Exploring Reverse Diffusion of HRM Practices: Insights from 3 Finnish MNCs

Adwoa Etuabea Essandor

Department of Management and Organisation
Hanken School of Economics
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**Abstract:**

This qualitative case study on 3 Finnish MNCs explores the extent to which the MNCs engage in RD and the factors that affect RD in these MNCs. In this regard, internal structural factors necessary to facilitate the occurrence of RD were carefully examined to assess how these contribute to the success or hindrance of the phenomenon.

Using an abductive approach, which is tightly linked to data, the study revealed evidence of RD in all the MNCs albeit in varying degrees. On the basis of literature, however, clear RD was detected in only 1 MNC which appeared to have the transnational model and thus supported the argument that RD is most likely to occur in transnational companies than merely internationalised firms. The other 2 MNCs seemed more interested in learning from sister companies locally than from foreign subsidiaries. While the factors facilitating or hindering RD found are not peculiar to Finnish MNCs, two themes that emerged: culture and national identity, provided a contextual element to the study.

Despite the acknowledgement of the need to learn from subsidiaries by all respondents, RD was not found to be a common practice in the studied cases probably because it was not seen as a ‘make’ or ‘break’ factor. This has implications for management, consultants and researchers in stressing the importance of RD as a critical success factor rather than an optional tool. Also, the study has implications for social capital and social identity theory and exploring the interrelationships between various facets of these theories and RD can enhance our understanding on the phenomenon.

**Keywords:** Reverse diffusion, subsidiary(ies), MNCs, HRM, Finland
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1 INTRODUCTION

1.1. Background

Literature suggests that the resources of a firm (Porter, 1985) and transfer of knowledge are a source of competitive advantage for the firm. As a company stretches its tents to the international market, it acquires great resources – human resources – that possess skills and competencies, which can be developed for competitive advantage. The nature of transnational firms embracing local differentiation and integration at the same time opens the door to a lot of knowledge that can be transferred across subsidiaries and parent companies of multinational companies (MNCs). Thus firms using transnational strategies are considered to stand the advantage of increasing their competitive advantage through transfer of knowledge, practices, etc (Bartlett & Ghoshal 1998).

Transfer of subsidiary HRM practices to parent companies has become interesting with literature still developing in the field. Extant literature on cross-border management has focused almost extensively on the transfer of parent company practices to MNC subsidiaries and other affiliates (Smale, 2007; Zhang, 2003; Evans, Pucik & Barsoux, 2002; Harzing 1999; Bartlett & Ghoshal, 1998 among others). This practice of transfer from parent company to subsidiaries is what is commonly known in literature as ‘forward diffusion’ (Edwards, 1998). Obviously, this concentration on forward diffusion has been the case as a result of the influence MNC parents exert on their foreign subsidiaries; the aim of which is to coordinate and control their operations in order to ensure consistency and achieve organisational goals (Smale, 2007; Evans et al 2002)

Notwithstanding, there is a growing body of literature regarding the transfer of subsidiary practices back into parent companies; what Edward (1998) terms reverse diffusion (RD). Most of the work on RD or related cross-border transfers, however, is concentrated on product or market innovation (Bartlett & Ghoshal, 1998) or in a wider sense technical knowledge and information transfers (Dubosz-Bourne, 2006; Suutari & Brewster, 2003; O’Donnell, 2000), rather than on management practices, and even more specifically on HRM/employment practices (Thory, 2008; Chiang & Birch, 2007; Edwards & Ferner, 2004; Edwards, 1998)

There is evidence in literature why reverse diffusion of HR practices may be interesting. HRM practices are regarded as the most cultural or context specific such that the
degree of its transfer and integration is rather difficult though not impossible (Tayeb, 1998). Indeed, Edwards, Almond, Clark, Colling & Ferner, (2005) suggest that certain institutional barriers within the MNC’s country of origin/home country may influence the extent to which RD may occur. According to Hayden and Edwards (2004), however, RD has the potential to rid off the ‘country of origin’ effect. Again, RD’s impact on convergence-divergence debate of HRM renders it an important area for academic investigation (Thory, 2008, Ferner & Varul, 2000). Furthermore, there is indication that reverse transfer may have an impact on an MNCs bulk of employees since greater part of an MNCs assets and operations are usually concentrated in the home country (Ferner & Varul, 2000; Hirst & Thompson, 1999; Ruigrok & van Tulder, 1995 cited in Edwards 1998). In addition, RD can affect the influence that managerial groups within subsidiaries could have in terms of status, bargaining power and to some extent the degree of cooperation (Edwards 1998), hence an interesting topic to explore much further.

Previous studies on reverse diffusion suggest that among other things the degree of product integration internationally and the existence of worldwide product divisions (Ferner & Varul, 2000; Edwards, 1998) may encourage the transfer of subsidiary practices. Consequently, MNCs with characteristics such as international business strategy based on realising synergies between sites, a global structure, the dispersion of operations across borders, maturity, growth through acquisition and the existence of international management structures in the personnel field (Edwards, 1997) are more likely to embrace reverse diffusion.

1.2. Research Problem

Study on RD points to the fact that MNC parent to an extent may diffuse successful practices developed in their subsidiaries into the parent company to be further diffused to other subsidiaries and sister affiliates (Edwards, 1998).

Notwithstanding the growing body of literature on RD however, our knowledge on the phenomenon is rather limited. Majority of the literature is concentrated on British and American, German and Chinese Multinational companies (for example, Thory 2008; Hayden & Edwards, 2001; Edwards, 1998). Additionally, while factors affecting the reverse diffusion of HRM/employment practices have been partly explored by different researchers (Thory, 2008; Edwards et al, 2005; Liu, 2003; Edwards 1998, etc), one within the context of Finnish MNCs is lacking. The reason to this is not known but from
my perspective, this could be partly due to the fact that the phenomenon is fairly new and thus has not yet extensively engaged academic attention. Secondly, the fact that Finland is a relatively small country with a rather young history of internationalisation (Vanhala, 1995) could also account for the lack of studies in this direction. However, I am of the view that exploring RD in a relatively small but dynamic country like Finland with its somewhat unique cultural, socio-economic and legislative environment is interesting and therefore provides additional insights to enhance existing literature.

Finland, after its deep recession in the early 90s moved towards internationalisation and the privatisation of state-owned companies in order to restructure its economy (Vanhala, 1995). Despite its fairly young internationalisation history, most Finnish companies have established foreign subsidiaries mainly through acquisitions (Gunasekaran, 1998), but also through greenfields and joint ventures (Saralehto 1989). Hence it is worth suggesting that Finnish MNCs would provide more opportunities for organisational learning, and thus a potential for RD to occur. Nevertheless, I am not ignorant of the fact that Finland has a government-guided and social economy (Thurow, 1992), which may render RD difficult, though not impossible. This dissertation is therefore a contribution to literature on RD drawing insights from the context of Finnish Multinational Companies (MNCs).

1.3. Aim and research questions

Following the study problem identified above, the aim of the study is to explore the phenomenon of RD in 3 Finnish MNCs. The study focuses on the mechanisms within the MNCs that allow for learning and transfer across borders with particular reference to reverse diffusion. Specifically, the study seeks to answer the following research questions:

- To what extent do Finnish MNCs learn and transfer subsidiary HRM practices back to the parent?
- What factors affect the transfer of subsidiary practices within Finnish MNCs?

1.4. Scope and methodology

The study focuses on transfer of management practices specifically HR practices from foreign subsidiaries to the parent within Finnish MNCs. Hence, much attention is not given to mere knowledge transfers with regards to product innovation or production
efficiency, etc. across borders. The study is focused on examining the mechanisms that facilitate knowledge and information transfers in MNCs. However, using knowledge transfer and organisational learning theories as a point of departure provide a basis for understanding the transfer of practices across borders and its importance for a firm’s competitive advantage.

I adopted an abductive case study approach. Three Finnish MNCs were selected for the study. These companies represented the various levels of internationalisation of Finnish firms. I used informants of the MNCs rather than entering the companies formally. These were mainly people who worked in the HR departments of the companies and occupied various levels of managerial positions and therefore were well placed to understand and provide relevant information for the study. All the interviewees were located in the headquarters of the MNC with the exception of one who was located in the MNC’s foreign subsidiary. Data was collected through face-to-face and telephone interviews using semi-structured interview guide. Chapter 2 of the dissertation elaborates further on the study methodology and techniques employed in this work.

1.5. Delimitations

This study is conducted on 3 Finnish MNCs all headquartered in Finland to explore the mechanisms that facilitate reverse diffusion in the MNCs. The MNCs were selected on their basis of operations in at least two countries. It is thus possible that the characteristics identified in literature to be necessary for examining the phenomenon under investigation may not all be present in these MNCs. Therefore, the study is limited in making generalisations with the findings. Any such generalisations must be made with caution and within the context of the study. Furthermore, interviewing subsidiary HR managers would have provided a holistic view to this study, however resource constraints did not permit this to be done.

1.6. Definition of key concepts

The following keywords used in this study are defined below:
Reverse diffusion (RD)

Transfer usually refers to a ‘distinct experience’ rather than a ‘gradual process’ that diffusion takes (Galbraith 1990 cited in Smale 2007?). Other authors look at transfer in terms of its application rather than ‘full’ replication (Foss & Pedersen, 2002). This is due to the context specificities within which practices such as HRM can be implemented (Tayeb, 1998). In this paper, the term is used interchangeably since it is assumed that diffusion is likely to occur after transfer is done. Reverse diffusion therefore refers to the process by which MNCs draw on employment practices originating from their foreign subsidiaries and transfer these practices back to the home countries (Edwards, 1998). Reverse diffusion is an aspect of a large form of diffusion called ‘flow diffusion’ where ‘practices originating from an overseas plant are diffused to all other plants including those in the home country’ (Edwards, 1998). In short, RD is a subset of ‘flow diffusion’ (Edwards 1998:696).

Multinational Companies (MNCs)

MNCs are narrowly defined in this study as a company with control of its productive operations in at least two countries (Cowling & Sugden 1987 cited in Edwards & Rees, 2006).

Subsidiaries

Subsidiaries in this paper refer to fully-owned overseas companies and subsidiaries with interdependency relationship (reference)

1.7. Structure of thesis

The study is organised into 7 chapters including this introductory chapter. In Chapter 2, I discuss the study methodology employed and their philosophical underpinnings. The chapter provides detailed information on how I carried out the study and which study tools were used for the analyses. The main literature for the study is reviewed in Chapter 3 with a collection of relevant literature on organisational learning and knowledge transfer, diffusion of practices in multinational companies and more specifically reverse diffusion. I then present the results of the study in Chapter 4. After this, additional literature is reviewed in Chapter 5, followed by discussions of the findings in chapter 6. The final chapter, chapter 7, which is the conclusion, summarises the study findings and closes with my concluding remarks and recommendations for
further research. The reason for this unusual structure of the thesis is further explained in the methodology chapter which follows next.
2 METHODOLOGY

This chapter presents the methodology employed to carry out this study. It elaborates on the study techniques and the underlining philosophical underpinnings, the methods of data collection and data analysis. It further highlights the limitations of the methodology and thus draw a framework within which the study could be generalized or otherwise.

2.1. Research purpose and aim

Studies show that human capital is valued in Finland (Chiang and Birch, 2007). Hence, it is assumed that firms with good management practices are more likely than their counterparts to retain highly skilled human resources. This in effect suggests that firms with foot on the international market would explore and exploit learning and transfer back into the parent for competitive advantage. In view of this, the purpose of the study is to explore how the phenomenon of RD is embraced in Finnish MNCs.

Studies can be classified in terms of their purpose as well as the study strategy used (Robson, 1993 cited in Saunders et al., 1997:78) A frequently used classification is the threefold classification into exploratory, descriptive and explanatory purposes (Yin, 2003). The purpose of this study is exploratory, as this type of strategy is a valuable means to seek new insights, to ask questions and to assess phenomena in a new light. Exploratory studies can be realised through search for the literature, talking to experts on the subject or conducting focus group interviews (Saunders et al., 1997:78). After identifying the purpose of the study to be exploratory, I find an abductive design most appropriate as it is also a source of introducing new ideas (Peirce, 1903). The overall aim of this study is to gain additional insights into the phenomenon within the context of the study. Specifically, I seek to address the following questions:

1) To what extent do Finnish MNCs learn and transfer subsidiary HRM practices back to the parent?
2) What factors affect the transfer of subsidiary practices within Finnish MNCs?
2.2. Research setting/contextual framework

This study is carried out within the context of Finnish MNCs. By Finnish MNCs, I mean companies which are either fully Finnish owned presently or originally with Finnish roots and still has some kind of ‘Finnishness’ or Finnish identity to it (i.e. either dominated by Finns at the management level or is ingrained in a strong Finnish culture), although foreign investment may have rendered it much more international than before. The findings of the paper are also analysed within the social, cultural, legal and other institutional frameworks existent in Finland.

Compared to many countries where the reverse diffusion has been studied, Finland can be considered as a relatively small country with just over five million people. The population is quite homogeneous in terms of skills and quality of education. Internationalisation of companies in Finland has been fairly young, just about two decades ago (Vanhala, 1995). Companies in Finland have had to seek growth opportunities abroad due to its small home market (Saralehto, 1989). Even though internationalisation in the corporate sector began in the late 1970s, significant foreign direct investment of Finnish companies was actually realised sometime in the 1980s (Saralehto, 1989), and after the deep recession in the 1990s, the move towards internationalisation became even greater in both public and private sectors (Vanhala, 1995). Despite its young internationalisation history, however, Finnish companies have quite a substantial amount of subsidiaries abroad. Studies indicate that most of the expansion of most Finnish companies abroad has been mainly through acquisition, although there have been some greenfield and joint venture establishments as well (Saralehto 1989). These factors among other things presumably predispose Finnish companies to a lot of learning across the globe and it is within this context that the study is conducted.

2.3. Research design

This is a qualitative study which follows an abductive approach. Reasoning patterns in scientific studies have been classified to be either deductive or inductive (Frigg & Hartmann, 2006). Deductive reasoning patterns involve developing hypothesis of existing theory and testing them. Hence the conclusions follow logically from a set of premises. Inductive reasoning patterns on the one hand propose the ideal of no theory and instead generate theory from data (Eisenhardt, 1989, Glaser & Strauss, 1967). In practice, however, reasoning in scientific studies involves both (Lynham 2002). On the
one hand, while no hypothesis or propositions are developed in this study, the conclusions are drawn in a deductive manner from existing literature on the phenomenon either confirming or disputing it (Schurz, 2008; Kovacs & Spens, 2005). On the other hand, the data gathered introduces new ideas and additional theories of interrelated concepts that help to expand the scope of the phenomenon under study (Peirce, 1903). This integrative approach has been termed abductive reasoning (Peirce, 1878). Abductive reasoning like the inductive reasoning pattern helps to expand knowledge beyond what is merely observed. Unfortunately, this type of reasoning is not well recognised in research, and it is considered a weak form of reasoning (Ketokivi & Mantere 2010). However, as Peirce (1903) puts it, it is the source of ‘new ideas’ (p. 171).

Since this study seeks to provide additional insights which help to expand our thinking on the topic, I find the abductive approach suitable. Contrary to true inductive designs which suggests the ‘ideal of no theory’ (Eisenhardt, 1989) as it is likely to bias the findings, I adapted what is called ‘systematic combining’ which argues for strong reliance on literature in order to strengthen the explanatory power of case studies (Dubois & Gadde, 2002). In this regard, I reviewed extensive literature on RD; and the conceptual framework was developed from existing theories while the empirical results made contributions to the existing theories. This aspect of systematic combining lends support to Eisenhardt’s (1989) idea of ‘a priori’ constructs, which she proposes as one of the initial steps to theory building. Therefore a priori constructs helped to define the research questions while helping to structure interview guide as well as analyse my findings on the basis of these constructs. The constructs were explicitly measured in the interview protocol.

Although literature on RD is extensively reviewed, additional literature became necessary during the study. According to Dubois and Gadde (2002), ‘the need for theory is created in the process’ of the research as a result of reality in the empirical world. However, rather than these empirical findings affecting the direction of the study with regards to problem modification and further empirical work as in the work of Dubois (1994) [cited in Dubois & Gadde (2002)], the study framework is maintained while additional theories are reviewed in the analysis stage as in a grounded theory. This provided directions for expanding theory on reverse diffusion. This was also because these findings were not assessed further during the study (Dubois & Gadde, 2002). Therefore, the analyses made following the additional literature review are more of assumptions and thus should not be viewed as conclusive without further testing.
In view of the research design selected and the explanations given above, the structure of the study is slightly modified for clearer understanding. Hence, the main literature review begins after this chapter, followed by the findings of the research in chapter 4. The additional literature review is placed in chapter 5 after which the discussions of the findings are done in chapter 6 and then finally the concluding remarks in chapter 7.

2.4. Research strategy: Multiple case-study

Yin (2003) outlines 5 different study strategies namely experiment, survey, archival analysis, history and case study. Whereas not all types of study strategies may be appropriate in addressing all types of study questions, (who, what, where, how and why), Yin (2003) suggests that any of the strategies could be used to address ‘what’ questions when the study is exploratory. As a result, the case study strategy was found appropriate for this exploratory study.

Case studies may be conducted either on a single case or multiple cases (Yin, 2003). In this study, I employed Yin’s (2003) multiple-case study strategy, further inspired by Eisenhardt’s (1989) ‘building theory from case study’ to accomplish the aim of the study. According to Eisenhardt (1989), case studies provide a strategy for gaining understanding of the dynamics present within single settings.

The multiple-case study is carried out on 3 Finnish MNCs with the aim to explore the phenomenon of RD of HR practices in these companies. By using a multiple-case study, I was able to examine the specific instances under which RD occurred within the MNCs and the peculiarities associated with the transfer of subsidiary practices in each of the cases. Also the cases used for the study were quite contrasting, hence a multiple-case study strategy enabled me to analyze and understand the variations between the MNCs with respect to the phenomenon under study. This helped to develop new insights on the subject area, thereby generating and expanding existing theory.

Furthermore, considering the differences that existed between the MNCs in terms of length of internationalization, structures, shared practices among others, the case study approach was found appropriate for providing elements of exploring the phenomenon taking into consideration its contextual elements, i.e. how the phenomenon is influenced by and can influence its context (Hartley, 2004). Yin (2003) also suggests that usually when studying contemporary events, the case study is a preferred option,
with the advantage of being able to take into consideration a variety of evidence such as interviews, observation, documentation, etc.

2.5. Data Collection

2.5.1. Selection of cases

The selection of MNCs was done using a simple criterion of their operations in more than one country. This was to help me to assess whether or not indeed, the factors identified in literature to facilitate the occurrence of RD were actually necessary for the success of RD. Criterion-based sampling is useful for small exploratory studies such as this one, and allows for learning from contrasting cases (Kuzel, 1999).

I accessed 3 multinational companies in the ICT and Energy sectors through informants. These companies, though, had varying degrees of networking, were interesting to study as they revealed some particularities (Danermark, 2001) which helps to expand theory on the phenomenon. The differences between the cases did not afford an entire comparison between industries or even between the firms involved in the study. However, these companies could be said to be a representation of the different degrees or levels of internationalisation of Finnish MNCs and therefore found adequate for the study. All the case companies were either partly or fully Finnish owned.

The cases used in the study are briefly described below. The names of the companies have been changed for the sake of anonymity.

Techno

The first case company provides products and services in ICT. It has several operations beyond its borders and highly integrated and networked. The company has grown through a number of acquisitions in the last 10 years though that has not been the only means through which the firm has internationalised. It has been in existence for decades and could be said to be matured not only in the length of existence but also in its personnel management structures. About 20-25% of its employees are located in the home country with the rest of employees spread worldwide across its operations. The company has 3 business areas.
Absolute Engineering (AE)

The second case was from the energy sector and operates several subsidiaries across the world. It has also acquired quite a number of companies in the last 10 years. The company operates in 3 business areas with about 18,000 employees in over 100 locations around the world. About 19-20% of employees are located in the home country with over 95% of its net sales coming from overseas units or foreign operations.

All-star Business Services (ABS)

This is also a large company in the ICT sector. The company has recently taken steps towards greater internationalisation and has a few foreign subsidiaries beyond its borders. The major internationalisation strategy in this company has been through acquisitions. It employs over 30,000 people with a bulk of it in the home country. The company is structured around 3 business areas which relate to different areas in the ICT sector and are quite independent of each other.

2.5.2. Interviews

The data for this study was collected mainly through semi-structured interviews either face-to-face or over telephone. In one case however, one of the respondents could not be available for an interview; therefore a semi-structured questionnaire was sent through e-mail and a written feedback received from the recipient. I had 2 people from Techno, 2 from AE and 4 from ABS. I interviewed 4 people in ABS because the first two respondents were not particularly located in HR even though they worked with the department and so had some knowledge of the HR operations in the company. Five out of the eight respondents were of Finnish nationality. All the interviewees were located in the headquarters with the exception of one who had recently assumed a role in the subsidiary company. The duration of employment with their present company spanned between 3 and 20 years and were all located in the HR department or worked with the HR department. I did not have prior knowledge of the respondents. They were neither friends nor contacts made through friends. I found their contacts through their companies’ websites. They were then contacted through e-mails and telephone calls and upon acceptance were interviewed. Hence, I would assume that certain biases associated with the information received were limited. The respondents were very helpful and answered all questions in a very detailed manner. Some of them made quite
useful suggestions and referrals making them more of informants than just mere respondents (Yin 2003).

I chose interviews as my main data collection instrument since it is suitable for the purpose of the study and also facilitates the understanding of reasons for a particular thought, decision or opinion (Saunders et al. 1997). Specifically, semi-structured interviews was preferred over other interview types since it provided me the flexibility to modify the order of interview questions on the basis of what I considered more pressing and appropriate (Robson, 2002). This was also useful since I interviewed people in different roles. Again, the less structured interview allowed the respondents much flexibility of response (Miller & Crabtree, 1999). Apart from interviews, the companies’ websites were also used to gather useful information regarding issues such as organisational structure, internationalisation modes, etc. Annual reports on the websites were another source of data used for this study paper.

In all there were 8 participants involved in the data collection: 7 interviewees and 1 respondent. Out of the 7 interviews, 5 of them were face-to-face and the other two were telephone interviews. The interviews, which were all conducted in English, lasted between 40-60 minutes each. All the interviews were tape recorded with permission from respondents, and were transcribed as soon as possible after the interview. Where necessary, I contacted some respondents again through emails to clarify certain issues they mentioned or others that were overlooked for some reason during the main interview. Non-verbal cues of the respondents were observed to ascertain the certainty/accuracy or otherwise of the information that was being provided by the respondents. This also helped to understand the context of the interviewees’ perceptions or responses (Yin, 2003) and facilitate the analysis of the responses (Robson, 2002). These observations, however, could not be made in the case of the telephone interviews. Depending on how the interview progressed, there were some variations to the type of interview questions asked. However, this was limited to a large extent in order to avoid high inconsistencies. As much as possible all interviewees answered questions under all the areas covered in the interview guide. These were:

- Structural factors within the MNC
- Autonomy of subsidiaries
- Incidence of reverse diffusion
As indicated earlier, the flexibility employed during the interviews also meant there was no particular order in which questions were asked by interviewer. Instead, the questions were introduced at points where they were found best fit (in order to have a flow of what was being discussed and sustain participant’s interest in the interview). This sometimes led to participants digressing a little from the questions. The interviewer tolerated some digressions though, since sometimes it led to other areas of interest of the phenomenon under investigation. However, such incidents were brought under maximum control to avoid extreme deviations and dragging of the interviews.

On the downside, all the interviewees except one were located in the headquarters. Even the subsidiary respondent had just assumed his role in the subsidiary. This may have produced a bias to the information received since respondents at the headquarters may want to portray that they learn from their subsidiaries. It is also believed to be possible that the respondents may not always have provided an accurate picture of their attitudes and beliefs (Robson 2002).

### 2.6. Data analysis

The data analysis followed an abductive approach. In other words, the process of abductive reasoning may produce more than one form of solution that helps for making explanation, thus allowing researchers to settle on the best reasonable explanation which has been generally termed as Inference from Best Explanation [IBE] (Harman, 1965). I therefore used multiple strategies for coupling between theory and data to help me make sense out of the data gathered. I adopted an iterative approach by moving forth and back between existing literature and empirical data (Dubois & Gadde, 2002; Eisenhardt, 1989; Glaser & Strauss, 1967;). This forth and back movement enabled me to generate close fit between data and theory (Dubois & Gadde, 2002).

After transcribing the data, I wrote a narrative or summary of each of the cases focusing on the issues raised by the respondents concerning the internal structures of the MNC and how these structures worked within the MNC. This preliminary step was very useful in enabling me to have a holistic picture of the issues in each of the cases and thereby becoming familiar with each case (Eisenhardt, 1989), however, not to the neglect of specific issues of interest raised by individual respondents. Using cross-case synthesis technique (Yin, 2003), I used word table to compare the various cases. I had a table with the various dimensions of issues discussed in the interviews on one side and the names of the cases along the top of the table. The dimensions included the internal
structures within the MNC (extent of product integration, global structure, dispersion of operations across borders, maturity, growth through acquisition, international personnel management structures), subsidiary autonomy and evidence of RD. I then teased out the answers from the narratives and tabulated it against the dimensions (Miles & Huberman, 1994). This enabled me to examine the differences and draw conclusions. The table is inserted in the findings section of this work.

The constant comparison of theory with data helped to search for suitable theories to the empirical observation which follows the process of matching theory with reality as suggested by the systematic combining approach (Dubois & Gadde, 2002). The most important thing for me was to understand the differences in the incidence of RD in order to help explain the variations between the cases thereby making sense from the data (Langley, 1999). This also enabled me to connect tightly with and contribute to existing theory on reverse diffusion of HRM practices in MNCs. During the comparison of data, 2 prominent themes which emerged were also analysed in order to bring out some contextual elements to the study; as these themes have some ‘Finnishness’ to it. The abductive approach also enabled me to deal with particularities, i.e. specific instances that do not follow the general RD structure or process (Danermark, 2001).

Finally, I analysed the data using the study questions and then moved on to shape propositions by identifying the relationships between the internal structures and their impact on RD to further explore the underlying theoretical reasons for these relationships (Eisenhardt, 1989).

2.7. Reliability and Credibility

The lack of detecting instances of RD in the cases could be due to one of several factors. Firstly, the study would have provided a holistic view if subsidiary managers were involved as their views would have helped to triangulate data in order to verify the authenticity of the data (Yin, 2003). Interviewing headquarter respondents alone presents a one-sided view to the study and thus, does not present a complete picture of real happenings since respondents may have only pointed out issues which presented the headquarters as not completely ethnocentric. Secondly, the evidence reported was based on interviewees’ experiences. Hence some important evidence may have been overlooked due to the fact that RD may have occurred in a more subtle manner. Thirdly, and on a lighter note, the study area is still evolving and thus proper understanding of the phenomenon could be absent. In another dimension, studies
based on qualitative interviews require adequate skill on the part of the interviewer. Hence the interpretation provided by the interviewer will have a great impact on the data collected for the study. The study therefore does not make claims for complete reliability. However, credibility of the data is not denied since respondents occupied key roles within the company and possessed good knowledge of operations in their respective organisations although in some cases they had worked in certain roles for only a limited time. As much as possible the findings from the interviews were analysed with relevant illustrative quotations and my judgements were made transparent.

2.8. Limitations

Like many other study strategies, the downside of the study strategy is not neglected. One feature of a qualitative study is the overload of data which can sometimes make the researcher lose focus. Therefore even though some of the issues discussed may not have direct bearing on RD, I found them to be of interest as they provided directions for future studies.

Although the case studies are also usually criticised for its lack of ‘generalisability’ (Langley 1999), a larger sample size of similar MNCs would have afforded some generalisations to be made on the topic. Unfortunately, gaining access to companies was difficult. Therefore the 3 cases were contrasting in terms of size, internationalisation level and business model among other factors. In this regard, no generalisations whether statistical (Yin, 2003) or analytical (Eisenhardt, 1989) are claimed in this study.

Finally, abduction has been argued to be closely linked to our perceptions and preconceptions, therefore, subjectivity is also not denied since interpretations of the data were made taking into consideration, my prior knowledge of the subject area, personal assumptions and perceptions (Danermark, 2001; Gadamer, 1975).

Notwithstanding, the study does not lack depth in providing new insights to this rather new and evolving phenomenon in management theory
2.9. Summary

In this section, I have outlined the methods I used to arrive at the conclusions for this study. This is a multiple-case study on 3 Finnish Multinationals all headquartered in Finland with foreign operations across the globe. The purpose of the study was to explore the phenomenon of reverse diffusion in these multinationals to understand the nature and form it takes and the mechanisms which facilitates RD in each of the companies. Systematic combining or abductive design was employed since it is tightly linked with data (Dubois & Gadde, 2002; Eisenhardt 1989).

Data was collected mainly through semi-structured interviews providing the flexibility to modify the order of questioning and allow room for the respondents to discuss issues of interest. In all, there were 8 respondents, 7 of whom were interviewed either face-to-face or on telephone. The other one provided responses through the e-mail due to busy schedule.

The analysis of the data was conducted by employing different strategies of analysing qualitative data (for example Dubois & Gadde, 2002; Langley, 1999; Miles and Huberman, 1994; Eisenhardt, 1989; Glaser and Strauss, 1967). Analytical tools such as word tables were used to make comparisons between cases (Yin, 2003).

The knowledge possessed by respondents with regards to the questions asked provided some credibility to the data; however, the sample size of the cases was too small to allow for any generalisations.
3 LITERATURE REVIEW

In this chapter, I review relevant literature for the study on which analysis and conclusions will be based. The study draws on existing literature on MNCs and cross border transfers, resource-based and organisational learning theories as a point of departure. Following this, literature on diffusion of HR practices in general and reverse diffusion in particular are also reviewed pointing out factors that affect the transfer of practices across borders. The nature of HR/IR in Finland within specific structural, cultural and institutional contexts is also touched on briefly.

3.1 MNC literature

MNCs can be defined either with a focus on their legal ownership of operations (Coase 1937; Williamson 1975; Buckley & Casson 1976 cited in Edwards & Rees 2006) or with focus on their control of productive operations in at least 2 countries (Cowling & Sugden 1987). Edwards and Rees (2006) classify these different definitions as the narrow and broad definitions respectively. The focus on legal ownership of firms facilitates the assessment of a firm’s responsibilities rather than how much control it exercises on its productive operations; since it does not seem always possible for such control to be exercised (Edwards & Rees, 2006). For example, since the productive operations of MNCs can be accessed through subcontracting, franchises, etc, often times, MNCs have the responsibility of ensuring products or services produced to their specifications rather than controlling how the subcontractors or franchisers operate. The MNC in this study is defined according to the narrow definition.

Bartlett and Ghoshal, (1998) suggest 3 different pressures that MNCs face in operating across national borders. These are ‘local responsiveness’ ‘global integration’ and ‘worldwide innovation’ pressures. Local responsiveness refers to the need to be responsive to national diversity and the need to adapt to national culture and local conditions, due to different tastes and preferences across countries. Global integration on the other hand refers to the pressure on MNCs to achieve economies of scale internationally in order to achieve competitive success. Lastly, MNCs face the pressure of responding to the fast growing international markets with new technologies and short product life cycles. Hence, they are tasked with what they term ‘worldwide innovation’ pressure to transfer knowledge and expertise across international operations to meet this demand. The figure below, which represents Bartlett and
Ghoshal’s (1998) Multinational Strategy, explains 4 different strategies that MNCs adopt to combat these pressures.

**Figure 1** Transnational model (adapted from Bartlett & Ghoshal, 1998)

![Transnational model](image)

*Multinational form/strategy:* The Multinational strategy was evident in the multi-domestic era which spanned from 1920-1950 (Edwards & Rees, 2006). During this era, competition differed from country to country with differences in consumer tastes and preferences. There was therefore the pressure for local differentiation and dominance. The multinational strategy was thus used to respond to this need. The strategy ensures local adaptation/responsiveness and minimal direct influence from headquarters. As such personnel policies are more localised and decision making is more decentralised or rests mainly on the local management of the various subsidiaries (Edwards & Rees, 2006). There is thus less need for expatriates with this particular type of strategy and minimal diffusion of knowledge across borders. This strategy has much in common with Perlmutter’s (1969) *polycentric* firm and Porter’s (1986) multi-domestic approach (Edwards & Rees 2006, p.71)

*Global Strategy:* The global strategy evolved in the period 1950-1980 where market costs such as transport and communication began to fall and there were less trade
regulations. Firms thus realised the opportunities for scale advantages, and expanded their international operations to model that of their home countries. According to Bartlett and Ghoshal (1998), this approach ensured standardisation of products in a cost effective manner. With this type of strategy, some subsidiary policies and practices are influenced by home country operations; hence expatriates are involved to help transfer knowledge across borders. Decisions are also more centralised than it is with the multinational strategy. It is indeed evident that this strategy is more likely to promote forward diffusion than reverse diffusion. Again, Edwards and Rees (2006) suggest a semblance to Perlmutter’s (1969) ethnocentric approach.

**International Strategy:** As indicated earlier, MNCs are faced with the pressure for worldwide innovation. The period within which this was particularly evident was from 1950-1980 (Bartlett & Ghoshal, 1998). This strategy thus sought to respond to the pressure for worldwide innovation by exploiting parent company’s knowledge and expertise, and adapting it across subsidiaries or foreign markets.

The degree of centralisation and control with this type of strategy is however, minimal than that of the global strategy, since centralisation affects mostly core competencies, with the other competencies decentralised. Thus, there is the flexibility for local management to adapt products and services to local market though not with absolute control as that of the multinational strategy (Edwards & Rees, 2006). Local management has the responsibility to ensure utilisation of knowledge transferred from the parent company. Unlike the global strategy, expatriates used in this type of strategy may be more of ‘facilitators’ than ‘enforcers’ (Edward & Rees, 2006) ensuring effective deployment of knowledge and expertise. This strategy is more of a hybrid of Perlmutter’s (1969) ethnocentric and polycentric styles as suggested by Edwards and Rees (2006).

**Transnational Strategy:** This fourth strategy appears to be the preferred and ideal according to Bartlett and Ghoshal (1998); and thus, they advocate it for MNCs and all firms that desire to operate internationally. The strategy seems to address all the 3 pressures that influence international strategy of MNCs, which is not covered fully by the multinational, global and international strategies. Bartlett and Ghoshal (1998) argue that in the last 2 decades, MNCs have been contending with the local differentiation/global integration dilemma, thus a need for a strategy that provides solution to this dilemma. The strategy presents an integrated network of subsidiaries with differentiated roles (Edwards & Rees 2006). This differentiation allows the
subsidiaries to be locally responsive as well as affords the MNC the opportunity to achieve economies of scale at the global level, hence achieving global integration. This type of strategy also allows for diffusing of knowledge across subsidiaries resulting in worldwide learning. The implication for such a strategy is that practices and innovations are likely to reflect that of other subsidiaries, not necessarily that of the parent company alone (Edwards & Rees, 2006). Invariably, knowledge and other practices can even be transferred to parent company operations. This type of strategy is suggested to support reverse diffusion of HR practices (Bartlett & Ghoshal 1998). MNCs using this type of strategies will generate different kinds of employees such as Third Country Nationals (TNCs) in order to facilitate transfer of knowledge and learning across subsidiaries. The transnational strategy also has semblance to Pelmutter’s (1969) geocentric style, with the integrated network idea providing reinforcement to Hedlund’s (1986) heterarchical firm (Edwards & Rees 2006).

3.2. Resource-based and organisational learning perspectives on IHRM

Theoretical perspectives on organisations play a role in determining structures, systems and ways of managing people within the organisation. One of the theories, which is quite significant, is the resource-based view of the firm (Porter, 1985). This theory sees the firm as possessing greater deal of tangible and intangible resources (Wernerfelt, 1984 cited in Brewster C., Sparrow P., & Vernon G., 2007) and provides an explanation to why firms must transfer capabilities abroad (Brewster et al, 2007). Barney’s (1991) resource-based theory assumes that successful firms are those that can gain and sustain competitive advantage. Competitive advantage requires ensuring that availability of resources varies among competing companies and not easily obtained (Barney, 1991).

The resources of organisations are classified into physical resources which includes technology, equipment, geographic location, etc; human resources including employees’ experience and technical know-how and organisational resources which encompasses structures, systems for planning, learning, controlling and monitoring activities, etc (Schuler, Jackson & Luo, 2004). Since MNCs operate in different national contexts with different institutional systems, hence characterised by different business systems that regulate the firms practices, structures (Whitley, 2007), etc, this theory suggests that, MNCs with transnational form gain competitive advantage, when the skills, practices, knowledge in different countries can be consolidated and leveraged appropriately across the entire firm (Nohria & Ghoshal, 1997 cited in Brewster et al, 2007).
This consolidation and leveraging leads us to consider another theoretical perspective – knowledge-based view of the firm and organisational learning theory (Kogut, 1988). Study shows that this perspective is dominated by 2 main strategies that are adopted by firms (Tallman & Fladmoe-Lindquist, 2002 cited in Brewster et al, 2007). These are capability-recognising and capability-driven:

**Capability-recognising:** Recognising unique knowledge-based resources as belonging to home-country or peculiar to functional or top teams; hence disseminated to subsidiaries as and when necessary.

**Capability-driven:** This strategy perspective is more dynamic and focuses on the wider picture of ‘how firms build, protect and exploit mutual capabilities between for example, corporate HQ and subsidiaries’ (Brewster et al, 2007). This perspective again seems to support the need to transfer HR systems. Brewster et al (2007) puts the argument this way:

‘by deploying these resources and progressively integrating them into their most-value-adding activities, organisations can build a series of important capabilities such as industry-specific skill, networks and relationships, and appropriate organisational knowledge and structures’ (p. 219)

Theories supporting the capability-driven perspective also suggest the need to develop ‘absorptive capacity’ – ‘the ability to recognize new information, assimilate it and apply it to commercial ends’ – (Cohen & Levinthal, 1990) or ‘knowledge transfer capacity’ – ‘the ability to transfer tacit knowledge efficiently’ – (Martin & Salomon, 2003). Martin and Salomon (2003) identify two capacities necessary in the knowledge transfer event which they classify ‘source transfer capacity’¹ and ‘recipient transfer capacity’². The difference between the absorptive capacity and the recipient transfer capacity lies in the ability to capture the information from a willing source (in which case is recipient transfer capacity) or an unwilling source (absorptive capacity), Martin and Salomon (2003).

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¹ Source transfer capacity: ‘The ability of a firm (or relevant business unit within it) to articulate uses of its own knowledge, assess the needs and capabilities of the potential user thereof, and transmit knowledge so that it can be put to use in another location’.

² Recipient transfer capacity: ‘The transferees ability to assimilate and retain knowledge from a willing source’ – i.e. evaluate external knowledge, take in all its detail, and modify or create organisational procedures to accommodate the new knowledge (Martin and Salomon, 2003)
3.3. Reverse Diffusion

3.3.1. Background

It is not uncommon for MNCs to transfer their structures, systems and ways of operating inherent in their local business system to their foreign subsidiaries (CIPD, 2005). This forward diffusion (Edwards, 1998) is what has been mostly described in literature as the country of origin effect or ‘ethnocentrism’ (Pelmutter, 1969). One reason that may account for this is the desire of MNCs parent companies to maintain internal consistency and preserve the MNC’s competitive advantage. Yet the tension between integration and localisation has pushed some MNC’s to adapt parent company’s practices to the local environment (Bartlett & Ghoshal 1998, Rosenzweig & Nohria, 1994). Consequently, MNC parents are forced to allow the local subsidiary to adopt local practices which facilitate the subsidiary’s operations. However, research shows that the parent company practices provide a framework and foundation for the subsidiaries/affiliates to develop new practices as they grow and acquire their own unique resources (Kogut & Zander, 1993). Birkinshaw and Hood’s (1998) study on the process of evolution of practices in an MNC’s network provides insight into how subsidiaries develop competitive internal capabilities that contributes to the competitiveness in the entire MNC. Indeed, Grol et al (1998) note that firms that are given greater autonomy are able to develop systems and practices that promote the business and provide the subsidiary with its own competitive advantage. When these dynamic practices prove effective overtime, they are transferred to the parent company and then diffused across the other subsidiaries/affiliates (e.g. Etemad, 2005; Edward 1998).

In a sense, RD constitutes part of organisational learning or knowledge transfer, hence, the need to put it in perspective. One of the criticisms of knowledge transfer has been its heavy focus on functional expertise such as marketing, R&D and technological knowledge instead of general organisational knowledge which also includes management knowledge and practices (Minbaeva, 2003). In some cases, some authors have substituted RD of management practices with knowledge/information transfers (Dubosz-Bourne, 2006) since it all has to do with some transfer of a sort. This could be justified by the fact that management practices especially HRM is said to be context and culture-specific practices (Tayeb, 1998) which possess knowledge characteristics. It is assumed that the attempts made by an MNC to recognise and capture relevant knowledge for diffusion is important in RD. Therefore these knowledge transfer
theories become relevant in this study. Indeed, there is evidence to suggest that some reverse diffused practices were as a result of the diffusion of operational knowledge (Edwards, 2001).

RD is said to be influenced by certain characteristics such as degree of product integration, a global structure, the geographical dispersion of activities, maturity, growth through acquisition and the existence of international management structures in the personnel field (Edwards 1998). Hence, it is assumed that RD may not be existent in all MNCs (Edwards, Rees & Coller, 1999).

3.3.2. What is RD

RD is referred to mean the process by which MNCs draw on employment practices originating from their foreign subsidiaries and transfer these practices into the home countries (Edwards, 1998). In order for a practice to qualify as a reverse diffused practice, Edwards (2001) posits that it should be possible to identify the channels and mechanisms through which the diffusion occurred. Secondly, the practice diffused should have originated in a specific overseas plant/subsidiary.

3.3.3. Why RD?

Competitive advantage underlies the success of any MNC. In the face of global competition, the success of MNCs lies not only in knowledge and practices that emanate from the home-country. In the words of Doz and Santos (1997):

‘Leveraging internationally the know-how advantages derived from a home country competence cluster is no longer sufficient to underpin competitive advantage unless the home base remains the only crucible source of new technologies, competencies and leading customers’ (p. 4).

With the advancement of knowledge and technology, it is quite far-fetched to assume that new knowledge and practices may only emanate from home country. Different institutions and systems inherent in different countries suggest the need to do things differently within local settings which eventually may result in creation of new knowledge and practices. Hence as MNCs stretch to international borders, they are likely to be privy to such knowledge and practices. Bartlett and Ghoshal (1998) suggest that units with highly skilled personnel often tend to develop best practices. Thus,
learning and diffusing such practices across borders provides the MNC with good resource advantage and enhances its competitiveness in a global world (Porter, 1986).

3.3.4. Forms of RD

Reverse diffusion forms part of larger diffusion process termed ‘flow’ diffusion (Edwards, 1998). Flow diffusion is a process where a practice originating from an overseas subsidiary is diffused across the entire MNC including those in the home country (Edwards, 1998). Extant literature has identified one major form of RD – strict RD – even though flow diffusion can also be said to be some form of RD to some extent (Edwards, 1998). According to Edwards (1998), strict RD refers to the type of diffusion which occurs between just two plants (p. 696). In other words, a practice originating from one plant or operational unit is directly transferred to another plant or operational unit without headquarter intervention. Bartlett and Ghoshal (1998) suggest that the Headquarter (HQ) in MNCs with the ‘transnational’ form acts as a facilitator rather than a controller in the process of diffusion.

Related to this is Hedlund’s (1986) ‘heterarchical’ firm in which the MNC HQ are seen as facilitators since power and control are more decentralised throughout the MNC. Both theories therefore seem to suggest that RD can occur in the ‘strict’ sense between two units. Edwards (1998), citing Leong and Tan (1993) argues, however, that the “‘transnational’ or ‘heterachic’ MNC remains relatively rare” (p. 698) because it is not common to diffuse authority and control within MNCS (Edwards, Armstrong, Marginson & Purcell, 1996). In other words, the HQ continues to exert some amount of control either directly or through ‘unobtrusive’ means across its subsidiaries (Edwards 1998). He therefore argues that strict diffusion from an overseas subsidiary to a domestic plant is unlikely. Further evidence from research, however, contrasts this argument and shows that RD can occur between subsidiaries without active involvement by the centre, i.e. HQ (Ferner & Varul, 2000). The authors, however, do not specify whether the MNCs studied all have the ‘transnational’ or heterarchical’ forms of an MNC, neither do they indicate the relevance of the transnational form to this kind of diffusion.
3.3.5. **Impact of RD**

In a study conducted in US multinationals, (Edwards et al., 2005), the researchers identified two different impacts RD could have within an organisation. These were evolutionary impact and transformative impact.

When the diffusion of knowledge from a subsidiary plant occurs within an existing modus operandi of the parent company/sister affiliates, it is referred to as evolutionary RD (Edwards & Ferner 2004) in other words, the diffusion of knowledge is not aimed at a dramatic change within the organisation, but rather to enable the MNC parent/affiliate to keep up with unique innovations or core capabilities developed in subsidiary plants in order to gain competitive advantage. An example of evolutionary RD can be likened to Dubosz-Bourne’s (2006) study on reverse diffusion of ‘built-in’ quality between two subsidiary plants. The evidence of evolutionary RD is drawn from the introduction of new ‘hard’ quality elements in order to improve the plant’s operations and quality of the system. A further evidence of evolutionary RD is found from Thory’s (2008) work on reverse transfer of French MNCs in Scotland. Evidence of RD is drawn from the transfer of a 360 degrees appraisal system from a subsidiary to the headquarter to improve efficiency.

On the other hand, transformative RD is aimed at causing a radical change to the existing modus operandi of the MNC parent/affiliate (Edwards & Ferner, 2004). Transformative RD may take place for example in instances where there is a need for corporate restructuring (Edwards & Ferner 2004); and a subsidiary practice has proved successful to be diffused back into the parent. The amount of time and resources necessary for a transformative RD to occur is to an extent greater than that of evolutionary RD (Dubosz-Bourne, 2006). Transformative RD is likely to result among other things in standardisation of products and operations across borders (Dubosz-Bourne, 2006). This may however, be arguable if RD occurs in the strict sense.

3.3.6. **Effects of RD**

RD has been found to have effect on managerial relationships, employees in domestic plants, ‘country of origin’ effect and the ongoing debate on convergence-divergence of HRM. These aspects are discussed below:
• **Managerial relationships**

RD may provide subsidiary managers with some degree of status and bargaining power (Edwards, 1998). Research evidence shows that in MNCs where certain strategic activities are located overseas have influence on managerial relationships (Edwards, 2001). For example, where strategic activities such as R&D are located overseas, there is the likelihood of strategic initiatives and new practices developing from outside the country of origin. Overseas sites where key strategic operations are located are likely to possess higher bargaining power making their role in the diffusion process indispensable (Edwards, 2001).

• **Work-force or employees in domestic plants**

RD has the potential to affect work-force in domestic plants. Indeed Thory (2008) reports a resistance to the adoption of subsidiary practices by the parent as this was seen to result in the redundancy of shift managers who were considered an integral part of the managerial structure in the parent factory. In related findings, Edwards (2001) reports the diffusion of ‘core competencies for engineers’ and ‘reorganisation of assembly line’ which had significant implications for workers in the parent firm in the area of team work, mobility and standardisation of training for workers. These study findings may suggest that RD could bring about redundancies or work re-organisation which may consequently increase competition in the parent firm.

• **Erosion of country-of-origin effect**

The country-of-origin effect may refer to how MNCs subsidiary practices resembles that of home country practices (refer for example to Ferner, 1997 for a full discussion). As noted earlier in Chapter 1, MNC parent companies ensure certain patterns of behaviour in their foreign subsidiaries by exercising a certain degree of control (Smale, 2007; Evans, Pucik and Barsoux, 2002). Consequently, literature suggests that MNC parent company/HQ may exercise their control either ‘directly’ or ‘unobtrusively’ (Coller, 1996 cited in Edwards 1998). In a direct sense, we may be tempted to see HQ control to occur only in the form of FD (Ferner & Edwards, 2005). Drawing from the findings of Sewell and Wilkinson (1993), Edwards (1998), indicates however, that RD can also occur even with the existence of direct control from the parent. This is facilitated through instituting mechanisms where practices transferred from the parent/HQ also include certain practices that have originated from an overseas plant. When this is
done, presumably, there is the likelihood that the country-of-origin effect would fade out, though gradually and subtly. Therefore even though ethnocentricity may not be entirely eliminated by RD, there is the potential for RD to dilute it and eventually erode. Furthermore, in their study of RD in a large Swedish MNC, Hayden and Edwards (2001) found out that the Swedish national business system (NBS) provided a potential for learning from subsidiaries. The MNC was actually found to use their UK sites for learning new practices. This was attributed to the decentralised nature of decision making and initiative feature of the NBS. As they argued, ‘the distinct country of origin effect promoted the process of learning from other countries, which in turn eroded the country of origin effect’ (p. 133).

While some authors suggest that RD may erode the ‘country of origin’ effect others report a sharp contrast. Thory (2008) argues that RD/RT may have little erosive impact on the ‘country of origin’ effect. Her investigation of 2 French subsidiaries in Scotland revealed that despite the growing importance of internationalisation for these firms, learning from their anglo-saxon subsidiaries was of less importance. This was attributed to the barriers presented by the French NBS regarding labour legislations and the reliance on strict hierarchical structure and management control. The French parents’ desire to maintain their national identity also presented barriers to RT, and thus supported Thory’s argument.

- **Convergence-divergence of HRM**

Convergence-divergence debate on HRM argues about how similar or different HRM practices are becoming in the face of globalisation. Proponents of the convergence perspective argue that organisational forms and management practices are becoming more and more similar as a result of factors such as globalisation of firms, the spread of advanced technology and economic rationality (Brewster, 2007; Rojek, 1986). Chiang and Birch (2007) argue that where there is full convergence, management practices can be transferred anywhere and similar outcomes would be achieved. However, the divergence perspective draws attention to issues such as varieties of capitalism (Hall and Soskice 2001b, Whitley 1999), limits to globalisation (Hirst & Thompson 1999, Ruigrok and van Tulder, 1995) and cultural and institutional differences (Clark & Almond 2006; Tayeb 1998; Ferner 1997; Hofstede 1980) as the basis for which convergence of HRM is quite unlikely. Reverse diffusion of HR practices has the potential to lead to the convergence of HRM, though the extent may be limited (Vanhala, Kaarelson & Alas, 2006).
In Vanhala et al’s (2006) comparative study on the convergence-divergence of HR policies, strategies and practices in Estonia and Finland, the authors argued that HR policies, strategies and practices can easily be transferred across borders, in which sense there could be convergence of some sort; however, in the case of industrial relations, there are limits to its transfer and its institutional ‘embeddedness’. Their studies, however, lacks ‘generalizability’ considering its narrow focus on just two small countries with relatively short history of HRM. While Vanhala et al (2006) found that the institutionalisation facilitated convergence of the HR practices, policies, etc., Thory (2008) argued that certain institutional factors between countries may hinder convergence. Thus, to the extent that practices which are ‘reverse diffused’ would be influenced by local labor market regulations is high, leading to divergence.

3.4. MNC characteristics that impact on RD

Studies have identified that, similar to forward diffusion, certain characteristics relating to structural factors such as the degree of global integration and the existence of worldwide product divisions facilitate transfers from subsidiaries to parent companies (Ferner and Varul, 2000 in Liu 2003). Child (1972) argues that most organisational structural theories neglect the ‘direct source of variation in formal structural arrangement, namely the strategic decisions of those who have the power of structural initiation – the dominant coalition’ (p. 16 cited in Edwards et al 1999). Edwards, however, suggests that structural factors influence and are influenced by political processes and hence, the need to view diffusion as a result of the combination of these factors. Specifically, Edwards (1997) posits certain key characteristics of an MNC that are expected to promote RD. These characteristics include international business strategy based on realising synergies between sites, a global structure, the dispersion of operations across borders, maturity, growth through acquisition and the existence of international management structures in the personnel field. I discuss these characteristics below:

3.4.1. International business strategy based on realising synergies between sites

An MNC’s potential to reverse diffuse practices originating from its subsidiaries is dependent on its international business strategy aimed at greater integration (Edwards, 1997). According to Edwards (1998), single product firms are more likely to have their production and services standardized and integrated across countries rather than
diversified conglomerates. MNCs with higher product integration across subsidiaries or plants are likely to have greater scope for RD (Edwards, 2001). Higher integration may come as a result of pressure from customers to supply standardised products to their operations in different countries. Where there is higher integration, there is the likelihood of greater collaboration among subsidiaries, which helps for learning and sharing of practices. However, higher integration may create internal competition among plants through ‘coercive comparisons’ (Edwards 1998) as the headquarter begins to control the allocation of resources. Coercive comparisons, however, has the tendency to create some tensions between subsidiaries; and thereby stifle cooperation and sharing of new practices as subsidiaries seek to preserve their bargaining power or status (Holm & Pedersen, 2000).

Edwards (1998) suggests the HQ may control/minimise the problem of coercive comparisons by generating management loyalty to the firm instead of the subsidiary; through direct correlation between promotion, remuneration and the identification/sharing of efficient practices.

### 3.4.2. Global structure

According to Porter (1986), firms which compete at the international level are often structured along global lines (with international divisions as the primary axis of internal organisation). On the other hand, those that have competition mainly at the national level often have ‘multi-domestic’ structures with primary importance on national subsidiaries. The global structure responds to the need for global coordination over national responsiveness in geographically dispersed but highly coordinated transnationals (Stonehouse & Campbell, 2004). Indeed, Edwards et al (1996) argue that a global, hierarchic structure rather than a transnational form or structure is more likely to facilitate integration and diffusion of practices than we have been made to believe by Bartlett and Ghoshal (1998). In effect, we would expect that RD would occur in MNCs in which there is centralised control and the HQ plays an influential role (Edwards 1998).

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3 Competition within the MNC between plants for future investment (Edwards, 1998, p.700)
3.4.3. Dispersion of operations across borders

Theory suggests that different forms of institutions are seen to shape different ‘national business systems’ or ‘varieties of capitalism’ (e.g. Whitley, 2002, 1999; Hall and Soskice, 2001), and MNCs to a certain degree are embedded within the national business systems in which they operate (Edwards et al, 2005; Whitley 2002, 1999). Hence, the wider the scope of spread, the greater potential an MNC has to observe new practices in different national business systems, which may be useful. It has become evident that MNCs that have greater concentration in their home base have limited scope for RD to occur as compared to those that are widely spread globally (Edwards, 2001).

3.4.4. Maturity

For an MNC to reverse diffuse practices across borders, it ought to be ‘matured’. Maturity refers to the ability to study and experience successful practices in different countries, diffuse information about them and implement them within the home/affiliate country’s system (Edwards, 1999). Evidence suggests that the political processes associated with convincing plant/subsidiary managers towards greater integration, the development of mechanisms that enables diffusion across borders as well as the implementation of the practices diffused are all time consuming and in the case of implementation, could even be much slower due to the need to involve labour representatives (Edwards, 2001). Despite the notion that maturity of a company may take time, it is not clear how long a company must have been in existence in order to have matured. Edwards’ (2001) study shows that companies in which RD were detected had operated internationally for over 20 years. He argued, however, that the maturity of the company alone is not enough to promote RD but rather other conditions which have been in existence overtime such as a global structure and higher integration. This is supported in his work where an MNC studied had operated internationally for decades but was quite young in its integration of activities.

3.4.5. Growth through acquisition

MNCs that expand internationally by acquiring other companies on international markets are more exposed to new practices within different national business systems in which the acquired firms are located. They are therefore likely to acquire certain unique and successful practices of the acquired firm (Gupta & Govindarajan, 2000).
Literature on mergers and acquisitions points to the fact that MNC parent may have lesser influence on the extent and degree to which home country practices are transferred to the acquired plant (Rosenzweig & Nohria, 1994). This may be due to the resistance local workforce may exhibit as a result of exercising their power in terms of the local expertise and knowledge of the local market they may possess (Edwards et al, 1999). The implications to this are two-fold. On the one hand, the practices being diffused from the MNC parent can be integrated with that of the acquiring company in order to minimise resistance from local employees. The integration of the two practices may then culminate into a unique practice which can be transferred back to the parent company/affiliate sites. On the other hand, where local practices seem successful, they may be upheld and promoted. These practices may also be diffused back into the parent company. Apart from this, the acquisition may also develop entirely new practices through the combination of resources and also as a way of gaining strategic advantage in order to remain profitable to the MNC as a whole. This is not to suggest, however, that RD is impossible with greenfield sites. Despite the fact that greenfield sites are more likely to resemble parent company due to the forward diffusion of practices, there are also local isomorphic factors and some features within the national business system which can shape the growth of the greenfield sites, thus creating the potential for developing new practices. Edwards (2001) therefore argues that even though, RD is also likely to flow from greenfield sites, especially matured ones, there is greater scope for it with acquisitions.

3.4.6. Existence of international management structures in the personnel field

According to Edwards et al (1999), the existence of international management structures in the personnel field facilitates diffusion of employment practices across borders. The existence of worldwide product divisions suggests the existence of worldwide personnel managers as well as managers who embark on international assignments involved in regular personnel meetings and several interactions (Edwards et al, 1999) that could ultimately result in diffusion of HRM practices across borders. There are two dimensions to the establishment of such structure. Through the information sharing and discussion at these meetings, the headquarter is able to facilitate RD whiles limiting the range of possible actions at the subsidiary level i.e. unobtrusive control (Edwards 1998).
3.5. Factors that affect RD

RD is suggested to be influenced and shaped by both internal (structural characteristics) and external (MNC’s competitive environment) factors of the MNC (Edwards, 2001). Child (1972:16 cited in Edwards et al, 1999) argues that ‘many available contributions to a theory on organisational structure do not incorporate the direct source of variation in formal structural arrangements, namely the strategic decisions of those who have the power of structural initiation – the dominant coalition’.

Empirical evidence therefore suggests that diffusion of practices are not influenced by structural factors but also political processes (see for example Edwards, Colling & Ferner, 2007; Pulignano, 2006; Edwards et al, 1999), hence, the need to view diffusion as a result of the combination of these factors. Conceptual approaches to the diffusion of employment practices in MNCs suggest that apart from the structural factors mentioned in 2.4 above, other factors such as market based factors, cross-national comparative factors and power based factors also affect the transfer of practices across borders (Edwards et al, 2007). The market-based factors such as the need for cost leadership or differentiation strategies are influenced by the pressures from the labour, financial and product markets; and thus create the impetus for transferring practices across borders. Institutions within the labour, financial and product markets are also found to influence the transfer across borders (Thory, 2008; Edwards et al, 2005, etc).

Thus, cross-national comparative factors which include cultural and institutional frameworks within the MNCs home or host environments are said to affect the transfer of HRM practices (Björkman & Lervik, 2007b; Tayeb, 1998). The institutional frameworks such as local labour and financial regulations, are somewhat seen to mediate the country-of-origin effect (Pulignano, 2006) and has therefore gained attention in RD literature. Whether or not RD occurs, however, is not based on only structures (both internal and external) or cultural and institutional elements but also on the influence that actors involved in the diffusion process exert (Björkman & Rasmussen, 2004). Empirical evidence suggests that the resources that actors control and the quest for advancing their own interests can affect diffusion of practices either forward or reverse (Edwards et al, 1999). Furthermore, diffusion has been found to occur within MNCs which have networking within plants. Edwards et al (1999) propose a theoretical dimension called ‘networking within hierarchy’ where the networking is underpinned by headquarter control directly or unobtrusively. The ‘networking within hierarchy’ presents an idea of a social structure where there are interdependencies between the structure itself and the social actors or agents involved. Therefore the
existence of networks between subsidiary and headquarters, facilitated by relationships within the networks, interactions, language, interpretations and narratives as proposed by Nahapiet and Ghoshal (1998) is likely to affect RD in MNCs.

3.6. Explaining variations in RD in MNCs

Researchers have argued that differences between MNCs can be attributed to the structural and political characteristics of the organisations and their environments (Edwards et al, 1999). In the words of Ferner and Edwards, ‘different combinations and patterns of power relations are likely to characterize different kinds of MNCs’ (1995:243). Consequently, some of these internal (structural) and external (political) characteristics also help in explaining variations in RD. Various strands of literature that have been used to help explain the variations include knowledge transfer theory (Minbaeva, 2007; Kogut & Zander, 2003; Kogut, 1988); corporate structures (Edwards, 2000; 1997); national business systems (Thory, 2008; Edwards et al, 2005; Hayden & Edwards, 2001; Ferner & Varul, 2000) and dominance effects (Pudelko & Harzing, 2007; Edwards et al, 2005; Smith & Meiksins, 1995). The others are the micro-political perspective (Björkman & Barner-Rasmussen, 2004; Edwards & Ferner, 2004; Edwards et al, 1999) and the role of the subsidiary (Edwards & Tempel, 2010).

The knowledge transfer perspective suggests that HR practices can be transferred either through ‘codifiable’ means - manuals, databases, etc (Edwards & Tempel, 2010; Minbaeva, 2007; Kogut & Zander, 2003; Gupta & Govindarajan, 2000). – or ‘tacit’ means – cross-national teams, management trainees, expatriates/repatriates, etc. (Martin & Salomon, 2003; Edwards, 1998). The existence of organisational mechanisms capable of capturing, codifying and further diffusing practices therefore, shapes the incidence of RD in MNCs.

The second source of variation, corporate structures also points to certain structural characteristics of an MNC, which when present, facilitates the occurrence of RD (Edwards, 2000, 1998). Additionally, networking between the HQ and overseas sites, with the headquarter coordinating rather than controlling have been found to increase the incidence of RD (Edwards & Tempel, 2010; Edwards et al, 1999, Bartlett & Ghoshal, 1998).

The NBS has also been found to be a source of variation in RD particularly between subsidiaries of the same MNC (Edwards & Tempel, 2010). The NBS suggests that
differences in national systems are potential reasons RD may or may not occur either in
different MNCs or different subsidiaries of the same MNC (Edwards & Tempel, 2010;

Furthermore, ‘dominance effect’ has been found to be another source of variation. The
dominance effect points to the organisation of management practices around what is
perceived as global ‘best practices’ (Smith & Meiksins, 1995). Countries such as Japan,
America, Germany, have been perceived as dominant economies with their
management practices becoming a sort of role model due to their superior economic
performance in the past or present (Smith & Meiksins, 1995). Some of these practices
include lean production, Taylorism, management by objectives (MBO) among others.
Since the diffusion of practices from a subsidiary may be affected by the perception of
corporate managers regarding the national system of the subsidiary, Edwards and
Tempel (2010) argue that negative perception of subsidiaries may constrain their role
as potential sources of RD.

The micro-political approach refers to the power subsidiary actors possess and the
strategies they employ to shape the occurrence of RD. For example, Edwards posit that
‘where plants are made aware that they are in competition with one another through
coercive comparisons then management at each plant may be reluctant to share policy
ideas and initiatives voluntarily’ (1998:701). A similar finding was made by Björkman
and Barner-Rasmussen (2004) in their study on knowledge diffusion in MNCs.
Consequently, RD has become both a political and technical problem (Edwards &
Ferner, 2004). Evidence from literature therefore suggests that subsidiary managers’
power to influence RD is also dependent on the resources they control and will
therefore differ from country to country (Edwards & Tempel, 2010).

Finally, the role of subsidiaries as sources of variation indicates that the size of the firm,
the maturity of the subsidiary and the strategic role that subsidiaries play affects the
extent to which these subsidiaries initiate the process of RD (Edwards & Tempel, 2010).
The authors note however, that highly differentiated roles or highly similar roles
between subsidiary may limit the extent of diffusion; rather ‘a role that is distinct in
some ways but has some commonalities with other sites may be the most conducive for
RD’ (2010:26). For a full, in-depth discussion on the reasons for these variations, see
Edwards and Tempel (2010).
3.7. HR/IR in Finland

Finland is a relatively small country known for its homogeneous population and extensive social welfare system. The Finnish system is distinctive in its mix of social, political and employers’ interests in the collective bargaining system (Vanhala, 1995:31). Union presence is high with greater unionisation among workers (Vanhala 1995). The number and degree of strike actions and strike warnings (http://www.artto.kaapeli.fi/unions) which characterise the labour market seem to suggest to an extent some degree of dissatisfaction among employees and hence the need for more desperate measures in addressing the situation. Consequently, the HRM system or policies/practices has become necessary to help address these issues. Most importantly, it must be noted that HRM in Finland is characterised by what is termed ‘flexible dualisation’ (Vanhala, 1995:32), which according to Vanhala could be attributed to the Sweden and Russian’s domination over Finland in the country’s history. It appears that these dualities have become more of a ‘way of life’ than one would imagine. For example, currently, there are two official languages: Finnish and Swedish which are both well recognised and accepted throughout the country.

Generally, Finland can be classified as a coordinated market economy (Lilja 2005) and the business system ‘characterised by the domination of the forest sector, the high proportion of small companies and a traditional, relatively large state ownership of enterprises’ (Vanhala, 1995:36). Following the deep recession in the early 1990s, Finland was forced to make structural changes in the economy leading to internationalisation of Finnish companies and the privatisation of state-owned firms (Vanhala, 1995). HRM in Finland appears tightly regulated due to labour legislation and the formalized employment relations system.

3.8. Summary of literature review

In this chapter I have reviewed literature relevant to achieve the objectives of the study. Since RD forms part of cross-border transfers, I used organisational learning and knowledge transfer theories as a point of departure. Following this, I covered the aspect of RD – nature and form of RD, characteristics that facilitate RD, impact of RD and barriers to RD.

RD has been defined as the transfer of practices originating from an MNCs foreign subsidiaries back to the home country (Edwards, 1998). The diffusion of practices
across borders is believed to create resource advantages and promote competitiveness in a global world (Porter, 1986). It forms part of a larger aspect of diffusion called ‘flow diffusion’ where practices originating from an overseas subsidiary are diffused across the entire MNC including home plant (Edwards, 1998). Diffusion is also said to occur between only two plants without headquarter intervention in which case it is termed ‘strict’ RD (Edwards, 1998). While Edwards (1998) argues that strict RD can be rare because it is uncommon to diffuse power and control within MNCs (Edwards et al, 1996), Ferner & Varul (2000) found evidence of strict RD occurring without active involvement of the HQ.

RD can be evolutionary (no radical changes to the modus operandi of the MNC) or transformative (radical changes to the modus operandi of the MNC) Edwards et al, 2005. It may affect managerial relationships within the MNC (Edwards, 2001), employees in domestic plants (Thory, 2008; Edwards, 2001), country of origin effect (Thory, 2008; Hayden & Edwards, 2001) and convergence-divergence of HRM (Thory, 2008; Vanhala et al, 2006).

Edwards (1997) identified certain characteristics within MNC which can shape the incidence and process of RD. These are structural factors which include international business strategy on the basis of realising synergies between plants, global structure, maturity, dispersion of operations across borders, growth through acquisition and the existence of international management structures in the personnel field. The structural factors in addition to political and market-based factors may also pose a hindrance to RD. Additionally, various strands of literature explaining why RD may vary in MNCs are briefly reviewed.

These aspects of literature reviewed would facilitate the analysis of the findings of this study.
4 FINDINGS

In this chapter, I present the key findings from the interviews. Prior to entering the field, I assumed that all 3 companies would possess all the characteristics that promote the occurrence of RD within a company since they could all be classified as MNCs. However, the findings revealed the existence of some of these characteristics though in varying degrees and even in some cases there was no evidence of some of the characteristics at all.

4.1 Description

The table below shows a summary of the responses received from my respondents.

Table 1 Summary of Interview responses

<table>
<thead>
<tr>
<th>Characteristic</th>
<th>Techno</th>
<th>Absolute Engineering</th>
<th>All-star Business Services</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Internal factors:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Extent of product integration</td>
<td>High: similar products to different markets, serve international markets</td>
<td>Low: Different products and services to different markets but quite homogenous customers</td>
<td>Low: Different service offerings to different markets</td>
</tr>
<tr>
<td>Structure</td>
<td>Matrix structure: more global</td>
<td>Multi-domestic with matrix at top level</td>
<td>Matrix structure: business group departmentalization</td>
</tr>
<tr>
<td>Dispersion of operations across borders</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Growth through</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
</tbody>
</table>
### acquisition

<table>
<thead>
<tr>
<th>Maturity</th>
<th>Yes</th>
<th>To some extent</th>
<th>No</th>
</tr>
</thead>
</table>

### International personnel management structures

| Yes: management trainees, meetings of HR professionals | Yes: monthly and quarterly meetings between subsidiary managers | Yes: management trainees, meetings within business groups |

### Extent of Autonomy for subsidiary managers

| Moderate | High | Fairly high: but greater autonomy at business group level rather than subsidiary level |

### Evidence of RD

| Yes: well being program, recognition program | Yes: but not a direct HR practice | Yes: sales incentive scheme |

The summary above is presented in detail below:

#### 4.1.1. Degree of product integration

Production activities in Techno seemed very much integrated. Consumers in different markets have similar tastes and preferences. The differences in their products were therefore not as high as the similarities. AE had a different situation. The products and services provided differed from country to country. This notwithstanding, their consumers had similar tastes and preferences i.e. quite homogeneous. The level of production integration among countries which offered similar products and service could not be established since subsidiaries were not studied individually. One of the respondents, however, noted that even among subsidiaries providing similar products and services, there were differences in the level of solution integration, which was as a result of non-standardisation in the level of competence and talent across subsidiaries. In ABS, the emphasis of the integration was on the business groups rather than subsidiaries. In other words, the production integration was within the specific
business group rather than across the entire company. The MNC was moving towards using shared resources across the business groups as a cost saving mechanism. In one of the business groups which was more ‘internationalised’, production had been centralised in two countries. These were used as competent centers. The implication of this centralisation and its shaping of RD is presented in the discussion section of the theses. Again, since the business groups were not studied individually, the extent of integration even in this business group could not be ascertained. However, the general impression given was that there was rather low integration across all the business groups in particular and the company as a whole.

4.1.2. **Global structure**

It was evident from the interview that Techno had set its processes, organisation structures, teams etc. across country boundaries. The MNC competes at the international level and over a third of managers had employees in multiple countries. This was one of the reasons for creating processes, systems and tools that crossed boundaries. The interviews also revealed that the organisational structure in *Techno* seemed to support learning within the company. The company structure is that of a matrix with country business units and global business units supporting each other. On the other hand, due to the nature of products and services offered, *AE* operated a multi-domestic structure. Each subsidiary therefore had its own reporting lines, with subsidiary managers ultimately reporting to the headquarters. The matrix therefore, was at the top level. Notwithstanding the multi-domestic structure, there were global supporting services especially in HR but subsidiary managers were allowed adequate room to apply as and when they deemed it necessary. In *ABS*, the structure was more of business group departmentalization. In other words, the company was structured along business group lines. Thus, each business group had their own structure and so a subsidiary’s structure was determined by the business group in which the subsidiary was. The matrix reporting lines were to both the business group and the headquarters.

4.1.3. **Dispersion of operations across borders**

*Techno* was more globally spread than the other two cases. It had some strategic units of the company such as R & D and production units located outside the home country. In fact, they had production sites outside Finland where the basic elements of the products are assembled and then transferred to other markets for slight modifications
in for example packaging and language specific to the market. Some of these production units possessed some strong influence due to their strategic importance within the company. AE was spread in over 17 countries. However, strategic units such as R&D were mainly based in Finland with support from two other countries. At the time of interviews, the company was in the process of moving its production outside Finland. ABS similarly was spread over 15 countries in Europe, Russia and Australia. Internationalisation in this MNC, however, was fairly young.

4.1.4. Growth through acquisition

Even though all the case companies had been entering greenfields, at least in the last 5-10 years, all the companies had expanded mostly through acquisitions. The situation was even higher in ABS in which about 95% of its expansion had been mainly through acquisitions. For all the MNCS, most of these acquisitions had proved successful. In ABS, however, my respondents acknowledged some difficulties they had encountered in managing the personnel they acquired. The strategy in ABS so far had been internationalising at the business group level rather than the company level. Hence, all their subsidiaries specialised in one business area or the other. There was not a single subsidiary which operated in all the 3 business areas. The business groups held a very strong culture and identity of themselves such that somehow it had appeared difficult managing all of them together under one structure. They had therefore faced some challenges in coping with the HR needs in the acquisitions they had made and hence, had at the time of the interviews created a global HR department to address those needs. In contrast to ABS, the success of acquisitions in Techno had been enabled by their global systems. Hence, when there was a set up of new operations, the global systems and practices were extended to that country. The system then opened up the platform to new ideas and practices which originated from those countries.

4.1.5. Maturity

All the case companies were well established companies which had operated for decades in Finland. However, there were variations to the degree and length of internationalisation. Techno was highly internationalised and had operated outside Finland for several years. This had enabled the company to learn, unlearn and relearn certain practices along the way. They had had the opportunity to observe new practices that were existent in other countries. They had also gone through various processes of
organisational restructuring and had at the time developed what they called ‘global practices’. The global practices were supported by a common global platform/system which was networked across its operations all over the world. The centralised system facilitated cross communication and cross interaction between people and departments irrespective of their location. In other words, people both within and outside the HR department either in the head office or foreign operations had the opportunity to contribute new ideas to enhance work processes or contribute to decision making processes, policy changes, etc. In so doing, the headquarters became privy to new things that were promoting success in its foreign operations and were able to diffuse them appropriately. Even though the system was headquarter-controlled, it appeared that it was not a hindrance to the ideas and contributions made by individuals. Rather, it served as signals of employee involvement and motivation in the company, encouraging more ideas from employees.

Similarly, AE had also operated internationally for a long time enough to be able to observe new practices. However, the structures which facilitated learning and transfer were a bit unclear. They had a centralised HR system, with functions such payroll, international assignments, training and development seemingly standardized. I say seemingly because it was quite unclear the nature and extent of standardization. Further inquiry, however, revealed a higher or greater level of local adaptation to these practices. As such it appeared rather that the standardized system was just a matter of mere formality other than a practice.

Furthermore, there appeared to be much more learning from other local companies rather than within the company itself (i.e. its foreign operations). The impression given was that the MNC sourced new ideas and talents through networking with local companies. Hence, they pulled on core competencies and success stories from a range of companies in the local setting and diffused those knowledge or practices into the company’s operations. In other words, there was high tendency towards local isomorphism than global integration. Even though within the company, there was some level of cross relational, cross geographical and cross country cooperation, it appeared there was not much learning within this network.

ABS showed a different picture despite its existence for decades. It was very young in its internationalisation, and at the time of the interviews, efforts were being made to develop global systems and processes that created and supported their internationalisation, learning and transfer. At the time, the HR structure was more
decentralised with a 50/50 ratio of employees at corporate HR (which supervised HR globally) and business HR (which supervised operations within the business groups). Each of the business groups therefore had a different HR network with different policies and practices. According to my respondents, there were few practices which were running on a global scale but these practices were not necessarily adhered to by all business groups or countries. They were seen more as support functions that were applied as and when it became necessary. Notwithstanding, there were also standard practices which all business groups and countries were required to adhere to, and these were documented in the company’s handbook. It appeared however, also, that this MNC seeks to learn from other local companies rather than from their subsidiaries. As one respondent put it: ‘We are fairly new comers or rookies, I would say....if I’m very critical, self critical I’ll say that we have become truly international roughly two years ago’... so that we have clearly identified the fact that we are rookies and we at least try to be very humble in front of that challenge and of course try to learn as much as possible from those Finnish companies that have become international earlier’.

4.1.6. **International personnel management structures**

All the case companies had international personnel management structures. Programs like management traineeship, executive development, expatriation and repatriation were common in all the companies. The roles they played, however, were different between the companies. For example, in Techno, management trainees were seen more of facilitators who were assigned and rotated across the company’s operations to help disseminate relevant knowledge and practices. In ABS, however, these management trainees appeared to have both a facilitating and controlling role where like expatriates, they were responsible for carrying out headquarter instructions in the various subsidiaries. The role of the management trainees in AE was similar to that of Techno.

The international personnel management structures in all the MNCs enabled the dissemination of information and practices within the company. The matrix reporting structures earlier mentioned in Techno for instance ensured regular and consistent interactions or communication between global and country units. Also, there was a monthly meeting of business unit managers (in HR) and quarterly information sessions for the whole of global HR where there was a lot of sharing in addition to informal sharing via the internet. Hence it appeared somewhat more likely for the headquarters
to become aware of a new practice occurring somewhere which could be effectively diffused across the company's operations.

In AE, meetings occurred more between subsidiary managers than between various personnel in HR. One respondent stated categorically that ‘there is no form of structure for knowledge transfer from a market to the central HR or the central R&D or whatever. This happens on a case by case basis more or less and it depends on the individuals who are involved’. There were monthly meetings among subsidiary managers where they had opportunity to share ideas regarding new things happening in the various subsidiaries. These meetings, though, appeared to be more operationally focused i.e. more specific to the business of the company than HRM practices. Where possible, managers tapped into the success stories of their counterparts and tried to implement certain ideas directly or as will suit the local environment. This perhaps suggests the likelihood for RD of a practice (particularly HR) to occur without the necessary intervention or coordination by the headquarters.

Also, in ABS, there were group management meetings where executive management from the headquarters met with management of the subsidiaries to discuss the targets and expectations of the headquarters with them. This was more of a top-down information session, since according to one of my respondents, there was usually little time for discussing new happenings in the various subsidiaries which were not directly related to the operations of the company. Apart from this, there were also international meetings of HR persons, but this did not happen across all the business groups. Within 2 of the business groups, HR persons met at least twice in a year. There was, however, not much going on in the third business group. In one of the business groups they were using shared production capacities and had established competent centres in two countries outside Finland. The competent centres centralised specific skills and expertise in a particular service area. Thus, across the entire company, those specific services within the business group were centralised in these competent centres to allow for efficiency. This centre, however, was not used as a learning site where people were sent from different places to learn what goes on and transfer back to their subsidiaries or headquarters.

4.1.7. Autonomy for subsidiaries

Even though in Techno the respondents acknowledged that despite the global platform created to support the company’s business, the company still seemed to recognise the
differences between countries and thus allowed some flexibilities for local adaptation, it
was not very clear the extent of these flexibilities. Rather, it seemed that the systems
created certain functionalities to meet the local needs. This to some extent reflected on
the level of autonomy available to the subsidiaries.

Autonomy for subsidiaries in AE seemed quite high. Subsidiary managers had the
opportunity to determine what was good for the subsidiary and somehow seemed to
have the sole responsibility for developing practices and processes that they deemed fit
for the success of their local operations. To some extent, the mother company or
headquarters in Finland was regarded as a support function to the subsidiary
companies. The standardisation within the global HR department was more in terms of
the HR structure where every country had an HR department with an HR Manager and
a team of workers depending on the size of the country. There was also a standardized
system called the SAP with processes and practices which were global. Subsidiaries,
however, differed from one another with respect to their operations and the
implementation of these standardized processes or practices. As indicated earlier, in
this MNC, there seemed to be a higher level of local isomorphism probably as a result of
the higher autonomy given to subsidiaries. This could also be attributed to the high
level of autonomy.

In ABS, it was quite evident that subsidiaries had some level of autonomy regarding the
way practices and processes were developed since this was mentioned by all my
respondents from this company. Even though at the time of the interviews, this MNC
had standardized reporting systems for reporting the financial performance in the
subsidiaries, it did not have the same systems for reporting HRM practices. As much as
possible the company had been cautious in forcing its practices on their foreign
operations. In one instance due to some resistance they faced when they tried to export
the company’s values directly to a subsidiary, what they did was to allow the subsidiary
to define how they viewed and understood the MNCS corporate values within their
local context. It emerged that the subsidiary came up with similar values, with a
common understanding, though under different themes headings. Respondents
established, however, that there was much autonomy at the business group level rather
than individual countries or single subsidiary level.
4.1.8. Evidence of RD

*Techno* revealed some evidence of RD albeit in varying degrees and from quite different perspective to what is known in RD literature. One clear example, however, of RD was their well-being program. This began in a foreign site as a local initiative and it was duplicated in another site in another country. Later on, it was found useful and it was adopted throughout the entire organisation as a global practice. Even though some practice of a sort already existed in the company to see to the well being of employees, the way it was packaged under the name ‘well-being’ and its comprehensiveness and attractiveness was seemingly different.

Another incidence of RD was found to have originated from one business unit. This was a recognition program, which began from a very small business unit in an experimental mode but proved successful and effective, so it was adopted and diffused globally across the organisation. The company did not have a recognition practice per se, it was part of different practices such as the reward programme. So what made the recognition program different was that it placed more emphasis on recognition of employees’ abilities, skills, ideas, etc. It appeared simple and cost-effective. This therefore made it easy for managers to recognise their subordinates. On the whole, the recognition program came across as appealing and motivating for employees, hence it was implemented globally in all the company’s operations. It seemed to have had great significance considering the scale of implementation, the mode of promotion and the support it received from the head office. Listening to my respondents, it also appeared to have had significant impact on employee motivation in the company. It is important to note, however, that the business unit was not a country specific organisation but rather global in nature. In other words, it comprised of people from 3, 4 or 5 different countries working together as a team. Hence, it made it quite difficult to assess whether the practice emanated from a country or subsidiary and whether as per the literature this could also be classified as RD. This therefore has implications for the way or parameters within which RD is defined and I discuss this briefly, making recommendations for future study in the discussion and conclusion chapters.

RD in *AE* was difficult in detecting outright. My respondents could even not identify clearly any such practice. Notwithstanding, asking a lot more questions in a broader sense during the interviews revealed some form of RD within an operational unit – marketing. This was a market development program which was focused on engaging more stakeholders rather than just direct customers. The new program therefore had
implications on the skills and knowledge possessed by employees, and hence led to some training and development practice. The practice originated from the US and then it was duplicated in India. Later, it was diffused to the parent company and subsequently made a global practice. Even though the concept was the same, it assumed a different form in US and also a different form in India.

The evidence of RD in ABS was more subtle. Learning appeared to occur within business groups rather than across subsidiaries, and the business groups were structured across geographical lines rather than country specific organisations. One instance of transfer which was detected in one of the business groups was with regards to a sales incentive system. This practice originated from the German subsidiary of this particular business group. Previously, it was the case that within one business group, there could be 2 or 3 different incentive schemes for sales persons. The idea therefore, was to harmonise these incentive schemes so that there were common factors for determining incentives across business groups. The practice, however did not seem to have gained high importance within all the business groups. Hence, though existent, not all business groups adhered to it. This probably could be as a result of less intervention from the headquarters.
5 ADDITIONAL LITERATURE REVIEW

During my analysis of data, I came across some issues which were quite significant to the topic under study. Yet, I had not reviewed any literature since they were not my main focus of study. Since they provide some indication for further studies, it is worthwhile to introduce a bit of literature that helps to discuss these issues. In this section therefore, I review briefly relevant literature on inter-unit communication, social capital, social identity and culture.

5.1. Inter-unit communication

Communication is vital when it comes to transfer of practices within MNCs. The idea of an MNC headquarters not being the locus of information or knowledge (Birkinshaw & Hood, 1998) suggests the need for cross-border interactions between an MNC parent and its subsidiaries. Indeed, Bartlett & Ghoshal (1998) present the notion of lateral communication flows where information flows from anywhere across the MNC. However, effective communication between units could be hampered by issues such as cultural and language diversity or even geographic distance (Marschan-Piekkari, Welch & Welch, 1999a, 1999b; Welch, Welch & Marschan-Piekkari, 2001). According to Ghoshal, Korine and Szulanski (1994), communication patterns within the MNC are influenced by such factors as networking and subsidiary autonomy. Furthermore, employees’ involvement in teams, conferences, meetings, taskforces, workshops, etc. where a lot of interactions occur also promote inter-unit communication. Barner-Rasmussen and Bjorkman (2005) also found that the intensity of inter-unit communication (i.e. the frequency and perceived importance of communication) is dependent on the extent to which subsidiary managers participate in MNC training programs as well as the subsidiary representative’s fluency in the language in which the inter-unit communication occurs.

Since employees’ involvement in training programs or meetings, conferences, taskforces, etc. has language requirements, it is important to establish the role of language in the transfer of practices within the MNC. As companies internationalise, language issue becomes critical and studies show that the need for control and coordination pushes MNCs to adopt a common language (Marshcan-Piekkari et al., 1999a/b). The use of a common language in informal, interpersonal relationships is as important as in formal report. This is because, while codifiable knowledge may be
transferred through formal means such as reports, manuals, minutes, etc., tacit knowledge is often times transferred through personal interactions (Barner-Rasmussen & Björkman, 2005) and although translations can be resorted to, this is limited to an extent during meetings, workshops or training sessions (Marshcan-Piekkari et al, 1999a). Even where technology affords some translations to be made during meetings or training sessions, the original intent of the message being communicated may be distorted (Marshcan-Piekkari et al, 1999b). There may also be constraints on informal inter-personal communication (Nonaka & Takeuchi, 1995 cited in Marschan-Piekkari et al, 1999b). In other words, where people involved in communication are not fluent in the language being used for the communication, the depth of communication may be limited as suggested by Barner-Rasmussen and Bjorkman (2004).

5.2. Social capital

I shall use Nahapiet and Ghoshal’s (1998) conceptualisation of social capital as a basis for discussing my findings which is related to social capital. According to them social capital is ‘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’ (p. 243). They classify social capital into three interrelated dimensions namely the structural, relational and cognitive dimensions.

The structural dimension has to do with the pattern of connections between actors, particularly the presence or absence of network ties, the pattern of connections in terms of for example density, connectivity and hierarchy, and the existence of networks created for one purpose that may be used for another. The relational dimension is concerned with how personal relationships developed overtime through a history of interactions (i.e. the relations between people such as respect and friendship) influence their behaviour. This includes trust and trustworthiness. Finally, the cognitive dimension focuses on issues such as shared language and codes that help to provide shared representation, shared narratives, interpretations and systems of meaning among parties. These dimensions of social capital may facilitate or constrain certain actions within a social group as well as influence knowledge sharing and development of intellectual capital.
5.3. Social identity

Social identity theory has been defined as ‘a social psychological analysis of the role of self-conception in group membership, group processes and inter-group relations’ (Hogg, 2006:111). In other words, the construction of identity becomes an ‘us’ and ‘them’ syndrome with in-group members being favoured over out-group members. A group is said to exist where two or three people identify and evaluate themselves collectively on the basis of shared values or attributes that distinguishes them from others. According to Hogg, this theory addresses phenomena such as ethnocentrism, prejudice, stereotyping, organisational behaviour and leadership. Apart from constructing identity as self-conception, Björkman and friends (2003) raise another dimension of identity they call ascription (i.e. that the construction of social identity is relational dependent on comparisons being made). Social identity have often been conceptualised at micro levels, i.e. small groups within organisational, societal, cultural, professional, etc. levels (Korte, 2007). However, it provides good grounds for discussing national identity and how people tend to include or exclude others in the identity-building process (Björkman et al, 2003). According to Björkman et al (2003) nationalism can be seen in the form of banal nationalism. In this study which included Finland, they define banal nationalism as ‘taken-for-granted views about specific nations and their representatives constructed and reproduced in everyday life; in the media, in social interactions, in jokes, in public settings such as sports and other competition where a national belonging is expressed with various national symbols’ (p.65). This may include national stereotyping of the identity of Finns. In this stereotyping, they discovered perceived image of Finns as ‘action oriented’ which is linked to the Finnish war experiences. They argued that such stereotypes could lead to prejudices which can have long-lasting consequences.

5.4. Culture

Culture is one of the dimensions which have been used to conceptualise and explain differences in organisational values existing in different countries (Jackson 2002). Generally, culture can be defined as a set of values held by a group of people and more importantly, the behaviours that stem from those values. As Ting Toomy puts it:
‘Culture is patterned ways of thinking, acting, feeling, and interpreting. Culture guides our understanding of behavior; it shapes how we approach the world. Culture is comprised of the norms, values, beliefs, and expressive symbols that members of a group use to create meaning (and interpret behavior). Culture is both enduring and changing’ (1985:72).

Culture includes several aspects such as national, regional (regional culture), class, profession or occupation (occupational culture) rural or urban, group or organisations (organisational culture), etc. For the purpose of this paper, I am interested in national and organisational cultures. National cultures could be said to be the predominant values and behaviours that characterise a particular country. These values and behaviours are therefore evident in various facets within the country such as family, school, political, organisation, etc and determine to a large extent how people understand the ‘acceptable’ way of doing things. Hoftstede (1980) identified 4 dimensions of national cultures. These include power distance (the extent to which power is unequally distributed among a group of people and how power inequalities are seen as normal); individualism/collectivism (the extent to which people see themselves either as individuals or part of a whole group); masculinity/femininity (encompasses roles or values that are perceived and attributed to either masculinity or femininity) and uncertainty avoidance (the extent to which a society tolerates uncertainties and ambiguities). National cultures impacts the ‘way and manner’ people behave and perceive things within an organisation. It helps in moulding the organisation’s own unique culture. Thus even though various organisations within a particular country may have different corporate cultures, there are basic underlying values around which the organisation’s culture is weaved. Hoftstede (1994) actually emphasises that ‘management practices in a country are culturally dependent’. According to the dimensions mentioned above, Finland is classified to have an egalitarian society characterised by low power distance and masculinity and high on individualism and uncertainty avoidance.

Hence, in effect whether or not MNCs decide to transfer practices across borders is to an extent dependent on cultural distance. Some researchers have suggested that greater cultural distance between firms may result in lower absorptive capacity (Björkman, Stahl & Vaara, 2007a).
6 DISCUSSION OF FINDINGS

In chapter 4, I presented the findings from all three case companies in respect to the structural factors within the companies affecting the transfer of practices and also presented evidence of RD in its various degrees and dimensions in the companies. In this section, I discuss these findings in the light of the study questions posed earlier and try to analyse the differences between the companies and how these differences have either facilitated or impeded the occurrence of RD in the MNCs. Explanations to some of the differences are also discussed in this chapter.

The two study questions in this thesis are:

- **To what extent do Finnish MNCs learn and transfer subsidiary HRM practices back to the parent?**
- **What factors affect the transfer of subsidiary practices within Finnish MNCs?**

I shall discuss the first question followed by the second at this stage.

6.1. To what extent do Finnish MNCs learn and transfer subsidiary HRM practices back to the parent?

Overall, it appeared that all the MNCs engaged in learning in one way or the other. This was evident in the way they all attempted to embrace new ideas and knowledge. However, the extent to which they absorbed or transferred practices from their subsidiaries back to the parent was what differed from one MNC to the other. Even though all the MNCs agreed to the need to learn best practices from other countries or subsidiaries, it appeared that only one of the companies (*Techno*) actually engaged in this much more. The two other companies (*AE* and *ABS*) rather seemed to be much more interested in learning from sister companies within Finland. Reasons to this could be varied. Firstly, as mentioned earlier culture may play a role. In other words, the Finnish culture of ‘reservedness’ or ‘not seeking for help’ could play a tremendous role here.

Secondly, there could be other issues that boil down to institutional systems. For example, local labour management regulations, high unionisation of the workforce, tightly coordinated economy among other things could account for low extent of learning and transfer from subsidiaries. The local institutional systems may not
necessarily be a barrier, but perhaps the processes and formalities that a company ought to go through before importing a practice could be so cumbersome that it does not serve as a motivation for the diffusion of practices. Furthermore, it could also be that these companies were more ingrained in their local or home country environment such that adapting to change from elsewhere appeared difficult. Therefore, the issue of identity i.e. ‘we’ and ‘them’ syndrome (for example, ‘we are Finns, they are Germans or they are Americans and our style of doing things are pretty different but they are all good’ kind of thing) could play a role. One of my respondents actually seemed to imply the above in his view that practices from another country they detected were not ‘better’ than what was existent in the parent company but they were just ‘different’.

But how could the differences in the extent of RD in the 3 companies be explained in the light of the structural factors reviewed in Chapter 3? All the structural factors have a role to play in explaining these differences between the companies. However, 3 of these factors were more prominent. These are: (a) the degree of integration (in other words an international business strategy for realising synergies between sites), (b) the global structure and (c) the existence of international management structures in the personnel field.

The literature suggests that the higher the degree of production integration, the more likely it is for an MNC to diffuse or in this case reverse diffuse employment practices across borders. In Techno, it appeared that the reverse diffusion of practices was as a result of higher production integration. Most of its production were standardised across borders, therefore, it created an incentive for people in various countries to share practices that would help promote the business. One of the intentions behind creating the global systems was actually to ‘establish a foundation where every country and any country could use the same system and follow the same global processes everywhere’ (as noted by one respondent). In his view, this single system provided a rather easy way to restructure, reorganise and change things all over the world once. Though not stated explicitly, this suggests a central active role played by the headquarter in ensuring the diffusion of practices. In AE even though they seemed to have homogeneous customers, production integration was far-fetched. According to my respondents, the country organisations differed quite much from one another. Indeed, my subsidiary respondent in this MNC actually confirmed that there was a difference in the way they provided solutions and services to their customers. Like-wise in my third case company, ABS, there was little evidence of production integration. The overall international strategy of
ABS was less focused on realising synergies in production and more on differentiation and market leadership. They pursued high differentiation in markets they considered mature and has rather small growth potential whereas they strived for market leadership in developing markets. The lack of production integration across the company could probably be as a result of the nature of business carried out in each of their foreign subsidiaries. Since they had internationalised more on the business group level rather than company level, subsidiaries differed from one another quite significantly. For example, one of their business areas was very much specific to the local market in Finland, hence it appeared difficult to standardise production across its subsidiaries. One of the respondents made claims to the fact that the difficulty for non-standardisation was as a result of the provision of pure services and therefore the differences across borders in the provision of services were much stronger than could be assumed. Even in the business group which seemed very much internationalised and had some level of integration, RD was not detected. The business groups were, however, not studied individually to understand the ‘knitty-gritties’. At the time of the interviews, however, there were plans to move towards greater integration but it was not yet ripe.

Edwards et al (1999) suggest that significant tastes between different countries account for the degree of integration. In other words, the similar the tastes and preferences of consumers, the higher the extent to which an MNC can integrate production. This was the case in Techno but it was not confirmed by my findings in AE since they had quite homogenous customers, thereby implying customers with similar tastes and preferences. Notwithstanding, the homogeneous customers did not create any impetus for higher production integration. The reason that the homogeneity of customers did not impact the level of production integration at a higher degree is not understood but it could possibly be due to the perception of the headquarters regarding differences in skills and expertise at the subsidiary level. The company was however, making efforts towards integrating its supply chain.

This lack of or low level of integration (especially in AE) could therefore be explained better within another structural parameter, which is the global structure within the MNC. Despite the homogeneous customers, the MNC appeared to be organised around national subsidiaries, and hence the national subsidiaries were the primary axis of the internal organisation (Porter, 1985) and competition seemed greater at the local level. Since not much interviews were conducted at the subsidiary level, it cannot be
established the extent of power the subsidiaries possessed, but to a large extent from a deeper analysis of the interview, subsidiaries retained a very key role. With the MNC organised around national subsidiaries therefore, and having greater focus on local adaptation, the incentive to reverse diffuse practices was much lower. Furthermore, some of these national subsidiaries were even considered ‘too small’ to exert any influence on the headquarter. Whilst the global structure in AE did not create an incentive for RD, the importance of the global structure in Techno was quite prominent. As indicated earlier, the MNC produces similar products for different markets. The similarity of products in international markets therefore afforded the MNC a higher scope for integration as well as the internationalisation of its management structures.

Closely linked to the global structure is another structural factor – international management structures in the personnel field. The literature reviewed points to the fact that the existence of international management structures in the personnel field facilitates the creation of ‘networks’ which allows information about practices to be diffused across borders. Furthermore it provides an unobtrusive way by which the headquarter ensures diffusion of practices across borders. This was confirmed by the case study data. In all three cases, there were mechanisms which brought managers together to discuss issues of importance. However, the focus of these discussions differed from one case to the other. For example, in Techno, the meeting actually brought together HR specialists who discussed HR issues and the way forward. Hence, these meetings helped to discuss in detail new ideas specific to HR practices happening across the MNC’s operations and facilitate diffusion where possible. In AE, however, though the mechanism existed, the meetings were not specifically held between HR specialists, hence matters regarding HR featured least on the agenda. Besides, though encouraged, information sharing about new practices did not appear to be a major factor in evaluating the performance of managers nor a determinant of their promotion as it was the case in Techno. Similarly in ABS, the meetings between HR personnel did not cut across all the business areas, hence the autonomy of the business groups also played a critical role in networking.

6.2. **What factors affect the transfer of subsidiary practices within Finnish MNCs?**

The next study question sought to identify factors which made it possible or created barriers for reverse diffusion to take place in the MNCs. Literature suggests among other things that the structural and political factors inherent in the MNC as well as
other cultural and institutional factors in an MNCs parent country can either facilitate or hinder RD. In this study, I identified some of the factors which are discussed below.

6.2.1. Factors that promote RD

The factors found to promote RD in the MNCs were the HR management system, globalisation and the role played by the headquarters. In Techno, one of the factors which were found to promote RD was the HR management system itself. For example, the way in which performance management was carried out was found to be a facilitator. The performance review or evaluation did not just take into consideration what had been accomplished but also how it was accomplished. In this respect, elements such as the way managers or employees had engaged or led people to achieve goals were evaluated. This is seen as possibly one of the ways through which people would bring out new innovations or ideas which could be found relevant to the business and diffused. Citing Coller (1996), Edwards (1998) suggest that this form of indirect way (unobtrusive control) of controlling people especially at the plant level indeed promotes the sharing of ideas and thereby promote the occurrence of RD.

Another factor was globalisation. One respondent hinted that Finland is a relatively small country with comparatively limited workforce. Hence, it is very likely that companies would tap into centers of excellence and expertise outside the country. Thus, the need for globalisation also seemed to drive the incidence or occurrence of RD in Finnish MNCs.

Finally, the role of the headquarters was also found to be a facilitator in the process of RD. Unlike AE and ABS, in Techno, the headquarters played an active role in identifying new practices. This was facilitated through its global system. If practices from subsidiaries are to be identified and diffused, then the role of the headquarters is very important. Ferner and Varul (2000) suggest that the headquarter’s “proactive, coordinating role of aggressively ‘scanning the horizon’ for useful practices in subsidiaries” (p.134) is critical. This was reiterated by my only subsidiary respondent who was of the opinion that identification and diffusion of practices from subsidiaries should be a deliberate attempt by the HQ rather than an adhoc occurrence.
6.2.2. **Barriers to RD**

*Implementation* was mentioned as one of the factors which could hinder MNCs from reverse diffusing practices. Almost all respondents mentioned that RD in their companies was not just dependent on the quality of the idea and its effectiveness, but also the feasibility of its implementation, if the practice were to be reverse diffused. Hence issues such as system requirements, reporting requirements and even national culture were mentioned as some factors that determined the ease or otherwise of implementation. In other words, the degree of ease and applicability were seemingly one of the major deciding factors for reverse diffusing practices. For the companies which already had global practices, even more important was how the practice being reverse diffused could be made a global practice.

Also in some cases, institutional elements such as *regulatory systems* were mentioned as hindrance to the occurrence of RD. For example, some of my respondents mentioned the strong labour regulations in Finland as one of the factors which hindered RD. The tight labour unions and regulations made it quite cumbersome for them to import any practice from outside. It was therefore preferable to not to ‘import’ the practices but rather to see how the elements within that efficient and effective practice could be replicated within the local context.

Another factor which was raised by some respondents to impede RD was the knowledge or understanding of key actors (most especially in HR) about the phenomenon. I found this very critical and worth considering since this phenomenon of RD is a fairly evolving practice and hence seems a new thing to most HR Managers. In one of my case companies for example, a key respondent from the HR department requested a brief from me regarding how RD could be enabled within a company (i.e. some of the factors that could facilitate RD and success tools). Until recently, HRM had been seen as a mere administrative role rather than a strategic one that could be occupied not necessarily by an HR professional. As was evident in my case companies, even though my respondents were either HR managers or worked with HR, they had various backgrounds such IT, Engineering, Law and Psychology. This to some extent may impact on the interests and focus of key actors regarding embracing certain relevant organisational phenomena such as RD.

Furthermore, lack of networking among the headquarters and subsidiaries/units came up as a barrier to RD. As noted earlier ‘networking’ within the MNC was
necessary to ensure diffusion across borders. The networks or patterns within the networks which are all aspects of social capital allows parties to access information or knowledge and facilitates the transmission of information (Nahapiet & Ghoshal, 1998). In one of my case companies, however, it appeared there was no existence of networks. Therefore, diffusion was quite an informal process rather than a formally structured practice.

Another interesting factor that came up as a barrier to RD was language. The lack of common language limited adequate meetings or discussions with subsidiaries in order to share useful practices which could be transferred back to the parent. It is obvious that Finnish language is not widely spoken compared to other languages such as English. Therefore, even though all 3 case companies had established the use of common language(s) across their MNCs either explicitly or implicitly, the intensity of communication was limited. This may be probably due to the fact that the common languages were not the native or first languages of those involved in the communication. Thus intense communication which could lead to the sharing of ideas often tacit was difficult. This supports literature that the intensity of interunit communication is dependent on the language skills of those involved and their language fluency may affect knowledge sharing within an MNC (Barner-Rasmussen and Björkman, 2005; Marschan-Piekarrri et al, 1999a); and in this case, it was found to be a barrier to RD.

From the findings of the study, there is an indication of RD being affected by structural, market-based, cross-national comparative and political factors. Other factors relating to the structural and cognitive components of social capital were identified to affect RD in the MNCs.

6.3. Emergent Themes

While the factors that affect the transfer of subsidiary practices identified in this study are not peculiar to Finnish MNCs, two themes emerged which provide some contextual elements to the study. These were culture and national identity. They are discussed briefly below and in the light of theory reviewed in chapter 5.
6.3.1. Culture

Culture came up as one of the major themes which run throughout the interview. Almost all respondents mentioned culture whether asked about it or not as either facilitating or hindering RD.

From the findings, company culture was found to promote information sharing and limit direct internal competition, thereby facilitating RD. As one respondent put it:

‘...information flow is not dictated by the layers within the organisation. The information flow can go from any levels to any level and people are from organisational culture perspective, people are very open to communicating and listening to what’s happening so if there’s a good practice happening anywhere, I think there’s an openness to understanding and looking at the good thing and adopting it...’

Therefore systems like the performance management system in Techno mentioned earlier were designed to support the company’s culture/value. The organisational structure also in terms of how it eliminates hierarchy in communication supports the culture and helps to promote RD.

On the other hand, while some respondents mentioned company culture as a facilitator of RD, others mentioned the national culture of Finland as a barrier to RD. Elaborating further, one respondent described the Finnish culture as quite contained and reserved, not encouraging people to ‘go and look for help’. Hence, the occurrence of RD in Finnish MNCs could be limited if that openness and flexibility to learn does not exist. He made the statement below in support of his opinion:

‘As Finns, we try to stereotype people. It’s not maybe the strongest element that we collaborate and maybe try to find the best way of doing things’.

Another respondent said:

‘I think that the Finnish culture when it’s quite strict so even though if we go to Sweden, it’s very difficult because Finns are not so talkative and not having so many discussions as Swedes are so it’s something I think that’s a weak point from Finns that we have to learn to work with other cultures’
The low power distance and femininity could be used to explain why corporate culture is a facilitator whereas the high individualism and uncertainty avoidance may explain why national culture is seen as a barrier. Particularly, uncertainty avoiding cultures may resist change or anything that appears to bring uncertainties and create discomfort. They may therefore institute for themselves rules/laws, safety measures, etc. in order to minimise some of these situations. Therefore the high unionisation of workers coupled with strong labour regulations may contribute to the national culture being a hindrance to RD.

Since national culture impacts organisational culture, the answers from the respondents leave a thought in my mind. My assumption then is that national culture may impact some aspects of a company’s culture rather than the whole; and the extent to which national culture impacts company culture may be dependent on the key actors involved and how national culture has impacted their own beliefs and behaviour. These key actors may therefore determine the extent to which the national culture may affect the company’s culture negatively or positively. Hence, I propose that the national culture, rather than the company or organisational culture may have rendered RD quite insignificant.

6.3.2. National Identity

Another theme which surfaced in the interviews was the issue about identity which is closely linked to the cultural element. A deeper analysis of the interview responses, especially those from my Finnish respondents, revealed this second theme. The respondents used words such as stereotype, ethnocentric, strict, reserved, contained, not engaging in much discussions, etc. to describe themselves as Finns. Some of these attributes were even ascribed to Finns by the non-Finnish respondents when they spoke about Finnish culture. This identity to an extent has influenced how MNCs engage in RD. Study evidence shows how national identity influences the incidence of RD (Thory, 2008). Although in this study, the stereotypical image of Finns as action-orientated suggested by Björkman et al (2003) was not prominent, I presume that the characteristics of social identity where in-groups set boundaries to out-groups which they consider inferior to them play a critical role here. In this regard, the homogenous quality of education that is perceived by Finns in relation to other countries where perceived quality of education is low, pointed to some kind of stereotype that impact on learning across borders and therefore RD. Since the social identity theory addresses
issues such as ethnocentricity, stereotypes, etc., this theme therefore has implications for the relationship between or impact of the social identity theory at a macro level on RD.

6.4. Effects of RD in the 3 MNCs

In Techno where RD was clearly detected, its effect on the various dimensions mentioned in the literature reviewed was not clearly ascertained. However, I suggest an effect on the work-force in domestic plants on the assumption that the RD of the well-being practice could have posed a threat to staff at the headquarters. Depending on the extent of threat therefore, future RD could be hindered by some staff, who anticipate they could be affected. On the other hand in AE, due to the medium through which diffusion occurred (through informal interactions), practices diffused may not have had any significant effect on the subsidiaries nor staff at the headquarters nor in domestic plants, since the diffusion of any practice could easily be regarded as learning ‘best practices’ from a dominant model. RD in Techno could also be said to support the convergence thesis, since the practice was not only diffused to the headquarters but across the entire MNC. Assumedly, if subsequent practices which are ‘reversed diffused’ are also diffused across the entire MNC, then ceteris paribus, the MNCs’ HRM practices would be moving towards ‘internal’ convergence at some point in the future (i.e. convergence within the specific MNC).

6.5. Impact of RD

In all three cases, RD was found to be more evolutionary rather than transformative. In other words, the practices diffused did not affect the status quo drastically. Even in Techno where the well-being practice diffused was said to have had a great significance, the impact was only evolutionary since this practice was not entirely new within the company but rather only a modification in the ‘packaging’ of the practice.

6.6. Strict RD

The evidence of the study findings showed the tendency for RD to occur in a strict sense, though not very effective without the headquarters’ intervention. For example, in AE, even though meetings held were not specifically to discuss HR matters, informal discussions with peer groups allowed subsidiary managers to become aware of good practices happening in sister subsidiaries. Whether or not these good practices
happening in other sister firms were to be adopted seemed to be an optional choice. Furthermore, the practice which originated in US and duplicated in India and later diffused to the home country suggests some form of indirect headquarters’ control or coordination in the diffusion process. Therefore, there is an indication that, even though strict diffusion may occur, indeed, without a direct or unobtrusive involvement by the headquarters, effective diffusion of these practices may not be realised.

6.7. Explaining variations in RD detection

The reasons for the difficulty in detecting RD or the variations could be explained in various ways. I discuss the relevant reasons next.

6.7.1. Knowledge transfer mechanisms

The reason that RD may have gone undetected or difficult to detect in the 3 MNCs could be attributed to the knowledge transfer mechanisms within the MNCs. As indicated earlier, in *Techno*, the matrix reporting structures as depicted by the organisational structure facilitates regular and constant communication between country business units and the global organisation through formal meetings and informal sharing via internet. The MNC had deliberately created a centralised point to capture, codify and subsequently diffuse knowledge where necessary or possible. This was known as ‘share point’ – an intranet facility of knowledge sharing photos – where people could use pictures or creative images to share new ideas and knowledge. The mechanism allowed for numerous innovative ideas from individuals as well as business units. In *AE*, the SAP (software on Systems, Applications and Products), was one way through which knowledge was diffused across the company in addition to formal meetings by management teams. However, these codifiable knowledge, very standardized, were not forced unto managers for diffusion. The formal meetings which also were a channel for transferring tacit knowledge were less focused on discussing HR issues. Similarly, there was evidence of this ‘codifiable’ knowledge in a form of a manual in *ABS*. The manual outlined what the company viewed as ‘best practices’ which all subsidiaries were to conform to. It could not be established though, how these ‘best practices’ were put together and whether they contained only practices originating from the headquarters or also included some practices from subsidiaries. The formal meetings in this case also did not seem to have such prominence of ensuring the diffusion of practices across borders nor even the business groups. The evidence from
the 3 cases therefore suggests that Techno, in which RD was clearly detected, used a combination of codifiable knowledge and tacit knowledge transfer mechanisms to capture, codify and subsequently diffuse knowledge globally. Consequently, it confirms ‘the link between the procedural- and people-based conduits in bringing RD about’ (Edwards & Tempel, 2010: 24).

6.7.2. Role of subsidiaries

I observed from the findings of the study that the influence that subsidiaries or business units had on the entire progress of the company determined the extent of RD in the companies studied. For example, ABS revealed a lesser influence of the activities of the subsidiaries on the parent company and therefore, there did not seem to be any compelling reason for the parent to adopt any practices from these subsidiaries. Edwards and Tempel posit that where the roles of subsidiaries are ‘so specialized that the functions performed and technologies deployed in the sites are markedly different, then the scope for diffusion to quite different sites is limited’ (2010:27).

This was exactly the case in ABS. Since the MNCs internationalisation was at the business group level rather than company-wide level, subsidiaries performed different roles in terms of the markets they served as well as the nature of their service offerings. The case was different in Techno. Internationalisation of this MNC was at the firm level. Hence, though units played distinct roles (for example R&D), there were also some commonalities (for example in production) which made RD possible within the company (Edwards & Tempel, 2010). As discussed earlier, even where the subsidiaries have certain commonalities that can allow for diffusion of practices, other factors like a deliberate attempt to capture codify and diffuse knowledge is necessary. Therefore in AE, where there were some commonalities between subsidiaries, RD was still difficult to detect or not occurring at the higher level (headquarters level). Moreover, the size of the subsidiary and the resources they control also shaped the incidence of RD in the firms. For example, in Techno where there was clear evidence of RD, the foreign site where the practice originated from had adequate strategic importance and was significantly large with about 180 employees compared to ABS where even some subsidiaries had as low as 30 employees. Their influence over the mother company was therefore not significant. Again in AE, it could be deduced from my subsidiary respondent that some subsidiaries had more influence than others as he described it in
this way: ‘I have priority in the eyes of the headquarters...’ However, again the same point holds that there is a need to deliberately engage in the diffusion process.

**6.7.3. Business Model**

The business model being used by an MNC could also account for the ways in which structures are managed within the firm and how easy or difficult it is to detect RD. The traditional MNC is a national company with foreign subsidiaries where the subsidiaries are clones of the parent company (Drucker, 1997:167). The variant to the traditional MNC is the transnational (TNC) where ‘national boundaries have largely become irrelevant’ (Drucker, 1997:168). For example in Techno, the business model was not a ‘subsidiary model’ where each subsidiary could be recognised and identified separately. The company has evolved over time into a transnational firm, thus setting its systems, processes and structures across country borders. The standardisation of the business model seemed to be facilitated by the commonalities of practices within the various companies rather the differences. To some extent, this could be attributed to the degree of standardisation of products which promotes some synergy.

Apart from the fact that the MNC is widely dispersed globally, it appeared that employee involvement was not restricted to countries or for the purpose of this paper, subsidiaries. Due to the global platform, employees could make their contributions not necessarily through their subsidiary but directly to the global system. This therefore made it quite woolly to evaluate the incidence of RD.

**6.8. Findings unaccounted for in literature**

As indicated already in the literature, for RD to occur, the practice diffused must have originated from an overseas site and the mechanisms through which it was diffused should be identified. Findings of this study, however, pointed to a new aspect of RD worth discussing in literature, i.e. how should a practice not engineered by headquarters, but diffused be called? For instance due to the nature of the cross boundary, cross reporting styles within Techno especially, it appeared that a particular team could be made up of people from about 4 or 5 countries. In this regard, when such a team have come up with an idea which is workable and worth diffusing across the rest of the company’s operations, how could this be termed since the idea was not generated from a ‘subsidiary’ as typified in RD literature.
6.9. Summary

This section answered the research questions and discussed critical elements relevant for drawing conclusions for the study. In this regard, it examined the findings in the light of the nature or form of RD and the factors that affect the transfer of employment practices in these MNCs. In doing so, some evidence of RD was found in 2 MNCs with the third MNC producing little evidence for RD. Two themes, which emerged providing some contextual elements to the study were also outlined and discussed. These included the issue of culture and national identity.
7 CONCLUSION AND SUGGESTIONS FOR FURTHER RESEARCH

7.1. Conclusion

This study sought to explore the incidence of reverse diffusion (RD) in order to gain a deeper understanding of the phenomenon in 3 Finnish multinationals. In this chapter, I present the conclusions and implications for the study. Further, I present the limitations of the study as well as suggestions for further research.

To a large extent, all the MNCs studied engaged in learning. However, 2 out of the 3 MNCs studied seemed more interested in learning from sister companies within Finland. This could be due to the Finnish culture of ‘reservedness’ or ‘not seeking for help’. Another reason could be as a result of a strong Finnish identity which is ingrained in the homogenous level of education in Finland. Hence, transferring practices from subsidiaries did not appear a high necessity especially from subsidiaries where perceived skills and knowledge competencies were relatively low compared to that of Finland. The multi-domestic structure being operated by the MNCs could also play a role.

The study also found that the structural characteristics identified in literature to predispose a company to RD are indeed necessary for its occurrence. These structural factors include the need for an international business strategy for realising linkages between sites, a global structure, dispersion of operations across borders, growth through acquisition, maturity and international management structures in the personnel field. The case company in which RD was clearly detected possessed all these characteristics in maximum degrees. RD was however, detected in all 3 companies although in varying degrees. In all, 3 major structural factors were found to explain how RD occurred within the MNCs. These were global integration, global structure and international management structures in the personnel field. These structures were seen to be channels the MNCs used to ensure diffusion.

According to the literature, for RD to occur, the practice in question must have originated from an overseas unit. In this study however, practices that were ‘reverse diffused’ did not all originate from an overseas unit or subsidiary. In one instance, a practice originated from a business unit, and this practice was not driven by the corporate office/headquarters. Although located in the headquarters, the business unit
was global in nature and hence comprised of about 4 or 5 people working from different countries. This has implications for the definition of RD.

Practices that were found to have been ‘reverse diffused’ included a well being practice, a recognition program, a sales incentive scheme and a training and development program which came about as a result of a market development program. In one MNC where RD was clearly detected, its effect could not be clearly ascertained; however, it pointed towards affecting workforce in domestic plants and a likelihood of convergence of HR practices within the MNC, all other things being equal. The impact of RD was found to be more evolutionary rather than transformative since it was not an entirely new practice but rather modified and packaged in a more appealing manner. The diffusion of the practices did not change the modus operandi of the MNC.

Some of the factors found to facilitate RD were the HR management systems, the need for globalisation and corporate culture of openness and flexibility which are also an aspect of the Finnish national culture. In addition, the organisational structure in terms of how it eliminates hierarchy and facilitates communication as well as the role the headquarters play to ensure the diffusion of practices across borders helped to promote RD. Despite the role of the headquarter highlighted here, the findings of the study is indicative of a ‘strict’ RD occurring, i.e. without the intervention of the central unit which is the headquarters. On the other hand, issues such as implementation and institutional elements like the regulatory systems in Finland were found to hinder RD. Furthermore, the lack of adequate knowledge and understanding key persons in HR possessed about the phenomenon and also the lack of common language that facilitates more sharing of especially tacit information were found to impede the occurrence of RD within the MNCs.

The reason for the difficulty in detecting RD in the case companies were found to be as a result of the lack of knowledge transfer mechanisms within the organisation which aims at a deliberate attempt to capture, codify and diffuse knowledge. Also the role of the subsidiaries in terms of the influence they exerted and the resources they controlled as well as the business model being used by the MNCs were some reasons.

On the whole, however, the study found that RD was not a common phenomenon in the 3 Finnish MNCs, probably because it was not seen as a ‘make’ or ‘break’ factor, i.e. a determinant of success or failure of the MNC.
7.2. Limitations

All the case companies had 3 business groups each but these were not studied separately. Probably, a separate and in-depth study of the business groups may have revealed some evidence of RD which was not found in this study.

Secondly, since the interviews were mainly conducted with HQ respondents, it may have been difficult to tell the extent to which the practices diffused had been modified to suit local context. An in-depth study of the MNCs subsidiaries could have revealed more interesting insights. Therefore the implementation bit of RD is not discussed much in this work.

Thirdly, the reasons RD may not have been clearly detected in the case companies may be that diffusion may have occurred in a rather passive and adhoc circumstance than a deliberate attempt to identify and diffuse practices. Hence some of the diffused practices may have gone unnoticed for any account to be given.

Also, as indicated earlier in Chapter 2, all interviews were conducted in English. Since most of my respondents were not native English speakers, it is anticipated that there could have been a communication barrier, i.e. they may not have been able to communicate their intentions clearly and fully. However, I managed to bring this under control by trying to simplify the questions as much as possible with familiar examples which enabled them to answer the questions to the best of their understanding.

7.3. Implications for various actors

Management

The varying degrees of RD or non-detection of it suggests that the existence of these structural factors, though important, does not automatically determine whether or not RD occurs within MNCs. Rather, a deliberate attempt to capture, codify and diffuse knowledge is a critical success factor. This also supports literature on knowledge transfer that the recipient must have an absorptive capacity in order to be able to diffuse practices accordingly.

Consultants

The importance placed on RD reflects on the understanding and knowledge that HR Managers possess about the phenomenon as rightly represented by my findings. This is
therefore suggestive of the need for more education on the subject area, so that MNCs begin to see it as a critical success factor rather than an optional tool.

**Research/Researchers**

RD of HR practices cannot be viewed in isolation but rather forms part of a holistic diffusion of knowledge theory. This is because the evidence of RD found in the case companies shows that employment practices on its own may not usually be diffused but the diffusion is as a result of diffusion of an operational process - knowledge, technology, information, etc.

Also, the sources of reverse diffused practices as noticed from the findings suggests the need for a much broader definition of the phenomenon in terms of its occurrence and specifically its identification, in for example, less structured companies where global systems are used to facilitate cross communication, virtual teams, etc. In other words, the parameters within which RD occurs must be well defined if it is going to be easily identified especially in large transnational companies.

Lastly, even though all my respondents acknowledged the fact that Finland is a small country and therefore had to learn, there was not a strong evidence of necessity of RD in the MNCs studied. Therefore the importance of RD must be clearly highlighted in literature and HR managers should be helped to understand the benefits in totality so that as indicated earlier, it shall not be seen as an optional tool for the company, as one of my respondents seemed to imply when asked about his opinion on RD:

“*Well I think it would help, I mean I don’t think the company would stand and fall with or without it*. ...*if we manage to put something like that in place, our operations would sort of become a lot more agile and flexible and lean. It would help, yes*”

### 7.4. Suggestions for further study

This study serves as a departure point for further studies on RD in Finnish MNCs. Of the 3 MNCs, one MNC possessed the structural factors in maximum degrees. Since this MNC had a transnational model, the findings of the study confirmed that these structural factors were more prevalent in transnational companies than merely internationalised companies. However, since RD was also detected in a way in the other 2 MNCs, further study into the possibilities of the occurrence of the phenomenon in global or international firms may be interesting. A simple extension of the study to
include MNCs’ subsidiaries would be interesting to ascertain the process of diffusion in a much better perspective, since resources and access did not make it possible in this work.

Also, since the study aim was to understand what goes on in Finnish MNCs with regards to RD, a multiple-case study design was more appropriate. Following this however, a single-case study can be conducted in the company where RD was clearly detected to examine in-depth the process of the phenomenon with all its contextualities in the MNC.

Furthermore, since this study also seems to support literature pointing to the success of RD mostly in transnational companies, a comparative study on solely transnational firms could be another avenue to explore. An extension to this comparative study could be a quantitative study that seeks to establish linkages between variable and dependent factors of RD within MNCs in similar industries. Another simple extension could be carrying out a study on Finnish MNCs in other industries to establish whether the study findings would confirm or point to a similar direction as the findings in this study.

Again, the issue of language which came up as a barrier to transfer, should serve as a basis for further study into for example, the mechanisms to curb down the retarding factors of language in the diffusion of practices across borders, apart from just the use of a common language across the MNC.

Finally, the findings of this study have implications for social capital and social identity theory. Most importantly, the interrelationships between various facets of these theories and RD can be further explored by future studies to enhance our understanding on the subject area.
REFERENCES


Pudelko, M. & Harzing, A (2007) HRM practices in subsidiaries of US, Japanese and German MNCs: Country-of-origin, localization or dominance effects?


Techno webpages

AE webpages

ABS webpages
APPENDIX 1

Interview guide

1) Background of interviewee

2) Organisational structure/HR structure and function
   a) Personnel management structures/strategy (job rotation, use of management trainees, secondments, etc)
   b) Is there a centralised HR department for all business areas or separate departments?
   c) Extent of learning and organisational mechanisms to absorb learning
   d) Global spread of employees

3) Corporate strategy
   a) Major internationalisation strategy (greenfields, acquisitions, joint ventures, etc.)
   b) How does the MNC ensure control and consistency across its foreign operations?
      i) Extent of autonomy given to international operations/managers and which subsidiaries have higher autonomies, why? In which areas is this autonomy very significant?
   c) Where are most strategic activities concentrated?
      i) What is the proportion of foreign activities in relation to total employment
      ii) Degree of production integration

4) Process of RD
   a) Any instance of reverse diffusion? What sort of HR practice was it?
   b) Where did the practice originate (which subsidiaries and any strategic influence of these subsidiaries on the MNC?)
   c) How did the MNC get to know about these practices
   d) Design and implementation. Any challenges?
   e) Impact of diffusion on employment policy and practice?
   f) Any incidence of RD between two subsidiaries without influence from headquarters?

5) What factors affect reverse transfer of HR practices within the MNC?