

An empirical study of transferring international human resource policies into local subsidiaries of Bangladesh

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ABSTRACT

Introduction: The implications of the rapid growth of emerging economies for IHRM (International Human Resource Management) research are significant in various ways, and their impact on the landscape of global business far exceeds their potential as locations for outsourced low-value aspects of MNC activities. Firms that adopt an explorative orientation seek to transfer HR policies, which are seen as successful in the parent, to affiliates. **Literature review:** One of the key roles of MNCs is to transmit capital, knowledge, ideas, and value systems across borders and consequently linking developed and developing economies in the global landscape. This impact is under-explored, and research in relation to IHRM practice would be useful here. Besides, recent studies on strategic international human resource management (SIHRM) have advocated the importance of strategic fit between firm's choice of IHRM orientations and the types of business strategies in their overseas operations of multinational corporations (MNCs). **Methods:** Data were obtained by using well-defined structured questionnaire. The sample consisted of 100 employees from a multinational consulting firm. **Conclusions:** The study indicated strong effect of inter-organizational relationship (IOR), headquarters governance (HG) on implementation (ImP) and internalization (InP) of human resource practices in the subsidiaries and change management (CM) also impacts the implementation of human resource practices. Results also indicated partial effect of human resource systems in subsidiaries (HRSS), and transfer process mechanism (TPM) on implementation and internalization of human resource practices and change management partially affects internalization of human resource practices. **Recommendations:** The findings are used to discuss the role that local business strategies play in the hybridization processes of American MNCs' business units in a cross-cultural setting. The propositions presented and suggestions for future research serve to aid further practical studies not only in service firm but also in manufacturing firm alike.

JEL. Classification: M11; M5; O15

Keywords: Inter-organizational relationship, headquarter governance, HR system, implementation, internalization.

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1. INTRODUCTION

The first key contemporary trend that is identified as significant for IHRM at the beginning of the 21st century is the changing landscape of international business. This can be explained in part by the changing contours of foreign direct investment (FDI) location in the global economy. Countries like India and China have become 'hot spots' for inward FDI (UNCTAD 2004; Dicken 2007). For example, China reported record inflows of US\$79 billion in 2005, making it the main recipient of FDI in developing markets (EIU 2006). The implications of the rapid growth of these emerging economies for IHRM research are significant in various ways, and their impact on the landscape of global business far exceeds their potential as locations for outsourced low-value aspects of MNC activities. They also present unique challenges for Western MNCs, in addition to those faced through operating in culturally and institutionally proximate contexts (Morley and Collings 2004).

Three forms of SIHRM orientation are identified in the model: adaptive, explorative and integrative. Firms that adopt an adaptive orientation seek to adapt affiliate HRM systems to local circumstances. Firms that adopt an explorative orientation seek to transfer HR policies that are seen as successful in the parent, to affiliates. In contrast an integrative orientation implies a focus on the transfer of best practice from wherever it might be found among affiliates to elsewhere in the firm. Taylor, Beechler and Napier (1996) conceptualize parent international strategy in terms of Porter's (1986) two generic international strategies: multi-domestic and global, and propose that a multi-domestic strategy leads to an adaptive SIHRM orientation, while a global strategy leads to an explorative or integrative SIHRM orientation (an integrative orientation representing a later stage of international development than an explorative orientation).

There is some empirical support for this model (Fenton-O'Creevy and Wood 2001; Taylor, Beechler, Najjar, and Ghosh 1998) in particular there is support for the importance of top management belief in HRM as a strategic capability and the cultural and legal distance between parent country and host country. There is already an emerging body of work that addresses the trans-national diffusion of HR practices from an institutional perspective. For example, Gooderham, Nordag and Ringdal (1999) showed the adoption of collaborative and calculative approaches to strategic HRM to be significantly influenced by national institutional context. Fenton-O'Creevy and Wood (2001) have shown the rational-economic approach of Taylor, Beechler and Napier (1996) to diffusion of HR practices within MNCs to be significantly enriched by adding an institutional perspective to their model.

Kostova (1999) has argued for an institutional approach to practice transfer within MNCs and built a convincing empirical case for the importance of institutional processes in the transfer and adoption of quality practices from parent to affiliate (Kostova and Roth 2002). In particular, they show that practice adoption is a function of both host country institutional pressures and relational pressures within the MNC. They also usefully distinguish between ceremonial and substantive adoption and show that substantive adoption requires coincidence of local normative and cognitive institutions with pressures from the parent or regulatory context. "Successful transfer of HR practices within MNCs leads to proper Implementation and Internalization of the practices." The study aims to provide statistical evidence that effective transfer of human resource practices from MNC's headquarter leads to proper implementation and internalization of practices within the subsidiaries. In the following sections, review of the literature, methodology of the study, discussion and conclusion have been provided. The sampling technique, size and tools used for the measurement have been given in detail, followed by data analysis and result of the study.

2. LITERATURE REVIEW

A major challenge facing MNCs in emerging markets is the difficulty in recruiting and retaining managerial talent with the requisite skills to operate in these environments and further to persuade qualified candidates to transfer to these locations (Björkman and Xiucheng 2002; Collings and Scullion 2006). This is compounded by the fact that countries such as India and China face shortages of suitably qualified and skilled employees for MNCs and local enterprises alike (Gupta and Wang 2007). Schuler and Tarique (2007) note the importance of employer branding and of becoming an *employer of global choice* for MNCs in ensuring a supply of appropriate talent in these countries (Sparrow 2007). Likewise, with a few notable exceptions, current literatures have limited insights on the effectiveness of Western HR practices in developing countries. IHRM professionals would benefit from an understanding of the extent to which these locations can accommodate a range of specific HR practices (Gamble 2001; Schuler and Tarique 2007). A relevant example is Li and Scullion's (2006) study on MNCs' execution of knowledge management initiatives in China. Similarly, Tung and Worm's (2001) work has explored the importance of HR to MNCs in penetrating the Chinese market.

As Meyer (2006) notes, a further theme is the key role of MNCs in transmitting capital, knowledge, ideas, and value systems across borders and consequently linking developed and developing economies in the global landscape. This impact is, however, under-explored, and research in relation to IHRM practice would be useful here. Exploring the impact of the MNC's *economic footprint* on the communities in which they operate has become a key concern of the International Labor Organization (Schuler and Tarique 2007) and, given the potential implications of negative publicity for the MNC, monitoring this economic footprint may represent a key challenge for international HR professionals. Drawing on the RBV, Taylor, Beechler and Napier (1996) argue that HR-related strategic capabilities engendered by HR systems and routines, exist for MNCs at three levels: at the level of the parent company, across the MNC as a whole and at the level of the affiliate. They go on to argue that these capabilities may be context specific or general. They are concerned to model the circumstances under which HR capabilities will be seen as general within the MNC and hence transmitted from the parent to affiliate or from one affiliate to another.

Implementation refers to the empirically observable behaviors constituting the enactment of the transferred practice (Kostova and Roth 2002). Transfers of organizational practices might or can make some changes which are different from the planned structures of headquarter but it does not mean that it will lead to the expected outcome (Beer, Eisenstat and Spector 1990). The actual focus is on developing a more holistic understanding of transfer and examining the extent to which headquarters' prescriptions are enacted by subsidiaries for purposes of efficiency, coordination and/or legitimacy in the MNC as a whole. The term 'Internalization' is actually refers to what degree externally imposed rules become internalized in the recipient unit, when it is taken for granted and accepted by employees, and when the employees see the value of using this practice (Kostova 1999). Successful transfer is not just accepting the practices but also the degree to which employees are valuing these practices and also how much comfortable they are with these practices. And it is unlikely that high levels of internalization exist without the practices having been implemented in the first place.

2.1 Inter-Organizational Relationship

Social capital theory has recently been proposed as a fruitful framework for explaining knowledge transfer and integration between subunits. This theory is actually used to understand and examine how the relationship between MNC headquarters and the subsidiary may influence the transfer of HR practices. Social capital is actually defined as ‘the sum of the actual and potential resources embedded within, available through, and derived from the network of relationships possessed by an individual or social unit’ and also the distinguishing between structural, relational and cognitive (Zaheer 1995; Szulanski 1996). The structural dimension of social capital is concerned mainly with the interpersonal linkages between people or units, the cognitive dimension of social capital encompasses organizational phenomena such as shared representations, interpretations, language, codes, narratives and systems of meaning among parties and relational dimension of social capital focuses on the personal relationships, friendships and relations. The structural dimension of social capital is closely related to what in international management research is usually termed as normative (or social) integration mechanisms. Intra-MNC integrated mechanism can be two types: Bureaucratic or formal ones and normative or informal (Kim and Mauborgne 1993). Bureaucratic mechanisms can be used to deal with MNC management as well as some other staffs. Normative mechanisms used increasingly to deal with the issues such as personnel rotation, short-term visits, participation in joint training and management development programs etc. This informal mechanism actually helps the individuals to develop interpersonal networks as well as open and positive attitudes towards other nationalities and cultures (Kostova and Roth 2002). This interaction ties is likely to lower the costs of transfer of practices and also make it easier for subsidiary actors to obtain help in finding useful ways to integrate the focal HR practices with other organizational practices and processes.

2.2 MNCs Headquarter Governance

Subsidiary autonomy MNCs are not total hierarchies, where power and control is vested at the top, but can rather be seen as federal network organizations but there are some degrees of independence. From one study, it was revealed that, the more foreign subsidiaries are dependent on the foreign parent organization and the higher equity held by the foreign parent organization, the more similar their HR practices are to those of the MNC home country. Considerable autonomy given to subunits are less likely to enact the corporate initiatives; but on the other hand less autonomous subunits are more likely to consent reluctantly to headquarters pressures to adopt practices (Ghoshal and Bartlett 1990). A subsidiary with little autonomy may be forced to implement Headquarters HR practices but this can lead to counterproductive when it comes to internalization of the practices because organizational members may view the implementation of the practices as having been forced upon the unit.

2.3 HR System in Subsidiary

The MNC Headquarter may force or propose new HR practices to the subsidiary but all these things actually depend on the subsidiary management’s satisfaction with its existing HR practices. If the subsidiary unit is satisfied with their existing practices then it will influence the perception and interpretation of new HR practices proposed by MNC headquarters management. If the subsidiary unit is highly satisfied with their existing HR practices, they will not want to accept the new practices (Kostova and Roth 2002). The capabilities held by the receiving organization are important for its capacity to successfully receive practices and subsidiaries with high-level HR capabilities are more likely to effectively acquire and assimilate the

practices in their own organization and are also more likely to exploit them in their unit (Björkman and Lu 2001). In subsidiaries, line managers play an important role to integrate the new HR practices with other organizational practices where the HR capabilities are perceived as high. Internalization of HR practices is expected to be relatively high in units with strong beliefs in the organization's HR capabilities (Kostova and Roth 2002)

2.4 Transfer Process Mechanism

One important aspect, which is used of transferring HR practices to the foreign subsidiary unit, is "Due process". The subsidiary managers are more likely to accept decisions on HR practices to be implemented in their units if they perceive themselves involved in the process of decision and design. Another factor is, if subsidiary managers are provided in-depth explanations for decisions, decisions are more likely to be implemented (Ghoshal and Bartlett 1990). It was accepted by some people that the use of international project teams may be beneficial for the development and diffusion of 'best HR practices' in the MNC.

2.5 Change Management

Martin and Beaumont (2001) developed a process model of strategic HR change in MNCs and suggested key factors that contribute to the successful transfer of HR policies and cultural change. They emphasize the role of change management champions either from headquarters or subsidiaries, the importance of constructing a persuasive discourse of change in communicating the need for change, and drawing an attractive image of the future state of the organization. Case studies of practice transfer in MNCs emphasize the role of initiative, change management and rhetorical devices (Geppert, Matten and Williams 2003). Various aspects of leadership and management are important in organizational change. Nadler and Tushman (1990) distinguished between three sets of leadership activities important for organizational change: (1) charismatic leadership (envisioning, energizing and enabling) that creates understanding and direction; (2) instrumental leadership (structuring, controlling and rewarding) to ensure capacity for change; and (3) institutional leadership (ensuring changes stick). Another aspect that has been emphasized in managing change processes is managers' ability to manage meaning through shaping and reinterpreting stories about the firm's history and purpose (Feldman 1990) and through using rhetoric and language as a resource for directing change efforts (Finstad 1998). Successful change comes from a combination of leadership, planning and communication—it's all about understanding and working with the human dimensions of change and involving and integrating employees into new approaches that make the most of their skills, experience and potential productivity. Change programs fail when people do not trust their managers. The best approach is about how to build trust and to communicate what values the management team stands for. Managers must learn to stop thinking change management and start managing for a change. So, aforesaid discussions can lead following propositions:

P1: Strong interaction ties between the subsidiary and MNC's headquarter leads to effective implementation of practices.

P2: Strong governance mechanism followed by MNC's headquarters leads to effective implementation of practices.

P3: Strong HR system followed by MNC's headquarters leads to effective implementation of practices.

P4: Effective transfer process followed by the headquarters lead to satisfactory implementation of practices.

P5: The perceived headquarters change management behaviors and attitude affect the implementation of practices.

P6: Strong interaction ties between the subsidiary and MNC's headquarter leads to effective internalization of practices.

P7: Strong governance mechanism followed by MNC's headquarters leads to effective internalization of practices.

P8: Strong HR system followed by MNC's headquarters leads to effective internalization of practices.

P9: Effective transfer process followed by the headquarters lead to satisfactory internalization of practices.

P10: The perceived headquarters change management behaviors and attitude affect the internalization of practices.

3. CONCEPTUAL MODEL

A model is tested (Figure 1) that derived from review of the literature integrating theory and research relating to different drivers including inter-organizational relationship, headquarter governance, human resource system, transfer process mechanism, and change management affecting implementation and internalization of human resource practices in local subsidiaries of Bangladesh. The conceptual model developed here intends to extend current research by a more holistic conception of what transfer is: encompassing implementation, and internalization. This is an extension from existing research, which has focused mainly on implementation in terms of adoption of particular practices or subsidiary practices' resemblance to the practices of headquarters. The model also focused on organizational mechanisms and processes and on the role of actors in the transfer process.

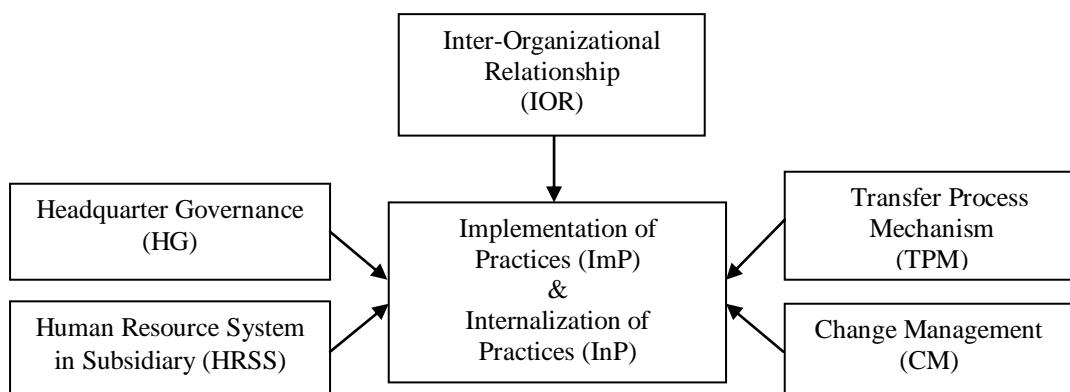


Figure 1: Conceptual Framework

4. METHODS

The research comprised of 100 samples followed by convenience sampling approach. The study considered 5 independent and 2 dependent variables while framing questionnaire to support hypotheses. The independent variables are Inter-Organizational Relationship (IOR), MNC Headquarters' Governance (HG), HR System in Subsidiary (HRSS), Transfer Process Mechanism (TPM), and Change Management (CM) and dependent variables are Implementation of Practices (ImP) and Internalization of Practices (InP). In each independent and dependent variable, 5 questions were constructed and there were total 35 items in the format. The answers were ranked in Likert scale 5 (1=highly disagree to 5=highly agree) and had five options for the raters. The firm was AC Nielsen, a global marketing research firm with worldwide headquarters in New York City, USA. The company provides the expertise, tools and data assets required to provide a competitive edge to its customers. Nielsen is committed to delivering outstanding and sustained value to its shareholders. Data gained is analyzed with SPSS for Windows 11.5. To measure the reliability of the survey tool, Cronbach's alpha value was calculated. In order to test the hypotheses the analyses of Pearson Correlation and linear regression were used.

5. RESULTS

Proposition 1 predicts that strong interaction ties between the subsidiary and MNC's headquarter leads to effective implementation of HRM practices. The study reports positive relationship ($r=.99^{**}$) between the variables shown in Table 1 and Table 2. Thus, the proposition is accepted. Proposition 2 predicts that strong governance mechanism followed by MNC's headquarters leads to effective implementation of HRM practices. The study finds strong positive relationship ($r=.98^{***}$) between the variables. Thus, the proposition is accepted. Proposition 3 predicts that strong HR system followed by MNC's headquarters leads to effective implementation of practices. The study finds significant positive relationship ($r=.32^{**}$) between the variables. Thus, the proposition is accepted. Proposition 4 predicts that effective transfer process followed by the headquarters lead to satisfactory implementation of practices. The study shows significant positive relationship ($r=.31^{**}$) between the variables. Thus, the proposition is accepted.

Table 1: Descriptive statistics, correlations and reliabilities

Variables	M	SD	1	2	3	4	5	6	7
1. Inter-Organizational Relationship	3.62	.86	(.92)						
2. Headquarter Governance	2.65	.67	.31**	(.8)					
3. HR System in Subsidiary	3.51	.88	.96**	.29**	(.89)				
4. Transfer Process Mechanism	3.44	.83	.92**	.32**	.91**	(.84)			
5. Change Management	3.58	.79	.22**	.21**	.21**	.15**	(.81)		
6. Implementation of Practices	3.63	.92	.99**	.32**	.94**	.91**	.21**	(.93)	
7. Internalization of Practices	3.65	.89	.98**	.31**	.93**	.91**	.22**	.97**	(.93)

N=100; ** $p<.01$

Proposition 5 predicts that perceived headquarters change management behaviors and attitude affects the implementation of practices. The study finds significant positive relationship ($r=.94^{**}$) between the variables. Thus the proposition is accepted. Proposition 6 predicts that strong interaction ties between HR system in subsidiary and MNC's headquarter leads to effective internalization of practices. The study finds significant positive relationship ($r=.94^{**}$) between the variables. Thus the proposition is accepted.

Table 2. Regression results of variables affecting implementation and internalization of HRM practices

Variables	Implementation of Practices			Internalization of Practices		
	R ²	F	Sig_value	R ²	F	Sig_value
Inter-Organizational Relationship	.98	5160	0	.96	2956	0
Headquarter Governance	.16	12	.001	.09	11	.001
HR System in Subsidiary	.9	885	0	.88	732	0
Transfer Process Mechanism	.83	499	0	.83	480	0
Change Management	.04	4.5	.03	.04	5	.02

N=100

Proposition 7 predicts that strong governance mechanism followed by MNC's headquarters leads to effective internalization of practices. The study finds significant positive relationship ($r=.91^{**}$) between the variables. Thus the proposition is accepted. Proposition 8 predicts that strong HR system followed by MNC's headquarters leads to effective internalization of practices. The study finds significant positive relationship ($r=.91^{**}$) between the variables. Thus the proposition is accepted. Proposition 9 predicts that effective transfer process followed by the headquarters lead to satisfactory internalization of practices. The study finds significant positive relationship ($r=.21^{**}$) between the variables. Thus the proposition is accepted. Proposition 10 predicts that the perceived headquarters change management behaviors and attitude affects the internalization of human resource practices. The study finds significant positive relationship ($r=.22^{**}$) between the variables. Thus the proposition is accepted.

6. DISCUSSIONS

The study indicates significant positive relationship between inter-organizational relationship and implementation of HR practices. This means that the MNC headquarters management applies the existence of inter-organizational relationship to put pressure on the subsidiary to adopt certain practices of HRM. Earlier analysis indicated the existence of two groups of HRM practices was conducive to interactional ties (Dana 2005). The study finds strong positive relationship between headquarter governance and implementation of HR practices. From organizational perspective, it means that the employees in the subsidiary unit are satisfied with the chosen practices and so they are able to internalize their system effectively. Results of prior research indicated that the simultaneous effect of HRM practices of MNCs affect staffing, training, promotion, compensation and appraisal of the subsidiary (Dana 2005).

The study finds significant positive relationship between HR system and implementation of practices in the subsidiaries. The respondents think that though there is MNC governance in the unit, but they are not so happy with it. However, they do not have an option other than implementing it. In addition, evidence lies that less autonomous subunits are more likely to consent headquarters pressures to adopt HRM practices

(Ghoshal and Bartlett 1990). The study shows significant positive relationship between transfer process mechanism of headquarters and implementation of HR practices. The participants think though there is MNC governance in the unit, but they are not so happy with it. Because they do not have an option other than internalizing, HR practices in their existing system and use it for their transactional activities. The study finds significant positive relationship of change management with implementation of HR practices. From the organizational perspective, it means that there is a positive but strong relationship between HR system and implementation of practices. There is evidence that if the subsidiary unit is highly satisfied with their existing HR practices they will not intend to accept the new practices (Kostova and Roth 2002). The respondents think that they are not highly satisfied with their existing practices and they are willing to adopt the headquarters' practices with no choice.

The study finds significant positive relationship between inter-organizational relationship and internalization of HR practices. The participants opined lack of motivation to continue their existing practices in the unit and so, want to internalize the foreign practices. The study finds significant positive relationship between headquarter governance and internalization of practices. The respondents think that the transfer process followed by the headquarters is effective in the sense that the unit is able to implement their practices effectively. The study finds significant positive relationship between HR system and internalization of practices. The respondents think that the transfer process followed by the headquarters is effective in the sense that the unit is able to internalize their practices effectively. The study finds significant positive relationship between transfer process mechanism and internalization of practices. There is evidence that among all the change managements a key component is leadership (Kotter 1996). The respondents opined that lack of leadership capabilities in the subsidiary and so, the foreign practices are not properly communicated to the employees, and hence the implementation is not appropriate. The study finds significant positive relationship between change management and internalization of practices. The respondents think that internalizing the foreign practices requires transformational leadership which is seriously lacking in the studied firm.

7. CONCLUSIONS

Many authors like Ingmar Björkman and Jon Lervik, addresses key issues in the IHRM literature, namely the transfer of HR policies and practices in MNCs. A main contribution of the article is to develop a more comprehensive and holistic understanding of the outcome of HR practice transfer as encompassing two dimensions: implementation and internalization. Subsequently, Sully Taylor, highlights the critical role played by social capital in the successful implementation of global strategy for MNCs, and in particular adds to knowledge of the ways in which the international HR system influences the creation and utilization of social capital in MNCs. It is argued that the transfer of HR practices is a social process where organization-internal factors deserve more attention. It is suggested that the governance mechanisms used by the MNC, characteristics of subsidiary HR systems, the social relationship between the subsidiary and MNC headquarters, and the transfer approach adopted by HQ management will all influence the outcome of the process. Finally, the article highlights a fruitful agenda for future research regarding the transfer of HR practices in MNCs through an approach integrating social capital, knowledge transfer and change management. In addition, the article examines what competencies are most critical in managers with the ability to develop social capital in multiple cultural settings.

Authors like Farndale and Paauwe focus on the drivers behind the similarities and differences in IHRM practice. Specifically, the study seeks to examine the influence of both competitive and institutional drivers on the adoption of HR practices in MNCs using Paauwe's (2004) contextually based HR theory as a theoretical framework. The study suggests that similarities in approach at the national level largely come from external institutional sources (e.g. legislation, national culture and local expectations). In contrast, differences in approach between MNCs at both global and national levels are mainly influenced by internal competitive processes (e.g. corporate strategy and corporate culture). It is concluded that external institutional and competitive drivers are likely to lead to isomorphism, while internal drivers are more likely to lead to differentiation. The study took smaller sample size ($N=100$) which was unlikely to generalize specific conclusion about the possibility of transferring HR practices in the targeted company. It is author's hope that the propositions spelled out here will inspire researchers to do further conceptual and empirical research on this important topic in the years to come by harnessing more foreign firms in manufacturing as well as service industries.

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