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The dynamic interaction between internal and external pressures for MNCs' HR management practices: The case of Lidl Finland

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Abstract

In this paper we build on the debates on cross-national transfer of management practices in MNCs, and especially examine how internal and external institutional pressures shape the way MNCs' HRM practices evolve upon new market entry. In our longitudinal case study we examine the evolution of multinational hard discounter Lidl's labour relations in Finland between 2002-2012. We show how Lidl Finland's entry to Finnish markets was labelled by constant struggles between cross-border standardization and local adaptation of labour practices. We identify several tactics employed by Lidl management in order to weaken the effects of institutional pressures. Our analysis emphasises the dynamic interplay between labour market institutions and Lidl's global retail strategy.

Introduction

Researchers have recently paid attention to HRM practices in MNCs and examined how these organizations transfer their management practices across national borders (Dörrenbächer & Geppert, 2011; Ferner et al., 2001; Meardi et al., 2009; Tempel et al., 2006; Williams & Geppert, 2011). When entering new markets, MNCs following global strategy typically face the dilemma between the need for global standardization and local adaptation of HRM practices. In this, MNCs have a varying degree of success in their attempts to standardize their operations, depending on the institutional environment in a given country context.

Besides these external pressures, recent research has emphasized the importance of both micro- and macro-level power games affecting MNCs' adaptation to the institutional pressures (Geppert & Williams, 2006, Ferner et al., 2012). This line of research argues that external pressures are acted on by human actors who operate within not only the national context but also the corporate context (intra-organisational conditions) and who seek to shape the transfer processes to meet their interests. In other words, not only the external institutional pressures but also intra-organizational conditions, i.e., power and interest of local actors, are able to shape transfer processes.

In this paper we adopt a process approach to the transfer of HRM practices and investigate how various human actors respond to these internal and external pressures over time and seek to shape MNCs management practices. We examine how the global, national and internal pulls (Geppert & Williams, 2006) interact and how their interdependence influences the adaptation process in HRM practices in MNCs. We conduct a longitudinal case study, in which we focus on HRM practices of Lidl Finland, a subsidiary of the German food retailer Lidl and its adaption process to Finnish markets over the period 2002-2012.

Theoretical background

A major debate among international management scholars considers the extent to which MNCs are affected by national business systems in which they originate and operate. In this, scholars have adopted various explanatory models varying from global, national and local perspectives (Ferner et al., 2001; Ferner et al., 2012). Proponents of the global perspective argue that MNCs are less and less constrained by national institutions. The basic tenet of national business systems (NBS)

approach is that within the same national business system organizations tend to follow similar strategic and political practices (Whitley, 1999; Hall and Soskice, 2001). Research on country-of-origin effect emphasizes that MNCs from different home countries behave in distinctive ways in managing their human resources and industrial relations based on their country of origin NBS (Ferner and Quintanilla, 1998; Noorderhaven and Harzing, 2003). In a similar vein, MNCs are seen to operate under conditions of institutional duality. Facing this institutional duality, MNCs seek for both internal (MNC) and external (home and host country) legitimacy in their operations (Kostova & Zaheer, 1999).

Most recently scholars have emphasized the important roles played by local managers and employees in shaping MNC HRM systems. More specifically researchers have analyzed and conceptualized MNCs as political actors, and examined how power and interests of various actors shape transfer of management practices within MNCs (e.g., Dörrenbächer & Geppert, 2011; Ferner and Tempel, 2006). Geppert & Williams (2006) claim that both internal and external factors - divided into global, national, and internal pulls - should be taken into account when trying to understand MNCs' attempts to standardize and transfer HRM practices across countries. Ferner et al (2012) argue that transfer of practices involves various capabilities, or institutional resources, operating both at the macro-level of host institutions and micro-level of the MNC.

Methodology

Lidl Finland is a suitable context for analyzing these dynamics, because it represents a case where the contrast between internal and external pulls was clearly evident. Lidl is characterized as a repressive organization in HRM issues, known for its strict anti-union company strategy, extremely limited worker representation and employee consultation, and highly centralized power relations with huge power asymmetries between management and employees across Europe (Geppert et al, forthcoming). The Finnish NBS, on the other hand, is known for relatively strict regulation and powerful union representation, the unions having a tremendous effect on the labour market (Böckerman & Uusitalo, 2006). Due to this contrast, Lidl's entry to Finland was vigorously contested, not only by unions but also by competitors and media. Moreover, Lidl's hard discounter business model aimed at economic efficiency through a global strategy based on high standardization offers a suitable context to examine the dynamic interaction between internal and external institutional pressures for HRM practices.

In our qualitative longitudinal case study we draw on extensive data including both primary and secondary material. We interviewed altogether 18 persons in Finland, including six retail managers, five store level employees, six trade association and union managers, and one civil servant. All interviews were between 60 and 90 minutes in length, and they all were recorded and transcribed. Most of the interviews involved two researchers in order to avoid interviewer bias. Interviews were semi-structured and focused upon Lidl's workplace management and union relations. We also collected media archive data consisting of 277 news articles published in leading Finnish trade journals starting from 2000, when Lidl announced its plans to enter Finnish market for the first time. Lidl's entry to Finnish retail grocery market was highly controversial and gained wide publicity, thus offering us fruitful and extensive public data. We used this public data to track the chronology of key events related to Lidl's market entry and labor relations during the study period. In addition, as a part of a larger study, we collected extensive interview data regarding Lidl's HR practices in four other European countries (Germany, UK, Ireland, and Spain), which we used to better understand the specific overall global standardization/ local responsiveness approach of Lidl and to triangulate our findings in the Finnish context.

The data from news archives and interviews were subjected to qualitative content analysis, which is a widely used qualitative research technique (Hsieh & Shannon 2005). The objective of the analysis was to produce a rich narrative explanation that provides descriptions of different organizational phases and to verify the emerging dynamics between internal and external pressures for change in Lidl Finland's HRM practices.

Transfer process of HR practices in Lidl Finland

Contrasts between global and local pressures upon market entry 2002-2005

When entering Finnish food retail markets in 2002, Lidl's entrance was a disruptive event, introducing changes into the market structures and strategies. As a result, market competition increased and caused domestic rivals to adjust their operations and pricing (Uusitalo, 2004). The multinational retailer was totally new phenomenon in the Finnish food retailing: being a hard discounter, Lidl represented a retail format that was lacking from the Finnish market (Uusitalo & Rökman 2004). Lidl's business model is characterized by a limited product selection, private label

dominance, strong price competition, and no-frills self-service stores. In addition to groceries, Lidl sells a supplementary stock of non-food utility items.

Upon the market entry, Lidl introduced its foreign corporate culture and differing operational practices with little intention to conform to local standards of practice. As a consequence, Lidl encountered conflicts with various authorities, as there were several deficiencies and shortcomings in Lidl's operations. Ministry of Environment, Consumer Agency, labour union PAM, and Finnish Food Safety Authority demanded corrective action from Lidl in order to meet the national regulations and standards.

Accordingly, Lidl tried to transfer its global HR practices developed in the home country (Germany) to Finland. This was evident on several occasions. First, Lidl trained all management-level employees in Germany, thus accustoming the local managers with headquarters' practices. Second, Lidl's hiring policy favoured employees with no or limited earlier experience in retail sector. This, it was argued, would offer local managers and employees a fresh and innovative perspective to retail work to disentangle them from customised (institutionalised) ways of conduct. As noted by a Lidl Finland manager: "*We appreciated versatile background on education and experience... this allowed fresh perspective and the questioning of prevailing practices*".

This hiring policy had significant consequences on store-level operations and power balances between managers and employees. On the one hand, local managers, whose main job was to rapidly expand the Lidl store network in Finland, had limited understanding of the labour market legislation. Restrained to work with huge time pressure for establishing and running new stores, local managers neglected labour issues, which led to several examples of misconduct (e.g., unpaid overtime). On the other hand, employees were mainly young¹, inexperienced workers who were not necessarily fully aware of their rights in labour issues. On some occasions, workers were afraid to defend their rights due to fear of dismissal.

Poor public reputation in labour issues

Upon market entry to Finland, Lidl had achieved an international reputation as a retailer that adopted repressive practices in HRM issues. This reputation was clearly visible and even bolstered

¹ The characteristics of workforce are closely linked with the hard discounter business model which requires from all store employees (including store managers) to carry out heavy physical work tasks. Accordingly, employees in Lidl Europe stores are hardly older than 40 years.

by the Finnish media. From the very beginning, Lidl Finland had poor media relations, which was partly due to the fact that Lidl Finland did not respond to public accusations and gave practically no interviews to Finnish media. This further reasserted and fuelled Lidl's public reputation as a secretive and exploitative employer.

Early in 2004 the international retail trade union, UNI, accused the German parent organization of disobeying employment regulations and breaking labour agreements. Naturally, Finnish authorities, media, and labour unions associated these alleged international breaches of labour regulations with what was happening in the local subsidiary. For the most part Lidl Finland still resorted to their abstemious communications policy and as a consequence just ignored many issues. It was annoyed by some of the claims and rumours but still was not able to clearly communicate and rectify these rumours (Interviewee 4 / 21.3.2011).

The Finnish Retail Employer Association and labour union PAM confirmed that Lidl in Finland is cooperating and obeying the working contracts to the letter. Later in the year, wild rumours regarding Lidl's discriminative employer policies and mistreatment of employees in other countries were leading to increasing critique amongst the local employees and the media in Finland. Also, some publicized statements from Lidl Finland's trustees revealed a corporate culture that lacked trust and communication (Talouselämä 8.10.2004). Ex-employees also talked to the media about oppressive working atmosphere and strict managerial control.

The accusations and rumours regarding Lidl's labour misconducts intensified during 2004. Lidl received the infamous "Big Brother" prize from German human rights associations relating to bad treatment of its employees. A local leftist activist group (Helsinki association of women workers) declared a boycott against Lidl in Finland due to reports of discrimination against women. The management of Lidl Finland rejected the accusations, dismissing the discrimination charges as disinformation (Helsingin Sanomat 4.11.2004) and made a statement saying it respects its employees and treats them justly and equally. The most severe accusations and rumours of personnel disrespect came from Lidl's operations abroad. Unfortunately for Lidl Finland, it faced the critique from the allegations that were directed to its parent corporation or other subsidiaries.

Poorly handled public relations were a consequence of three factors: first, the "no comment" policy originated from the German parent organization, which had instructed the local management not to disclose any information that was surplus to the compulsory requirements of authorities. Second,

local managers' focus was exclusively on developing business operations and efficiency, leaving little time for public relations. Third, local managers lacked the resources and capabilities to handle public relations. It was only in 2006 that Lidl Finland hired a public relations manager. As a manager of Lidl Finland reflected on the situation in retrospect: "*We had no time and know-how... and we had no time to learn... We did not proactively counter these rumours... we were intentionally passive*".

Conflicts with union

Not only media relations, but also union relations were poorly managed by Lidl upon the entry into Finland. Traditionally, the unions' position and bargaining power in labour issues has been strong in Finland. There are also specific regulations and legislation that empower and solidify the union position. For example, each organization has to appoint a union representative (shop steward) and industrial safety delegate to look after working conditions. Lidl's different organizational culture caused some initial problems relating to union relations. These problems resulted both from Lidl's lack of know-how about Finnish labour practices and labour union PAM's lack of understanding of the foreign operating practices that Lidl represented. Lidl introduced a new corporate culture in Finland, which local actors perceived as alien to the Finnish retail industry. It included minimal information sharing with unions and even with the company's own employees as well as strict employee control and monitoring policies. The labour union found it difficult to deal with this type of new operator. As noted by a union official: "*The biggest problem was that all managers were trained in Germany. That resulted in weird consequences for us... The culture was a bigger problem...this type of strict control of employees*".

Due to the extensive Finnish labor regulations, Lidl had no choice but to negotiate with the union as a way to achieve a legitimate position in the market. It appointed a shop steward and industrial safety delegate, and paid wages according to the general collective retail industry agreement. Just before the launch of its first store in 2002, Lidl joined the employer association, the Federation of Finnish Commerce (FFC). This was exceptional and unique decision, since Lidl had not been a member of any employer association in other countries. Moreover, the decision was made by the local subsidiary managers, not by Lidl headquarters. This was an indication that Lidl HQ devolved some decisions to national management in Finland in contrast to its usual centralised standardisation of practices. Finnish members of the FCC supported Lidl's membership, but this was more out of self-interest than local hospitality. As noted by a FCC official, "*our members wanted Lidl in, because as an outsider it was considered more hazardous... as a member Lidl*

would be bound to general rules". Another reason behind Lidl's decision was the Finnish Contracts of Employment Act, which is based on the principle of universal validity: the labor contracts agreed between unions and employer associations were generally binding, regardless of whether a firm was a member or not. Therefore, it was in Lidl's best interest to become a member and try to influence the content of contracts as a member of the employer association.

Various incidents during the first two years of operation in Finland had earned Lidl a troublemaker status in the Finnish grocery retail market. Lidl's argument was that it was not aiming to break the law, but just to stretch the rules allowing enough time to come up with a solution. Lidl emphasized that it will follow strictly the Finnish laws and corrects practices that are found wrong. Thus, Lidl took the position that the code of conduct is just a recommendation with no power to dictate organizations how to act. By refusing to comply Lidl challenged the prevailing institutional standards and ways of doing things, and tried to modify them to its liking. As reported in Finnish media: "*Lidl has tested Finnish rules of play in various ways... Even though Lidl tests the boundaries, it does not defy them permanently!*" (Talouselämä 17.4.2003)

Lidl's gradual and selective adaptation to the Finnish system 2005-2012

In 2005 the hectic growth phase was over and Lidl Finland had the opportunity to allocate more resources to the development of operations and services. Lidl's CEO Antti Tiitola described the situation: "*During the era of strong growth Lidl was a project organization, but now we have been able to reinvent ourselves as a service organization that listens to customers more closely than before.*" At the same time, the company started gradually to change its communication and labour policies.

In early 2005 Lidl was facing intense pressure to adjust its organizational behavior. The biggest criticism was targeted at the secretive communications policy and the alleged incidents of labor misconduct. Lidl found it increasingly more difficult to justify its non-transparent corporate culture in the modern business environment in Finland, where MNCs especially are targets of interest for multiple stakeholders. Finally, strong criticism resulted in a new opening from the top management; Lidl's German mother company, Schwarz, promised to change its "silent" communications policy and be more open about its operations in the future (Helsingin Sanomat 14.12.2004; Taloussanomat 7.12.2004). Schwarz management admitted that the old policy was not appropriate for the requirements of today's business life.

This change of approach could be seen as a form of reputation management, which was more the result of intense stakeholder pressure on Lidl than corporate goodwill. Lidl noticed that by being more open and communicating more clearly it could gain understanding and approval for its actions in Finland. Preceding this decision to be more open, Lidl had been under mounting criticism that had also started to affect its business performance in Finland. Different stakeholder groups, such as employees, labour unions, consumers, media, and government authorities had all been playing a part in making demands on Lidl to comply with national regulations and practices. With some delay this policy change towards greater openness was translated also into the operations of the Finnish subsidiary. For example, Lidl Finland's management went on to give a substantial number of interviews and public appearances. Earlier labour union PAM used to be the body taking care much of the "Lidl communications" in Finland. Now the CEO of Lidl Finland, Antti Tiitola, started to create a new face altogether for the company (Markkinointi & Mainonta 17.6.2005).

From 2005, Lidl Finland also started to pay more attention to the welfare of its employees. One example of this is when Lidl announced the granting of Christmas Eve as a holiday for its personnel. The media widely applauded this and lifted it up as an example of good leadership and responsible corporate behavior (Markkinointi & Mainonta 15.12.2006). Furthermore, increasingly positive comments and observations about Lidl started to appear in the press: *"Lidl has been criticized publicly... Now the situation is different. Lidl has taken criticism into account. The operational practices in the chain have been changed, and now the grocery chain is mentioned in the labor union website in totally different context than before"* (Helsingin Sanomat 2.12.2006).

The Finnish Lidl management developed new policies in personnel management in 2009, when it started cooperation with Amiedu, a provider of training and personal development services (5.1.2009 Taloussanomat). This was an indication that Lidl was serious about making investments in its employees and in developing their know-how. In cooperation with Amiedu Lidl launched its own retail-education program, which was tailored to its operational needs. This education program was one example of Lidl's new commitment to social responsibility and an admittance that the development of the know-how, expertise and well-being of all its personnel groups was in its best business interests too.

Thus Lidl's reputation improved considerably from the early days of its market entry into Finland. Even though changes did not occur overnight, the general impression was that Lidl had learned from the earlier criticism and started to modify its operational policies accordingly. Now Lidl was

more open in communications and signaled a willingness to cooperate with Finnish stakeholder groups. During the period 2002 to the current day, Lidl Finland has been able to raise its social capital and learn to operate more effectively in the market. Also, the management of Lidl Finland has been able to demonstrate to the parent company that they can efficiently manage the Lidl concept in the new Finnish market. This “earning of trust” gave local management more freedom to adjust the concept and respond to local demand. As noted by a Lidl manager, *“Trust needs to be earned...when experience and know-how increases, the need for internal control decreases”*.

Despite the improved public image and labour relations, another setback for Lidl Finland’s social responsibility aspirations was delivered in 2008 through a new scandal relating to the parent company’s labor practices. Managers in Lidl Germany had been caught spying and monitoring their own employees with cameras (Helsingin Sanomat 27.3.2008; Taloussanommat 26.3.2008). In addition, security personnel had been compiling reports of private discussions between employees. The German labor union, Verdi, capitalized on this, urging Lidl employees to stand up to Lidl. The management of Lidl apologized for the incident and promised to build new corporate culture and pay more attention to employee well-being in the future. Despite the apology, the monitoring disclosure raised resentment and affected Lidl's sales in Germany considerably. The journal, Stern, later publicized reports saying that spying and micro-control of employees is standard practice amongst German retailers (Taloussanommat 17.4.2008). In 2009 this was followed by yet another scandal: in Germany, Lidl managers had again been caught transgressing employee regulations and good HR practices by collecting information on employees' sick leave and health matters, which is not allowed in Germany. Lidl management’s earlier assurance of mending its ways suffered yet another image blow.

What is interesting is that in Finland there have not been any further conflicts or scandals associated with Lidl, but instead all major criticism has come from other market areas of the MNC’s operations. Finnish management has had to explain and defend the local subsidiary against allegations that have originated overseas. However, it seems quite evident that scandals, oversights and breaches of conduct that took place abroad, either in headquarters or other subsidiaries, have affected negatively the reputation of Lidl Finland. Also, there is no denying that despite the change towards greater social responsibility and transparency, misconceptions about the firm and its operations still exist. This indicates how hard it is to change the initial judgments made about the company when it first entered Finland.

These misconceptions were partly based on the company's early practices with a non-existent communications policy in the Finnish market. On the other hand, the scandals from abroad have played a part in people associating the negative image and rumors with the Finnish subsidiary as well. Being "an outsider" has made Lidl an easy target for criticism; it was relatively easy for local institutional actors to have doubts about a new alien actor whose practices differed from the norm. Also, local media and reporters have played a part in "building" Lidl's brand in Finland. Lidl has pointed a finger at local stakeholders, such as the media, for not properly understanding foreign businesses and the situation of new market entrants: *"As we come from outside, local actors can easily question our operational practices"*.

Currently, more than 50 per cent of Lidl employees are union members. This is the highest level of unionization in Lidl globally. The counteraction taken by the government and the union proved to be quite effective in encouraging the acceptance by Lidl of local institutions that promote employee voice – specifically, a shop steward for the whole country and two industrial safety delegates who have extensive rights including store visits where they can discuss sensitive issues with employees independently and check whether there have been violations of the country's labor laws and health and safety regulations.

Conclusions

In this paper we have analyzed the process through which Lidl Finland gradually adapted its HRM practices to the Finnish labour system. The analysis shows how global pressures associated with its business model dominated in the entry phase. Lidl tried to avoid the local pressures by, for example, hiring young and unexperienced staff in order to avoid employee resistance to the Lidl way. This was followed by adaptations to the national regulations, largely due to the strongly institutionalized labor system in Finland, which gives unions and the government much power to intervene in labor issues. This, again, influenced the internal politics of Lidl and forced it to reshape its initial global approach. When Lidl noticed that a direct transfer of global practices would not succeed, it negotiated with the unions and corrected its formerly illegal practices.

Thus, in Finland, Lidl's attempts to harmonize its HR practices on its global model developed in the German HQ (home country practices) were less successful than in other European countries, largely due to the highly regulated labor market in Finland, which is still strongly supported by powerful

stakeholders representing the government, employers and employees as well as the public via the media.

To conclude, we show how Lidl's entry to Finnish markets was characterised by a period of struggle/contestation between Lidl's attempts at cross-border standardization and pressure for local adaptation of labour practices. We identify several early tactics employed by Lidl management to weaken the effects of institutional pressures. There is also some evidence that personal characteristics of local managers affected the way HRM issues were addressed. Our analysis emphasises the dynamic interplay between labour market institutions and global retail strategy as well as the critical role of local actors (managers and employees) in the adaptation of MNC practices.

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