drew on established research (Gardner et al., 2001; Huselid, 1995; Wright et al., 1999; Zander, 1991). In addition, five experts were asked to review the questionnaire and provide feedback. The questionnaire was then administered to 10 managers (not part of the sampling frame) to obtain their feedback before development of the final questionnaire. The questionnaire was administered in English in the USA and Finland. Respondents in Russia had the option of using an English or Russian version. The Russian version was validated for accuracy using an extensive translation back-translation procedure. Following Podsakoff and Organ (1986), we used Harman's one-factor test to examine the extent of common method bias in our data. The presence of several distinct factors combined with the relatively low amount of

variance explained by the first and second factors indicates that the data does not suffer from common method variance (Podsakoff and Organ, 1986).

Operationalization of Measures

All data used in the analysis were from the administered questionnaire and all variables were standardized prior to the development of indices.

Training. The extent to which subsidiaries applied training is measured through two items capturing the number of days of formal training managerial and non-managerial employees receive annually (alpha=0.83).

Competence/performance appraisal. An index is used to examine the extent to which competence/performance appraisal is used in the subsidiary. One item measures the proportion of the workforce which regularly receives a formal evaluation of their performance (in per cent), another item measures the proportion of jobs where a formal job analysis has been conducted (in per cent), and the final item measures the proportion of new jobs for which a formal analysis of the desired personal skills/competencies/characteristics is carried out prior to making a selection decision (in per cent) (alpha=0.66).

Merit-based promotion. The importance of internal promotion schemes is measured by an index comprised of three five-point Likert-type scale items. The first item measures whether qualified employees have the opportunity to be promoted to positions of greater pay and/or responsibility within the subsidiary (1=no opportunities and 5=many opportunities), the second

item measures whether the subsidiary places a great deal of importance on merit for promotion decisions (1=not at all and 5=to a large extent), and the third item measures the extent to which upper-level vacancies are filled from within (1=not at all and 5=to a large extent) ($\alpha=0.63$).

Performance-based compensation. This three-item scale captures the extent to which compensation is performance based. One item measures the proportion of employees who have the opportunity to earn individual, group or company-wide bonuses (per cent), and two items ask the respondents to indicate whether the company uses performance-based compensation (1=not at all and 5=to a large extent) and whether the compensation systems are closely connected to the financial results of the subsidiary (1=not at all and 5=to a large extent) ($\text{Alpha}=0.71$).

Internal communication. The extent to which exchange of information takes place within the organization is measured through a scale comprised of three items (all on five-point scales). The items capture communication flows between: 1) employees in different departments, 2) non-managerial employees and managerial employees, and 3) the HR department and the top management team (1=not at all and 5=to a large extent) ($\alpha=0.72$).

Home and host country. Dichotomous variables are established for each subsidiary host country (Finland, Russia and USA) and for each home country of the MNC (Finland, Germany, Japan, Sweden and USA). In the regression analyses, the United States was used as the base case for the host country and the home country of the MNC.

HR department status. The status of the HR department is measured through a scale consisting of three items (all on five-point scales). The respondents were asked the following questions: To what extent is the HR/personnel department involved in the strategic planning process? To what extent are the HR/personnel managers viewed by those outside the function as partners in the management of the business and agents for change? Respondents were also asked to indicate to what extent they agreed with the following statement: Communication between the HR department and the top management team is effective ($\alpha=0.67$).

Number of expatriates. The survey instrument included a question on the number of expatriates in the focal subsidiary.

Exchange of knowledge. We define the level of knowledge transfer based on the level of knowledge utilization by the recipients assuming both acquisition and use of new knowledge. Accordingly, the subsidiaries were asked to what extent they utilize knowledge from the parent company and from other MNC units. In a similar vein, the respondents were asked to estimate the extent to which other subsidiaries and the parent company used knowledge from the focal subsidiary. The questions used a five-point Likert-type scale, where 1 indicates no use of knowledge and 5 indicates substantial use of knowledge ($\alpha=0.76$).

Control variables. Comparative research has indicated some differences in HRM practices used among MNCs from different countries. For instance, research conducted in the United States (Rosenzweig and Nohria, 1994), Korea and Taiwan (Bae et al., 1998), China (Björkman and Lu, 2001; Yan, 2003), the United Kingdom (Faulkner, et al., 2002), and a range of European

countries (Gunnigle et al., 2002) has all revealed at least some degree of MNC home country effects. Therefore, and although some research indicates that the influence of the host country is likely to be stronger than that of the MNC home country (Gunnigle et al., 2002), we control for *MNC home country* in this study.

Relative size of the subsidiary was included as a control variable as larger subsidiaries may be under more pressure from parent organizations to adopt certain HRM practices. Relative subsidiary size, or size compared to the rest of the corporation, is measured as the number of employees in the subsidiary divided by the total number of employees in the MNC. Subsidiary age was also controlled for as over time subsidiaries might adapt more to the local environment. We also control for the possible effect of industry characteristics since HRM practices may differ across industries. We group the subsidiaries into six *industries*: 1) metal and electronics, 2) food, pulp and paper, 3) chemicals, 4) financial service, 5) wholesale and retail, and 6) hotel and transportation. The percentage of the subsidiary's business stemming from in-house manufacturing was used as a measure of subsidiary operation called *% of manufacturing*. We utilized the number of countries in which the MNC had subsidiaries as a proxy for MNC *international experience*.

RESULTS

As the scales of the variables differed considerably, all variables were standardized (mean = 0 and standard deviation = 1) before analysis.

-----INSERT TABLES 1, 2, AND 3 HERE-----

Descriptive data (mean values, standard deviation, minimum and maximum values) of all exogenous variables are provided in Table 1. Table 2 shows the correlations between the variables and indicates that there is little risk of multicollinearity. Table 3 shows the results of GLM regression analyses for five regressions where each of the five HRM practices are used as dependent variables. We chose to use GLM since the error terms could be correlated and the extent to which one HRM practice is used is not totally independent of the choice of another HRM practice. For example, if a company uses performance-based pay for most of its employees, it is also likely to have a performance appraisal system for its work force. Overall, the results indicate that the models work well, with all five models being statistically significant at $p < 0.05$.

Hypothesis 1 posited that there would be significant host-country effects on subsidiary HRM practices. Significant country variables were found in four of the five models (training, performance-based compensation, appraisal, and promotion). The only model where host country was not significant was that for communication. Hence, the results offered strong support for hypothesis 1. Using subsidiaries located in the US as the base case, all statistically significant differences were between Russian- and US-based subsidiaries and all but one difference in HRM practice was as hypothesized. Thus, hypotheses 1a, 1b, 1c, and 1d obtained empirical support.

Hypothesis 2 suggested a positive relationship between the status of the HR department and the extent to which the subsidiary had implemented HRM practices. The results offer strong support for this hypothesis. The direction of the relationship is in the hypothesized direction in all five models, and the relationship is statistically significant at $p < .05$ (two-tailed t-test) in four models.

We predicted a positive association between the number of expatriates and the greater use of HRM practices. The results show a positive relationship for two HRM practices – performance appraisal and promotion decision making – but not for the remaining three practices. In other words, there is only partial support for Hypothesis 3.

Hypothesis 4 (suggesting a positive relationship between knowledge exchange and HRM intensity) also received strong support in our analysis. The extent to which the subsidiary engages in knowledge exchange with other parts of the MNC was significantly related to all five HRM practices studied in this research at $p < .05$ (two-tailed t-tests).

CONCLUDING DISCUSSION

This study set out to explore the HRM practices in MNC subsidiaries within an institutional theory framework. Based on a sample of 158 subsidiaries of multinational corporations operating in the USA, Russia, and Finland, we examined factors hypothesized to influence the HRM practices adapted in US, Japanese, and European MNC subsidiaries located in Russia, Finland and the United States. We received strong or partial support for each of the four hypotheses.

First, there was overall support for the hypothesized differences across host countries. In particular, it appears that MNC subsidiaries located in Russia differ from those located in the United States. The most significant difference between Russian and US subsidiaries concerned employee training - employees in Russia-based subsidiaries received considerably more training. Our results also indicate that MNC subsidiaries in Russia use performance-based compensation and performance-based appraisal systems to a larger extent than units located in the United States and that they also pay more attention to merit in promotion decision making. These

findings can be interpreted as stemming from the differences in institutional context between the countries, in particular the legacy of the economic system of the Soviet Union. MNCs are using HRM practices that help clarify the performance expectations for their employees, expectations that neither tended to be clear nor internalized by the workforce during the Soviet era. Rather than adapting practices that previously have been institutionalized in Russia, it appears that MNCs react against what is seen as a negative heritage from the Soviet period by implementing practices that countervail what has been traditionally used in the Russian context. This observation should be of interest to institutional scholars and IHRM scholars alike.

Second, the status of the subsidiary HR department was statistically significant with four of the HRM practices (appraisal, communication, performance-based compensation, promotion) included in this study. This result clearly indicates that the role of the HR department is important for the kinds of practices that are introduced in the subsidiary. It is assumed that HR departments support high performance HRM practices and the findings of our study suggest that they were catalysts for the implementation of these practices. To the best of our knowledge, the impact of the HR department on HRM practices within MNCs has not previously been investigated. A possible next step in the development of our understanding of this issue would be to study the factors that lead to a high level of status on the part of the subsidiary HR function. While several studies have been conducted on the role and influence of the HR function in large firms (e.g., Conner and Ulrich, 1996; Galang and Ferris, 1997; Wright et al., 2001) and some research has been published on the HR function in MNCs (Scullion and Starkey, 2000; Novicevic and Harvey, 2001), additional research is needed in the context of MNC subsidiaries.

Third, there was support for the hypothesis that the larger the number of expatriates in the MNC subsidiary the greater the use of HRM practices. The statistically significant positive

relationships found between the number of expatriates and performance appraisal as well as merit promotion decision making, and some indication of a positive relationship with performance-based compensation (albeit non-significant at $p < 0.05$, two-tailed tests) indicate that expatriate staffing tends to increase the emphasis on HRM practices that are directly related to performance. More research is needed to shed light on why the presence of expatriates appears to have a significant impact on the implementation of some but not all subsidiary HRM practices.

Fourth, the degree to which the subsidiary was involved in knowledge transfer with other parts of the MNC was significantly related to all five HRM practices examined in this study. Interactions and knowledge transfer between subsidiary units in different locations within the MNC increase the exchange of ideas and best practices which leads to the spread and establishment of high performance HR practices within the MNC. Further scholarly work is warranted on the mechanisms through which high levels of knowledge exchange with other MNC units influence the HRM practices of the focal subsidiary. For instance, it is possible that subsidiary engaged in extensive knowledge exchange with other MNC units (with headquarters, in particular) may find itself under more intensive coercive pressure to adopt certain HRM practices. However, it is also conceivable that the main effects are through cognitive or normative institutional pressure. Overall, to date scholars have largely failed to disentangle the relative influence of the regulative/coercive, normative and cultural/cognitive institutional processes on the adoption of HRM practices in MNC subsidiaries abroad.

Like all research, this study has some limitations. First, future research should collect data from multiple organizational respondents to minimize the risk of common method bias. The validity of the data on both the independent and dependent variables was somewhat limited due to the use of only one respondent per subsidiary, a weakness in most international research.

Second, the alphas of some of the constructs were somewhat on the low side, although all exceeded the 0.60 level that often has been suggested to be satisfactory. Third, there is always a question of the direction of causality in any study that uses cross-sectional data. Fourth, future studies should examine a larger variety of subsidiary host countries to extend the generalizability of our findings. Further explanatory work carried out on cross-national samples is clearly needed.

While this study should not be viewed as a test of institutional theory, our results do support Wright and McMahan's (1992: 313) claim that institutional theory can "help in understanding the determinants of HRM practices." However, in spite of the contributions made by scholars studying HRM in MNC subsidiaries much work remains to be done. First, to date scholars have failed to disentangle the relative influence of MNC-internal and –external regulative, normative and cultural-cognitive processes. In which situations do these processes work together with each other and in which situations do efforts by MNC headquarters to pressure foreign subsidiaries to adopt HRM policies backlash (cf. Martin and Beaumont, 1998)? The methodology used in Kostova and Roth's (2002) research on the adoption of organizational practices by MNC subsidiaries can be used as a model of how to measure the strength of different institutional processes. Second, in the future it would be interesting to investigate if there are regional, as well as national, differences in the use of HRM practices.

Third, more work should be carried out on the tension between institutional pressures and the HRM practices that would be most efficient within a rational choice perspective. As pointed out by Oliver (1997), firms that are better than their competitors in handling institutional pressures may attain a competitive advantage. Many HRM scholars stress the importance of fit between HRM practices and the strategic requirements of the firm (e.g., Delery and Doty, 1996).

It is conceivable that MNC subsidiaries that implement HRM practices particularly suitable for their own operations rather than the set of practices viewed as appropriate in the local environment will be more successful than other firms. Relatedly, there is a need to combine institutional theory with a power/interest perspective to further augment our understanding of how and when MNC subsidiary actors mobilize resources to resist the implementation of certain HRM practices in their unit (Ferner et al., 2005). Institutional theory is likely to remain an important theoretical framework for research on a range of topics in international HRM in the years ahead.

NOTES

¹ The lack of significant difference in the assessment of HR departments' status between the general managers and HR managers may be noted as several previous studies (e.g., Wright et al., 2001) have indicated that the two groups tend to differ in their views about the competencies held by and the roles played by HR professionals and departments.

REFERENCES

- Abrahamson, E. and Rosenkopf, L. (1997) 'Social network effects on the extent of innovation diffusion: A computer simulation', *Organization Science*, 8: 289-309.
- Aldrich, H.E. (1999) *Organizations Evolving*, Sage: London.
- Arias, M.E. and Guillen, M.F. (1992) 'The transfer of organizational management techniques across borders: Combining neo-institutional and comparative perspectives', *INSEAD Working Paper No. 92/41*: Fontainebleau, France.
- Bae, J., Chen, S-J and Lawler, J.J. (1998) 'Variations in Human Resource Management in Asian Countries: MNC Home-country and Host-country Effects', *International Journal of Human Resource Management*, 9: 653-670.
- Bae, J., and Lawler, J.J. (2000) 'Organizational and HRM Strategies in Korea: Impact on Firm Performance in an Emerging Economy', *Academy of Management Journal*, 43: 502-518.
- Barney, J.B. (1991) 'Firm Resources and Sustained Competitive Advantage', *Journal of Management*, 17: 99-120.

- Bartlett, C. and Ghoshal, S. (1989) *Managing Across Borders*, Harvard Business School Press: Boston, MA.
- Becker, B. and Gerhart, B. (1996) 'The impact of human resource management on organizational performance: Progress and prospects', *Academy of Management Journal*, 39: 779-801.
- Becker, B. and Huselid, M. (1998) 'High Performance Work Systems and Firm Performance: A Synthesis of Research and Managerial Implications', *Research in Personnel and Human Resource Management*, 16: 53-101.
- Beechler, S. and Yang, J.Z. (1994) 'The Transfer of Japanese-style Management to American Subsidiaries: Contingencies, Constraints, and Competencies', *Journal of International Business Studies*, 25: 467-492.
- Birkinshaw, J. and Hood, N. (1998) 'Multinational Subsidiary Development: Capability Evolution and Charter Change In Foreign-Owned Subsidiary Companies', *Academy of Management Review*, 23: 773-795.
- Björkman, I. and Lu, Y. (2001) 'Institutionalization and Bargaining Power Explanations of Human Resource Management Practices in International Joint Ventures – The Case of Chinese-Western Joint Ventures', *Organization Studies*, 22: 491-512.
- Bowen, D.E., Galang, C. and Pillai, R. (2002) 'The Role of Human Resource Management: An Exploratory Study of Cross-Country Variations', *Human Resource Management*, 41: 103-122.
- Boyacigiller, N.A., Kleinberg, M.J., Phillips, M.E., and Sackmann, S.A. 2004. 'Conceptualizing Culture: Elucidating the Streams of Research in International Cross-Cultural Management,' In B.J. Punnett and O. Shenkar, (Eds.), *Handbook for International Management Research*, Ann Arbor: University of Michigan Press.
- Brooke, M.Z. and Remmers, H.L. (1970) *The Strategy of Multinational Enterprise*, Elsevier: New York.
- Budhwar, P.S. and Sparrow, P.R. (2002) 'An Integrative Framework for Understanding Cross-National Human Resource Management Practices', *Human Resource Management Review*, 12: 377-403.
- Buck, T. Filatotchev, I., Demina, N., and Wright, M. (2003) 'Insider Ownership, Human Resource Strategies and Performance in a Transition Economy', *Journal of International Business Studies*, 34: 530-549.
- Cohen, W.M. and Levinthal, D.A. (1990) 'Absorptive Capacity: A New Perspective on Learning and Innovation', *Administrative Science Quarterly*, 35: 128-152.
- Coller, X. and Marginson, P. (1998) 'Transnational Management Influence over Changing Employment Practice: A Case from the Food Industry', *Industrial Relations Journal*, 29(1): 4-17.
- Conner, J. and Ulrich, D. (1996) 'Human Resource Roles: Creating Value, Not Rhetoric', *Human Resource Planning*, 19(3): 38-49.
- Delaney, J.T. and Huselid, M.A. (1996) 'The impact of human resource management practices on perceptions of organizational performance', *Academy of Management Journal*, 39: 949-969.

- Delery, J.E. and Doty, H. (1996) 'Models of Theorizing in Strategic Human Resource Management: Tests of Universalistic, Contingency, and Configurational Performance Predictions', *Academy of Management Journal*, 39: 802-835.
- DiMaggio, P.J. and Powell, W.W. (1983) 'The Iron Cage Revisited: Institutional Isomorphism and Collective Rationality in Organizational Fields', *American Sociological Review*, 48: 147-160.
- DiMaggio, P.J. and Powell, W.W. (1991) 'Introduction', in DiMaggio, P.J. and W.W. Powell, W.W. (Eds.), *The New Institutionalism in Organizational Analysis*: 1-38. Chicago: University of Chicago Press.
- Elenkov, D.S. (1998) 'Can American Management Concepts Work in Russia? A Cross-Cultural Comparative Study', *California Management Review*, 40 (4): 133-156.
- Evans, P., Pucik, V. and Barsoux, J.-L. (2002) *The Global Challenge: Frameworks for International Human Resource Management*. New York: McGraw-Hill/Irwin.
- Faulkner, D., Pitkethly, R. and Child, J. (2002) 'International Mergers and Acquisitions in the UK 1985-94: A Comparison of National HRM Practices', *International Journal of Human Resource Management*, 13: 106-122.
- Ferner, A., Almond, P. and Colling, T. (2005) 'Institutional Theory and the Cross-National Transfer of Employment Policy : The Case of 'Workforce Diversity' in US Multinationals. *Journal of International Business Studies*, 36 : 304-321.
- Ferner, A. and Quantanilla, J. (1998) 'Multinationals, National Business Systems and HRM: The Enduring Influence of National Identity or a Process of 'Anglo-Saxonization', *International Journal of Human Resource Management*, 9: 710-731.
- Fey, C. and Björkman, I. (2001) 'The Effect of Human Resource Management Practices on MNC Subsidiary Performance in Russia', *Journal of International Business Studies*, 32: 55-71.
- Fey, C.F., Engström, P. and Björkman, I. (1999) 'Effective Human Resource Management Practices for Foreign Firms in Russia', *Organizational Dynamics*, 28(4): 69-80.
- Fey, C.F., Pavlovskaya, A. and Tang, N. (2004) A Comparison of Human Resource Management Practices in Russia, Finland, and China', *Organizational Dynamics*, 33(1): 79-97.
- Galang, M.C. and Ferris, G.R. (1997) 'Human Resource Department Power and Influence Through Symbolic Action', *Human Relations*, 50: 1403-1426.
- Gardner, T.M., Moynihan, L.M., Park, H.J. and Wright, P.M. (2001) 'Beginning to Unlock the Black Box in the HR Firm Performance Relationship: The Impact of HR Practices on Employee Attitudes and Employee Outcomes', *Working paper for The Center for Advanced Human Resource Studies*, Ithaca, NY: Cornell University.
- Giacobbe-Miller, J.K, Miller, D.K., Zhang, W, and Victorov, V.I.. (2003) 'Country and organizational-level adaption to foreign workplace ideologies: A comparative study of distributive justice values in China, Russia, and the United States. *Journal of International Business Studies*, 34: 389-406.
- Greenwood, R. and Hinings, C.R. (1996) 'Understanding radical organizational change: Bringing together the old and new institutionalism', *Academy of Management Review* 21: 1022-1054.
- Guest, D. (2001) 'Human Resource Management: When Research Confronts Theory', *International Journal of Human Resource Management*, 12: 1092-1106.

- Gunnigle, P., Murphy, K., Cleveland, J.N., Heraty, N. and Morley, M. (2002) 'Localization in Human Resource Management: Comparing American and European Multinational Corporations', *Advances in International Management*, 14: 259-284.
- Gupta, A. and Govindarajan, V. (2000) 'Knowledge Flows Within MNCs', *Strategic Management Journal*, 21: 473-496.
- Hannon, J., Huang, I.-C. and Jaw, B.-S. (1995) 'International Human Resource Strategy and its Determinants: The Case of Subsidiaries in Taiwan', *Journal of International Business Studies*, 26: 531-554.
- Hofstede, G. (1980): *Culture's Consequences*, Sage: Beverly Hills, CA.
- Holm, U. and Pedersen, T. (2000) *The Emergence and Impact of MNC Centres of Excellence*, Macmillan Press: London.
- Huselid, M. (1995) 'The Impact of Human Resource Management Practices on Turnover, Productivity, and Corporate Financial Performance', *Academy of Management Journal*, 38: 635-672.
- Huselid, M.A., Jackson, S.E., and Schuler, R.S. (1997) 'Technical and strategic human resource management effectiveness as determinants of firm performance', *Academy of Management Journal*, 40: 171-188.
- Jackson, T. (2002) 'The Management of People Across Cultures: Valuing People Differently', *Human Resource Management*, 41: 455-475.
- Juplev, A.V., Konkov, A.G. and Kisner., V.F. (1998) 'Motivation and Problems of Small Enterprise: The Experience of Russia and USA', *Human Resource Management*, 8: 44-53. (in Russian).
- Katz, D. and Kahn, R.L. (1978) *The Social Psychology of Organizations*, John Wiley: New York.
- Kostova, T. and Roth, K. (2002) 'Adoption of organizational practice by subsidiaries of multinational corporations: Institutional and relational effects', *Academy of Management Journal*, 45: 215-233.
- Kostova, T. and Zaheer, S. (1999). 'Organizational legitimacy under conditions of complexity: the case of the multinational enterprise', *Academy of Management Review* 24: 64-81.
- MacDuffie, J.P. (1995) 'Human Resource Bundles and Manufacturing Performance: Flexible Production Systems in the World Auto Industry', *Industrial and Labor Relations Review*, 48: 197-221.
- Martin, G. and Beaumont, P. (1998) 'Diffusing 'best practice' in multinational firms: Prospects, practice and contestation', *International Journal of Human Resource Management*, 9: 671-695.
- May, R., Puffer, S.M. and McCarthy, D.J. (2005) 'Transferring Management Knowledge to Russia: A Culturally Based Approach', *Academy of Management Executive*, 19(2): 24-35.
- May, R., Young, C.B. and Ledgerwood, D. (1998) 'Lessons from Russian Human Resource Management Experience', *European Management Journal*, 16: 447-459.
- Meyer, J. and Rowan, B. (1977) 'Institutionalized organizations: Formal structures as myth and ceremony', *American Journal of Sociology*, 83: 340-263.
- Michailova, S. and Husted, K. (2003) 'Knowledge-sharing Hostility in Russian Firms', *California Management Review*, 45(3): 59-77.
- Milliman, J., Nason, S., Gallagher, E., Huo, P., Von Glinow, M.A. and Lowe, K.B. (1998) 'The Impact of National Culture on Human Resource Management Practices: The Case of Performance Appraisal', *Advances in International Comparative Management*, 12: 157-183.

- Ngo, H.-Y., Turban, D. Lau, C.-M. and Lui, S.-Y. (1998) 'Human Resource Practices and Firm Performance of Multinational Corporations: Influences of Country of Origin', *Journal of International Human Resource Management*, 9: 632-652.
- Novicevic, M.M. and Harvey, M. (2001) 'The Changing Role of the Corporate HR Function in Global Organizations of the Twenty-First Century', *International Journal of Human Resource Management*, 12: 1251-1268.
- Oliver, C. (1991) 'Strategic responses to institutional processes', *Academy of Management Review*, 16: 145-179.
- Oliver, C. (1997) 'Sustainable competitive advantage: Combining institutional and resource-based views', *Strategic Management Journal*, 18: 697-713.
- Pfeffer, J. (1994) *Competitive advantage through people: Unleashing the power of the work force*, Harvard Business Press: Boston.
- Pil, F.K. and MacDuffie, J.P. (1996) 'The adoption of high-involvement work practices', *Industrial Relations*, 35: 423-455.
- Podsakoff, P.M. and Organ, D. (1986) 'Self-reports in Organizational Research: Problems and Prospects', *Journal of Management*, 12: 531-544.
- Puffer, S.M. and McCarthy, D.J. (1995) 'Finding the Common Ground in Russian and American Business Ethics', *California Management Review*, Winter: 29-46.
- Puffer, S.M. and Shekshnia, S.V. (1994) 'Compensating Local Employees in Post-Communist Russia: In Search of Talent or Just Looking for a Bargain?', *Compensation and Benefits Review*, September-October: 1-9.
- Purcell, J. (1999) 'Best practice and best fit: Chimera or cul-de-sac?', *Human Resource Management Journal*, 9(3): 26-41.
- Rosenzweig, P.M. and Nohria, N. (1994) 'Influences on Human Resource Management Practices in Multinational Corporations', *Journal of International Business Studies*, 25: 229-251.
- Rosenzweig, P.M. and Singh, H. (1991) 'Organizational environments and the multinational enterprise', *Academy of Management Review*, 16: 340-361.
- Rowley, C. and Benson, J. (2002) 'Convergence and Divergence in Asian Human Resource Management', *California Management Review*, 44(2): 90-109.
- Schneider, S. and Barsoux, J.-L. (2003) *Managing across Cultures*, Prentice Hall: Harlow, Essex.
- Scott, W.R. (1987). 'The adolescence of institutional theory', *Administrative Science Quarterly*, 32: 493-511.
- Scott, W.R. 2001. *Institutions and Organizations*. Thousand Oaks, CA: Sage, 2nd Edition.
- Scullion, H. and Starkey, K. (2000) 'In Search of the Changing Role of the Corporate Human Resource Function in the International Firm', *International Journal of Human Resource Management*, 11: 1061-1081.
- Shekshnia, S. (1998) 'Western Multinationals' Human Resource Practices in Russia', *European Management Journal*, 16: 460-465.
- Taylor, S., Beechler, S., and Napier, N. (1996) 'Toward an integrative model of strategic international human resource management', *Academy of Management Review*, 21: 959-985.
- Tolbert, P.S. and Zucker, L.G. (1996) 'The institutionalization of institutional theory', In S.R. Clegg, C. Hardy and W.A. Nord (eds.): *Handbook of Organization Studies*. London: Sage.
- Truss, C. (2001) 'Complexities and Controversies in Linking HRM with Organizational Outcomes', *Journal of Management Studies*, 38: 1121-1149.

- Truss, C., Gratton, L., Hope-Hailey, V., Stiles, P. and Zaleska, J. (2002) 'Paying the Piper: Choice and Constraint in Change of HR Functional Roles', *Human Resource Management Journal*, 12: 39-63.
- Tsai, W. and Ghoshal, S. (1998) 'Social Capital and Value Creation: the Role of Intrafirm Networks', *Academy of Management Journal*, 41: 464-476.
- Tsui, A. (1984) 'A Multiple Constituency Framework of Managerial Reputational Effectiveness', In J. Hunt, C. Hoskin, C. Schriesheim and R. Stewart (eds.). *Leadership*, New York: Pergamon.
- Wall, T.B. and Wood, S.J. (2005) 'The Romance of Human Resource Management and Business Performance, and the Case for Big Science', *Human Relations*, 58: 429-462.
- Welsh, D.H.B., Luthans, F., and Sommer, S.M. (1993) 'Managing Russian Factory Workers: The Impact of US-based Behavioral and Participative Techniques', *Academy of Management Journal*, 36: 58-79.
- Westney, E. (1993) 'Institutionalization Theory and the Multinational Corporation', In S. Ghoshal and E. Westney (eds.) *Organization Theory and the Multinational Corporation*, New York: St. Martin's Press, pp. 53-76.
- Wright, P. M., McCormick, B., Sherman, W. S. and McMahan, G. C. (1999) 'The Role of Human Resource Practices in Petro-Chemical Refinery Performance', *The International Journal of Human Resource Management*, 10: 551-571.
- Wright, P.M. and McMahan, G.C. (1992) 'Theoretical perspectives for strategic human resource management', *Journal of Management*, 18: 295-320.
- Wright, P.W., McMahan, G.C., Snell, S.A. and Gerhart, B. (2001) 'Comparing Line and HR Executives' Perceptions of HR Effectiveness: Services, Roles, and Contributions', *Human Resource Management*, 40: 111-123.
- Yan, Y. (2003) 'A Comparative Study of Human Resource Management Practices in International Joint Ventures: The Impact of National Origin', *International Journal of Human Resource Management*, 14: 487-510.
- Zander, U. (1991) 'Exploiting a Technological Edge: Voluntary and Involuntary Dissemination of Technology' Doctoral dissertation, Stockholm Institute of International Business, Stockholm, Sweden.
- Zander, U. and Kogut, B. (1995) 'Knowledge and the Speed of Transfer and Imitation of Organizational Capabilities: An Empirical Test', *Organization Science*, 6: 76-92.

FIGURE 1: Conceptual Framework

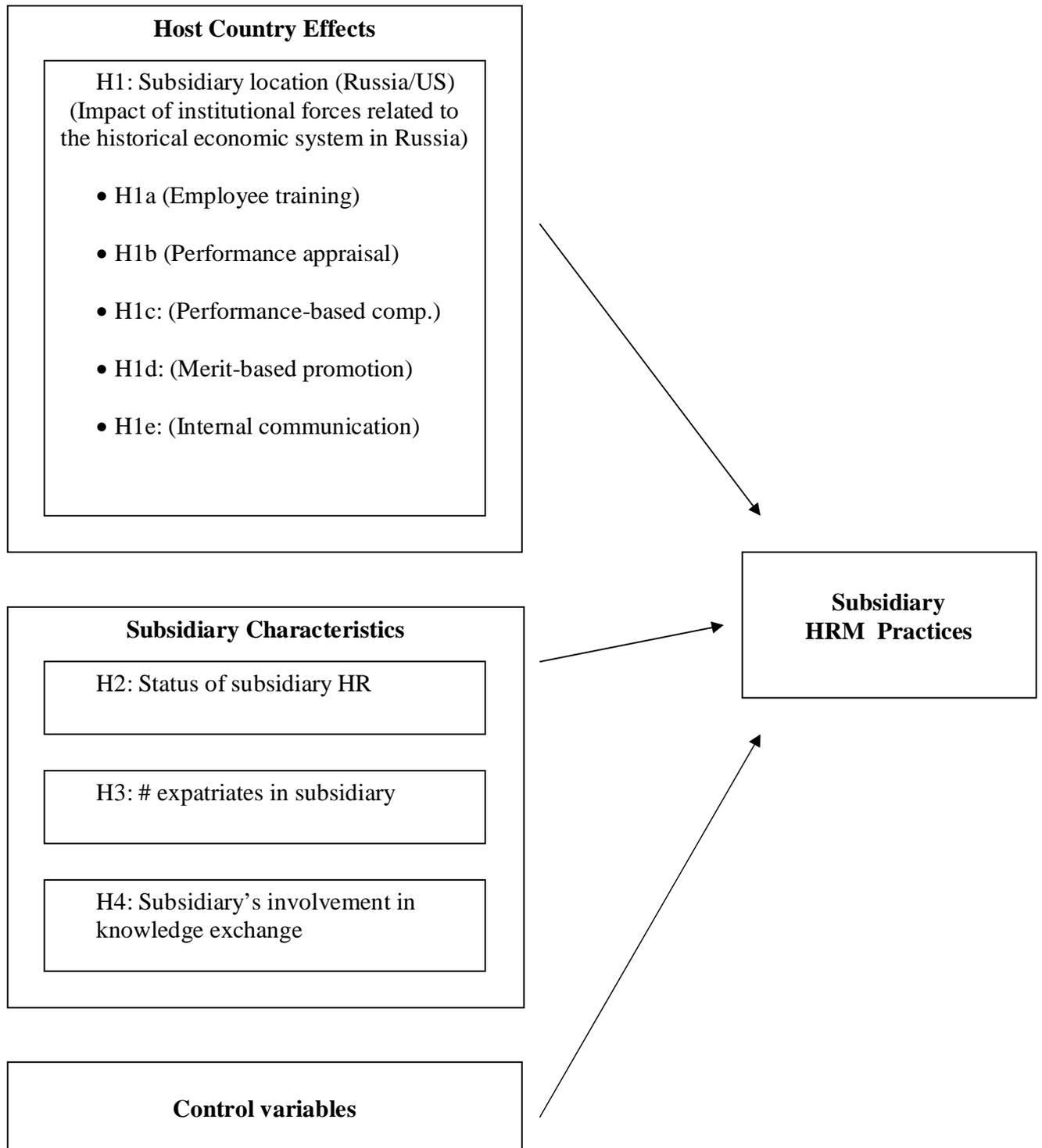


Table 1: Descriptive Statistics for All Independent Variables

	Means	Std. Deviation	Min.	Max.
<u>Dependent Variables</u>				
Training	1.42	1.09	1	5
Performance appraisal	3.32	1.44	1	5
Promotion	3.80	0.62	1.67	5
Performance based compensation	3.62	0.96	1.05	5
Communication	3.61	0.68	1	5
<u>Independent Variables</u>				
Russia as host country	0.48	0.50	0	1
Finland as host country	0.33	0.47	0	1
USA as host country	0.20	0.40	0	1
German MNC	0.25	0.43	0	1
Japanese MNC	0.32	0.47	0	1
Finnish MNC	0.18	0.39	0	1
Swedish MNC	0.13	0.33	0	1
US MNC	0.13	0.33	0	1
HR department status	3.21	1.21	1	5
Knowledge exchange	3.42	0.73	1.75	5
# Expatriates	6,74	17,79	0	150
<u>Control Variables</u>				
Relative size of subsidiary	4.69	12.60	0.01	86.7
Food, pulp & paper	0.10	0.30	0	1
Chemicals	0.16	0.37	0	1
Financial service	0.08	0.28	0	1
Wholesale & retail	0.27	0.45	0	1
Hotel & transportation	0.16	0.37	0	1
Metal & Electronics	0.22	0.42	0	1
Subsidiary age	15.93	18.32	2	110
% manufacturing	31.29	37.99	0	100
MNC international experience	28.41	39.12	2	206

Table 2: Correlations

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25
1 Training																									
2 Performance appraisal	0.20																								
3 Promotion	0.19	0.25																							
4 Performance based compensation	0.24	0.37	0.29																						
5 Communication	0.21	0.24	0.31	0.18																					
6 Russia as host country	0.48	0.12	0.13	0.18	0.21																				
7 Finland as host country	-0.24	-0.18	0.05	-0.01	-0.11	-0.50																			
8 USA as host country	-0.28	0.05	-0.18	-0.17	-0.12	-0.59	-0.41																		
9 German MNC	0.09	-0.03	-0.04	-0.10	0.04	-0.17	-0.23	0.17																	
10 Japanese MNC	-0.05	0.14	-0.09	0.17	-0.11	0.12	-0.13	-0.12	-0.39																
11 Finnish MNC	0.05	0.11	0.09	0.09	0.10	0.00	-0.14	0.00	-0.22	-0.23															
12 Swedish MNC	-0.15	-0.13	-0.01	-0.13	0.03	-0.19	0.15	0.19	-0.30	-0.31	-0.18														
13 US MNC	0.09	-0.10	0.11	-0.05	-0.07	0.30	0.03	-0.30	-0.23	-0.24	-0.13	-0.18													
14 HR department status	0.11	0.19	0.13	0.20	0.16	-0.01	0.13	-0.11	0.04	-0.22	0.01	0.14	0.02												
15 Knowledge exchange	0.30	0.31	0.22	0.32	0.27	0.24	-0.16	-0.12	-0.06	0.23	-0.09	-0.11	-0.05	0.11											
16 # Expatriates	-0.10	0.16	0.08	0.04	-0.13	-0.14	-0.15	0.28	0.00	0.19	-0.08	-0.08	-0.09	-0.14	0.01										
17 Relative size of subsidiary	-0.03	-0.01	0.02	0.03	-0.03	-0.14	-0.01	0.15	0.08	-0.06	-0.04	0.06	-0.05	0.04	-0.04	0.18									
18 Food, pulp & paper	0.09	0.04	0.00	0.10	0.02	-0.03	0.05	-0.02	0.14	0.02	-0.11	-0.06	-0.07	0.04	0.09	0.00	0.13								
19 Chemicals	0.02	0.04	0.04	0.06	-0.04	-0.03	0.06	-0.03	-0.02	0.23	-0.11	-0.05	-0.12	-0.05	-0.01	0.01	-0.03	-0.15							
20 Financial service	0.06	0.06	0.03	0.01	-0.05	0.06	-0.01	-0.05	-0.08	-0.03	0.16	-0.05	0.07	0.00	0.01	-0.02	0.01	-0.11	-0.08						
21 Wholesale & retail	0.03	-0.11	-0.08	-0.17	-0.07	-0.08	-0.05	0.12	0.00	-0.27	0.10	0.35	-0.13	0.07	-0.15	-0.05	0.05	-0.21	-0.15	-0.11					
22 Hotel & transportation	-0.19	0.07	0.02	0.06	-0.02	-0.14	0.11	0.05	-0.07	0.36	-0.11	-0.10	-0.16	0.01	-0.02	0.14	-0.05	-0.22	-0.16	-0.11	-0.22				
23 Metal & Electronics	-0.02	-0.09	0.02	-0.03	0.14	-0.04	-0.01	0.06	0.00	-0.08	0.10	-0.02	0.05	-0.06	0.04	-0.06	-0.08	-0.24	-0.18	-0.13	-0.24	-0.25			
24 Subsidiary age	-0.24	0.01	-0.02	-0.03	-0.13	-0.38	0.11	0.29	0.11	0.01	-0.13	0.05	-0.10	-0.06	-0.01	0.34	0.16	0.11	0.01	0.08	-0.12	0.16	-0.07		
25 % manufacturing	0.00	-0.02	-0.01	-0.08	-0.06	-0.02	0.03	-0.01	-0.03	-0.07	0.04	0.21	-0.13	0.08	-0.01	0.01	0.13	0.26	0.28	0.08	0.39	-0.35	-0.36	-0.03	

26	MNC international experience	0.06	0.12	0.14	0.07	0.11	0.02	0.26	-0.26	-0.18	0.29	0.01	-0.02	-0.15	0.08	0.29	0.26	0.07	0.06	0.10	0.01	-0.17	0.13	-0.03	0.21	-0.02
----	------------------------------------	------	------	------	------	------	------	------	-------	-------	------	------	-------	-------	------	------	------	------	------	------	------	-------	------	-------	------	-------

Table 3: Regressions on subsidiary HRM practices^{1,2,3}

Betas	Training	Appraisal	Communi- cation	Perf.-based Compensation	Promotion
Russia (host)	0.46 ***	0.26 *	0.16	0.35 **	0.26 *
Finland (host)	-0.02	-0.09	0.03	0.18	0.19
German MNC (home)	0.04	-0.06	-0.08	-0.02	-0.17
Finnish MNC (home)	-0.07	0.09	0.09	0.12	0.00
Japanese MNC (home)	-0.02	0.08	-0.15	0.05	-0.26 *
Swedish MNC (home)	0.00	-0.04	-0.07	0.08	-0.06
HR department status	0.06	0.27 ***	0.30 ***	0.17 *	0.20 *
# of expatriates	0.02	0.20 *	-0.01	0.11	0.20 *
Knowledge exchange	0.22 **	0.16 *	0.22 *	0.20 *	0.17 *
Subsidiary relative size	-0.03	-0.03	-0.04	0.10	0.06
Food, pulp & paper	0.13	0.03	-0.02	0.09	-0.02
Chemicals	0.07	0.11	-0.02	0.11	0.13
Financial services	0.14	0.09	-0.08	-0.03	-0.02
Wholesale & retail	0.21 *	0.08	0.03	0.00	0.02
Hotel & transportation	0.02	0.13	0.03	0.12	0.07
Subsidiary Age	-0.05	-0.11	-0.08	0.09	0.02
MNC Int. Experience	-0.08	0.10	0.11	-0.16	-0.09
% Manufacturing	-0.09	-0.06	-0.04	-0.13	-0.17 *
R ²	.388	.263	.272	.178	.168
Adjusted R ²	.307	.168	.178	.073	.081
F	4.784 ***	2.760 ***	2.900 ***	1.688 *	1.775 *
N	158	158	158	158	158

Significance in two-tailed tests: *p<.05; **p<.01; ***p<.001

¹ Betas are reported in the models above.

² USA as host country is omitted from the analyses so that the models are not overdetermined and serves as the base case relative to Russia and Finland.

³ USA as home country is omitted from the analysis so that the models are not overdetermined and serves as the base case relative to Germany, Finland, Japan, and Sweden.