

EFECTOS DE LOS CONTEXTOS INSTITUCIONALES EN LAS PRÁCTICAS DE GESTIÓN EN UNA EMPRESA MULTINACIONAL EUROPEA.

El presente estudio investiga el efecto de los contextos institucionales sobre las prácticas de gestión en una empresa multinacional. Se aplicó un cuestionario para medir prácticas de gestión actuales e ideales en cuatro subsidiarias de la misma empresa multinacional. Los resultados muestran que las prácticas de gestión en subsidiarias que operan en países con un mayor nivel de regulación laboral son menos formales y dirigidas que aquellas subsidiarias localizadas en países con menor grado de regulación institucional del mercado laboral. También se encontró que los grados de aceptación de tales prácticas difieren significativamente dependiendo de los contextos institucionales: en contextos menos restrictivos, las prácticas formales y directivas son consideradas más deseables que en los contextos institucionales más restrictivos. Se argumenta que hay una relación inversa entre la flexibilidad de los contextos institucionales de las subsidiarias y la flexibilidad de sus prácticas (formalidad y directividad). Se discuten las implicaciones y limitaciones de este estudio.

PALABRAS CLAVE: Prácticas de gestión, contextos institucionales, compañías multinacionales.

EFFETS DES CONTEXTES INSTITUTIONNELS DANS LES PRATIQUES DE GESTION DE PERSONNEL DANS UNE ENTREPRISE MULTINATIONALE EUROPÉENNE.

Cette étude effectue une recherche sur l'effet des contextes institutionnels dans les pratiques de gestion de personnes subsidiaires d'une entreprise multinationale européenne. Pour mesurer les pratiques de gestion de personnel observées, un questionnaire a été distribué parmi les employés de quatre entreprises subsidiaires situées dans quatre pays différents d'une même multinationale. Les résultats démontrent que les pratiques des entreprises subsidiaires, situées dans les pays de niveau de régulation institutionnelle du marché de travail moins élevés ont tendance à être plus formelles et plus dirigées que les entreprises subsidiaires situées dans des pays avec un niveau plus élevé de régulation institutionnelle du marché de travail. De même, le niveau d'acceptation de ces pratiques par les personnes consultées est significativement différent : dans un contexte institutionnel moins restrictif, les pratiques de gestion formelles et dirigées ont tendance à être considérées plus désirables que dans les contextes institutionnels plus restrictifs. Il est suggéré qu'il existe un rapport inverse entre la flexibilité des contextes institutionnels existants dans les pays des entreprises subsidiaires et la flexibilité de leurs pratiques de gestion de personnel (i.e. *Formalité et dirigeabilité*). Les applications et les limites de l'étude sont présentées.

MOTS-CLEFS : Pratiques de gestion, contextes institutionnels, entreprises multinationales.

EFEITOS DOS CONTEXTOS INSTITUCIONAIS NAS PRÁTICAS DE GESTÃO DE PESSOAS EM UMA EMPRESA MULTINACIONAL EUROPEIA.

O presente estudo investiga o efeito que os contextos institucionais têm nas práticas de gestão de pessoas em subsidiárias de uma empresa multinacional europeia. Aplicou-se um questionário para medir práticas de gestão de pessoas observadas e esperadas a empregados de quatro subsidiárias localizadas em quatro países diferentes de uma mesma multinacional. Os resultados mostram que as práticas das subsidiárias operando em países com um menor grau de regulação institucional em seu mercado de trabalho tenderam a ser mais formais e diretivas que aquelas das subsidiárias localizadas em países com um maior grau de regulação institucional do mercado de trabalho. Também se observou que o grau de aceitação de tais práticas por parte dos pesquisados distinguiram significativamente: em contextos institucionais menos restritivos, as práticas de gestão formais e diretivas tenderam a ser consideradas mais desejáveis que as dos contextos institucionais mais restritivos. Entende-se que existe uma relação inversa entre a flexibilidade dos contextos institucionais imperantes nos países de operação das subsidiárias e a flexibilidade de suas práticas de gestão de pessoas (i.e. *formalidade e diretividade*). Apresentam-se as implicações e limitações deste estudo.

PALAVRAS CHAVE: práticas de gestão, contextos institucionais, empresas multinacionais.

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CORRESPONDENCIA: Universidad de los Andes, Av. San Carlos de Apoquindo 2200, Las Condes, Santiago, Chile.

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Institutional context effects on managerial practices in a European multinational company

Leonardo Liberman

PhD Stockholm University
Universidad de Los Andes, Chile
Email: leonardo.liberman@gmail.com

ABSTRACT: The present study investigates the effect of institutional contexts on managerial practices within a multinational company. Questionnaires measuring actual and ideal managerial practices were completed in four different subsidiaries of the same MNC. Results show that the practices of subsidiaries operating in countries with a higher degree of institutional labor-market regulation were less formalized and directive than in those subsidiaries located in countries with a lower degree of labor-market regulation. It was also found that the degrees of acceptance of these practices differed significantly across institutional contexts: in less restrictive institutional contexts formal and directive practices were more desirable than in more restrictive institutional contexts. It is argued that there is an inverse relationship between the flexibility of subsidiaries' institutional contexts and the flexibility of their practices (*formality and directiveness*). Implications and limitations of this study are discussed.

KEY WORDS: Managerial practices, institutional contexts, multinational companies.

INTRODUCTION

As the economies of regions and countries become more closely integrated, the need to reach a deeper understanding of the impact of domestic forces on the practices of multinational companies (MNC) has become of paramount importance. In this line, the purpose of the present study is to investigate the effect of varying institutional contexts (ICs) on the implementation of managerial practices (MPs) in MNCs. In particular, this study measures the effect of labor-market regulations on how MPs are implemented in subsidiaries, and on the attitudes of employees toward these practices. Evidence of different patterns of practice implementation across groups of matched MNC subsidiaries embedded in different ICs will provide support for the reach and direction of ICs effects on MNC practices. This would cast light on what was described by Khanna et al. (2005) as a critical challenge that MNC managers face: adjusting their business models and practices to cope with the institutional voids of host countries, while keeping central elements of their competitive advantage.

In an extensive meta-analytical study, Clark, Gospel and Montgomery (1999) found that the second most frequently cited explanatory variable to account for variations in management cross-nationally is the ICs of countries. However, it is only in recent years that the impact of institutional arrangements of countries on international business and MNCs has become a topic for systematic study. A wide-ranging literature re-

view (Lu, 2003) suggests that scholars and practitioners are now recognizing the implications of countries' institutional arrangements as an active factor shaping organizational and managerial practices of MNCs. According to Mudambi and Navarra (2002), an increased attention is being paid to the strategic influence that ICs have on international businesses, and this has given rise to a fast developing body of research addressing the complex interplay between countries' institutional contexts and the behavior and organization of MNCs (Davis, Desai & Ringdal, 2000; Edwards, Ferner & Sisson, 1996; Elenkov, 1997; Gooderham, Nordhaug & Ringdal, 1999; Hillman & Wan, 2005; Kostova & Zaheer, 1999; Peng & Heath, 1996; Rosenzweig & Singh, 1991; Westney, 1993).

Despite the alleged importance of institutions' shaping of organizational behavior and practices across countries (Rosenzweig & Nohria, 1994; Westney, 1993; Whitley, 1992), it has been acknowledged that there is still a noticeable shortage of empirical research focusing on intra-company managerial practices across ICs. Hence, there is a theoretical and practical value in examining managerial practices within one MNC across subsidiaries operating in different ICs. Doing this might shed light on what have been addressed as some of the fundamental choices of MNCs: integration or differentiation (Lawrence & Lorsch, 1967) centralization or decentralization (Negandhi & Baliga, 1981), standardization or local tailoring (Westney, 1988), and internal consistency or local isomorphism (Rosenzweig & Nohria, 1994).

In this line, the present work investigates the effect of institutional contexts on managerial practices within subsidiaries of the same multinational company.

Theoretical framework

Researchers with an institutional perspective believe that business contexts are socially structured, and firms tend to adopt and implement work and organizational practices and procedures that are already institutionalized at societal level (Meyer & Rowan, 1991). Country institutions are believed to shape the ways in which local organizations develop over time (Beardwell & Holden, 1997). MNCs practices are highly determined by the actual domestic demands of compliance and legitimacy of the countries (Grønhaug & Nordhaug, 1998). Further, according to this view, institutional arrangements are not restricted to labor laws, but also entail professional associations, educational, vocational and business institutions (Brewster, 1995; Budhwar & Sparrow, 1998; Ferner & Hyman, 1998; Tayeb, 1988; Whitley, 1992; Zucker, 1987).

Managerial practices

The definitions of MPs are numerous, divergent and contradicting. The lack of consensus about the meaning and nature of these practices has been considered an obstacle when carrying out country comparisons. In fact, managerial practices exercised by MNCs typically have had two meanings in the field of international management, pointing at functionally different groups of practices exercised at different organizational levels, i.e. *Tactical Managerial Practices (TMP)* and *Strategic Managerial Practices (SMP)* (Lieberman & Torbiörn, 2000). TMP refers to behaviors and roles that are re-created by managers in direct interaction with their subordinates (Luthans & Welsh, 1993; Mintzberg, 1973; Yukl & Lepsinger, 1991). These practices are short-range routines carried out by managers in their interaction with subordinates to attain particular goals, in specific situations.

SMPs, in contrast, are patterns of planned activities that involve groups, units or the entire organization in a particular field (Budhwar & Sparrow, 1998; Ramamoorthy & Carroll, 1998; Weber, Kabst & Gramley, 1998). These wide-range routines are collectively implemented and delineated in programs, policies and systems at company level.

Few studies have empirically examined the relationship between institutional environments and the managerial practices in the dual sense mentioned above (i.e. SMP and TMP), within MNCs across their subsidiaries. Based on the general purpose of this study to re-examine the effect of ICs on *actual* and *ideal* ways of implementing SMPs and TMPs in subsidiaries of the same MNC, the following questions were formulated:

Does the way in which MPs (SMPs and TMPs) are implemented vary across subsidiaries operating in countries with different institutional arrangements? If this is the case, what differences are distinguishable? For example, are managerial practices more formal and directive in less regulated labor markets, in line with earlier findings (e.g. Lieberman & Torbiörn, 2000; Lieberman-Yaconi, 2001)? Do preferences for these practices differ across institutional arrangements? If this is the case, what differences are distinguishable?

Institutional Context Effects on Actual SMPs

In a study involving 249 foreign-owned subsidiaries operating in the US, Rosenzweig and Nohria (1994) found that MNCs tended to adopt local MPs. They considered this phenomenon to be due to isomorphic pressures. Subsidiaries' practices tended to resemble local practices even



though it was reported that they were not obliged to do so by external regulations.

In the same line, Locke and Kockan (1995) acknowledged that divergent patterns of workplace practices and organization could be distinguishable across different national systems and traditions: rigid-Taylorised patterns of practices were considered to be characteristic of the United States, Australia, Britain, and Canada, whereas patterns promoting flexible workplace practices and communication were characteristic of Japan, Germany, and partially, Italy. Distinctive features in the countries' ICs were thought to shape firm-level managerial practices, such as work organization, skill development, compensation schemes and staffing patterns (Locke & Kochan, 1995). Moreover, Redding (2005) argued that ICs like the US emphasize managerial control, standardization and tight complex bureaucratic control systems, rigorous measurement of performance,

discipline systems and reward programs to a larger extent than other ICs.

In a comparative study carried out across six European countries, Gooderham, Nordhaug and Ringdal (1999) observed a pattern of selective adoption of Human Resource practices in MNCs. They found that less influential labor representative bodies and legislative pressures on firms derived in more managerial autonomy and higher chances that these would embrace calculative management practices, i.e. a ubiquitous use of *hard* practices (Legge, 1995), "efficiency-seeking devices", and meticulous monitoring of staff performance (Gooderham et al., 1999). The researchers concluded that the calculative practices were related to larger managerial discretion within the firm and fewer regulative constraints such as labor laws, systems of employee representation, labor unions and collective agreements.

A qualitative study comparing eight European subsidiaries (Lieberman & Torbiörn, 2000) also suggested that MNCs' managerial practices were influenced by the ICs of the countries in which they were operating. The study showed that subsidiaries facing comparable ICs (e.g. more restrictive ICs) implemented their SMPs in a similar fashion. Managerial practices in country-subsi-daries situated in more restrictive ICs (e.g. Sweden and Germany) were characterized by less formal communication practices and less systematic control of individual performance than those subsidiaries situated in more flexible institutional environments. In these countries, non-financial rewards were favored over financial ones and informal deals were reported to influence the career development within the subsidiaries. Besides, subsidiaries from countries with less labor-market restrictions also tended to be similar to each other, and their managerial practices resembled the policies and practices emanated from the headquarter office to a larger extent than the subsidiaries in the more restrictive IC.

Considering the above-mentioned empirical evidence (Rosenzweig & Nohria, 1994; Gooderham, Nordhaug & Ringdal, 1999; Lieberman & Torbiörn, 2000), it would not be unreasonable to argue that there ought to be differences in the degree of formalization of wider managerial practices between those subsidiaries operating in countries with more restrictive ICs and those subsidiaries in countries with a lower degree of labor-market regulation. Additionally, based on previous evidence, it could also be assumed that the direction of these practices will tend to be inverted: more formal managerial programs and practices would be present in subsidiaries located in less regulated contexts, whereas there would be a more informal implementation in more regulated contexts. Thus, based on previous findings, a first proposition is stated:

Hypothesis 1. *Strategic managerial practices* in subsidiaries operating in countries with a high degree of institutional labor-market regulation will be less formalized than in those subsidiaries located in countries with a lower degree of labor-market regulation.=

Institutional context effects on actual TMPs

The second issue in this study concerns the effects of ICs on managers' actual behavior when interacting with their subordinates as well as whether the reports about managers' behavior when interacting with their subordinates (i.e. TMP) vary according to the ICs. According to Clark et al. (1999), much of the current international management research is focused on 'harder' matters of work relations (e.g. policies and programs, training, wages, etc.) rather than on "softer" aspects of management approaches, such as lea-

dership. Indeed, little has been published about the relationship between wider ICs and the actual behaviors of managers when interacting with their subordinates. Nevertheless, there are some studies indicating that ICs would somehow affect this type of practices. One of the earliest cross-national efforts addressing this issue from a comparative perspective was the seminal study of Harbison and Myers (1959). The researchers visited 23 countries and found clear differences in managers' ways to approach their workforce. In some countries, managers adopted a dual role when interacting with their workforce: they were authoritarian and, at the same time, paternalistic in their approach. In contrast, in other countries the researchers found that they only relied on the acknowledgement of, and compliance with, general, already established policies when dealing with people at work. This last approach was observed in more industrialized countries, and in which governments and unions put a higher degree of pressure on management and organizations (Harbison & Myer, 1959). The authors concluded that the managers' approaches across countries were shaped by pressures emanated from domestic labor legislations and labor organizations (Harbison & Myer, 1959).

Haire, Ghiselli and Porter (1966) found that German and Scandinavian managers associated *directing* with *co-operation* largely than managers from other countries did (i.e. Anglo-American, Latin-European and Asian countries). In a later study, Heller and Wilpert (1981) studied 1.600 managers from 129 different organizations in eight countries. The authors found that 90% of the managers differed in their approaches when making decisions, and one of the principal factors that influenced their decision-making approach was the country context. For instance, *power sharing* was found to be present more frequently in some countries than others. One example of this was Sweden, where managers tended to hand over their decisional power more often than in other countries. They also found a paradoxical propensity of industries with high capital to labor ratios—that had highly developed control systems—to use more participative decision practices. Conversely, in labor-intensive industries with low capital to labor ratios, making decision was centralized and less influenced by non-managerial employees (Heller & Wilpert, 1981).

In a cluster analysis based on data gathered from Turkish managers and previous data from the study of Haire et al. (1966), Kozan (1993) concluded that managers from Turkey, China, India, Argentina and Greece shared a common approach when dealing with employees: all of them relied on a more autocratic leadership style. Besides, in a more recent study by Dobbin and Boychuk (1999), it was found that comparable jobs tended to be performed with subs-

tentially different levels of autonomy in different countries. Non-managerial employees in Sweden, Denmark, Finland and Norway reported having more discretion in their jobs than employees working in the United States, Canada and Australia. This variation in the relative levels of autonomy in equivalent jobs was attributed to institutional differences: i.e. basic differences in the national employment systems and different *logics* on how to manage and organize work activities. The Nordic countries followed what they labeled "skill-governed work" logic (Dobbin & Boychuk, 1999) with emphasis on collaboration, encouragement of flexibility, skill development, co-determination, and macro-policies about employment discouraging employee turnover. The result of this Nordic logic would be an emphasis on a "responsible autonomy" of employees at work. In contrast, the United States, Canada and Australia would follow "rule-governed work" logic, characterized by the use of fixed standards and explicit rules guiding work activities, de-skilling and routinization of work, and a larger emphasis on employee turnover. The authors concluded that the Anglo-Saxon approach was characterized by a "direct control" of work activities.

Overall, previous research and debate suggest that managers from organizations located in more regulated ICs would tend to exercise looser practices in their interactions with subordinates (e.g. less autocratic, power sharing, emphasis on co-operation and autonomy) than managers in organizations operating in less regulated ICs. If this is correct, it is expected that employees from subsidiaries operating in less regulated labor ICs would report more directive TMPs than those from subsidiaries operating in ICs that are more restrictive. Based on this, a second proposition is stated:

Hypothesis 2. *The TMPs exercised in subsidiaries operating in countries with a high degree of institutional labor-market regulation will be reported as less directives than in subsidiaries located in countries with a lower degree of labor-market regulation.*

Institutional context effects on ideal SMPs and TMPs

Little empirical evidence has been published showing how ICs influence individuals' cognitions (Godard, 2002) and *even less* research is available that links cognitions to MPs across ICs. Therefore, the third interest of this study is to determine how ICs affect employees' perceptions of adequacy or inadequacy of MPs, by asking them what would be the ideal degrees of *formalization* and *directiveness* of SMPs and TMPs respectively.

It is believed that subjective evaluations and priorities of the respondents should be imprinted by legitimized rules and standards prevalent in the wider ICs of the surveyed countries. These standards would be incorporated and patterned as relatively stable individual cognitive schemata (Beck, 1987) and the base of subjective evaluations and priorities. Even though several authors have measured the subjective assessment of practices in this fashion (Foa, 1957; Tannenbaum & Kuleck, 1978; Tsui, 1984; Zander, 1997), only a few have emphasized ICs. Among these, Lau, Tse and Zhou (2002) measured the valence of employees' responses to institutional changes, and Kostova (2002) assessed the internalization of ICs' rules regarding quality practices.

Significant differences in the level of desirability or acceptance placed on different modes of practice implementation in different ICs would indicate that the IC would affect employees' and managers' attitudes towards such practices. A previous study (Lieberman, 2001), examined which managerial and employee practices were expected by managers and employees. The study suggested, *inter alia*, that countries sharing similar ICs tended to show common patterns in the expected managerial behavior in the interactions with employees (i.e. TMP). Employees from Sweden and Germany expected *flexible* and *synergetic* managerial behaviors (cooperative, helpful, friendly, involved and team-working) to a significantly higher degree than employees from other subsidiaries do. It was suggested that the similarities in the patterns of role expectations in these two country subsidiaries were partly attributable to their similarity in domestic ICs: both subsidiaries were embedded in countries with higher labor-market regulations where staff representatives had more influence on managerial decisions within organizations (Muller, 1998). Based on these earlier findings, a tentative proposition is stated:

Hypothesis 3. Significant differences will be found in the degree of desirability placed by employees on formal and directive modes of practice implementation across subsidiaries operating in different institutional labor markets. In less restrictive institutional contexts, formality and directiveness of practices will be more desirable than in institutional contexts that are more restrictive.

Based on earlier discussions linking MPs to ICs, and in an attempt to test the above-mentioned hypotheses, the methodological approach employed in this study is presented next.

Method

Sample

The present study is based on a survey applied to a small, carefully focused sample of 60 employees from four subsidiaries of a multinational company (MNC). The company is a well established high-tech engineering MNC with Scandinavian roots. The MNC operates in more than 100 countries and employs more than 100.000 people worldwide. The company has a highly decentralized matrix-like structure organized around seven major business units across four geographical regions. Each subsidiary is characterized by a high degree of autonomy from the Swiss headquarters, both concerning practices and policies. According to Perlmutter's (1969) typology of staffing practices, the company would be characterized as a *polycentric* MNC. It was thought that the fact that the company headquarters was not located in either of the country subsidiaries of study, and does not attempt to impose centralized managerial practices, would add visibility to the impact of different institutional forces on MPs.

This study uses a quasi-experimental control, as it uses a matched comparison group to verify the effect of IC on reported actual and ideal MPs. Two main criteria were defined to select the sample from the MNC.

The first criterion that guided the selection of participants was demographic and functional equivalence of country samples. There was a need to match the samples in order to rule out rival explanatory factors influencing the responses (i.e. demographics, structure, corporate strategy, tasks, functions, products and positions). As a result, subsidiaries were selected from the same business unit within the MNC, and the sample included staff working in sales, marketing, services, customer service, finance, production and administration across the four countries. The respondents held managerial, technical, operational and administrative positions. The mean age range of the respondents was 25-35 years in all countries except Sweden where it was 36-45 years. Of the total sample, 83% were men (which reflects the sex distribution in this high-tech

engineering company), seniority was within the range of 1-5 years in average, 50% of the total sample were managers, and education was equivalent for the same positions across the subsidiaries (superior technical education for non-managerial staff and university degree for managerial staff). Demographic differences compared across countries (age, sex, tenure, education and work position) were examined with one-way analyses of variance (ANOVA) and chi-square tests. None of the analyses revealed any significant differences.

The second criterion regarded the countries of operation. In order to compare the effects of IC on how MPs were implemented, the first group of subsidiaries would have to be located in countries where the explanatory variable or "treatment" of study (institutional regulatory pressure) was unmistakably present. The comparison group of subsidiaries, on the other hand, would have to be located in countries facing a lesser degree of, or null, institutional regulatory pressure. In this way, differences in patterns of reported MPs between the two groups would be attributable to institutional forces. With this purpose in mind, four subsidiaries were selected: those located in the United States, the United Kingdom, Sweden and Germany.

Subsidiaries operating in the United States and the United Kingdom were chosen as these countries have been described in the World Competitiveness Yearbook (International Institute for Management Development, 1999) as having flexible labor-market regulations. Likewise, a few studies (Calori & De Woot, 1994; Hall & Soskice, 2001; Whitley, 1999) have independently identified the US and British business systems as being institutionally similar. The second group of subsidiaries was located in Sweden and Germany. These two countries were chosen as they have been ranked and characterized in the World Competitiveness Yearbook (International Institute for Management Development, 1999) as having restrictive labor-market regulations. Several authors (Ferner & Hyman, 1998; Hall & Soskice, 2001; Muller, 1998; Whitley, 1999) have described prominent similarities in the institutional working contexts of these two countries.

TABLE 1: Demographics of the survey sample.

	Germany	Sweden	UK	USA	Total
Average Age Range	25-35	36-45	25-35	25-35	25-35
Average Seniority Range	1-5	6-10	1-5	6-10	1-5
Managers	6 (40%)	7 (58%)	4 (33%)	10 (67%)	27 (50%)
Non-mangers	9 (60%)	5 (42%)	8 (67%)	5 (33%)	27 (50%)
Females	4 (27%)	0 (0%)	2 (17%)	3 (20%)	9 (17%)
Males	11 (73%)	12 (100%)	10 (83%)	12 (80%)	45 (83%)
Total	15	12	12	15	54

The total sample size agreed on with the Headquarters of the company was sixty. Thanks to a careful follow up and help from the HQ offices, the response rate was 90%, which is considered very high for a survey study. There were 27 respondents from the subsidiaries in the United States and the United Kingdom and 27 respondents from those in Sweden and Germany (Table 1).

Instruments and procedure

A survey and a questionnaire were administered at two different levels of the MNC. The survey was sent to the Human Resource manager at each subsidiary and gathered information about policies and practices from the company's perspective. This survey can be used to test whether subsidiaries can be grouped according to how they define their Human Resource Policies. The survey consisted of open and closed questions examining Human Resource policies and practices, regulations and degree of involvement of headquarters and local unions in MPs.

The questionnaire examined, reporting about SMPs and TMPs, was responded by managerial and non-managerial employees working at the four subsidiaries. The items of the questionnaire were developed based on the findings of an exploratory study published elsewhere (Lieberman & Torbiörn, 2000) and were organized into two subscales. The first subscale referred to SMPs and included 21 items. The items gathered information about practices as communication, control, reinforcement practices, training and progression. Each item within the SMP subscale was developed in order to represent each practice on a continuum from less to more formality. Formalization was defined as the degree to which the organization adhered to explicitly defined and standardized HR systems, programs and routines (e.g. formal mechanisms of recognition, employee performance assessments, reliance on formal communication, and compliance with formal norms). A single score was obtained for the SMPs after the lineal summation of all the item responses. A higher score on the SMP subscale would indicate a more formal mode of practice implementation at subsidiary level.

The second subscale consisted of 20 items assessing the perceived level of *directiveness* in TMPs. Directiveness was defined as the extent to which managers held and exerted their authority, control and discretion in their interactions with employees and their tasks. The items of this scale pointed to practices of influence, reinforcement, communication, and decision making. A higher score on the TMP subscale would be understood as the result of a more *directive* approach of the managers towards subordinates and their activities. Both subscales were answered in

two different ways: according to how frequently each practice was being implemented (actual practice) and how frequently it should ideally be implemented according to the respondent (ideal practice). Responses to the same item would yield reports about both the perceived degree of *formality* and *directiveness* of a specific practice and the desired level of *formalization* and *directiveness* of the same practice. A similar approach to assess actual and ideal practices has previously been used in a number of studies (Bass, Burger, Doktor & Garrett, 1981; Foa, 1957; Tannenbaum & Kuleck, 1978; Tsui, 1984; Zander, 1997).

A rating scale was developed to assess both the actual and ideal *formality* of the SMPs and *directiveness* of the TMPs. A frequency rating scale was used, since this has been recommended for cross-national studies (Zander, 1997) in order to make scales comparable across different settings. In order to avoid response set (central tendency errors), a 6-degree scale was used: "never", "seldom", "sometimes", "often", "very often" and "always". Consequently, a numeric scale of equivalence -percentages- was provided as follows: "Never" for 0% of the time(s), "Seldom" less than 25% of the time(s), "Sometimes" more than 25% of the time(s), "Often" more than 50% of the time(s), "Very Often" for more than 75% of the time(s), and "Always" for 100% of the time(s).

The language of the instrument was English. The questionnaire was not translated to Swedish or German as, according to the company, English was their official language and all employees were expected to speak the language. Still, in the instructions of the questionnaire, the respondents were encouraged to contact the Human Resource manager of each country, or the researcher, in case any question was not understood.

The initial contacts were made with the Human Resources Director of the company. After deciding on the branch and countries to be included in the study, an inquiry, together with an explicative letter, was furthered to the HR Director of that branch. Subsequently, HR managers from four subsidiaries of the branch were contacted. The questionnaires were sent to the HR managers who answered the survey and distributed the questionnaires to the departments to be included in the study. The survey and questionnaires were then returned directly by the respondents to the researcher by fax, e-mail or regular mail.

Results

Policies and Practices from the Subsidiary Perspective

As can be seen in Table 2, the sources of regulation of general working conditions for non-managerial staff were

TABLE 2: HR policies and practices according to HR managers.

	Sweden	Germany	UK	USA
Sources of regulation for non-managerial staff	Collective agreements at company, industry and national level	Collective agreements at company and industry level	HR policies	HR policies
Involvement of staff representative bodies in HR practices	High	High	No involvement	No involvement

HR: Human Resources

TABLE 3: Means and SD for G-REST and G-FLEX.

	G-FLEX	G-REST	Total	F	Sig.
Actual practices					
SMP	44.96 (6.22)	40.26 (6.52)	42.61	7.35	.01
TMP	50.33 (8.00)	45.93 (4.75)	48.13	6.06	.02
Ideal Practices					
SMP	49.15 (5.19)	45.56 (4.21)	47.35	7.81	.01
TMP	55.52 (5.48)	52.07 (6.38)	53.80	4.53	.04

G-REST: Countries with restrictive labor-market regulations

G-FLEX: Countries with flexible labor-market regulations

described as moderated by collective agreements at both company and industry level in Sweden and Germany. In Sweden, national level was also mentioned. In the case of the UK and USA, working conditions for non-managerial staff were reported to be moderated only by HR policies. Regarding the degree of staff involvement (i.e. workers councils, supervisory boards, and union representatives) in decisions about practices related to non-managerial staff, this was reported as high in Germany and Sweden. In Germany, staff representatives were reported to be highly involved in dismissals, recruitment, promotion, formal communication and training, whereas in Sweden, a high involvement was rated for recruitment, selection and promotion practices. In both USA and the UK, no involvement of internal or external representative bodies was reported in the decisions regarding any of these practices. Concerning the perceived degree of headquarter (HQ) involvement in practices regarding recruitment, selection, dismissals, transference, promotion, communication and training for managerial staff, the overall involvement was highest in USA and Germany, followed by the UK. Sweden rated a low intervention of HQ in such practices. Regarding the degree of involvement of HQ in the definition of compensations and working conditions for staff in general, subsidiaries rated this as high (Sweden) or very high (USA, the UK and Germany).

Overall, the results of the survey indicated that in Sweden and Germany there were more formal regulations of working conditions at subsidiary level, and more involvement of non-managerial staff in decision-making, than in USA and the UK (Table 2).

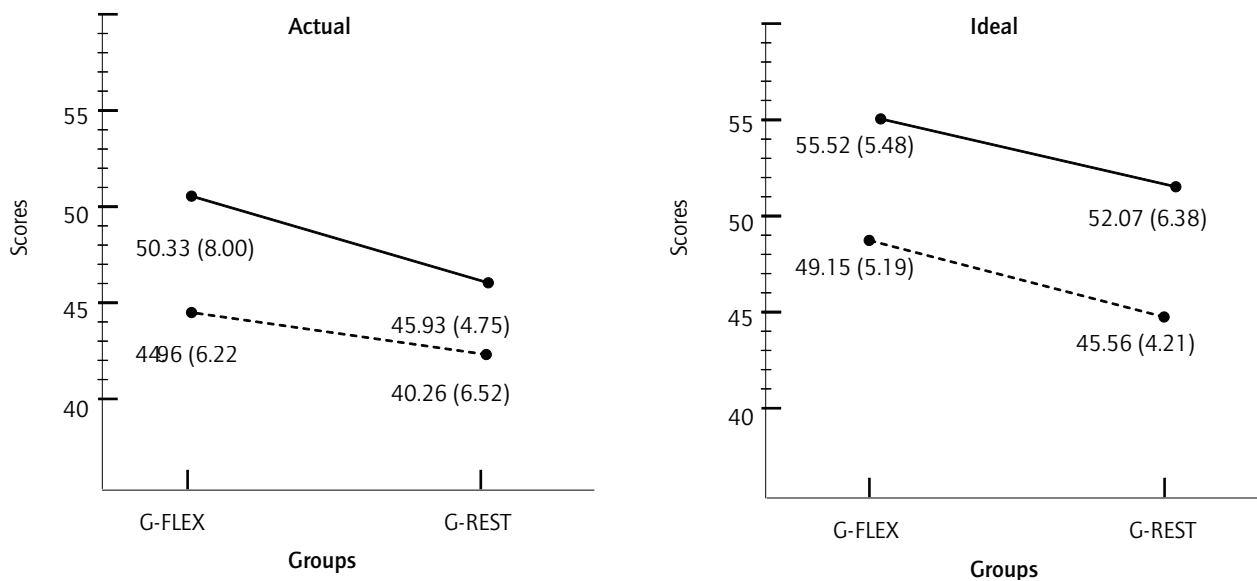
Actual and ideal managerial practices

A reliability analysis was conducted for each subscale of the questionnaire in order to assess the internal consistency of both subscales. Three items were removed from the original questionnaire as they were found to have low hypothetical relevance and another two for having ambiguous interpretation. Following this, the Cronbach Alpha coefficient was calculated for SMPs and TMPs separately, and the items that presented the lowest loadings were excluded, with the final scale reaching 0.69 and 0.66, respectively (Cronbach, 1951). Those levels were considered adequate for the purposes of the present study and no further exclusions were conducted, to avoid sacrificing validity of the scales (Guilford, 1954). The final number of items assessing these two dimensions of SMPs and TMPs included in the analysis was 26.

Analyses of variance (ANOVA) were conducted for actual and ideal SMPs and TMPs using one grouping variable (level of regulation), with the restrictive group of countries being called G-REST and the flexible one being called G-FLEX.

As can be seen in Table 3, G-FLEX had a higher mean score on the formalization of SMPs (44.96) than G-REST (40.26). This was confirmed by the ANOVA that revealed that respondents from the two countries in G-FLEX reported that SMPs were formalized to a significantly higher degree ($F(1, 52) = 7.4, p < .01$) than respondents in G-REST. Regarding the TMP scale, the two groups of countries were also found to differ significantly, ($F(1, 52) = 6.0, p < .05$). Respondents from G-FLEX were found to consider that rigorous manage-

FIGURE 1: Mean scores of groups for actual and ideal managerial practices.



rial practices were significantly more frequently exercised (50.33) than did respondents from G-REST (45.93).

Regarding the ideal practices on the SMP scale, the two groups of countries were also found to differ significantly ($F(1, 52) = 7.81, p < .001$). Respondents from G-FLEX were found to consider that formal strategic managerial practices should be implemented significantly more often (49.15) than the respondents from G-REST did (45.56). Regarding the ideal practices on the TMP scale, a significant difference between the two groups of countries was also found ($F(1, 52) = 4.52, p < .05$). Respondents from G-FLEX were found to consider that a directive approach should be adopted with more frequency (55.52) than did respondents from G-REST (52.07).

Overall, as can be seen in Figure 1, the managerial practices implemented at company level (strategic) were more *formal* in the G-FLEX countries than in the G-REST country subsidiaries. Besides, managers from G-FLEX were found to have a more frequent *directive* approach than in G-REST. Regarding ideal managerial practices, respondents from G-FLEX rated formal practices as more desirable and believed that managers ought to have a more directive approach than staff from G-REST.

Due to the large proportion of managers in the current sample, analyses of variance were carried out for actual and ideal SMPs and TMPs, using position as a grouping variable, to control for the effect of the managers' perspective when interpreting the results. According to these analyses, no significant differences were observed between managers and non-managers on actual SMPs and TMPs ($F(1, 52) = 2.63, p = .11$; $F(1, 52) = 1.10, p = .30$) or

on ideal SMPs and TMPs ($F(1, 52) = .91, p = .35$, $F(1, 52) = 1.22, p = .27$).

Discussion

This study addressed the question of whether differences of actual and ideal modes of practice implementation within the same MNC can be attributable to the institutional contexts of countries. The sample consisted of four subsidiaries of a multinational company within which autonomy from headquarters regarding both policies and practices is emphasized. The subsidiaries in the United States, the United Kingdom, Germany and Sweden were grouped according to their ICs. This grouping was based on a literature review and was confirmed by a survey answered by the subsidiaries' HR managers. According to that survey, the two most distinctive features were the use of Human Resource policies versus collective labor-market agreements in the regulation of working conditions as well as the relative involvement of staff representatives in strategic managerial practices regarding non-managerial staff. The United States and the United Kingdom were identified as flexible labor-market ICs, while Germany and Sweden were categorized as restrictive labor-market ICs.

Three hypotheses were formulated about that addressed ICs as an explanatory variable of differences in managerial practices across countries within MNCs

The first hypothesis posing that SMPs would be less formalized in subsidiaries operating in contexts with a higher degree of labor-market regulation than in subsidiaries operating in contexts with a lower degree of labor-marked

regulation (i.e. a more flexible regime for labor practices) was supported. In the United Kingdom and the United States, formal managerial practices were significantly more common at company level. According to this, there was more frequent reliance on formalization of activities, official communications, compliance with formal norms, formal performance evaluation, and formal recognition. It was also less reliance on informal communications and unofficial sources of information to make decisions about staff issues.

The second hypothesis predicted that TMPs exercised in subsidiaries operating under a higher degree of institutional labor-market regulation would be reported as less directive than in those operating under a lower degree of labor-market regulation. This hypothesis was also supported. In subsidiaries operating under a less restrictive regime for labor practices, managers were described as more imperative, direct, determined, visible and personally involved than in the subsidiaries with a more restrictive regime for labor-market practices. Managers there were also found to exercise a closer control and supervision of people and activities and to have more discretion on priorities, incentives and working conditions of the subsidiary.

The third hypothesis that considered the desirability of management practices was also supported. It was predicted that significant differences would be found between respondents from different ICs regarding the degree of desirability placed on more or less flexible management practices. Significant differences were found in both ideal SMPs and TMPs. Employees from subsidiaries operating in more restricted ICs (i.e. Germany and Sweden), rated formal and directive managerial practices as less desirable than employees working for subsidiaries operating in more flexible ICs (i.e. the UK and the USA).

In sum, these results suggest that there would be significant differences in the *actual* implementation of managerial practices across subsidiaries embedded in different ICs, although they belong to the same MNC and perform the same activity. The findings also suggest that there would be differences between ICs in the desirability-ideal practices—that employees placed on the different implementation modes (i.e. formality and directiveness) of SMPs and TMPs.

Following, a few remarks regarding possible implications of these findings are presented. Subsidiaries operating in more flexible ICs reported more formal and directive managerial practices than the subsidiaries operating in a more restrictive context. More "inflexible" or "tighter" modes of practice implementation were associated ICs that are more flexible, whereas looser modes of practice implementation were associated with ICs that are more restrictive. The fact

that the emphasis placed on the formalization of SMPs was found to vary significantly across ICs, is in agreement with previous studies addressing the effect of institutional pressures on the implementation of staff management practices (Rosenzweig & Nohria, 1994; Gooderham, Nordhaug & Ringdal, 1999).

These findings also fit with earlier institutional theories. According to Jepperson and Meyer (1991), historically developed cross-institutional differences would affect all forms of societal organizations within a society, including organizations. The ICs of Germany and Sweden are characterized by a "corporatist approach": a higher collective institutionalization of the relations and lower authorization of individuals. The authority would be located within corporate groups (professional bodies, trade unions, etc.) and individuals would have modest influence as independent actors with individual interests or purposes. Consequently, relations and transactions between employers and employees are formally established, and based on collective and official arrangements. These arrangements would leave little room to MNCs and managers to vary practices at will or to implement alternative ones. They would be less empowered to exercise practices that they might regard as more efficient substitutes to the ones already formalized and approved. In contrast, the United Kingdom and the United States share a liberal approach to management and organization (Jepperson & Meyer, 1991). Individuals have higher degrees of empowerment, their relations are subject to much less collective institutionalization and there is less formal, legal and social control. Nevertheless, at the same time, there is a higher emphasis on attaining direct control of these empowered individuals (Jepperson & Meyer, 1991).

According to Pfeffer and Salancik (1978), more indefinite institutional standards provide actors with extra discretion enabling them to define their practices along their own purposes, interests and motivations. Managers and organizations would enjoy wider residual discretion over issues that are not contractually set (Godard, 2002). Subsidiaries located in these ICs then would face more uncertainty and at the same time enjoy higher levels of discretion to pursue their strategic goals (Goodrick & Salancik, 1996).

Overall, subsidiaries in less regulated countries were found to exercise *formal* and *directive* practices more often, while the practices were less formal and less directive in subsidiaries in more restrictive ICs. This would suggest an inverse relation between the degree of formalization and direction of institutional contexts and the modes in which strategic and tactical managerial practices are implemented within the subsidiaries across countries.

Another implication of these findings is that the cross-institutional effects were not only evident for the actual MNC practices but also for the degree of *desirability or acceptance* placed on these practices by employees. Respondents from flexible ICs considered formal and directive practices to be more desirable than respondents working for subsidiaries embedded in more restrictive ICs. That more directive and formal practices were more desirable in more flexible ICs may seem counter-intuitive at first sight. Why would employees in less regulated ICs find directive and formal MPs more desirable? A tentative explanation of this might be found in early behavioral research about control and performance. Early research has shown (Weiss, 1968, 1972) that the level of predictability in an environment would be related to adaptive coping and performance. Less structured and uncertain contexts would lead to an increased state of vigilance and arousal as the result of a reduced ability to anticipate relevant clues for performance and coping. From a subsidiary perspective, more formal and directive MPs would be a response to the lower predictability emanated from ambiguous or nonexistent institutional standards about work and organization. When contextual factors such as ambiguity are present, directive and formal management practices seem to be more desirable as they render structure and clarify the path to the goals (House & Mitchell, 1974), conferring a sense of direction, control and stability that would otherwise be unattainable.

Furthermore, one might pose the question of whether people in the flexible ICs found formal and directive practices more desirable and vice versa, as an effect of a cultural orientation between the two groups of countries. The four countries (Sweden, Germany, USA and the UK) have been reported to score low on the power-distance variable (Hofstede, 1991) and three of the four subsidiaries were located in countries ranked as having medium-low Uncertainty Avoidance (USA, UK and Sweden) and one (Germany) in a country ranked as medium-high on Uncertainty Avoidance. The only relevant cultural dimension that could potentially have contributed to the differences found in the ideal practices would be the higher uncertainty avoidance tendency (i.e. need for rules, formalization and standardization) described for the German culture (Hofstede, 1980, 1991). However, if that feature had influenced the reports about ideal practices in Germany and Sweden, the respondents from these two countries should have scored higher on the ideal formalization of SMPs than the respondents from the UK and the USA. Nevertheless, results went in the opposite direction: the respondents from subsidiaries in restrictive ICs rated formalization of practices as less desirable than the respondents from subsidiaries in

flexible ICs did, discarding the effect of this last dimension as a plausible explanation of the observed differences. In this line, a question arises regarding the extent to which institutional norms can override the effects of culturally-derived practices. A possible answer is that certain institutionally driven practices that are dissonant with general cultural norms may remain decoupled from these norms if they are legally set and enforced (e.g. Meyer & Rowan, 1991). As far as empirical research is concerned, this last reasoning would be helpful to understand practices that are implemented when there is only a partial or no fit between culturally and institutionally based rules and practices. More research is required in order to grasp the still unclear relationship between culturally and institutionally based rules (North, 1990) in an international context.

In contrast with many previous studies, the current study was of intra-organizational design, including one business unit within a single MNC. A strength of this study has to do with internal validity, due to the enhanced methodological control by matching a large number of external factors. However, this strength comes at the cost of external validity. If the interest had been to generalize to the universe of MNCs operating in the countries of study, the sample size and the inclusion of one MNC would represent a clear caveat. Nonetheless, the nature of this study was explanatory, i.e. to verify the effect of one variable on another. To attain this goal, a purposive sample is adequate and sufficient (Dane, 1990).

Another potential limitation of this work is the instrument utilized. As a new instrument was used based on a previous qualitative study, no metric properties were known now of using it. However, that limitation may in part be refuted by the fact that the items were based on findings arrived at using a different method and a sample from a very different MNC (Lieberman & Torbiörn, 2000). In this respect, as Frankfort-Nachmias and Nachmias (1996) stated, cross-sectional designs improve their inferential power using additional samples. If similar conclusions can be drawn based on the same variables in different settings and samples (i.e. firm, industry) using different methods, the inferential power is increased substantively.

A critical implication of this study is that varying degrees of regulation in ICs affect on how MPs are implemented at subsidiary level and on managers' interactions with their employees. Lesser constraints in the ICs seem to enable managers to implement tighter, more rigorous MPs, as a strategic and adaptive response to the context. Simultaneously, managers and organizations would need to meet the varying subjective interests and priorities of employees derived from rules and standards prevailing in the wider

ICs of countries. ICs need to be considered both in the design of wider programs and routines and in the behavior of managers when interacting with their subordinates. In flexible ICs, allowing for more managerial discretion, managers would be prone to adopt more formal and directive practices that in turn would counterbalance a lack of arrangements or directives in the wider context. At the same time, they would meet the varying subjective interests and priorities of employees (most likely shaped by the same forces). In the pursuit of an optimal adjustment of practices across countries, managers would not passively reproduce approaches prevalent in the wider ICs but develop complementary and perhaps divergent approaches to management and organization (e.g. tight approaches in a looser IC, looser approaches in a tight IC).

It would be interesting to extend this study to include the level of satisfaction of the studied subsidiaries. A large number of studies (Richardson, Amason, Buchholtz, & Gerard, 2002; Spreitzer & Mishra, 1999; Yukl & Fu, 1999) have found that perceived level of autonomy is positively related to job satisfaction. Moreover, employees' degree of autonomy is inversely related to directiveness and formality at the workplace. As the results of the current study revealed that the respondents in the more flexible IC rated both the actual MP and the desired MP as more formal and directive than the respondents in the more restrictive IC, this would indicate that they would not be looking for an increased degree of autonomy as in other ICs. It would also be interesting to ask managers in different ICs how they perceive the flexibility of the ICs in which they operate. Do the managers feel less autonomous in the more restrictive ICs, and if so, how does that affect their job satisfaction?

MNCs need to consider these aspects when globalizing their operations. Apart from the cultural factors in the countries that they are looking into, they need to consider the institutional contexts of these countries and their relative effects on practices and preferences. MNCs should carefully analyze how each IC may facilitate or hinder their activities, and they would need to consider if the implications that these contexts might have on their operations would allow them to carry out their work in the way they deem best.

MNCs are complex organizational systems characterized by geographically scattered subsystems across multiple environments (Phalberg, 1997; Vernon, 1971). This environmental heterogeneity poses dissimilar, and sometimes conflicting, pressures on MNCs and their managerial practices, and it "demands matching complexity in MNEs' strategies and operations" (Ramamurti, 2004, p. 279). Among these, labor and laws in the country of the subsidiary play

a significant role in shaping the strategic choices of MNCs (Pralhad & Doz 1987). In this line, this study offers empirical evidence of the effects of institutional contexts on the modes in which employee related managerial practices are implemented and preferred within a MNC. Unquestionably, the understanding and anticipation of these varying cross-institutional effects when devising, transferring and implementing MPs within MNCs will facilitate the effective and sustainable adjustment of ventures in the countries in which they locate.

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