The "country-of-origin effect" in multinational corporations: Sources, mechanisms and moderating conditions

Niels G. Noorderhaven
Anne-Wil Harzing

Version June 2003

A revised version appeared in *Management International Review*, vol. 43 (2003), special issue 2, pp. 47-66.

Dr. Anne-Wil Harzing
University of Melbourne
Department of Management
Faculty of Economics & Commerce
Parkville Campus
Melbourne, VIC 3010
Australia

Email: anne-wil@harzing.com
Web: www.harzing.com

Niels G. Noorderhaven, Anne-Wil Harzing

THE “COUNTRY-OF-ORIGIN EFFECT” IN MULTINATIONAL CORPORATIONS: SOURCES, MECHANISMS AND MODERATING CONDITIONS

Abstract

- This conceptual paper examines the role of country-of-origin effects in MNCs. It deals with definitional problems and discusses both the sources of the country-of-origin effect, and the mechanisms through which it manifests itself.
- The strength of the country-of-origin effect is hypothesized to be moderated by factors related to both the home country and the MNC.

Key results

- The sources of the effect lie in the culture and institutions of the home country of the MNC. The mechanisms through which the effect manifests itself are the (continued) hiring of home-country nationals by the MNC, and the embeddedness of the administrative preferences of these home-country nationals in the organizational structures, procedures and processes of the MNC.
- The homogeneity of the home culture, substantive characteristics of the home-country culture, the size and openness of the home-country economy, the cultural and institutional diversity of the environments in which the MNC operates, and the international growth path of the MNC are proposed to impact on the strength of the country-of-origin effect.

Dr. Niels G. Noorderhaven, Professor of International Management, Tilburg University, The Netherlands

Dr. Anne-Wil Harzing, Senior Lecturer in International Management, Department of Management, University of Melbourne, Australia

Proposal for abbreviated heading: Country-of-origin effect in MNCs

INTRODUCTION

Globalization is assumed to bring about a process of convergence of cultural, political and economic aspects of life (Giddens 1999). In the globalization debate the multinational corporation (MNC) is often presented as a harbinger of global practices (Dicken 1998). As knowledge is assumed to move more easily within than across organizational boundaries (Buckley/Casson 1985; Bartlett/Ghoshal 1989), MNCs operating in many different countries can be expected to speed up the international harmonization of technologies and organizational practices (Mueller 1994). While practices rooted in local idiosyncrasies may survive in local firms, within MNCs international 'best practices' are expected to disseminate more quickly. At the same time, however, students of the MNC are increasingly recognizing the complexity and internal differentiation of this type of organization. As subsidiaries play different roles within the MNC and are faced with divergent local institutional, cultural and economic conditions, it stands to reason that these subsidiaries are not only internally differentiated, but are also managed in different ways by the MNC headquarters (Martinez/Jarillo 1991; Nohria/Ghoshal 1997; Harzing 1999). Furthermore, even though business may become increasingly global in many respects, the MNC remains dependent upon certain local environments for its competitive advantages and renewal thereof (Sölvell/Zander 1995).

This view of the MNC casts doubt on the presumed role of these firms in the globalization process, as far as the international transfer and harmonization of technologies and practices is concerned. Moreover, the view that whatever is transferred by the MNC to its subsidiaries can indeed be assumed to be international 'best practice' is increasingly questioned. Far from being 'nationless' organizations, as suggested by Ohmae (1990), even the most global MNCs in many respects still appear to be strongly rooted in their country-of-origin (Hu 1992; Ruigrok/Van Tulder 1995). A small but growing body of literature discusses this 'country-of-origin' effect in MNCs (for overviews, see Ferner, 1997 and Harzing and Sorge, 2003). Pauly and Reich (1997), looking at MNCs from the United States, Japan, and Germany, conclude that the behavior of the firms studies divides into three distinct 'syndromes', typical of the respective national origins; and that these 'syndromes are durably nested in broader domestic institutional and ideological structures' (Pauly/Reich 1997, p. 24). Ngo/Turban/Lau/Lui (1998) studied the effect of the nationality of the parent company on human resource practices of subsidiaries operating in Hong Kong. Comparing these practices for subsidiaries with parent firms from the United States, Great Britain, Japan, and Hong Kong itself, they find strong support for the hypothesis that country-of-origin influences the firms' human resource management practices (Ngo/Turban/Lau/Lui 1998, p. 642). Lubatkin/Calori/Very/Veiga (1998) focus on the administrative approach used by headquarters in recently acquired subsidiaries in Britain and France. During the transition period following an acquisition, the initial control strategies employed by the parent firm are seen as reflecting the acquiring firm's beliefs about 'how things ought to be done' (Lubatkin/Calori/Very/Veiga 1998, p. 671). They conclude that British and French parent firms tend to establish different headquarters-subsidiary relationships, with the French acquiring firms being more inclined to transfer managers to key positions in the acquired firms than British acquiring firms, and also exerting higher levels of centralized control (Lubatkin/Calori/Very/Veiga 1998, p. 679-680). Most recently, based on data on 287 subsidiaries from 104 MNCs, Harzing/Sorge (2003) conclude that country-of-origin comes forward as one of the most important predictors of the control mechanisms used by MNCs, while also influencing their overall internationalization strategy to some extent. Likewise, Harzing/Sorge/Pauwe (2002) find large differences between German and British MNCs in nearly all aspects of the headquarters-subsidiary relationship.

To the extent that the country-of-origin effect is significant, the influence of MNCs in the globalization process becomes ambivalent, and in internal MNC exchanges MNC headquarters cannot properly be regarded to be representing the 'global' and subsidiaries the 'local'. On the other hand, not all the evidence points in the same direction. Tregaskis (1998) conducted an analysis comparable to that of Ngo/Turban/Lau/Lui (1998) for firms operating in Britain, comparing nationally owned companies with subsidiaries of MNCs from continental Europe, the United States, and Japan. But in contrast with Ngo/Turban/Lau/Lui (1998), she found only limited differences in human resource development practices associated with the parent company's national origin. Likewise, Lindholm (1999-2000) found that the European MNC he studied adopted standardized performance management policies and practices both in its home country and in overseas subsidiaries, and that these policies and practices had a broadly similar impact on the job satisfaction of host-country employees in different subsidiaries. Hayden/Edwards (2001), although stating that ‘MNCs continue to be firmly embedded in, and strongly influenced by, their country of origin’ (p. 132), nevertheless observed that the country-of-origin effect in a large Swedish MNC eroded as foreign, mainly Anglo-Saxon, practices were adopted.

Hence, although there is significant evidence of the existence of a country-of-origin effect on MNCs, there are also conflicting findings, and it seems that there are many factors influencing both the manner in which the effect manifests itself and its strength. This is not surprising, since - as we will expound below - there are many factors at different levels that have to be taken into account, and these factors may be assumed to interact in complex ways. In this paper we aim to unravel the complex set of factors associated with the country-of-origin effect on MNCs by looking at the sources of the effect, the mechanisms through which it affects the MNC and its subsidiaries, and the conditions that moderate the effect. Such an analysis can help future research to delimit the country-of-origin effect more clearly, and in doing so become more cumulative.

In order to keep complexity within bounds, the next section will first provide our reasoned interpretation of the country-of-origin effect, and we will restrict our further discussion to the effect delineated in this way. After that, we discuss the sources of the effect, as well as the mechanisms through which it impacts on the MNC and its subsidiaries. Finally, based on this discussion of sources and mechanisms, we focus on the conditions that moderate the country-of-origin effect, since an explanation for previous, sometimes conflicting findings, may well be that the strength with which the country-of-origin effect manifests itself depends on a set of factors which are not invariant across studies. Our discussion leads to a number of propositions regarding the strength of the country-of-origin effect that can offer guidance to further research in this area. Conclusions follow.

DEFINITION OF THE COUNTRY-OF-ORIGIN EFFECT

The country-of-origin effect so far remains ill-defined. As a consequence, authors discuss widely diverging phenomena as examples of the effect, and in their explanations refer to very different mechanisms producing the effect. In order to streamline our discussion, we will have to delineate our understanding of the country-of-origin effect. In this respect, we will discuss two important distinctions: the distinction between phenomena at the level the individual subsidiaries and phenomena at the level of the MNC as a whole, and the distinction between the effect of deliberate policies of the MNC and that of subconscious influences.

Firstly, regarding the distinction between subsidiary-level and MNC-level phenomena, there is an abundance of research indicating the existence of important differences between subsidiaries of the same MNC (Ghoshal/Nohria 1989; Martinez/Jarillo 1991; Harzing 1999). These differences can be caused by adaptation to local circumstances, differences in the roles played by the subsidiaries within the MNC, differences in size or age of the subsidiaries, differences in their origins (start-up versus acquisition), as well as overall MNC policies, to name just a few. If we don't clarify whether the country-of-origin effect pertains to the overall policy of the MNC or to characteristics of the subsidiaries, we run the risk of falling into circular explanations, in which the country-of-origin effect is seen as influencing itself. Arguably, the level of complexity is highest at the level of the subsidiaries, since units at this level have to deal with 'a multitude of different and possibly conflicting institutional pressures' (Kostova/Roth 2002, p. 215). Therefore, we restrict our definition of the country-of-origin effect to phenomena at the level of the MNC as a whole, realizing that the extent to and the way in which these phenomena make themselves felt at the subsidiary level depend on many factors we cannot control for. More specifically, we limit ourselves to the influence of country of origin on two related sets of phenomena at the MNC level: the internationalization strategy and the international control strategy of the MNC. The concept of 'internationalization strategies' refers to the way in which the MNC models relationships between headquarters and subsidiaries, as well as with the markets and institutional context they operate in (Harzing/Sorge 2003). Based on the seminal work of Bartlett/Ghoshal (1989), the two main dimensions in which internationalization strategies differ can be said to be the responsiveness to local markets and other local factors and the extent of global integration. The concept of 'international control strategy' refers to the mechanisms the MNC uses to achieve coordination and alignment between its many units. Here the main dimensions are the directness and explicitness of control on the one hand, and the impersonality of control on the other (Harzing 1999).

There are many other phenomena in MNCs that could be claimed to be subject to country-of-origin effects, such as human resource policies, industrial relations, or the communication systems (see Ferner 1997; Bomers/Peterson 1977; and Nobel/Birkinshaw 1998, respectively). We have chosen for two broad categories of potential country-of-origin effects repositories because they represent two important and related aspects of MNCs at two different levels of policy generality. The internationalization strategy reflects fundamental choices concerning what type of MNC the company wants to be (Bartlett/Ghoshal 1989). One would expect the international control strategy to be partly determined by the internationalization strategy, but Harzing/Sorge (2003) show that companies appear to have a lot of leeway in fashioning their control strategy, even within a particular internationalization strategy. The international control strategy may, in turn, be expected to exert a relatively strong influence on lower-level phenomena in which country-of-origin effects may be expressed (Tregaskis 1998). The internationalization strategy and the international control strategy represent the most 'international' and potentially most decontextualized aspects of the MNC (Harzing/Sorge 2003). If country-of-origin effects can be found here, there is strong evidence that these effects do indeed remain relevant in spite of globalization.

Secondly, as mentioned above, we are of the opinion that we should distinguish between the effects of deliberate decisions and subconscious influences. Both can lead to home-country specific characteristics of MNCs. For instance, Pauly/Reich (1997) refer, among other things, to the decisions of MNCs to invest in R&D facilities at geographical locations outside of the home country, and find significant differences between American, Japanese and German MNCs in this respect. The step to invest in R&D facilities at a specific locality clearly is the result of a deliberate decision, presumably taking into account objective factors regarding the comparative attractiveness of potential localities. Other occurrences of home-country specific effects, however, may be expected to be much less subject to deliberate decision making. This appears to be true for the control strategies used by MNCs. Lubatkin/Calori/Very/Veiga (1998, p. 671) see organization members' beliefs about 'how things ought to be' as the source for the country-of-origin effects they identified, and quote Nonaka's (1994) reference to judgments that 'transcend factual or pragmatic considerations' in assent. We think that an explanation of country-of-origin effects should concentrate on this type of effects, as this seems to us to be the more 'pure' type, uncontaminated by deliberations that have to do more with contingency factors that happen to differ between countries, than with country-of-origin effects as such.

Sethi/Elango's (1999) conceptual paper about country-of-origin effects on MNC strategies does not make this distinction. The authors put forward a concept of country-of-origin effects comprising three elements: '(1) economic and physical resources and industrial capabilities; (2) cultural values and institutional norms; and (3) national government's economic and industrial policies' (Sethi/Elango 1999, p. 287). To combine three so radically different factors in a single concept of 'country-of-origin effects' seems counterproductive. This effect should rather be isolated from contingency effects and policies of national governments (the first and third categories mentioned by Sethi and Elango), in order to more accurately gauge its effect. Meshing factors that are subject to deliberate decision-making and choice and factors that are not, Sethi and Elango come to talk not only about 'a firm's choice of international competitive strategies and operational modes', but also of a firm that 'takes cognizance of .... cultural values and norms and patterns its organizational structure and operational practices so as to maximize the beneficial aspects of these norms' (Sethi/Elango 1999, p. 287 and p. 291, respectively). In our view, the second quote is symptomatic of a view in which culture and institutions are just another set of factors the MNC will have to take into consideration in determining its policy. In contrast, we adhere to the view that culture and (to a lesser extent) national institutions influence MNC behavior not primarily because they are deliberately factored into a decision equation, but rather through tacit beliefs and implicit values of its key decision makers. This view of the country-of-origin effect fits in with the sources of the effect and the mechanisms through which it operates, discussed in the next section.

To summarize: we restrict our analysis of the country-of-origin effect on MNCs to phenomena at the level of the MNC as a whole, notably the internationalization strategy and the international control strategy of the MNC, and we focus on the undeliberate influence of factors related to the culture and institutions of the home country. A possible criticism of this approach could be that there is a tension between the focus on undeliberate influences and the selection of internationalization strategy and international control strategy as main elements in which the effect manifests itself. However, it seems impossible to completely isolate subconscious effects from those produced by deliberate decision making. We contend that both the internationalization strategy and the international control strategy of an MNC are partly the result of deliberate decisions by MNC management, in response to objective factors in the environment, and partly the result of choices made by the same management, but on the basis of largely subconscious beliefs and values. This means that if we want to measure the country-of-origin effect, we will always have to control for all relevant contingency factors.

Diagram 1 clarifies the conceptual model underlying our definition of the country-of-origin effect. Internationalization strategies are assumed to be influenced by both contingency factors in the task environment, and the country-of-origin of the MNC. The contingency factors differ between industries, and cause particular internationalization strategies to be more popular in some industries than in others. However, the choice of an internationalization strategy could also be influenced by the country of origin of the MNC (Dowling/Welch/Schuler 1999; Sölvell/Zander 1995). The international control strategy may be assumed to be influenced by the internationalization strategy, as some internationalization strategies ask for more control, or control of a different kind, than others (Harzing 1999). However, we cannot rule out the possibility that the international control strategy is also directly influenced by contingency factors, such as for instance size or industry (Harzing/Sorge 2003). Hence, in analyzing the country-of-origin effect on international control strategies we will have to control for both internationalization strategy and factors in the task environment of the MNC.

================

Diagram 1 about here

================

Based on the discussion above, we adopt the following definition of the country-of-origin effect for the purpose of the analysis in this paper:

> *The country-of-origin effect consists of that part of the differences in internationalization strategies and international control strategies of MNCs that can be ascribed to the different national origins of these MNCs, rather than to variations in their task environment.*

One final issue needs clarification: what country can be assumed to be the 'country of origin' of an MNC? This is not necessarily given by the location of MNC headquarters, as this may be relocated for, for instance, tax reasons at a moment at which the internationalization strategy and international control strategy are already formed. Rather, the country-of-origin is determined by its ‘historical experience and the institutional and ideological legacies of that experience’ (Pauly/Reich 1997, p. 4), i.e., the country in which the MNC ‘grew up’ is important. As most MNCs have initially started to operate within national borders, this criterion should not pose too many problems. The only exceptions would be MNCs that at an early stage acquired a bi-national status (e.g., Shell), MNCs that are the result of an international merger and have since developed into a new entity (e.g., ABB) or MNCs that could be classified as born global firms (Bell/McNaughton/Young 2001). The following discussion applies to those MNCs that have a clear single country of origin.

SOURCES AND MECHANISMS OF OPERATION OF THE COUNTRY-OF-ORIGIN EFFECT

Differences between countries that can give rise to country-of-origin effects are well-documented in the international comparative management literature. The literature can be divided into two schools of thought: the culturalist and the institutionalist orientation. The culturalist tradition leans heavily on the work of Geert Hofstede, and in particular the indices of national value dimensions he developed (Hofstede 1980; 2001). The underlying assumption is that individuals become ‘mentally programmed’ by the way they are raised by their parents and peers and by the institutions (in particular the educational institutions) in the country in which they grow up. This makes them adopt broad preferences for certain states of affairs that they share, to a certain extent, with other people that have grown up under comparable circumstances. For the study of management and organization Hofstede’s dimensions of power distance and uncertainty avoidance are most relevant. Power distance is related to preferences regarding the distribution of authority, uncertainty avoidance to the importance of rules and procedures. In the culturalist perspective, managers from a large power-distance culture will be inclined to centralize decision making, and their subordinates will allow them to do so. Managers from strong uncertainty avoiding cultures will be inclined to use formal rules and procedures to coordinate the activities within the firm, and employees will tend to take these seriously (Hofstede 2001). There is a wealth of studies demonstrating that issues such as leadership and management, centralization of authority, organizational role ambiguity, and authority relations correlate significantly with one or more of Hofstede's cultural indices (see the references in Hofstede 2001). These behaviors are typically not the result of a deliberate evaluation of the pros and cons of various courses of action, but are regarded the natural thing to do: 'Because our values are programmed early in our lives, they are non-rational (although we may subjectively feel our own to be perfectly rational!)' (Hofstede 2001, p. 6). Values guide the selection and justification of actions, the evaluation of people and events, and the social construction of reality.

The institutionalist school sees the institutional environment as the key determinant of organizational characteristics (DiMaggio/Powell 1991; Scott 1995). Three aspects of institutions are distinguished, regulative aspects, as institutions set, monitor and enforce rules; normative aspects, as institutions prescribe desirable goals and the appropriate means of attaining them; and cognitive aspects, as institutions influence the beliefs of actors (Scott 1995). In the field of international comparative management the institutionalist approach is exemplified by, among others, the 'business systems' approach (Whitley 1992a; Whitley/Kristensen, 1996). This approach is based on the conviction that differences in the structure and operations of firms from different countries 'clearly stem from variations in dominant social institutions such as the state and the financial systems' (Whitley 1992b, p. 1). In later work, Whitley expanded the range of institutions considered with 'cultural conventions' and the 'labour system' (Whitley 1996, p. 51). Variations in the institutional features of countries are linked to characteristics of economic actors in complex ways, spelled out in many examples in this strongly descriptive literature. A school of thought related to the business systems approach, and chronologically preceding it, is the societal effect approach (Maurice 1979; Maurice/Sorge/Warner 1980; Sorge/Warner 1986). While focussing on a narrower range of countries in its empirical applications (most studies compare France, Germany and Great Britain), the societal effect approach studies the mechanisms through which institutions imprint the firms operating in a country in more detail. The societal effect approach started with a comparison of wage differentials in Germany and France, and gradually broadened to work organization, qualification systems, organizational structures, etc., summarized in the concept of 'organizational form'. Organizational forms can be functionally equivalent, meaning that various organizational forms can function equally well under a given set of environmental conditions (Sorge 1995). This leaves open the possibility that organizational forms are selected on the basis of their correspondence with societal institutions.

Both the culturalist and the institutionalist approach have tended to focus on the cross-national comparison of purely local or domestic firms, thereby limiting their relevance for cross-national management issues. The pertinent question in the context of this paper is how local culture and institutions of the country of origin impact on MNC policies, in particular internationalization and international control strategies. Through what mechanisms could these sources of local idiosyncrasy exert influence on the MNC?

First of all, as indicated above, almost all MNCs can be associated with one particular country of origin that influenced them during the period that they were not yet extensively internationalized. In these early years, the MNC may be assumed to have been influenced in a way and to an extent comparable to a purely domestic firm. However, in order for a country-of-origin effect to be present, we need to assume this influence is lasting. One approach would be to assume 'hysteresis', or 'a lagging effect after a causal force has been removed' (Pauly/Reich 1997, p. 5). Corporate inertia could cause MNCs to continue behave in ways that were attuned to their cultural and institutional environment as long as they were operating within their country of origin, but that are not necessarily so when operating in an international environment. Although corporate inertia is an important element in any explanation of consistency in firm behavior, we think a satisfactory explanation of the country-of-origin effect has to go beyond that.

As stated earlier, we focus on country-of-origin effects working through subconscious choices influenced by cultural and institutional characteristics of the country in which the decision makers grew up. In doing so, we subscribe, with Ghoshal/Nohria (1989, p. 334) to the view that the cognitive orientations of senior managers are key to understanding the organizational processes through which MNCs adapt themselves to their environment. After all, cultural and institutional elements enter organizations through the people working in them (Kostova/Roth 2002, p. 218). However, in contrast to Ghoshal/Nohria (1989), we also explicitly focus on non-rational influences. Managers may seek to adapt the MNC to its environment, but their view as to how this should be done is colored by the cultural and institutional characteristics of the society in which they were raised. In this we follow Calori/Lubatkin/Very/Veiga (1997).

According to Calori/Lubatkin/Very/Veiga (1997), the ‘administrative heritage’ of a country is historically influenced by the industrialization process, the system of government, dominant philosophies and religions, and geographic and demographic conditions. Historical events and processes give shape to institutions, which in turn influence the national culture. Building on the business systems approach Calori/Lubatkin/Very/Veiga (1997) distinguish between ‘proximate institutions’ which tend to have a coercive influence on management practices, such as legal regulations regarding corporate governance, and ‘background institutions’ such as the family, schools, and religious organizations. Schools are assumed to play a particularly important role in the transmission of cultural values. The primary socialization that people from a particular country receive at school strongly influences their administrative behavior later in life. On the basis of studies of the French and British educational systems, Calori/Lubatkin/Very/Veiga (1997, p. 687) conclude that ‘the science and social values that are explicitly and implicitly communicated at schools in France (...) are different from that which is communicated at comparable British schools. Specifically, the French learn to construct reality in terms of orderly hierarchies, while the British learn to do so in a less controlling, more individualistic way’. Comparable analyses are made of the religious and family systems of the two countries.

While endorsing the approach followed by Calori/Lubatkin/Very/Veiga (1997), we believe that an explanation on the basis of values instilled by institutions such as the family, schools, and religion, melts into the culturalist approach. The culturalist and the institutionalist approach seem to be complementary, as neither the concept of culture nor that of institutions alone captures the full spectrum of national differences that are important for the MNC (Xu/Shenkar 2002). However, we prefer to reserve the term ‘institution’ for more formal arrangements, such as legislation, and the term ‘culture’ for informal institutions and forms of influence, such as typical child-raising practices and typical career patterns. Obviously there is overlap between the two concepts, but the influence of the ‘background institutions’ described by Calori/Lubatkin/Very/Veiga (1997) can be effectively gauged with previously identified dimensions of culture, whereas that of the ‘proximate institutions’ appears to be less susceptible to this type of measurement. We will return to this issue in the next section.

Given that the country-of-origin effect is assumed to work through the administrative behavior of country-of-origin nationals working for the MNC, a prime mechanism for a permanent (or at least durable) country-of-origin effect is the continued hiring of country-of-origin nationals, even when the firm is operating internationally. Of course, it is not necessary – and not very well conceivable – that the MNC exclusively hires nationals from its country of origin. It suffices if key management positions are dominated by home-country natives. According to Ferner (1997, p. 19), senior management positions continue to be staffed 'disproportionally – often overwhelmingly – by home country nationals'. This continued hiring of home-country nationals for key management positions is the first mechanism through which the country-of-origin effect is preserved.

Secondly, the administrative preferences of the home-country nationals that traditionally have shaped the MNC - and still in many cases dominate top management – will become embedded in organizational structures, procedures, and processes. Organizational structure can be seen as the crystallization of the power relations within the corporation (Pfeffer/Salancik 1978). Both organizational structure and culture embody strategies of the past, and are very difficult to change (Johnson 1988). When the company starts to expand abroad it will tend to use the same structures, etc., in managing its foreign activities; MNCs may be fairly 'ethnocentric' in this regard (Jain/Lawler/Morishima 1998, p. 566). The international application of nationally-inherited administrative approaches can be effected both through formal and informal procedures and through the influence of expatriates (Tregaskis 1998). Presumably, the tendency to use home-grown administrative practices for international operations will to a certain extent be counterbalanced by other forces, calling for either more diversity of practices or for a dominant practice that is different from that of the country-of-origin (Ghoshal/Nohria 1989; Kostova/Roth 2002). So increasing internationalization of the firm will be likely to lead to some extent of adaptation of the way in which it is managed. In this sense the country-of-origin effect as it can be found in a truly international MNC can be seen as a residual of its history. But, assuming continued hiring of home-country nationals for key management positions and embedding of administrative preferences in organizational structures, procedures and processes, this may be expected to be a particularly persistent residual, and hence the country-of-origin effect should be given due attention in studying the management of MNCs.

MODERATING CONDITIONS OF THE COUNTRY-OF-ORIGIN EFFECT

If the analysis of the origin and mechanisms of the country-of-origin effect in the previous sections is correct, the question remains why – as indicated in the introduction - in some studies this effect comes out much stronger than in others. We believe that this is caused by a number of factors that influence the existence and strength of the country-of-origin effect. Further progress in the study of the effect depends crucially on taking these influences into account. This section will discuss the circumstances under which the country-of-origin effect may be expected to be stronger or weaker, and we will formulate propositions regarding the directions of these effects to guide future research. These propositions pertain to the country-of-origin effect as it has been defined earlier in the paper, i.e., that part of the differences in internationalization strategies and international control strategies of MNCs that can be ascribed to the different national origins of these MNCs, rather than to variations in their task environment. In order to control for variations in the task environment, any empirical study of the country-of-origin effect on MNCs will have to control for industry membership, as the transmission of home-country influence will be more marked in industries in which operating units are more integrated into the international corporate strategy of the parent (Ferner 1997). In the propositions formulated below, the *ceterus paribus* clause is assumed to apply as far as industry membership is concerned.

We will discuss the effect of three categories of moderators of the country-of-origin effect: culture, institutions, and contingencies (in as far as they are not covered by industry membership), both at the level of the home country and at the level of the MNC. Hence we distinguish six categories of moderators (see Table 1).

================

Table 1 about here

================

Home-Country Factors

The culture of the home country of the MNC may be expected to moderate the strength of the country-of-origin effect. We expect a stronger, i.e., more homogenous national culture in the country of origin to lead to stronger country-of-origin effects in MNCs originating from that country. The importance of strength of culture has been documented for organizational cultures by Peters/Waterman (1982), who observed that excellent companies are characterized by strong cultures, with shared values forming the core of these cultures. These cultures are 'strong' because, since they are homogenous, there is unity of purpose. The influence on individuals will be very strong as there is little room for divergent behavior. The same mechanism may be expected to be at work at the level of national cultures. In more homogenous national cultures the variety of behaviors is smaller, with the consequence that the culturally approved or permitted ways of doing things, including the management of organizations, is less likely to be questioned. In cultures that are more heterogeneous, culturally transferred practices will be more easily recognized as optional, rather than necessary. Hence:

Proposition 1a: *The cultural homogeneity of the home country positively moderates the strength of the country-of-origin effect.*

Secondly, particular characteristics of the home country culture (rather than its homogeneity) may be expected to moderate the strength of the country-of-origin effect. Firms from some countries, with certain cultural values, may be better able to adapt to local conditions than firms from other countries (Ngo/Turban/Lau/Lui 1998). Lubatkin/Calori/Very/Veiga (1998) note that the managers from the French firms in their data-set tend to exert much more strategic control than their British counterparts, and they explain this on the basis of the different 'administrative heritages' or cultures of these two countries. Looking at Hofstede's (1980) indices, we note that the two countries differ in particular in the dimensions of power distance and uncertainty avoidance, with France scoring higher on both dimensions. A large power distance, as mentioned earlier, is associated with centralization in management, as found, for instance, by Wong/Birnbaum-More (1994) in a sample of multinational banks. Strong uncertainty avoidance is associated with strict control (see, e.g., Offermann/Hellmann, 1997). Without denying the possibility that other dimensions of national culture in some way moderate the country-of-origin effect, we focus on power distance and uncertainty avoidance, as these two dimensions are particularly relevant for the functioning of organizations. (Hofstede 2001, p. 375).

The influence of power distance and uncertainty avoidance on headquarter-subsidiary relations as observed by Lubatkin/Calori/Very/Veiga (1998) can be interpreted in two ways. The relatively 'hands-off' approach of the British acquiring firms can be seen as an expression of the small power-distance, weak uncertainty-avoidance characteristics of the home country culture, and the strong control attitude of the French acquiring firms as an expression of the contrasting characteristics of the French national culture in these respects. While such an interpretation would not a-priori be invalid, it would form the basis of a hypothesis regarding the substantive country-of-origin effects of cultural characteristics of the home country. However, it would not be helpful in understanding why the country-of-origin effect is stronger in some cases than in others, i.e., the moderating effect of the home country culture on the strength of the country-of-origin effect. As we are interested in these moderating factors, we choose to look at the issue from this perspective. Both a large power distance and a strong uncertainty avoidance can reasonably be hypothesized to lead to a tendency to exert strong influence from the home country on the management of subsidiaries overseas. Hence, these dimensions may also be assumed to positively affect the strength of the country-of-origin effect:

Proposition 1b: *Home-country cultures that are characterized by a large power distance and/or a strong uncertainty avoidance positively moderate the strength of the country-of-origin effect of MNCs.*

Apart from culture, the institutional characteristics of the home country may moderate country-of-origin effects. Kostova (1999) distinguishes three components of 'country institutional profiles': the regulatory component, the cognitive component, and the normative component. The latter two aspects of institutional profiles overlap with culture, but the regulatory component is unique to the concept of institutions (Kostova 1999, p. 314). Dimensionalizing and measuring country institutional profiles may in due time enable the formulation of propositions based on concrete substantive institutional characteristics. However, before that is possible more developmental work on measuring institutional profiles is necessary (Kostova 1997). Busenitz et al. (2000) measure the three dimensions of institutional profiles with questionnaire items.

This has the disadvantage, particularly with regard to the regulatory dimension, that it yields very abstract institutional profiles, as respondents' general impressions and perceptions of government policies rather than actual laws and regulations are tapped. Another issue that has to be addressed is the level of specificity that is desirable in measuring country institutional profiles. Kostova (1997) argues that institutional profiles should be measured with regard to specific domains. However, the more specific the measurement of institutional characteristics is to the organizational phenomena studied, the larger the danger of tautological explanations. A strong point of very general societal characteristics (such as Hofstede's dimensions of culture) is that the relationship with organizational phenomena is not self-evident, and hence constitutes a non-trivial finding.

At present our knowledge of the influence of the institutional profile of the home country on the management of MNCs is insufficient to form the basis of plausible propositions pertaining to substantive characteristics of institutional environments. Whitley (1999), for instance, distinguishes six ideal types of business systems, based on the degree of ownership-based coordination of economic activities, and the extent of non-ownership-based or alliance form of organizational integration. But while the implications of these types of business systems for firms operating within them are analyzed, it remains unclear to what extent these environments differ in the extent to which firms originating from them display a tendency to 'export' home-grown practices to their subsidiaries overseas. This is not to say that the institutions of the home country are assumed not to moderate the country-of-origin effect. To the contrary, such moderating effects are quite likely. For instance, Hayden/Edwards (2001, p. 117) note that the fact that Sweden had a set of highly distinctive institutions for a long time has influenced the country-of-origin effect in Swedish MNCs. But as these authors also note, the differences between the home country institutional environment and that of the host country are also important. German MNCs have been willing to export German-style vocational training in UK subsidiaries because Britain lacks the institutions necessary to underpin these practices (Hayden/Edwards 2001, p. 122). On the basis of these considerations, we do not formulate a proposition pertaining to substantive characteristics of institutional characteristics of the home country and the strength of country-of-origin effects here. We restrict ourselves to differences between institutional environments (see proposition 4 below).

Finally, we discuss two home country contingency variables that might moderate country-of-origin effects: the size and openness of the economy. A smaller and more open economy in the country of origin may lead to weaker country-of-origin effects for MNCs originating from that country. Firms from smaller nations and nations with more open economies have been forced in their history to compete and/or cooperate with foreign companies and to demonstrate adaptability (Pauly/Reich 1997). MNCs from countries such as Sweden or Switzerland, with smaller home markets, are likely to be more 'international' in terms of the proportion of their foreign operations than MNCs from larger countries (Ferner 1997). MNCs originating from small nations also presumably started doing business abroad at an early stage of their development, and hence have acquired the ability to accommodate foreign administrative approaches. If two MNCs are at present internationalized to the same extent, the MNC from a small open economy may be expected to have embarked on the path of internationalization earlier in its history, and hence bear a weaker imprint from the culture and institutions of its home country.

Hence, our propositions:

Proposition 2a: *Home countries with small economies negatively moderate the strength of the country-of-origin effect.*

Proposition 2b: *Home countries with open economies negatively moderate the strength of the country-of-origin effect.*

MNC-Specific Factors

Above we have discussed moderating effects of the homogeneity and of specific characteristics of the home-country culture. But culture may also be assumed to play a role in another way. Depending on the set of countries in which they operate, MNCs face different levels of cultural diversity in their environments. The greater the cultural distance between home and host country, the harder it will be for the MNC to transfer home-country philosophies and practices (Ferner 1997). This effect at the level of the single headquarters-subsidiary relationship will presumably also play in an aggregated form at the level of the MNC as a whole. The greater the cultural diversity of the environments the MNC is working in, the weaker the country-of-origin effect in that MNC may be assumed to be. Hence more geographical dispersion will negatively moderate the country-of-origin effect, if this geographical dispersion is across cultures (Hayden/Edwards 2001). Since it becomes more difficult to apply the home-grown administrative approach, MNC-management will become aware of this, and will – perhaps through trial and error – adapt its strategies. The extent of cultural diversity in the MNC's environments is expected to correlate – but imperfectly – with the extent of internationalization of the MNC (see below), as well as the openness and size of the home country economy (see above).

Proposition 3: *The level of diversity of the cultural environments in which an MNC operates will negatively moderate the strength of the country-of-origin effect.*

Parallel to the predicted moderating effect of aggregated cultural distance, the diversity of institutional environments in which the MNC operates may also be expected to negatively influence the strength of the country-of-origin effect. MNCs working across a diversity of institutional regimes will feel a reduced isomorphic pressure (Xu/Shenkar 2002). Hence:

Proposition 4: *The level of diversity of the institutional environments in which an MNC operates will negatively moderate the strength of the country-of-origin effect.*

Finally, we propose that the international growth path of the MNC will moderate the strength of country-of-origin effects. MNCs that have historically grown and internationalized through start-ups, rather than acquisitions, are expected to display a stronger country-of-origin effect, since it is easier to install home-grown management practices in new start-ups than in acquired existing firms (Harzing 2002). We could also formulate a proposition pertaining to the overall level of internationalization of the MNC (in terms of sales, production, personnel, or geographical spread of key functions), with the level of internationalization negatively moderating the strength of country-of-origin effects. However, we believe that this effect is already effectively captured by the cumulative cultural and institutional distances, subjects of propositions 3 and 4, respectively. Hence, we restrict ourselves to a single proposition:

Proposition 5: *Internationalization through start-ups (rather than acquisitions) will positively moderate the strength of the country-of-origin effect.*

CONCLUSIONS

There is a growing recognition of the influence of the country-of-origin on important aspects of MNCs. However, empirical findings are not always consistent. This may be caused by the fact that the concept of 'country-of-origin effects' remains ill-defined, and is used by different authors to refer to different aspects of MNCs. It may also be caused by the fact that there are factors moderating the strength of country-of-origin effects that so far have not been identified and adequately incorporated in empirical studies of the effect. In this paper we define the country-of-origin effect as that part of the differences in internationalization strategies and international control strategies of MNCs that can be ascribed to the different national origins of these MNCs, rather than to variations in their task environment. Based on this demarcation, we discuss the sources of the country-of-origin effect, and the mechanisms through which it manifests itself. The sources of the effect are seen to lie in the culture and institutions of the home country of the MNC. The mechanisms through which the effect manifests itself are the (continued) hiring of home-country nationals by the MNC, and the embeddedness of the administrative preferences of these home-country nationals in the organizational structures, procedures and processes of the MNC.

The strength of the country-of-origin effect manifested in this way is expected to be moderated by factors related to the home country and to the MNC. The more homogenous the home-country culture, the stronger the country-of-origin effect. A large power distance and/or strong uncertainty avoidance of the home country culture are also expected to positively moderate the strength of the country-of-origin effect. In addition, the size and openness of the home country are expected to be of importance, with smaller and more open home country economies being associated with weaker country-of-origin effects. With regard to the MNC, MNCs operating in a greater diversity of cultural or institutional environments are expected to show weaker country-of-origin effects. Finally, MNCs that have internationalized predominantly though start-ups are expected to show stronger country-of origin effects than MNCs that have grown predominantly through international acquisitions.

The propositions regarding moderators of the country-of-origin effect can form the basis of refutable hypotheses that can be empirically tested. We believe that our understanding of the management of MNCs will be increased through a careful study of country-of-origin effects and the factors moderating these effects. Such knowledge will be theoretically relevant, as it will contribute to an understanding of the role of MNCs in the international transfer of organizational practices. It will also be of practical importance, as the country-of-origin effect, as defined in this article, manifests itself largely undeliberately through decisions by managers that are influenced by taken-for-granted cultural values and institutional influences. Being aware of this type of influences and biases increases the possibility of shaping MNC management to reflect the requirements of the task environment, rather than the historical home country culture and institutions.

REFERENCES

Bartlett, C.A./Ghoshal, S., *Managing across borders. The transnational solution*, Boston, MA.: Harvard Business School Press 1989.

Bell, J./McNaughton, R./Young, S., 'Born-again global' firms. An exension to the 'born global' phenomenon, *Journal of International Management*, 7, 2001, pp. 173-189.

Bomers, G.B.J./Peterson, R.B., Multinational Corporations and Industrial Relations: The Case of West Germany and the Netherlands, *British Journal of Industrial Relations*, 15, 1977, (March), pp. 45-62.

Buckley, P.J./Casson, M., *The economic theory of the multinational enterprise*, London: Macmillan 1985.

Busenitz, L.W./Gomez, C./Spencer, J.W., Country Institutional Profiles: Unlocking Entrepreneurial Phenomena, *Academy of Management Journal*, 43, 2000, pp. 994-1011.

Calori, R./Lubatkin, M./Very, P./Veiga, J.F., Modelling the Origins of Nationally-Bound Administrative Heritages: A Historical Institutional Analysis of French and British Firms, *Organization Science*, 8, 1997, pp. 681-696.

Dicken, P., *Global Shift: Transforming the World Economy*. London: Paul Chapman 1998.

DiMaggio, P.J./Powell, W.W., Introduction, in W.W. Powell, W.W./DiMaggio, P.J. (eds.), *The New Institutionalism in Organizational Analysis,* Chicago: University of Chicago Press 1991, pp. 1-38.

Dowling, P./Welch, D.E./Schuler, R., *International Human Resource Management: Managing People in a Multinational Context*, Cincinnati: South-Western College Publishing 1999.

Ferner, A., Country of origin effects and human resource management in multinational companies', *Human Resource Management Journal*, 7, 1997, pp. 19-37.

Ghoshal, S./Nohria, N., Internal Differentiation within Multinational Corporations, *Strategic Management Journal*, vol. 10, 1989, pp. 323-337.

Giddens, A., *Runaway World: How Globalization is Reshaping our Lives*. London: Profile Books 1999.

Harzing, A.-W. K., *Managing the multinationals: An international study of control mechanisms*, Cheltenham: Edward Elgar 1999.

Harzing, A.-W. K., Acquisitions versus greenfield investments: International strategy and management of entry modes, *Strategic Management Journal*, 23, 2002, pp. 211-227

Harzing, A.-W. K./Sorge, A.M./Paauwe, J., HQ-subsidiary relationships in multinational companies: A British-German comparison, in: Geppert, M./Matten, D./Williams, K. (eds.), *Challenges for European Management in a Global Context — Experiences from Britain and Germany*, Basingstoke, London, New York: Palgrave 2002, pp. 96-118.

Harzing, A.-W. K/Sorge, A.M., The relative impact of country-of-origin and universal contingencies on internationalization strategies and corporate control in multinational enterprises: World-wide and European perspectives, *Organization Studies*, 24, 2003, pp. 187-214.

Hayden, A./Edwards, T., The erosion of the country of origin effect; A case study of a Swedish multinational company, *Relations Industrielles/Industrial Relations,* 56, 2001, pp. 116-140.

Hofstede, G., *Culture's Consequences. International Differences in Work-Related Values*, London: Sage Publications 1980.

Hofstede, G., *Culture's consequences, comparing values, behaviors, institutions and organizations across nations*. Second Edition, Thousand Oaks: Sage Publications 2001.

Hu, Y.-S., Global or stateless corporations are national firms with international operations, *California Management Review*, Winter 1992, pp. 107-126.

Jain, H.C./Lawler, J.J./Morishima, M., Multinational corporations, human resource management and host-country nationals, *The International Journal of Human Resource Management*, 9, 1998, pp. 553-566.

Johnson, G., Rethinking incrementalism, *Strategic Management Journal*, 9, 1988, pp. 75-91.

Kostova, T., Country institutional profile: Concept and measurement, *Proceedings of the Academy of Management*, 1997, 180-184.

Kostova, T., Transnational Transfer of Organizational Practices: A Contextual Perspective, *Academy of Management Review*, 24, 1999, pp. 308-324.

Kostova, T./Roth, K., Adoption of an Organizational Practice by Subsidiaries of Multinational Corporations: Institutional and Relational Effects, *Academy of Management Journal*, 45, 2002, pp. 215-233.

Lindholm, N., National culture and performance management in MNC subsidiaries, *International Studies of Management & Organization*, 29, 1999-2000, pp. 45-66.

Lubatkin, M./Calori, R./Very, P./Veiga, J.F., Managing Mergers Across Borders: A Two-Nation Exploration of a Nationally Bound Administrative Heritage, *Organization Science*, 9, 1998, pp. 670-684.

Martinez, J.I./Jarillo, J.C., Coordination demands of international strategies, *Journal of International Business Studies*, 22, 1991, pp. 429-444.

Maurice, M., For a study of "the societal effect": Universality and specificity in organization research, in Lammers, C.J./Hickson, D.J. (eds.), *Organizations Alike and Unlike*, London: Routledge 1979, pp. 42-60.

Maurice, M./Sorge, A./Warner, M., Societal differences in organizing manufacturing units. A comparison of France, Great Britain and West Germany, *Organization Studies*, 1, 1980, pp. 59-86.

Mueller, F., Societal effect, organizational effect and globalization, O*rganization Studies*, 15, 1994, pp. 407-428.

Ngo, H.-Y./Turban, D./Lau, C.-M./Lui, S.-Y., Human resource practices and firm performance of multinational corporations: Influences of country origin, *The International Journal of Human Resource Management*, 9, 1998, pp. 632-*652.*

Nobel, R./Birkinshaw, J., Innovation in Multinational Corporations: Control and Communication Patterns in International R&D Operations, *Strategic Management Journal*, 9, 1998, pp. 479-496.

Nohria, N./Ghoshal, S., *The differentiated network*, San Francisco: Jossey-Bass 1997.

Nonaka, I., A dynamic theory of organizational knowledge creation, *Organization Science*, 5, 1994, pp. 14-37.

Offermann, L.R./Hellmann, P.S., Culture's consequences for leadership behavior: National values in action, *Journal of Cross-Cultural Psychology*, 28, 1997, pp. 342-351.

Ohmae, K., *The Borderless World: Power and Strategy in the Interlinked Economy*. London: Collins 1990.

Pauly, L.W./Reich, S., National structures and multinational corporate behavior: enduring differences in the age of globalization, *International Organization*, 51, 1997, pp. 1-30.

Peters, T.J./Waterman, R.H., Jr., *In Search of Excellence: Lessons from America's Best-Run Companies*, New York: Harper & Row 1982.

Pfeffer, J./ Salancik, G.R., *The External Control of Organizations: A Resource Dependence Perspective*, New York: Harper & Row 1978.

Ruigrok, W./Van Tulder, R., *The logic of international restructuring*, London: Routledge 1995.

Scott, R., *Institutions and Organizations*, Thousand Oaks, CA: Sage 1995.

Sethi, S.P./Elango, B., The influence of "country of origin" on multinational corporation global strategy: A conceptual framework, *Journal of International Management*, 5, 1999, pp. 285-298.

Sölvell, Ö./Zander, I., Organization of the dynamic multinational enterprise; The home-based and the heterarchical MNE, *International Studies of Management & Organization*, 25, 1995 (1-2), pp. 17-38.

Sorge, A., Cross-national differences in personnel and organization: describing and explaining variables, in Harzing, A.W.K./Van Ruysseveldt, J., *International Human Resource Management*, London: Sage 1995, pp. 99-123.

Sorge, A./Warner, M., *Comparative factory organisation. An Anglo German comparison of management and manpower in manufacturing.* Aldershot: Gower 1986.

Tregaskis, O., HRD in foreign MNEs. *International Studies of Management and Organization*, 28, 1995 (1), pp. 136-163.

Xu, D./Shenkar, O., Institutional Distance and the Multinational Enterprise, *Academy of Management Review*, 27, 2002, pp. 608-618.

Whitley, R., (ed)., *European Business Systems; Firms and Markets in their National Contexts*, London: Sage 1992a.

Whitley, R., Societies, firms and markets: The social structuring of business systems, in Whitley, R., (ed.), *European Business Systems; Firms and Markets in their National Contexts*, London: Sage 1992b, pp. 5-45.

Whitley, R., The social construction of economic actors: Institutions and types of firm in Europe and other market economies, in Whitley, R./Kristensen, P.H. (eds.), *The Changing European Firm; Limits to Convergence*, London: Routledge 1996, pp. 39-66.

Whitley, R., Competing logics and units of analysis in the comparative study of economic organization, *International Studies of Management & Organization*, 29 (2), pp. 113-126.

Whitley, R./Kristensen, P.H., (eds.), *The Changing European Firm; Limits to Convergence*, London: Routledge 1996.

Wong, G.Y.Y./Birnbaum-More, P.H., Culture, Context and Structure: A Test on Hong Kong Banks, *Organization Studies*, 15, 1994, pp. 99-123.

Diagram 1: Conceptual Model of Country-of-Origin Effects

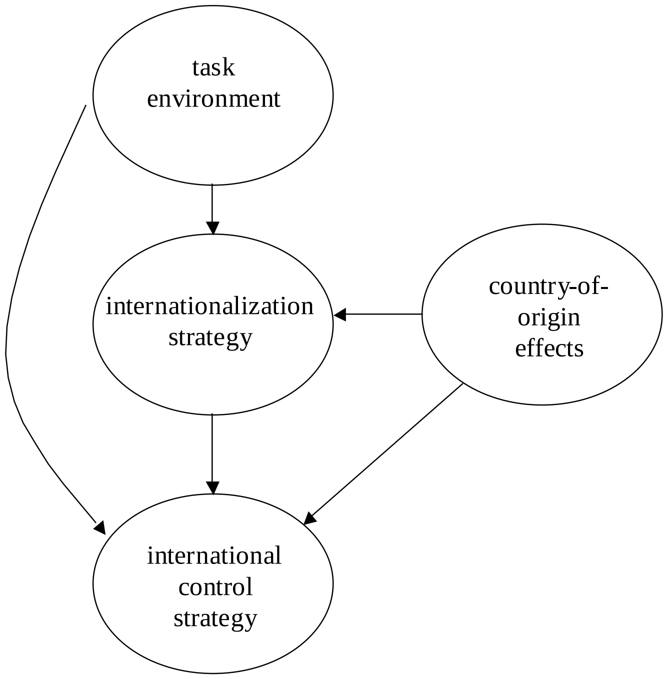

Table 1: Moderators of the Country-of-Origin Effect

	Culture	Institutions	Contingencies
Home Country factors	Homogeneity of home-country culture (proposition 1a) Characteristics of home-country culture (proposition 1b)	Characteristics of home-country institutional regime (no proposition)	Size of home country economy (proposition 2a) Openness of home country economy (proposition 2b)
MNC-specific factors	Cultural diversity of environments in which the MNC operates (proposition 3)	Diversity of institutional regimes in which MNC operates (proposition 4)	International growth path of MNC (proposition 5)