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Host country effects in multinational companies' performance – empirical evidence from Polish subsidiaries

Abstract

MNCs, perceived from the institutional and resource dependency perspective, are subject to various pressures that trigger their strategies and operations on global scale. One of the important forces inclining MNCs to diversify their strategies and structures on global scale is the impact from host countries. The strength of this impact on MNCs behaviour is discussed here both theoretically and empirically. Article also shows how MNCs actually behave on the Polish market and how and to what extent this host environment influences MNCs operations. The analysis is based on the empirical data derived from the author's research, which were carried out in 35 production subsidiaries of MNCs in 2006-2007.

Keywords: multinational corporations (MNCs), subsidiaries, host country effects, Polish subsidiaries operations, adaptation, standardization, institutions

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Multinational companies remain active on a variety of markets with respect to: capital generation and allocation, supply/material sources, production sites, sales, R&D, product support, profit calculation and the localization of headquarters where strategic decisions are taken. In addition to the dispersion of operations and functions, the multinational company maintains and develops lasting economic relations of non-financial nature on the markets where it is present. As a rational economic entity MNC strives to choose optimal utilization of its advantages acquired on the home- and already occupied markets and when it's possible minimises costs of its operations by transplanting already tested and effective organizational practices into new geographical areas. On the other hand, the varying conditions characterising specific markets present a challenge to the MNCs, and frequently require an adapted approach or even render certain solutions unfeasible due to their incompatibility with a given area. This raises a question whether the global nature of some enterprises makes them independent of local variations, and at the same time capable of implementing set of practices considered "best", or whether despite the global nature, the local influence is too strong, which in turn dictates adaptation. Therefore, political metaphors concerning multinational companies illustrate their activity as an effect of the mutual struggle between the strategy toward uniformity and various types of influence exerted by its environment (see also Forsgren 1990, Morgan, Kelly, Sharpe, Whitley 2003, Stepień 2007). The aim of this paper is to investigate, both theoretically and empirically, effects of this struggle from host country

perspective. Firstly, it will be shown how differences and similarities between institutions of home and host country can influence MNCs performance and their ability to transplant their operations and strategies abroad. Next section is devoted to discussion about the role of subsidiaries in dissemination of host – country rules of game into MNCs structure, strategy and operation. The final and the biggest part of the paper is an analysis of empirical findings of 35 MNCs' subsidiaries performance in Poland. It shows how much Polish environment influences subsidiaries strategy, operations and their status in MNCs structures.

1. The impact of host markets' institutions on the activities of multinational companies - introductory remarks

One of the factors affecting the nature of activity of MNCs are the host markets. (see for e.g. Christmann, Day, Yip 1999, Goerzen, Beamish 2003, Makino, Isobe, Chan 2004). This influence results from the nature of an economic entity which is an open system, exchanging resources and information with the environment where it operates. A question arises, however, what is the strength of this impact and what does it depend on?

From the political perspective and the theory of resource dependence, the strength of impact of a given market will depend on its qualities, available resources and recognition of these resources/qualities as attractive. We can speak about attractiveness of a market resulting from:

- its size, measured by the current and the future intensity of demand,
- its geographical location, e.g. proximity of markets where the company intends to export its products,
- resources available on a given market, e.g. cheap or highly specialized workforce, raw materials, infrastructure, etc.,
- formal institutions fostering economic entities. The set of those institutional qualities is frequently referred to as economic freedom which consists of e.g. entrepreneur-friendly

procedures to establish, run, and liquidate companies, legal regulations protecting ownership and executing contract law, friendly taxation and its stability, high degree of execution of law reflected in the low level of corruption and stable monetary policy

Market attractiveness resulting from the above-mentioned qualities is a dependent variable derived from the perception of a given market by a multinational company and depends, among others, on the motives of the MNC's expansion. For instance, for the companies exporting finished goods, the main measure of market attractiveness will be its absorption, size and growth rate of demand, whereas for a concern locating manufacturing subsidiaries on a given area other factors will be important. Market attractiveness is significant as one of the factors increasing the impact of the host country's area on the enterprise's activity. Its influence, however, occurs only when accompanied by another phenomenon: differences between the home market or the already occupied markets and the new host market.

The environment of host markets, different from the home market, is more difficult for a multinational entity than for the local enterprises because the latter, embedded in a given environment, perceive its character as given and obvious, frequently without realizing what kind of specific features it possesses. Entering a host market is linked with a necessity to incur additional costs of recognition and adaptation, including institutional and cultural diversities existing there.

Liability of foreignness, LOF (see e.g. Kostova, Zaheer 1999, Mezias 2002, Miller, Parkhe 2002, Eden, Miller 2004) as these are the costs in question, shows degree of institutional and cultural distance between the home market and the host market. It seems that this liability will decide about the possibilities of standardization of MNCs activities on the host markets. When diversities between the markets as well as the LOF are negligible, transplantation of economic practices worked out elsewhere onto the host market will not encounter any significant institutional barriers and, therefore, economic practices typical of the host market

will not easily be adopted by the MNC. This dependence is confirmed by the results of studies. Institutional, ideological and cultural similarities between the markets increase effectiveness of technology transfer between subsidiaries of transnational concerns. The transfer of know-how and implementation of organizational practices worked out on similar grounds are easier and agency costs connected with supervision and coordination of branches are reduced (see e.g. Gomez – Mejia, L. E Palich 1997). This, however, does not mean that the host market with the low LOF does not exert any impact on the activity of a multinational company, but measuring this impact is difficult due to the fact that those areas are similar; the impact becomes more visible when exerted by a different phenomenon from the previously known.

If a low LOF allows international transfer of economic practices, one should consider whether a reverse dependence can also occur: will a direct transplantation of organizational practices worked out in a given environment and transferred to a place with different economic, institutional and cultural conditions, encounter more difficulties when the LOF is bigger? Such a thesis does not seem to be viable for the institutional environment of all markets. It can be undermined, e.g., by a successful expansion of transnational corporations (with their already worked out, clear and tested routines derived from an institutionally mature home market of arms length or collaborative environment characteristics) onto institutionally weak, unstable markets with certain features of particularism (e.g. Polish, Czech, Hungarian market, etc., see Whitley 1992, 2001, Stępień 2007)¹. Particularistic markets, or those whose features approach this model, seem to be willing to adopt the solutions worked out on a multinational company's home market, particularly when this

¹ “Business systems are particular arrangements of hierarchy – market relations which become institutionalized and relatively successful in particular contexts” in R. Whitley (1992, p. 6 and following). Three model national business systems (NBSs) were described by R. Whitley: collaborative business environment (like in Germany or Japan) showing a substantial level of cooperation between enterprises, mature market institutions and substantial role of the state in regulating business environment; arms' length NBS (like in USA, Great Britain or in Canada) where market rules of the game are the most important ones and state does not interfere in business life; and particularistic NBSs - the weak new democracies trying to implement market rules into their economies.

market is perceived as a kind of economic benchmark. Therefore, when defining model conditions under which standardization and transplantation of practices are most probable, one should point out the situations in which the markets are institutionally, economically and culturally similar, or when the host market is unstable and permissive at the same time, and the concern as well as the market it comes from are perceived positively as a model to be followed (see e.g. Boyer 1998, Meardi, Toth 2006). In other cases the probability of transplantation seems to be lower. This is illustrated by Table 1 which presents types of impact exerted by the host market on the activity of multinational companies coming from the home market of a given institutional character. The specification in the table 1 below shows that despite a popular opinion about the growing convergence in corporate strategies and a widespread phenomenon of openness of economies (making them similar, which means that the mutual effects of the markets are less visible in corporate strategies and structures), the functioning of multinational companies is rather linked with a necessity to adjust its practices to the local environment than with a possibility to standardize its activities on the global scale. The specification was inspired by the works of Boyer, Meardi, Toth and Whitley and is also a result of the analysis and conclusions derived from the published empirical studies. For instance:

- studies by Edwards et. al. (2005) indicate that activities of the US multinational companies carried out in Great Britain exhibit a high degree of transplantation and a slight degree of hybridization, although the level of absorption of the host market's institutions increases in the course of time,
- studies by Dickman (2003) and Ferner, Quntanilla and Varul (2001) describe different reactions of host markets to the implementation of practices from the collaborative (German) environment to the arms-length type of markets (English and Spanish) and emphasize necessary modifications of the practices of German corporations on those

markets due to institutional differentiation. Clearly visible, far-reaching modifications of organizational practices were also observed by numerous authors who studied activities of the Japanese automotive MNCs on the US market (see Liker, Fruin, Adler 1999),

- the emulation of the Ford's method in Japan may serve as an excellent example of creative reinterpretation of the original solutions. Expansion market (Japan) was consistent and distinctive institutional environment while the company, albeit having a system of fixed general principles (stemming from American arms' length NBS), allowed a certain operational flexibility. The result was unique production system, including the concept of "lean management", which later became a world benchmark. Ford's ideas served as a raw material, the basic concepts of which were skilfully processed, reinterpreted and perfected, adding the element of local Japanese institutional spirit and cultural values (see e.g. Cusumano 1985),
- Geppert, Willimas and Matten (2003), describing activities of the US, Finnish and German multinational companies on the markets of Great Britain and Germany, show that the German market, being an institutionally well-developed host market, induces enterprises from the arms-length environment to a far-reaching adaptation of their practices,
- Meardi and Toth (2006) point out permissiveness of the host markets of particularistic type and their high propensity to absorb practices of the MNCs coming from an institutionally more stable environment, underlining at the same time the coexistence of the local informal practices and the formal systems of governance used by the subsidiaries.

Table 1 Relations between the home market and the host market vs possibilities to transplant organizational practices of multinational companies

Host market institutions Home market institutions	Weak and heterogeneous (revealing features of particularistic environment)	Collaborative environment	Arm's length environment
Weak and heterogeneous (revealing features of particularistic environment)	Hybridization as innovation or Mimicry/assimilation to the model of governance used by firms operating on the host market	Mimicry/assimilation to the model of governance used by firms operating on the host market with own elements of non-routine behaviour	Mimicry/ assimilation to the model of governance used by firms operating on the host market with own elements of non-routine behaviour
Collaborative environment	Visible symptoms of adaptation dominated by transplantation Possible thanks to certain openness of the cooperating hierarchy and environment. Probable occurrence of informal practices following the patterns of host market institutions	Transplantation of organizational practices or hybridization as a symptom of compromise between two different types of cooperative environment	Hybridization restructuring of routines, processes, or even tactic goals as a result of pressure exerted by the host market environment, possible innovations and diffusion of practices onto the home market, rarely a conflict
"Arm's length" environment	Transplantation of formal organizational practices, a version with slight symptoms of adaptation possible; Probable occurrence of the whole range of informal practices following the pattern of the host market institutions	Conflict or hybridization as innovation, being the symptom of pressure of the host market's institutional environment	Transplantation of organizational practices or slight hybridization as a symptom of compromise between two different "arm's length" environments

Source: Author's own materials

Summarising the considerations on the effect of host markets on the activity of multinational companies, it should be noted that:

- the force of impact of the host market on the activity of a multinational company is a function of the LOF between the home market (as well as those already occupied by the multinational company) and the host market,
- institutionally and culturally "foreign" host market's effect on the activity of a multinational company is the stronger, the higher the assessment of its attractiveness,
- particularistic markets seem to be permissive and willing to adapt practices of MNCs coming from different institutional settings in spite of the fact that LOF is substantial.

2. Subsidiaries as absorbers and promoters of market institutions

Knowledge is a resource the possession of which is a source of power. A multinational company which consists of subsidiaries frequently depends on the knowledge they have about specific functioning of the local markets and this dependence increases along with the growth of liability of foreignness between the host market and the home market as well as those already occupied. Internal relations within a MNC and the final shape of organisational practices within particular parts of the corporation may therefore be treated, among others, as an effect of internal struggle for influence between the headquarters' managers and a subsidiary's managers. The result of this game affects the extent of internal deinstitutionalization; internal institutional differentiation of an entity. A subsidiary's employees who have knowledge about the local market will treat it as a political symptom of advantage, striving for a higher degree of economic freedom and incorporating organisational practices typical of the local market. The fact that subsidiaries can shape organisational practices in the likeness of the local ones is not only the sign of their special status but also facilitates cooperation with local partners or suppliers (see also Geppert, Williams 2006). Pressure for adjustment may, therefore, assume a rational dimension (the local way is more effective) or a political dimension (ability to change standard practices is a sign of how powerful and significant the subsidiary and its managers are in the structures of the whole corporation).

Attractiveness of the market strengthens the subsidiary's position and its bargaining power, which may enhance its decision-making freedom. Strengthening the subsidiary's position, and thus increasing the opportunities of the host market's influence on the activity of MNCs can also take place thanks to the activity and resources of the subsidiary itself, its higher effectiveness than expected or achieved on average in the corporation. However, it should be underlined here, that the subsidiary's position in the concern, and at the same time the force

of impact of the host market on the activities of a multinational enterprise, depends on the strategy of a multinational company, including its attitude to granting certain autonomy and standardisation of activities to its parts.

Taking into account the fact that subsidiaries accumulate knowledge about the host market, one can expect that with time, when the concern's expectations as regards performance are fulfilled, the subsidiary will enjoy a growing autonomy, its position will become stronger, and thus the freedom of shaping its practices in the likeness of the local or regional market will be more probable. It should be underlined, however, that things do not always work that way. First, young subsidiaries may initially enjoy a greater freedom than the standard due to e.g. considerable LOF of the host market and thus the subsidiary's willingness to recognise the local practices and to adjust its practices to the requirements of this unknown market. As soon as this task is accomplished and appropriate experience is acquired, the concern may deprive the subsidiary of the initially granted decision-making freedom. The same dependence may occur when the subsidiary is acquired through buyout on such an unknown market. Second, the strategy of the concern may assume only setting up transplant subsidiaries and despite the fact that the subsidiary's significance, position and experience on a given market increases, the level of autonomy in particular parts of the structure is not raised.

Moreover, some authors point out that assimilation of the features characteristic of the host market (including its institutions) is also a function of the way how a subsidiary was established (see e.g. Birkinshaw, Hood 1998, Elger, Smith 2006). Setting up subsidiaries of brownfield type is connected with the fact that it is necessary for a multinational company to inherit a set of practices from the former owners and managers, which suggests that the type of governance in the acquired entity was initially influenced by institutions from other

markets². Investments of greenfield type, in turn, can reduce the effect of the host market on the subsidiary's activity, among others, through the selection of such personnel who will be willing to duplicate practices worked out by the concern on other markets.

The connection between the form of expansion and the effect of host markets on the activity of subsidiaries is also confirmed by other studies. For instance, Sharpe (2001) thoroughly investigated the activities of two subsidiaries of the Japanese concern in Great Britain, with one of them being purchased and the other one being a greenfield investment.

Transplantation of organisational practices to the brownfield subsidiary proved to be a considerably bigger challenge for the Japanese managers than in greenfield subsidiaries. This was due to the fact that the personnel was used to certain routines and methods of operation existing in the purchased subsidiary (different from the expected methods of activity) and also due to a fairly strong role of trade unions, reluctant to changes³.

Summarising, the degree of absorption of the host market's institutions depends on the following characteristics of a subsidiary:

- its significance and status within the frameworks of the concern, measured not only by attractiveness of the market where it operates but also by achievements and resources it possesses and controls, e.g. exporting its products to the neighbouring markets,
- character of its operations; importance of the subsidiary increases when within its frameworks strategic operations are performed, significant for the concern as a whole (e.g. creating competitive advantage, value added, cost-effectiveness, etc.),
- extent of autonomy granted to the subsidiary by the concern which it is part of,
- duration of its operations on a given market,
- mode of establishment: is it a greenfield, brownfield or a joint venture company.

² We may have to deal with takeovers of the subsidiaries belonging to other multinationals.

³ The influence of culture and informal institutions on the character of expansion is also discussed by B. Kogut, H. Singh (1998) and K. D. Brouthers, E. L. Brouthers (2001)

3. The extent and causes of standardisation/adaptation of organisational practices of MNCs in Poland – research data.

Taking into account adaptational pressures from host markets and subsidiaries, a question arises, whether Poland, a country still undergoing institutional and cultural changes (what makes it a particularistic type of NBS) exerts such a pressure on MNCs behaviour based here. The aim of the research, which results are presented below, was to compare the policies of MNCs with the actual practices employed in Polish production subsidiaries of those companies. The research sets out to address the issue of the extent of standardisation/adjustment in the functioning of the Polish branches in relation to other subsidiaries and the company's policy in a given area, as well as determine the causes of the existing state of affairs. The areas of particular interest were:

- the perception of the Polish market and its impact on Polish subsidiaries daily operations,
- the division of power within MNCs and its level and structure in Polish factories,
- the degree of formalisation and standardisation of organisational practices within Polish subsidiaries

The research took place in 2006-2007, by questionnaire, interview, in-depth interview and participant observation, in 42 companies. The data chosen for analysis came from 35 of those: production subsidiaries of MNCs present on the Polish market⁴ for no less than five years. Most companies became players on the Polish market by a takeover of an existing company. 13 of the companies originate from the USA, 9 from Germany⁵. The capital of more than a half of the companies (20 companies - 57%) is in Western European hands. The major

⁴ In 8 cases information provided was incomplete and their credibility questionable

⁵ Structure of the origin of capital in the group under research: USA – 13 companies (37,1%), Western Europe – 20 companies (57,1%), of almost half is German (9 companies, 25,7%), Central Europe (Croatia) – 1 company (2,9%), Japan -1 company (2,9%). 6 companies with Japanese capital were approached, of which only one provided necessary information. The initial research aim of analyzing companies with American, German and Japanese background had to be abandoned, in favour of the former two groups.

industries represented here are chemicals (hereafter referred to as Plastic⁶), engineering (Machines)⁷ and food industry⁸.

Represented below are the findings made during the research with relation to :

- a) perception of Polish market and its impact on Polish subsidiaries operations (table 2),
- b) the degree of standardisation of particular areas of operation/organisational practices in Polish branches (table 3)
- c) the degree of autonomy of the Polish branches in particular areas of their activity (table 4). The probe into this factor may account for the differences in variation/standardisation of practices and to examine relationship between the degree of autonomy of a business and its propensity for adaptation to the “local environment”,
- d) the significance of the branch in the company’s strategy/policy (table 5). These results point to the causes underlying the autonomy of a subsidiary. It is to be expected that the greater the significance of the subsidiary and its market, as well as its achievements, the greater the probability of increase in the autonomy level and its adaptive intents.

Data are shown for the whole sample and in division on country of origin of MNCs and industry they represent. After analysing the structure of data some correlations between them are also explained.

3.1. How do subsidiaries perceive the Polish market

Respondents were asked if the Polish market had any effect on the activity of MNC subsidiaries and, if so, what was the nature of this effect. The results are presented in Table 2.

⁶ 10 companies in all, manufacturing and processing plastics for the needs of food and construction industries.

⁷ 8 companies, manufacturing machines, machinery and engine powered vehicles. Production features also details, parts, sub-assemblies for machinery, cars, airplanes, production and assembly lines for cars and machines.

⁸ 7 companies, producing sweets, condiments, food additives, seeds and plants. Other industries featured in the research: electronics (3 companies), interior decoration (3 companies), lighting (1 company) paper industry (1 company) pharmaceuticals (1 company) cosmetics (1 company), 10 companies in all, analysed as part of a whole group.

The whole sample indicates that the Polish subsidiaries operate in a different way from their foreign counterparts. The reasons for this are as follows: first of all Poland's economic conditions, then – a different character of formal institutions (various rules and regulations, etc.) and finally – culture as a sphere which differentiates activities of subsidiaries on the Polish market. The effect of economic conditions, institutions and culture is clearly visible in the activity of the Polish subsidiaries⁹, although it should be remembered that here we deal only with opinions concerning this effect, which requires further verification.

Table 1 Differences/ similarities in the activities of Polish subsidiaries; division of the subsidiaries as regards country of origin and industry

Description	Total sample	USA	Germany	Plastic	Machines	Food
Operations of Polish subsidiaries do not differ in any respect from their foreign counterparts	2,23	2,46	2,22	2,30	2,38	2,14
Operations of Polish subsidiaries differ considerably from their foreign counterparts due to our economic conditions (lower GDP, less affluent customers, etc.)	4,09	3,92	4,22	3,90	4,13	4,00
Operations of Polish subsidiaries differ considerably from their foreign counterparts due to our culture	3,77	4,00	3,56	3,80	3,50	4,29
Operations of Polish subsidiaries differ considerably from their foreign counterparts due to our regulations (legal, administrative, etc.)	3,94	4,08	3,78	3,90	3,88	4,14

Source: Author's own materials; explanations: 1 – I don't agree, 2 – I'd rather not agree, 3 – it's difficult to say, 4 – I agree, 5 – I agree entirely

It seems very interesting to specify the results concerning the effect exerted by the Polish market on the activity of subsidiaries which represent certain branches, and whose start-up capital comes from Germany and the USA. German (more than American) firms emphasise economic differences of our market, which can be explained by the fact that a strategy of all surveyed German entities is the strategy of differentiation, based mainly on high quality and thus a fairly high price, whereas American companies, apart from the dominating strategy of differentiation, also use a strategy of cost leadership or modify and differentiate their

⁹ Results approaching the value of 4 confirm such an influence.

approach to the market. This may result from the fact that the German corporations, due to closer proximity of our countries, are more familiar with our market and thus do not perceive those differences as clearly as the US subsidiaries. It may also result from the fact that the necessity of taking cultural differences into account in virtually all social interactions today is an inseparable part of the US political correctness code, whereas (according to one of the interviewed German managers) the German firms are less sensitive to cultural or institutional influences of the host markets.

As regards subsidiaries operating in different branches, the Polish market's institutions and culture exert the most visible influence in the food industry and the least one – in the engineering sector. These results confirm preliminary assumptions about diverse proneness of branches to the influences of environment of institutional character (according to definitions accepted in this paper) and they are convergent with the results concerning the degree of centralisation and standardisation of functions within the frameworks of concerns.

It is also symptomatic that in the engineering branch differences of economic nature are emphasized as those which exert the strongest influence on the entities' activity as compared with other foreign subsidiaries¹⁰.

3.2. The level of standardization in Polish subsidiaries

The analysis of findings represented in table 3 leads to one general conclusion: Polish branches employ their own, locally adapted solutions in organization, yet with compliance with the general rules employed in the company as a whole. The freedom of modifications is unevenly assigned, depending on the area. The largest, although not complete, extent of standardisation can be observed in the areas of Quality Assurance Systems, Business Control, including finance. As regards quality control, its high degree of standardisation might stem

¹⁰ The applied tests of average values revealed statistically significant (p below 0.1) differentiation of responses concerning the influence of culture on the operations of the US and German entities from the engineering and food branches.

from the fact that Polish subsidiaries utilize procedures developed in other MNC's branches. Furthermore, the very nature of such systems favours standardisation – these do not function as detailed procedures, but as process outlines with special attention given to its critical points and actions to be undertaken under applicable standards, such as ISO, QS, HACCP etc. The influence of employed systems on the degree of standardisation is particularly prominent in the food industry. The area of planning and control displays a high level of unification in terms of content and frequency. Here difference emerges with regard to the company's country of origin. American companies emphasise the need for the standards to be uniform in planning and control, whereas German companies favour standardisation of production and quality systems. This discrepancy may indicate that American and German companies see the source of competitive advantage elsewhere. For the Germans, it lies with the technology and production, while the Americans prioritize share/stock value and the development according to a strategy.

Table 3. The degree of standardisation of organisational practices in the Polish subsidiaries of MNCs, divided by industry and country of origin.

Standardisation level	Results Average					
	Test total	USA	Germany	Plastic	Machines	Food
Quality Assurance Systems	1,80	1,76	1,55	2,10	2,00	1,57
Frequency and content of planning control, periodical reports, internal audit reports	1,83	1,53	1,88	2,00	2,13	2,00
Planning frequency and content (e.g. finance, production, supplies etc.)	1,88	1,61	2,11	2,00	2,38	1,86
Document circulation system	2,37	2,23	2,11	2,80	2,25	2,29
Training planning/ training content	2,60	2,38	2,44	2,90	2,63	2,86
Internal Labour procedures (not addressed In QA systems)	2,68	2,69	2,55	2,80	2,75	2,57
Distribution system for local market	2,86	2,84	2,77	3,30	2,75	3,14
Benefits and bonuses (e.g. additional insurance, company cars, gym tickets etc.)	3,28	3,07	3,33	3,10	3,63	3,29
Remuneration for the same posts	3,51	3,46	3,55	3,50	3,75	3,43
Standardisation level – average of fragmentary answers	2,52	2,40	2,40	2,68	2,70	2,56

1 – area fully standardized, identical practices employed in all subsidiaries

2 – area rather standardized, minor deviations/modifications of practices can be observed in certain areas

3 – actions are uniform with regard to general principles, locally adapted practices prevail, subsidiaries resolve the issues in various ways

4 – practices completely different, each subsidiary functions differently in this area

The highest degree of local adaptation is evident in the approach to human resource management: the system of remuneration and its levels, available benefits and trainings. It's worth mentioning that the main reason for such an adaptation is actually not the difference between educational system in Poland and that at home market because these discrepancies are not considered vast, although they exist and are diminished by locally tailored training programmes. The biggest difference make differences in salaries and wages. Research respondents expressed their dissatisfaction with the pay discrepancies between subsidiaries, which is only to be expected in view of the fact that a rational business enterprise will look for competitive advantage in this area, in this case, for cheaper manpower available on the Polish market.

Another prominent diversity has been observed in the area of distribution systems, which in turn reflects the specificity of the Polish market (as compared to other markets and their appropriate solutions).

3.3 The level of autonomy in Polish subsidiaries

Table 4. illustrates autonomy levels of Polish subsidiaries in particular area of activity. On average, the degree of autonomy may be defined as moderate, although considerable variations are recorded within particular areas. Much freedom is given to marketing activities, local adaptation of products and tactical and current decision-taking in HR management. Least autonomy is granted in issues concerning property investment, profit allocation and key supplier verification criteria. Regardless of the amount of autonomy a branch enjoys, it is never sufficient to qualify the relationship with parent company as partnership. The overall test findings translate into moderate autonomy, yet the indicators for American and German companies vary hugely in the same areas. American businesses display a considerably higher preference of centralising decision affecting investment and finance than German companies. The latter are, on the other hand, more restrictive (compared with Americans and the rest) in

production issues, mainly with regard to product upgrades and modernizations, and the choice of suppliers. When analysing results across industries, a certain degree of variation can be noticed, with the least autonomy available to companies in Machines, and the most given to businesses in Plastic. It seems that the character of manufactures accounts for the difference, since machines/complex devices are heavily standardised and do not require local adaptation. This is not to say, however, that the production processes and associated activities are standardised for this section of research¹¹. The discrepancy between autonomy level and the degree to which practices in engineering industry are standardised stand in contradiction to the aforementioned interdependency between the positive correlation of autonomy levels and the variation in organisational practices/processes. The nature of the relationship of these two dimensions is however, not straightforward. Although a large extent of freedom in decision-taking enables a business to shape organizational practices to fit the market, yet it does not always lead to such a result. Besides, decision-taking autonomy is understood as a freedom of making choices in a given area, while the methods by means of which an autonomously set goal is achieved may be standardised within the corporate framework. An examination of HR management activities does not validate the simple interdependency between autonomy level and standardisation. Subsidiaries do enjoy freedom in formulating their HR policies and varied pay systems, but are not at liberty to determine pay levels.

Table 4. The levels of autonomy in Polish subsidiaries of MNCs

Autonomy level for given area	Results Average					
	Test total	USA	Germany	Plastic	Machines	Food
Property investment (new sites, offices, installations).	2,09	1,77	2,56	2,10	2,13	2,14
Methods of profit allocation (e.g. bank indications, directions of money transfer, money transfer direction, decisions regarding deposits, loans etc.)	2,23	2,08	2,56	2,30	2,50	1,86
Selection of key suppliers (high value materials for production, e.g. 10% of branch's budget)	2,37	2,38	1,89	2,50	2,00	2,71
Launching new products	2,43	2,62	2,22	2,90	1,88	2,14
Product upgrade/modernization	2,46	2,85	1,89	2,70	1,50	2,86
Machinery/Facility investment (purchases above monthly turnover)	2,54	2,46	2,78	2,70	2,63	2,57

¹¹ As Table 3. shows Machines is the industry with the fewest standardized practices implemented,

Current financial policy (e.g. setting limits for payments due, liabilities, assets, cash flow indicators)	2,69	2,46	2,67	2,80	2,75	2,71
Marketing activities e.g. promotional campaigns (budget, content, frequency of public presentation, media)	2,91	2,85	3,33	3,30	3,00	2,86
HR policy (employment numbers, employment structure, recruitment)	2,94	2,69	3,11	3,00	2,38	3,14
Setting customer target group	2,97	2,69	3,44	3,10	3,25	2,57
Local product adaptation	3,00	2,92	3,11	3,10	2,63	3,00
Autonomy level – average of fragmentary answers	2,60	2,52	2,69	2,77	2,42	2,60

1 – area fully centralised, no autonomy available

2 – centralised area, subsidiary has minor capacity of influencing the area

3 – area in which decision are negotiated between subsidiary and appropriate headquarter, a relatively high degree of autonomy

4 – subsidiary is fully autonomous in this area

The analysis of the results concerning the development of a given degree of autonomy in industries, measured throughout the period of presence on the Polish market indicates that the degree of freedom in decision-making is stable and moderate. Such findings are surprising, as it had been assumed that with time the decision-making autonomy will increase, especially in view of the fact that subsidiaries continually record high efficiency and productivity while the Polish market itself is perceived as very important to the companies in question (see table 5 for results). Nevertheless, no significant change in the autonomy becomes apparent, at least on average. In particular areas, characteristic changes can be observed:

- the freedom of autonomous investment grows with time. This may be accounted for by high operational efficiency of the Polish subsidiaries and consequent development schemes for sites in Poland. A considerable importance of Polish factories in the region and increase in confidence in methods of management employed there is most likely to have caused the autonomy growth in those areas which are usually considered by researchers to be the typical decision-making domains of head and regional offices.
- as far as sales are concerned (marketing activities, target group setting, product launch and product modernization), the following has been established; “young” companies are given moderate autonomy, whose extent in decision-making grows with time, only to be subsequently diminished, as observed in businesses with the longest presence on the market. Moreover, the freedom regarding the range of offer is markedly smaller for “old”

companies than it is for younger enterprises. The reason behind such results might either be the on-going unification in terms of demand or performance of Polish companies, which might have been assessed as inefficient or non-compliant from the point of view of uniformity preservation across corporation¹².

3.4. Status of Polish subsidiaries in MNCs structures and strategies

The research showed also (see table 5 below) that Poland is an important market for the products offered by these companies, and that its rank will grow in future. The awareness of the importance of this market is professed universally by the respondents, with minor differences; American companies seem to assess the significance higher than German ones, yet the fact of its future import remains unquestionable. Here, geographical facts may serve as an explanation, with related knowledge of the Polish market, and the national culture of the home countries of expanding companies. The perception of the Polish market varies depending on the industrial sector; currently the importance being valued highest by the food industry, and with most optimistic growth prospects for Machines.

Table 5 Importance of Polish subsidiaries in the whole MNCs structure

Importance of Polish subsidiary In MNCs as a whole	Results Average					
	Test total	USA	Germany	Plastic	Machines	Food Industry
Importance related to current sales volume	2,54	2,62	2,44	2,60	2,13	2,86
Importance related to future sales volume	2,83	2,77	2,78	2,80	2,88	3,00
Importance due to geographical location	2,63	2,54	2,78	2,80	2,50	2,71
Importance related to the value of local employees (e.g. cheap workforce, structural unemployment etc.)	2,49	2,38	2,56	2,40	2,63	2,29
Importance due to value of local natural resources and supplies	1,69	1,69	1,56	1,70	1,38	2,57
Importance due to production potential,	2,37	2,46	2,56	2,50	2,13	2,43

¹² The interviews conducted during survey frequently recorded sales and marketing department employees expressing the inscrutable character of limitations imposed upon their activities. For example, a branch would be contacted by a foreign buyer, interested in their product, and willing to place a considerable order, yet the contract would be declined by the head office. Such decision was most frequently dictated by strategic fundamentals of foreign trade and marketing policies of the corporation, e.g.: 1) brands produced on the Polish market are to remain local, as other products are promoted internationally, and the company does not allow product “cannibalism”, 2) the area to which the products were to be delivered is under jurisdiction of a different branch. The Polish branch must not be commercially active there, despite passive approach of local branches, 3) marketing activity remain uniform within region, since the company’s research reveals it is homogenous. Its adaptation to Polish market is not possible, in spite of the fact that they are perceived as incomprehensible, or even bizarre by Poles.

resources/assets held by a branch						
Importance gained through unique achievements of a branch (efficiency, productivity, creativity, promptness of reaction to local demand etc.)	2,51	2,85	2,56	2,60	2,13	2,57
Importance due to position held with respect to other players on the Polish market (largest market share, largest increase in market share etc.)	2,49	2,62	2,56	2,40	2,13	2,71
Znaczenie filii – średnia odpowiedzi częstkowych	2,44	2,49	2,47	2,47	2,24	2,64

Values In the table: 1 – no or minor importance, 2 – average importance, 3 – substantial, of very big importance

3.5 Correlations between data

The analysis of correlations between how the influence of the market on the activities of all investigated subsidiaries is perceived, how significant these subsidiaries are, and whether the data are related to the level of standardization, did not reveal any statistically significant dependencies (Pearson's coefficients 0.18 and 0.16). However, the analysis of dependencies between how the impact of the market on the subsidiaries' activities is perceived and the level of their autonomy proved a strong and statistically significant relation between those magnitudes (Pearson's coefficient = 0.51, significance $p = 0.001$). A positive indicator of correlation shows that the dependence between the Polish market's character and the level of autonomy given to subsidiaries is positive, which means that when perceptions of the market as "specific" increase, the level of autonomy increases too.

A regression analysis shows that the dependence between perceiving the Polish market as different, and thus modifying the activities of multinational companies, means that when the perception of this market changes by an arbitrary unit of its "otherness", this results in smaller than 1 increase of a subsidiary's autonomy (indicated by the value of $a(x) = 0.41$). Moreover, the level of autonomy becomes average (approx.2) for those subsidiaries which indicate that the Polish market exerts a small impact on their operations. This may be preliminarily explained by a defined corporate policy in this range; regardless of the market's character, a concern has its own strategy of redistribution of power in certain areas which is later on

corrected by an arbitrary indicator of “the host market’s specificity”. The character of dependence revealed between the studied areas proves that specifics of the Polish market influence in a significant way the increase of a subsidiary’s autonomy but this is not correlated with an increasing adaptation of practices to this market, nor does it depend on the significance of this market and the subsidiary’s role in the structures of the concern. If so, how can such results be explained? There are several explanations of this state:

- it is possible that the respondents overestimated the effect of the Polish market, therefore the dependencies between adaptation of organizational practices and character of the market are not reflected;
- it is also probable that the respondents’ assessment of how the Polish market influences a subsidiary’s activity was correct but this effect is not reflected in the analyzed organizational practices; or the organizational practices are partly of superficial, “ceremonious” nature - they are perceived as generally effective but they are not always respected and, as the need arises, the subsidiaries use their own, flexible interpretation¹³.

The latter explanation is justified by analysing the level and structure of results concerning opinions about the Polish market in comparison with the distribution of results concerning the level of standardization. The data show that even those firms whose practices are highly standardized think that the Polish market affects their activities and their responses are similar to those obtained from the subsidiaries with a high level of standardization and a higher than average level of autonomy. The conducted analysis shows that despite a moderate level of autonomy enjoyed by the Polish subsidiaries, they do not possess any rights to officially change the maladjusted practices. Nevertheless, institutional and cultural specifics of Poland’s market permeate the inside of multinational companies but this is only partially reflected in the formal system of governance. Side by side with officially modified procedures within the

¹³ For broader explanation of ceremonial practices existence see i.e Kostova (1999)

frameworks of standardized, uniform, formal practices, local methods of activity are used if, being effective and efficient, they are not clearly contradictory to the headquarters' requirements.

Research into dependencies between standardization and autonomy of a subsidiary conducted for the whole sample revealed that there exists a statistically significant relation between these magnitudes (Pearson's coefficient equals 0.50 with significance level $p = 0.002$). This means that in the studied entities the growth of autonomy results in such changes of organizational practices whose aim is adaptation to the Polish market. Regression analysis shows that increase in autonomy by two arbitrary units results in adaptation of organizational practices by one arbitrary unit. It is worthwhile to refer here to the above mentioned study of dependencies between the level of standardization and opinions about the effects exerted by the Polish market on the activity of the analysed subsidiaries. A strong correlation between the level of autonomy and standardization discussed here suggests that the growth of decision-making freedom entails a gradual adaptation of organizational practices to the local environment. The Polish market was recognized by the respondents as the one which significantly modifies the activities of Polish subsidiaries, although the correlation between the degree of standardization and those observations turned out to be too weak. Such apparently contradictory results make the conclusions from the previous subchapter more probable: those subsidiaries where the degree of autonomy is too low to openly adapt their organizational practices to the existing conditions, reveal a fairly high official degree of standardization but their interpretation and execution looks different and is determined by situational conditions. In other words, such subsidiaries probably create ceremonious practices and maintain effectiveness of operations thanks to the fact that they have devised "another, less official set of governance tools".¹⁴

¹⁴ These are the words used by one of the respondents, a manager of the surveyed subsidiary.

Concluding remarks

MNCs, as rational entities try to transfer organisational practices from the headquarter or already operating subsidiaries to newly established ones, as this minimizes their costs of operations and guarantees uniform strategy. The possibility to standardize generally increases when the institutions and culture of the home and host markets are similar and the LOF between host and home market is small. The delivery of know-how becomes then easier, as is the implementation of organisational practices of similar background, also the agency costs on branch control and co-ordination decrease. Then transfer probability is also higher when a MNC with clearly established and reliable routines expands into a weak market with little institutional stability, yet receptive in adopting solutions developed on other markets, especially if the latter are universally perceived as economic benchmarks. In short, the model conditions in which standardisation and transfer of organisational practices is most probable involve the institutional, economic and cultural similarities between markets, or the expansion market being unstable and yet pliable, while the home market of the company is perceived as a potential example to follow. This is the case of Polish market. Despite the fact that it still shows many characteristics of a particularistic market it is a place where subsidiaries operate smoothly and efficiently, although a bit differently from the overall “MNC pattern”. The main contribution of this paper should be seen in empirical testing of what has been already mentioned theoretically by some scientists (e.g. Whitley, Toth, Meardi) about nature of particularistic markets and the problems which MNCs can face there. It was determined and tested that considerable efficiency of Polish subsidiaries stems from either official or informal change of many organizational practices.

The study into the functioning of Polish subsidiaries of MNCs seems also to confirm that these enterprises are an example of balanced interplay between the tendency to maintain

standards globally, and the tendency to adapt strategy and operations locally. On the basis of research presented in this paper, it may be claimed that Poland is a significant area of expansion for MNCs, still being a market of its own character and specificity which as yet have not been fully explored. In practice, such perception results in some considerable discrepancies in organisational practices and processes, and although, with time, standardisation is successfully applied, it never penetrates local organizations completely. In spite of their significance in the strategies and policies of MNCs, attained by outstanding performance, Polish subsidiaries enjoy moderate autonomy. Therefore, it may be that the self-assessment of Polish subsidiaries with regard to their role and importance in company's international structure tends towards slight overestimation.

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