

**How MNE subsidiaries transfer HRM practices in distant environments:
A tale of two IKEA subsidiaries**

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Abstract

While most research in the international business field focuses on the impact of the national institutional environment on multinational enterprises (MNEs), this paper explores the opposite relationship—the role and impact of MNE subsidiaries on the host country institutional environment. We analyze the subsidiaries' agency in the transfer activities of human resource management (HRM) practices by bringing the case of IKEA subsidiaries in Korea and Japan and find that these subsidiaries not only adapted to pressures arising from an institutional distance but also played an important role in influencing the institutional arrangement for employment system of their host countries. With a contextualized agency model, this study finds that institutional and organizational contexts that these subsidiaries are embedded in shaped their agencies and strategic responses and co-evolved with their host institutional environments while transferring HRM practices. These findings have implications for the IB and IHRM field, as they highlight the potential of MNE subsidiaries as agents.

Keywords

Multinational enterprises (MNEs) · Agency · Subsidiary · Comparative institutional analysis · HRM practice transfer · Institutional distance

1. Introduction

Multinational enterprises (MNEs) operating in different countries and institutional environments face a variety of pressures. In the IB field, institutional theory has been widely applied to understand those pressures in the home and host countries' institutional environments (Gooderham et al., 1998; Kostova, 1999; Kostova and Roth, 2002; Rosenzweig and Nohria, 1994). Particularly, institutional approaches to the transfer of HRM practices in MNEs have discussed the issue of the standardization or localization of HRM practices based on the home and host country effects (e.g. Farndale et al., 2008; Ferner et al., 2005; Ferner, 1997; Brewster et al., 2008). While extant research in IHRM has explored such pressures on MNE subsidiaries (Farndale et al., 2008; Pudelko and Harzing, 2007), a more recent study has explored the complexity of the HRM practice transfer process by challenging the simplistic perspective of standardization and localization debate (e.g. Edwards, 2011; Edwards et al., 2012; Gamble, 2010).

Despite the growing attention on the complex mechanisms of HRM practice transfer, research on actors (e.g. subsidiaries)' agency in it has been less discovered (except for Ferner et al., 2011; Fortwengel and Jackson, 2016). Hence the question 'what roles subsidiaries play in the practice transfer process' is still unanswered in the research on HRM practice transfer (Chiang et al., 2017). Similarly, there has been relatively little research in the IB field on the agency by subsidiaries in relation to institutional environments (notable exceptions are Cantwell et al., 2010; Saka-Helmhout and Geppert, 2011; Regnér and Edman, 2014). As the extant research has pointed out, the transfer of MNE practices to subsidiaries may involve adjusting dual pressure from home- and host-country, including direct host-country effects and strategic initiatives of subsidiaries to change host-country institutions. More specifically, while MNE subsidiaries need to adjust to the institutional pressure from the home- and host-country when transferring practices, they sometimes actively participate in creating institutional support or, more generally, in promoting institutional change in the host-country environment in order to successfully transfer practices from headquarter (HQ) (Fortwengel and Jackson, 2016; Regnér and Edman, 2014). In line with the current contribution of the active role of MNE subsidiaries in the practice transfer process, this study focuses on the subsidiary's agency and explores how subsidiaries adapt to the complex pressures from home- and host-country and what actions they take while transferring HRM practices.¹

Acknowledging the active role of subsidiaries in the process of HRM practice transfer, this paper aims to provide a better understanding of subsidiary agency by highlighting specific contexts, their impact on the subsidiary agency, and the development of the agency. First, this study aims to show various forms of agency of subsidiaries by providing a contextualized understanding of subsidiary agency. Most previous works on the subsidiary agency in the practice transfer have limited sense of how external and internal contexts (home and host institutions, organizational characteristics) enable or shape the subsidiary agency. Several works have pointed out institutional drivers for the subsidiary agency by shedding light on comparative institutional analysis (CIA) (Ahmadjian, 2016; Fortwengel and Jackson, 2016;

¹This study adopts a broad definition of HRM practices as the activities that a firm conducts to manage people in organizations effectively following Formbrun et al. (1984) and Pudelko and Harzing (2007)'s approach.

Saka-Helmhout and Geppert, 2011). However, we still have a limited systematic understanding of what triggers the subsidiary's agency during the practice transfer. In this sense, looking into HRM practice transfer activities of subsidiaries and agencies is appropriate since HRM practices are not context-free, rather heavily embedded in national institutional contexts.

Also, this study uses specific home- and host-institutional contexts and MNE subsidiaries to extend the subsidiary agency literature. In the works drawing on CIA, they have analyzed typical coordinated market economies (CMEs) and liberal market economies (LMEs) where institutional features are evident and clear (e.g. Fortwengel and Jackson, 2016; Farndale et al., 2017). Yet, little has been done with other contexts (e.g. comparing within CMEs, practice transfer activities between Northern European and advanced Asian countries). This study brings the specific cases of IKEA Korea and IKEA Japan's HRM practice transfer activities to address this issue. As Jonsson and Foss (2011) pointed out, IKEA's practice transfer activities ensure homogenous practices and systems across the national borders. IKEA has also maintained its culture and value from the Swedish way of managing businesses (Kling and Goteman, 2003) while emphasizing its own home-based corporate culture. However, the host countries of this paper's cases, Korea and Japan have unique labor market institutions that can act as barriers for the IKEA subsidiaries to transfer and implement HRM practices from HQ. Furthermore, with the contexts, this study also investigates how the subsidiaries engage with host institutional environments by analyzing strategic actions of the subsidiaries while maintaining particular agency. It allows us to have a more rich and fine-grained understanding of subsidiary agency.

To investigate the role of MNE subsidiaries as agents regarding HRM practice transfer activities more systematically, this paper applies a contextualized agency model (Kostova et al., 2018). The contextualized agency model derives from traditional and current debates of agency theory (Eisenhardt, 1989a; Jensen and Meckling, 1976; Hendry, 2002), which already have provided important implications to the study of HQ-subsidiary relations (e.g. O'Donnell, 2000; Roth and O'Donnell, 1996). As Hoenen and Kostova (2015) argue, the traditional agency model between HQ and subsidiary has not covered the contextual embeddedness of the agency relationship, recognizing the impact of institutional environment in which HQ as a principal and subsidiary as an agent are embedded (except for Wiseman et al., 2012). The contextualized agency model (Kostova et al., 2018) addresses this acontextual agency problem while highlighting how cultural and institutional contexts affect subsidiaries' behavior. Acknowledging the importance of context, this study adds the CIA perspective into the model. The perspective has provided novel implications to institutional analysis literature in the IB field by showing how and why institutions differ across countries with a rich description of institutions (Ahmadjian, 2016; Fortwengel, 2017a; Jackson and Deeg, 2008; Witt and Jackson, 2016).

Furthermore, the CIA scholars have been shedding light on agent-led institutional change with the view of institutions as resources and enablers, not only as constraints (Deeg and Jackson, 2007; Hall and Thelen, 2009; Hotho and Saka-Helmhout, 2017). These new developments of CIA literature add an important new perspective for the contextual stream of HQ-subsidiary agency research. With the CIA perspective, which provides a contextualized understanding of national institutional configurations, the agency model could provide a better

answer for what motivates (why) the subsidiaries take certain actions against institutional pressures from home- and host-country while transferring HRM practices.

Specifically, this paper addresses the following questions: (a) How MNE subsidiaries' agencies are shaped in HRM practice transfer to the host countries with a strong and unique institutional environment? (b) How do subsidiaries engage with the institutional environment of host countries while transferring HRM practices? and how do they strategically respond to the institutional distance between home- and host-countries and host institutional pressure? (c) Why do subsidiaries take specific actions, and what factors motivate or influence subsidiaries' actions?

By answering those questions and providing a refined interpretation of subsidiary agency in the context of HRM practice transfer, this paper aims to make several key contributions to existing literature. First, we extend IB literature of practice transfer by considering the role of MNE subsidiaries in influencing host countries' institutions. In particular, our empirical cases related to the specific company and the specific institutional environment influencing HRM practices adds empirical contributions to an emerging body of IB literature that has started asking how and why MNEs actively respond to institutional duality (Becker-Ritterspach et al., 2017; Cantwell et al., 2010; Kostova et al., 2008; McGaughey et al., 2016). This contribution goes beyond the extant debate on 'global standardization' or 'localization' of practice transfer and shows an additional avenue of the role of subsidiaries in the practice transfer process. Second, this paper also introduces the contextualized agency model with the CIA perspective as an alternative approach to the subsidiary agency literature in the IB field and applies it for analysis. As earlier works pointed out (Hoenen and Kostova, 2015; Kostova et al., 2018), this study also believes that embracing agency theory and applying the contextual agency model could add important implications to the study of MNE subsidiaries' practice transfer activities by offering a nuanced institutional context to explain a potential of agent-led institutional change from MNE subsidiaries.

2. Theoretical framework

2.1. MNEs' HRM practice transfer

MNEs face multiple, potentially conflicting pressures that their HQs and subsidiaries are embedded in (Andersson et al., 2002; Forsgren et al., 2007; Ghoshal and Bartlett, 1990; Westney, 1993) while transferring practices across the countries. Such practices are likely to be influenced by the institutions of the MNE's home country. MNE HQs may try to implement standardized practices to subsidiaries in host countries, believing that their way of operating has created the firm's particular advantage and that it is likely to hold in all contexts. Due to host countries' institutional complexity, HQs may struggle to impose practices on subsidiaries (Kostova, 1999; Rosenzweig and Singh, 1991). Hence, MNEs and their subsidiaries may face dual institutional pressures to adapt to the host countries' institutional environment and ensure consistency within MNEs when transferring and implementing practices. In defining these pressures and gaps, Kostova and Zaheer (1999: 71) utilize the concept of "institutional distance" between two countries, which is "the difference/similarity between the regulatory, cognitive, and normative institutions of the two countries." Similarly, Kostova and Roth (2002:

216) highlight the concept of "institutional duality," which MNE subsidiaries inevitably confront with two distinct sets of isomorphic pressures and a need to maintain legitimacy within both the host country and the MNEs.

HRM practice has long been considered the most 'national' of practices (Rosenzweig and Nohria, 1994). Hence, in the study of the transfer of HRM practices within MNEs, there have been similar debates on the institutional pressures on subsidiaries to adopt home-country, host-country based or dominant practices (Farndale et al., 2008; Ferner et al., 2011; Smale et al., 2013). First, a 'country of origin' effect exists when subsidiaries' HRM practices may be influenced by HQ's home country national business system (Ferner, 1997). Second, the host-country institutional context has been described as another pressure on subsidiaries' HRM practice transfer (Rosenzweig and Nohria, 1994; Brewster et al., 2008; Ferner et al., 2001). Third, subsidiaries could be under pressure of transnational influences, 'dominance effect' from a dominant economy (e.g. U.S) (Pudelko and Harzing, 2007). Against the pressures, MNEs may take two different strategic approaches: best practices and best-fit approaches while transferring HRM practices (Farndale et al., 2008; Ferner et al., 2011). It also links with the discussion of convergence (standardization) vs. divergence (localization) in the IHRM field (e.g. Björkman et al., 2007; Brewster et al., 2016; Edwards et al., 2016). Taylor, Beechler, and Napier (1996) suggest strategies of exportation, adaptation, and integration to analyze what strategies MNEs take regarding transferring HRM practices. Each of the approaches is discussed in more detail below.

MNEs might take a universalistic HRM approach or exportation strategy to address such different pressures when transferring HRM practices to their subsidiaries for several reasons. First, MNEs want to maintain control over subsidiaries by taking the cross-national transfer of best HRM practices (Ferner et al., 2012; Ferner et al., 2011). They believe exported practices may help keep their competitive advantage. Second, MNEs also concern about cost. Transferring universalistic HRM practices would not require the cost for adaptation or localization. Furthermore, universal best HRM practices may promote standardization of corporate culture, which helps the learning process between subsidiaries and HQ.

Contrary to the exportation strategy, the adaptation strategy emphasizes the embeddedness of national cultural and institutional context and scholars in this school are more skeptical about the possibility of the best-practice-fit-all idea (Pudelko and Harzing, 2007; Thite et al., 2012). The adaptation strategy suggests that MNEs should adapt to the local context or be more sensitive to institutional or cultural factors of host countries when transferring HRM practices. This approach follows the divergence approach that supports the idea of host institutions as constraints or barriers to impede transferring standardized practices (Edwards and Kuruvilla, 2005; Kostova, 1999) or opportunities (Clark and Lengnick-Hall, 2012).

Besides the exportation and the adaptation strategies, MNEs may take the integration strategy, which combines standardization and adaptation approaches. Following the integration strategy, MNEs take converging divergence approaches (Katz and Darbishire, 2000), adapted global practices (Edwards et al., 2007) or hybridization approach (Gamble, 2010; Chung et al., 2016) when transferring HRM practices.

As noted above, while the transfer of HRM practices of MNEs has been the focus of extensive research on institutional pressures of home and host countries, we still have limited

knowledge of the mechanisms in the practice transfer. Thus, there is a need to shed more light on the agency of MNEs, especially the role of subsidiaries in the mechanisms (e.g. Tempel, 2001; Dörrenbächer and Geppert, 2011). Previous studies suggest that HQs are likely to control and coordinate transfer because they own resources (Bartlett and Ghoshal, 1989; Ferner et al., 2012) and can control subsidiaries' deviant behavior (Szulanski, 1996). However, subsidiaries also can modify or reject transferred HRM practices while maintaining certain strategies. Despite the competing pressures on subsidiaries from both home and host country, subsidiaries still have a degree of indeterminacy and interpretive room to see opportunities and could take strategic actions to adjust pressures. By acknowledging the potential of subsidiaries as agents, IB scholars have begun to appreciate that subsidiaries may seek to influence or create conditions outside the organization that support the transfer and implementation of various practices (Kostova et al., 2008; Becker-Ritterspach et al., 2017; Fortwengel and Jackson, 2016; Regnér and Edman, 2014).

2.2. Comparative institutional analysis and agency of subsidiaries in the practice transfer process

While the IB research has long focused on institutional distance and its impact on MNEs' transfer activities, investigations into MNE subsidiaries as agents in the institutional environment have only recently emerged. This new interest in the role of subsidiaries as agents is related to the changing view of institutions. Institutional distance is often regarded as a critical factor for MNEs' strategies, as greater institutional distance increases transaction costs and risks. In this view, institutions only act as constraints and, therefore, the potential for agency is limited. However, as CIA scholars have pointed out, institutions can also serve as resources or opportunities for active agency (Jackson and Deeg, 2008). Recently, scholars thus have drawn on insights from the CIA approach to shed light on MNEs as agents that may create or change institutions (Becker-Ritterspach et al., 2017; Hotho and Saka-Helmhout 2017; Saka-Helmhout et al. 2016).

Thanks to this less stringent view of institutions—they can be enablers and resources for MNEs (Jackson and Deeg, 2008), the CIA perspective to HRM practice transfer literature has several advantages. First, the CIA perspective highlights the link between the national institutional context and the capabilities of firms to explain complex national institutional environments. It stresses institutional complementarities and how firms' behaviors are coordinated in certain institutional environments (Jackson and Deeg, 2008). The complementarities between institutions are a source of comparative institutional advantage for a national economy and they have implications for how MNEs deal with institutional complexity. Taking complementary aspects of institutions in MNEs' practice-transfer activities into consideration could enable us to view institutions as systemically interdependent configurations rather than as single variables. In addition, the CIA perspective with its emphasis on coordination helps explain *how* institutional distance matters, and *why* MNEs may find it hard to overcome or "bridge" a particular kind of institutional distance. In this regard, the CIA perspective is more appropriate for explaining nuanced institutional distance, as it can provide a better, more detailed explanation of the national institutional environment than the

traditional institutionalist approach and, thereby, enrich our knowledge of the relationship between institutions and MNEs' activities (Saka-Helmhout et al., 2016).

Furthermore, as the recent works by the CIA scholars have considered the institutional entrepreneurship or institutional engagement with MNEs' activities (Ahmadjian, 2016; Fortwengel and Jackson, 2016), the interest in MNEs' agency accompanying with contextualized understating of institutional environments has also increased. The IB literature adopting organizational institutionalism (OI) perspective tends to focus on institutions as barriers and constraints, relying on simple representations of host-home institutional differences. Therefore, it has been criticized for failing to capture the complexity of the institutions that distinguishes national systems (Ahmadjian, 2016; Jackson and Deeg, 2008; Mutch, 2007; Weik, 2011). As Cardinale (2018, p. 133) pointed out, the agency in institutional entrepreneurship literature with OI perspective "has little to say about how structure actively orients in the sense of making actors more inclined to settle on some actions out of the many that are made possible by structure." Yet at this point, the CIA perspective could add some implications to the criticism by providing a contextualized explanation of how agents take certain actions and the extent to which they are embedded.

Acknowledging the CIA's analytical advantages, this paper analyses the role of MNE subsidiaries as agents in the process of HRM practice transfer in line with previous research (Fortwengel and Jackson, 2016; Regnér and Edman, 2014; Saka-Helmhout and Geppert, 2011). Specifically, Regnér and Edman (2014) made an important contribution by identifying how MNE subsidiaries respond to host institutional environment and highlighting the mechanisms of such behavior. To find out the mechanisms of strategic behavior of MNEs, some studies suggest that the MNEs' unique social positions, as well as their exposure to ambiguous field conditions, may strengthen their ability to undertake strategic responses to institutions (Kostova et al., 2008; Regnér and Edman, 2014). While sharing similar interests of their work, this paper further argues that there is a need to consider a contextualized understanding of MNE's social position and institutional environment.

2.3. Agency theory and contextualized subsidiaries' agency

This study borrows agency theory to understand subsidiaries' role in HRM practice transfer process (Jensen and Meckling, 1976; Eisenhardt, 1989a). The theory has found increasing use in MNE research (e.g., Roth and O'Donnell, 1996; Björkman et al., 2004) since the relationship between HQs and subsidiaries can be considered a principal-agent relationship as the HQs delegate decision-making authorities to subsidiaries when it comes to transferring practices and knowledge (Hoenen and Kostova, 2015). They often have potential asymmetry of interests and goals, which may induce deviant subsidiary behaviors. According to the traditional agency theory, to control and coordinate such deviant behaviors of subsidiaries, HQs use three key control mechanisms – behavioral control, social control and output control (Eisenhardt, 1989a). Behavioral control refers to the direct supervision of subsidiary employees and implementation of standard. Social control refers to the informal ways MNEs try to align the interest of subsidiaries with the HQs, such as training program to share values among employees (Ghosal and Nohria, 1989). Output control refers to HQ's use of objectives and goals such as financial performance to achieve HQ's desired outcomes.

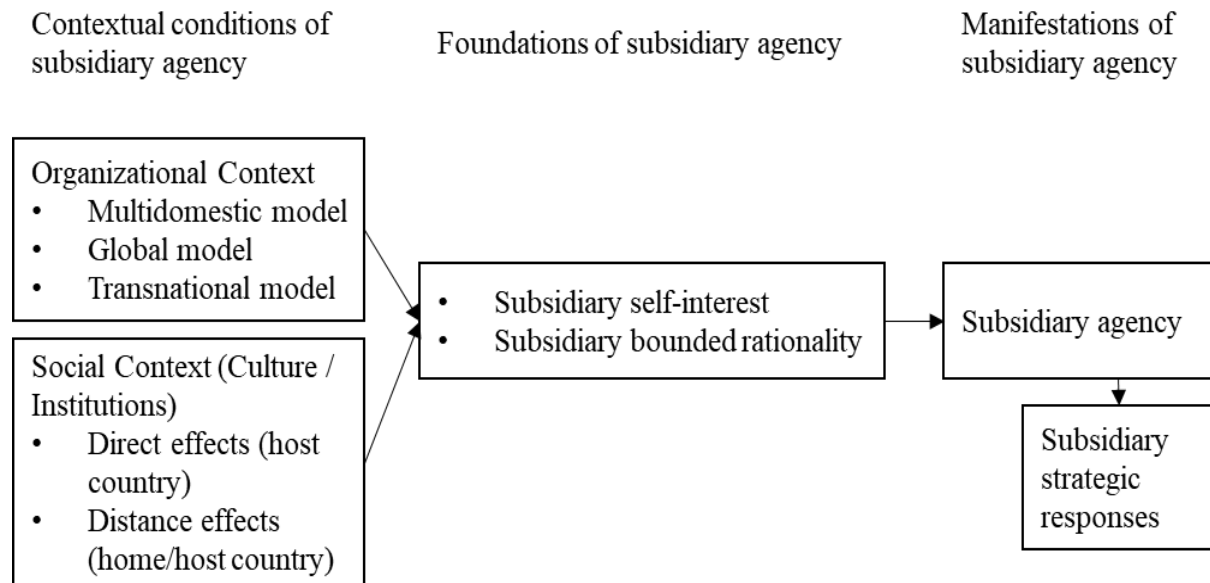
While HQ's control mechanisms provide important implications to the HQ-subsi-dary relations and practice transfer activities between them, the agency theory's recent development has suggested several limitations in the theory. First, the theory has limited interest in how context (e.g. institutional environment of home and host country) affect subsidiaries' behaviors (Wiseman et al., 2012; Roth and O'Donnell, 1996). Second, the theory's fundamental assumption of universal self-interest and rationality lacks consideration for various organizational conditions and institutional conditions (Ghosal, 2005). Third, the theory downplays the role of subsidiaries while putting too much focus on HQ's control and coordination mechanisms to subsidiaries.

To fill such voids in the theory, Kostova et al. (2018) propose a contextualized agency model which allows us to have a nuanced understanding of subsidiaries' agency while challenging the traditional HQ control-centric agency model. The model's main contribution is to cover the embeddedness of the HQ-subsi-dary dyad in two conditions – internal organizational and external social (institutional), which can determine subsidiaries' agency. The model consisting of three components: (1) contextual antecedents of the agency foundations (organizational and social conditions); (2) subsidiary-level agency's foundations (self-interest and bounded rationality); (3) manifestations of subsidiaries' agency enable more systematic analysis of subsidiaries' agency. In the model (Kostova et al., 2018), the organizational conditions refer to structures, strategies and practices by MNEs and the model has employed categorization of Bartlett and Ghoshal (1989) to describe organizational conditions in MNEs: international, multi-domestic, global or transnational. The social (institutional) context points to cultural and institutional forces that MNEs are embedded in while covering distance effects from home and host institutions and direct effects. Kostova et al. (2018) also have proposed subsidiary agency foundations – self-interest and bounded rationality and they vary across subsidiaries depending on the organizational and social context. Building on the ideas, they have discussed how the combination of such dimensions builds various subsidiary agency types based on four scenarios: opportunistic, dutiful, unpredictable, and erroneous. By covering such components systematically, the model has brought an important implication to the IB literature by incorporating traditional and recent debate of agency theory and highlighting a contextualized subsidiary agency.

While the agency theory and the model have not been often used in the HRM practice transfer literature, utilizing the contextualized agency model for the analysis will give us a more nuanced and contextualized understanding of subsidiary agency in the HRM practice transfer process. Especially, this study adds the CIA perspective, which provides a detailed description of institutional contexts with the concept of complementarities into the model to analyze the case subsidiaries' behavior as Kostova et al. (2018) have suggested. Furthermore, this study extends the model by looking into what strategic behaviors the subsidiaries specifically take with their agency. It adds a greater sense of subsidiary agency by presenting subsidiaries' particular strategic responses to institutional environment. The subsidiaries' strategic responses are categorized into three different types: bridging, embedding, and defying (or avoiding) based on Saka-Helmhout (2020) 's institutional agency typology. With the categories, we arrange the case subsidiaries' strategic responses. We thus see subsidiaries as agents who leverage resources to adapt to host institutional environment or to shape new institutions in line with the literature of subsidiary's strategic response and agency (Oliver, 1991; Fortwengel and

Jackson, 2016; Regnér and Edman, 2014; Saka-Helmhout and Geppert, 2011) and apply the idea and framework of contextualized agency theory (Kostova et al., 2018) to analyze the subsidiaries' agency in the HRM practice transfer process. While this study adopts the model and the concept, it does not directly apply them per se. Rather, we take the basic concept and reformulate it to serve this research's purpose (Figure 1).

Figure 1. Subsidiary agency model in MNEs



Source: Adapted from Kostova et al. (2018: 2616) and reformulated

3. Methodology

3.1. Research design

This research employs a qualitative case study design (Eisenhardt, 1989b; Yin, 2013). While the IB field offers qualitative case study research that provides in-depth, rich data on how MNEs respond to institutional host environments (Birkinshaw et al., 2011; Doz, 2011), the major reason for choosing the case study method is that it can provide enlightening stories or narratives (Dyer and Wilkins, 1991). As stressed by Dyer and Wilkins (1991, p. 617), "if executed well, case studies are powerful [when] authors have described general phenomenon so well that others have little difficulty seeing the same phenomenon in their own experience and research." As this study aims to extend theory (Eisenhardt and Graebner, 2007) and to search for a new interpretation of MNE subsidiaries as agents, it is important to offer rich descriptions that can help develop our understanding of HRM practice transfer process and subsidiaries as agents in it. In particular, as Brewster, Maryhofer, and Smale (2016, p. 288) argue, there is a need for a better "understanding of what happens or does not happen, during the process" when discussing the transfer of HRM practices.

This study employs a small-N case study design, specifically, an embedded case study design (Scholz and Tietje, 2002; Yin, 2013) focused on two subsidiaries of one MNE: IKEA Japan and IKEA Korea. Embedded case study design provides an in-depth understanding of a case (Parkhe, 1993), but with an added dimension of a cross-case analysis (Miles and Huberman, 1994; Yin, 2013) by conducting comparisons of similar events in different settings. Furthermore, the embedded case study enhances contextualization (Miles and Huberman, 1994) and is appropriate given that the research field is underdeveloped and still requires theory building (Eisenhardt, 1989b; Ghauri, 2004). As noted above, the literature on the role of subsidiaries as agents in the process of practice transfer has gained limited attention and requires theoretical development and enhancement (Saka-Helmhout, 2020). We also maintain that subsidiaries are embedded in host institutional environment, which needs to be understood in specific contexts for which clear boundaries are not set. It is thus most appropriate to investigate the complex and contextual nature of subsidiary behavior in host countries during the process of practice transfer. Thus, we argue that a small-N case study method provides a better prospect than a large-N-based study to understand the subsidiary's behavior.

A small-N case study design including an embedded case study has been criticized for a problem of generalizability or external validity (Bryman, 2008). Yet, it can be argued that the embedded case study could investigate one or small-N samples with various variables in-depth and could capture specific changes over time in a longitudinal sense. Furthermore, as we address certain phenomena that are difficult to quantify, our study is designed to generate analytical generalization (Eisenhardt, 1989b), in contrast to statistically significant correlations appropriate for large-N studies (Yin, 2013).

An embedded case study design within a single MNE has two advantages. First, it allows for an examination of different subsidiaries that have a shared context. Second, it enables us to go beyond assumed independence (Lervik, 2011). In this study, we expect the case studies to tell a unique story, as the national institutional environment of these two subsidiaries is different from the institutional environment of IKEA's HQs. IKEA is well known for maintaining homogeneous HRM practices that are highly attached to the Swedish labor

institutions worldwide (Kling and Goteman, 2003; Jonsson and Foss, 2011). However, the employment systems of Korea and Japan have characteristics that differ from those of IKEA's home country, Sweden. Hence, there may be a high institutional distance between IKEA and the two host countries' institutions. This institutional distance may provide us with an excellent opportunity to capture how subsidiaries as agents respond to institutional distance and how they behave in such circumstances.

3.2. Context: Institutional distance between home and host countries

This paper examines the HRM practice transfer activities by IKEA, a Swedish MNE to Japan and Korea. Since HRM practices depend on national institutions such as labor law, industrial relations, education and vocational training, national economies are expected to differ in their pattern of HRM practice adoption and diffusion (Jackson and Deeg, 2008). Hence, understanding national employment institutions would explain how and why MNEs' HRM practices have been adapted and implemented given the host country's environment. At this point, the CC literature may add a contextualized understanding of this study's case countries' national employment institutions.

The Japanese employment system's major features have been depicted as a lifetime employment and a seniority-based promotion and wage system. Similar to the Japanese employment system, Korean firms typically have leaned on lifetime employment and a seniority-based internal structure (Witt, 2014a). Several customs are also evident in both countries' employment systems, such as long working hours and hierarchical corporate structures based on rank and age. These labor institutions have complemented other institutional domains, such as bank-based finance, education, and training, to search for the comparative institutional advantage of the national economy, as the CC literature (e.g. Hall and Soskice, 2001) argues. The severe economic distress caused by the bursting of the bubble in Japan (early 1990s) and the financial crisis in Korea (1997-1998) was a considerable challenge for the institutional stability of labor institutions and raised the possibility of convergence toward the Anglo-Saxon model (Dore, 2000; Kuruvilla et al., 2002; Vogel, 2006). However, contrary to expectations, there were no dramatic changes in the characteristics of the seniority-based internal structure and lifetime employment and most large firms in Japan and Korea maintained their employment practices (Genda and Rebeck, 2000; Keiser, 2016; Lee, 2016).

While labor market reforms have been introduced in Korea and Japan, the challenges both countries faced led to dual labor markets. Thelen (2014: 131–138) characterizes a dual labor market as "stabilizing the core" while "flexibilizing the periphery." Song (2012) and Lee (2016) argue that the path-dependent trajectories in the labor market in favor of large firms and their regular workers could explain the widening dualization in Japan and Korea. Japan's labor market reforms extensively deregulated temporary employment for outsiders and facilitated the emergence of the dual labor market. The revision of the Dispatching Law in 1999 and 2003 was a watershed event in the Japanese labor market, as it symbolized a critical institutional shift toward more flexible, market-based employment practices (Song, 2012). After several revisions of the labor laws, the share of non-regular workers in Japan rose from 24.9 percent in 1999 to 37.4 percent in 2014 (The Japan Institute for Labour Policy and Training, 2016: 44). Similarly, when confronted with the pressures of the 1998 financial crisis, large Korean

companies chose less confrontational employment strategies for regular workers but harsher ones for non-regular workers, including the expansion of subcontracting systems (Song, 2012). In addition, regulations on hiring temporary workers were implemented, including the Labor Standards Law and the Worker Dispatch Law, which allowed for a more flexible labor market (Deyo, 2012). Such labor market reforms have motivated many firms to replace regular workers with non-regular workers, thereby widening the disparities between the two groups.

Although extant studies have stressed similarities of employment institutions between Korea and Japan including the long-term employment for regular workers, seniority wages, enterprise-based unions, and dual labor markets (Song, 2012), there have also been important differences, however. As CC scholars (Whitley, 1999; Witt, 2014b; Witt and Redding, 2013) point out, Japan is considered a 'coordinated' business system, while Korea is regarded as a 'state-led or organized' business system. The difference of the way of coordination has influenced the construction of employment institutions of both countries. For instance, lifetime employment and seniority wages in Japan were introduced by agreements between labor and management at the firm level, showing high coordination between workers and management and participatory decision-making structure. On the other hand, in Korea, the employment practices were established by the authoritarian government regimes that promoted employment protection in exchange for wage restraint. Neither employers nor employees developed a strong commitment to the employment system (Song, 2014).

In the CC literature, Sweden, the home country of IKEA, fits with 'collaborative' business system (Whitley, 1999) or coordinated market economies (CMEs) (Hall and Soskice, 2001) or social-democratic model (Amable, 2003). The models commonly encourage and support cooperation between social partners (trade unions and industry associations). Thus, employees are encouraged to participate in management decisions through trade unions and are backed by extensive legislation and collective bargaining (Amable, 2003; Korpi, 2006). Hence, Swedish employees have substantial power resources to influence their working conditions. Swedish employment system exemplifies collective labor representation, which is characterized by comparatively high levels of coverage through industry-wide collective bargaining, union representation in corporate boards (Jackson and Deeg, 2008). This industry-level bargaining process influences other employment institutions such as employment security, working conditions, and equal pay for equal work. As Kristensen and Lilja (2011) highlight, the firms in Sweden typically rely on decentralized decision-making, skilled labor, and relatively flexible labor markets. Although Sweden shows signs of change in its overall business systems since the 1970s, its employment institutions still remain rooted in the country's rather strong social democratic tradition and appear stable (Anxo and Niklasson, 2006; Kristensen and Lilja, 2011).

Sweden also has maintained strong seniority rules. This is primarily true with respect to job security and firm-specific skill formation, but these rules are not as strong as in Korea and Japan concerning pay and career-advancement opportunities. Furthermore, the internal structure of firms in Sweden is quite different from that of Korean and Japanese firms. Within the boundaries of collective agreements between social partners, firms in Sweden have the freedom to manage employment practices and to maintain a flexible working environment. Furthermore, concerning employment conditions, Sweden follows an inclusive approach that supports marginal groups (Thelen, 2012). Discrimination Act (2008: 567) in Sweden as a formal law also prohibits direct and indirect discrimination based on gender, ethnicity, religion,

and employment status (part-time and fixed-term employees). Within the framework of law, firms try to prevent discriminatory behavior in the workplace. It thus helps spread norms to society and build working culture of firms. Another difference in labor institutions is found in gender composition in the labor market. As the Korean and Japanese employment systems favor regular workers and long working hours, which prevent many women from returning to work after having children, both have countries' female labor participation rates. For example, Japan and Korea's female labor participation rate in 2017 is 69.4% and 59.0% respectively, one of the lowest among the OECD countries. Sweden, in contrast, is known as a country with gender equality, and its female labor participation rate is 80.6% in the same year (OECD, 2018).

IKEA's HRM practices do reflect many aspects of Swedish labor institutions, including equal pay for equal work practice, the absence of discrimination between regular and non-regular workers, and a flexible working environment. The other notable feature of IKEA's HRM practices is the effort to promote gender equality. IKEA's diversity and inclusion strategy include having women in half of all management positions at all levels since the company views gender diversity and equality in the workplace as essential to its success. As the embeddedness of MNEs in their home-country institutions has a significant influence on the development of distinctive competencies, IKEA has built and maintained its practices based on its home country institutions (Kling and Goteman, 2003).

Table 2 shows the specific kind of employment institutional differences between Sweden, Korea and Japan relevant for HRM practices. There are many different definitions of HRM practices and areas of HRM practices in the IB and IHRM field. For example, Farndale et al. (2018) cover compensation, wage-bargaining, contingent employment, direct employee information provision and training as major HRM practices, while utilizing the comparative capitalism perspective. Similarly, following Whitley (1999), Farndale et al. (2008) focus on a broad range of HRM practices: financial participation (pay bargaining), employee voice, corporate information sharing, non-permanent contracts, and training. Minbaeva et al. (2014) see the HRM practices as training, performance appraisal, merit-based promotion, internal communication, and compensation. Keizer (2016) views employment practice as seniority wages, labor market dualism, lifetime employment, and organization of work. Based on the discussion above, this paper focuses on four areas of national employment institutions that are highly relevant for HRM practice transfer: compensation (wage and promotion), working culture (internal structure), staffing policy (recruitment), and dual labor market.

Table 1. Difference of Employment Institutions

	<i>Sweden (Home, collaborative business system)</i>	<i>Japan (Host 1, coordinated business system)</i>	<i>Korea (Host 2, state-organized business system)</i>
Staffing policy (recruitment)	Existence of tenure system, but flexible and open-ended	Lifetime employment, homogenous recruitment system	Lifetime employment (weaker than Japan), homogenous recruitment system
Wage, promotion system	Flexible	Seniority-based	Seniority-based (weaker than Japan)
Internal structure (working culture)	No discrimination based on position, race, age, and gender	Hierarchical but cooperative culture (existence of participatory decision-making), long working hours custom	Hierarchical, dominance of top-down decision making, long working hours custom
Dual labor market	Division but with more flexible form	Strong division between regular and non-regular workers	Strong division between regular and non-regular workers

3.3. Data collection and analysis

To understand the case company, a range of documents such as yearly reports, sustainability reports from 2011 to 2016, internal guidelines were collected and reviewed. Primary data for this research were collected through 30 semi-structured interviews in 2016 July and 2017 March—16 in Japan and 14 in Korea. We conducted interviews in English, Korean and Japanese (with the assistance of a Korean-Japanese interpreter). Since this study mainly looks into IKEA subsidiaries' HRM practice transfer activities, our key informants are employees in HR team. At the beginning of data collection, we used LinkedIn to build major contacts and find interviewees in IKEA Japan and Korea's HR team. Then, through snowball sampling, we could have subsequent interviewees from key informants. To hear a variety of perspectives on the practice transfer in IKEA, we also asked them to introduce new interviewees at store and office level. For the IKEA Japan case, we conducted five interviews with HR employees (current and former) and six interviews with office employees in IKEA Japan. Three interviewees were HR managers (current and former) in IKEA Japan. While most interviewees are from the HR team, their role varies a lot depending on their positions (diversity,

recruitment). We thus could grasp their various experience on HRM practice transfer of IKEA Japan. In particular, both current and former HR managers in IKEA Japan are competent in contrasting home and host country context in terms of HRM practice, so that hearing their experience helped understand whole pictures of the practice transfer process. One interviewee was part of the council shared story of policy-making process, but we decided not to cover it in detail for the confidentiality issue. Further, to better understand the employment system in Japan, we had two interviews with labor market researcher in Japan. In Korea, besides the interview with 6 HR employees including one HR manager in IKEA Korea, we interviewed four applicants to IKEA Korea, two journalists who covered IKEA Korea's HRM issue and two labor market researchers to gain background knowledge. The HR manager of IKEA Korea, who is also competent in comparing home and host context of IKEA, came to Korea on April 2013 one and half year before opening the first store to prepare entry of IKEA Korea. Given the experience, she could provide a lengthy description of the whole process of HRM practice transfer.

The interview for HR employees mainly included two sets of issues: (a) general information about HRM practices such as time, payment, recruitment, and (b) the process of HRM practice transfer. We inquired about how, when and why subsidiaries transferred and implemented certain practices. HR managers of both subsidiaries specifically were asked to explain what major difficulties were and how HR team managed the difficulties that might come from institutional differences between home and host countries. We prepared different interview questions for applicants to IKEA, labor market researchers, and journalists. The interviews were done in English, Japanese, or Korean, and they lasted between 30 and 90 minutes. We recorded the interviews with the interviewees' permission. We also attended several meetings and a Nordic HR-related seminar in Japan in March 2017 and an IKEA job fair in Goyang City (the location of IKEA's second store in Korea) in April 2017 to gather additional insights.

For the analysis, 98 news articles related to IKEA HRM practices from Korean and Japanese newspapers from the year 2014 to 2016 were also collected. In particular, 82 articles from Korean newspapers were used for understanding tension or friction between IKEA Korea, jobseekers and labor market. Korean news articles were collected through Korean Integrated News Database System (KINDS). Sixteen articles from Japanese newspapers collected from five major newspapers' websites such as Asahi and Yomiuri online provided an understanding of IKEA Japan's transfer activities and its implication on the Japanese labor market. Yet, the Japanese newspaper data were not directly used for the analysis of this paper since most of articles covered basic facts.

The data analysis started with detailed readings of interview transcripts and documents. To organize and analyze the interview data, NVivo 10 for the analysis of qualitative data, was used. The analytical approach involved three steps. Based on insights from Langley (1999), Cantwell et al. (2010) and Fortwengel (2017b), this study utilizes the methodology of process study, which is 'understanding how things evolve over time and why they evolve in this way' (Langley, 1999, p. 692). To do so, we first coded interview scripts and arranged it in relation to the subsidiaries' HRM practice-transfer activity process. When arranging the transfer activities, we ordered them sequentially to describe the transfer processes over time. In this stage, we identified specific challenges and events that many of the interviewees mentioned.

Second, successive rounds of coding focused on linking HRM practices of the subsidiaries to institutional dimensions of host countries. We adopted the employment institutional dimensions to see *where* the subsidiaries' HRM practices and national employment institutions meet and collide. In this regard, we could structure and interpret the HRM practices and their distance to host countries' employment institutions. Finally, we attempted to analyze and locate IKEA Japan and Korea's practice transfer activities in the framework covering the institutional engagement of MNE subsidiaries to look at agentic behavior of the subsidiaries. The study included within-case analysis and cross-case analysis (Eisenhardt, 1989b). In the process of data analysis, we contacted several interviewees to check the validity of the data. Furthermore, one student was recruited for the analysis of newspaper articles. We conducted sentiment analysis of the collected newspaper articles, but used Korean data only for this study. In doing so, we could find *how* and *why* the subsidiaries engage in certain behavior while transferring and translating HRM practices to host countries. The findings are elaborated in the following section.

4. Findings

4.1. IKEA Japan case: patient and stepwise transferring activities

4.1.1. Period 1. Initial phase of practice transfer

In July 2002, the IKEA HQ established IKEA Japan. The company opened its first store in Tokyo in April 2006. IKEA Japan thus had four years, which is longer than the time typically allotted to subsidiaries, to investigate the Japanese institutional environment before entering the market. As the company had already had a painful and expensive experience when it failed in its attempt to enter Japan in the late 1970s (Jonsson and Foss, 2011), IKEA's HQ was cautious when entering the Japanese market.

IKEA Japan basically adopted an approach that other IKEA subsidiaries used. As IKEA aims to transfer uniform practices across its network of subsidiaries by pursuing a standardized global model, the Japanese subsidiary had to focus on how it could effectively transfer IKEA's practices. IKEA Japan never wanted to be a deviant agent, rather were heavily embedded in the HQ's value and culture. In fact, IKEA's HQ put a significant effort into transferring its own culture, values, and HRM practice to IKEA Japan. In particular, to enhance transferability, IKEA hired and sent Swedish employees with Japanese connections as well as an understanding of language and culture to IKEA Japan through the Young Professional Program (YPP). The young professionals worked as ambassadors—they introduced the HQ's working culture and helped transfer HQ practices to IKEA Japan. The YPP participants were regarded as a bridge between the Swedish and Japanese managers and employees (Jonsson, 2007: 10). Hence introducing the YPP practice was a kind of pre-emptive behavior that shows active agency of IKEA Japan. At the time, other foreign subsidiaries besides IKEA Japan never implemented the YPP practice or similar type of practices. Former HR manager mentioned reasons IKEA HQ and IKEA Japan implemented this new practice.

At the beginning around the year 2001-2002, we (HQ and IKEA Japan) had a meeting and both were thinking Japan is most difficult country to enter. We failed once, so we needed to have something more aggressive or active policies for the Japan market. That's why we planned to implement YPP program. It was a new policy that never happened before. [...] We really concerned about how we adjust the market at the time. (Former HR manager of IKEA Japan)

Despite these efforts, after opening the first store in Tokyo, IKEA Japan struggled to transfer IKEA's HRM practices to the subsidiary due to institutional differences. First, there was an issue regarding recruitment. Due to concerns about working for foreign companies, a lack of understanding of the organizational culture, and differences in recruitment processes, IKEA Japan initially found it challenging to attract and hire jobseekers.

At first recruitment was very challenging. [...] in general, Japanese jobseekers tend to favor domestic companies over foreign companies. Some people are able to understand IKEA's value and culture, but many people are not. Others are concerned about what IKEA Japan really does. Most jobseekers questioned whether IKEA Japan really cared about working culture, work-life balance. (Former HR manager of IKEA Japan)

As a result, by Japanese standards, IKEA Japan offered rare HRM practices that emphasized the work-life balance and horizontal working culture, while Japanese firms provided high salaries and bonuses. IKEA Japan shows its strengths in the form of generous vacations and a relaxed and comfortable working environment. Nevertheless, many jobseekers still expressed concern about the feasibility of IKEA's HRM practices in Japan, as most Japanese jobseekers were accustomed to traditional Japanese companies, and their customs and rules.

IKEA's horizontal structure, generous parental leave, and no particular differences among employees in terms of rank or age was new to many Japanese jobseekers. We emphasize our unique working environment rather than salaries or bonuses. This was not appealing for Japanese jobseekers. (HR employee of IKEA Japan 2)

Furthermore, IKEA had a standardized recruitment system that was notably different from traditional recruitment systems or customs in Japan, such as the "periodic recruiting system" in which firms hire new graduates all at once (usually in the spring and the fall). The gaps between these two recruitment systems also created some hurdles for IKEA Japan in hiring employees. The recruitment problem shows liability of foreignness of IKEA Japan on the one hand and gaps in terms of norm (periodic recruiting system) and culture (lack of understanding of working culture) that formed by employment institutions of Japan on the other hand. Although IKEA Japan introduced the YPP practice to serve to lessen the friction between home and host countries, for the recruitment issue IKEA Japan could not take certain strategic action in the beginning.

4.1.2. Period 2. Adjusting to the institutional pressure

In addition to difficulties in recruitment, differences in working culture and practices created several issues in the workplace. As many CC researchers have explained, most Japanese companies still maintain an internal working structure focused on seniority, such that most employees' promotions and wage levels are decided by seniority (Witt, 2014b). While IKEA advocates a flat organization with no hierarchies in the workplace, the Japanese employment system and typical internal structure are characterized by rigid internal hierarchies based on age and rank, which discouraged the transfer of practices to IKEA Japan. In this regard, IKEA's unique promotion system created confusion in the workplace, as it did not follow the traditional seniority-based model. In the face of the difference in terms of internal working structure, IKEA Japan decided to maintain IKEA's working structure and culture. However, for Japanese employees in IKEA Japan, the working structure of IKEA including promotion and pay system was new and hard to adjust.

The promotion model here is complex and flexible. If someone wants to move from the main store to the food part, they can move after a discussion with the HR team. [...] We encourage people to move from part-time to full-time or vice versa around depending on their situation. We have an internal job-application system in which we can apply for different positions and locations in Japan. Employees can relocate if they wish to take on new challenges. However, most Japanese employees thought that IKEA Japan had the same approach as other Japanese companies, such that the longer they worked, the higher they would go. (HR employee of IKEA Japan 1)

Working overtime or long hours has long been customary in the Japanese labor market, but this custom is quite far from what IKEA wants to achieve in the workplace. As many Japanese companies still require employees to be devoted to their workplace and believe that long working hours demonstrate loyalty to the company, working overtime has become widespread across Japan. Given this custom, many Japanese employees in IKEA Japan also worked overtime, as they wished to show their effort or loyalty. Similarly, IKEA Japan provided more parental leave to employees than other Japanese companies, but Japanese employees tended to be reluctant to use it.

As the customs that most Japanese firms and employees were accustomed to differed from IKEA's practices, IKEA Japan implemented several initiatives. For example, IKEA Japan introduced a new practice of "zero overtime" and tried to control the widespread focus on unpaid overtime among Japanese employees. When it came to overcoming the differences between the institutional contexts, the role of foreign workers and managers was important. Foreign workers and managers, including YPPs, tried to develop a workplace atmosphere that encouraged Japanese employees to avoid working overtime and to take advantage of benefits, such as parental leave. For example, they acted as role models by taking benefits and leaving the office on time. It is important to note that IKEA Japan actively engages in solving the problem of working long hours by introducing the new practice and asking foreign workers to be a role model.

Outside the workplace, IKEA Japan's HR team regularly held job fairs to explain the company's strengths. It also arranged meetings and events in order to hear the opinions of other foreign companies. To address the recruitment issue, IKEA Japan took certain strategic behavior by seeking opportunities to inform their HRM practices and gain legitimacy. Hence during period 2, IKEA Japan as a dutiful agent never deviated from the HRM practices pursued by its HQ. While most of the HQ's practices remained intact, the goal of IKEA Japan's transfer approach was to integrate those practices into the host institutions smoothly.

4.1.3. Period 3. Introducing new practices and influencing the institutional context

As discussed above, Japan has experienced an increase in the number of part-time workers. Japanese firms, especially firms in the service sector, are likely to hire many part-time workers, many of whom earn less than full-time regular workers. Notably, in 2014, IKEA Japan began to offer equal salaries and benefits for equal work. Based on this equal work-equal pay practice, IKEA Japan announced a plan to change its job descriptions, eliminate fixed-term contracts for part-time workers, and introduce part-time regular worker system. These new practices aimed to ensure equal treatment for the company's 3,400 employees in Japan and raised the salaries for all of the subsidiary's part-time employees, who made up 70% of workforce (Japan Today, 2014). This practice helped to balance the pay gap between full-time and part-time employees in IKEA.

One goal of the part-time regular worker system was to attract female employees, who often experienced career discontinuity, as well as students and retirees. As expected, the number of applicants, especially female applicants, increased sharply (Interview of HR employee). The part-time regular worker practice and the equal work-equal pay practice all came from IKEA's HQ, but the decision to introduce these practices and the determination of the best timing were up to IKEA Japan. IKEA Japan began to implement these practices in 2014 to target more people in peripheral areas of the Japanese labor market, such as women, students, and retirees. As part of its company culture, IKEA prioritizes gender equality and diversity, so hiring more women, students, and retirees fits well with IKEA's intentions. IKEA Japan also expected to benefit from this new practice for practical reasons, as it still struggled to attract workers. Thus, IKEA Japan could achieve HQ's goal and its own by implementing the part-time regular worker practice.

At the moment, we are well known for work-life balance, a horizontal working culture. However, as in other Swedish and European subsidiaries, we want to treat part-time workers as equals. Before introducing these policies, we had to find out whether they were within the boundaries of the local laws. After several discussions, we finally decided to make the change. (HR manager of IKEA Japan)

Thanks to this change and IKEA's own value, which emphasizes diversity and gender equality, IKEA Japan was chosen as one of the best examples of female-friendly workplaces by the Japanese government. Furthermore, beyond acting as a role model for Japanese firms, IKEA Japan engaged in the policy-making process with the Japanese government. In 2015, IKEA Japan became part of the Council for the Realization of Work Style Reform, which comprised

union and industry representatives as well as experts, and was chaired by Prime Minister. The Council aimed to create guidelines for a Japanese governmental panel examining possible changes in the labor law. The main aims of amending the labor law were to reduce the proportion of non-regular workers and introduce equal pay for equal work, which was not common in the Japanese labor market.

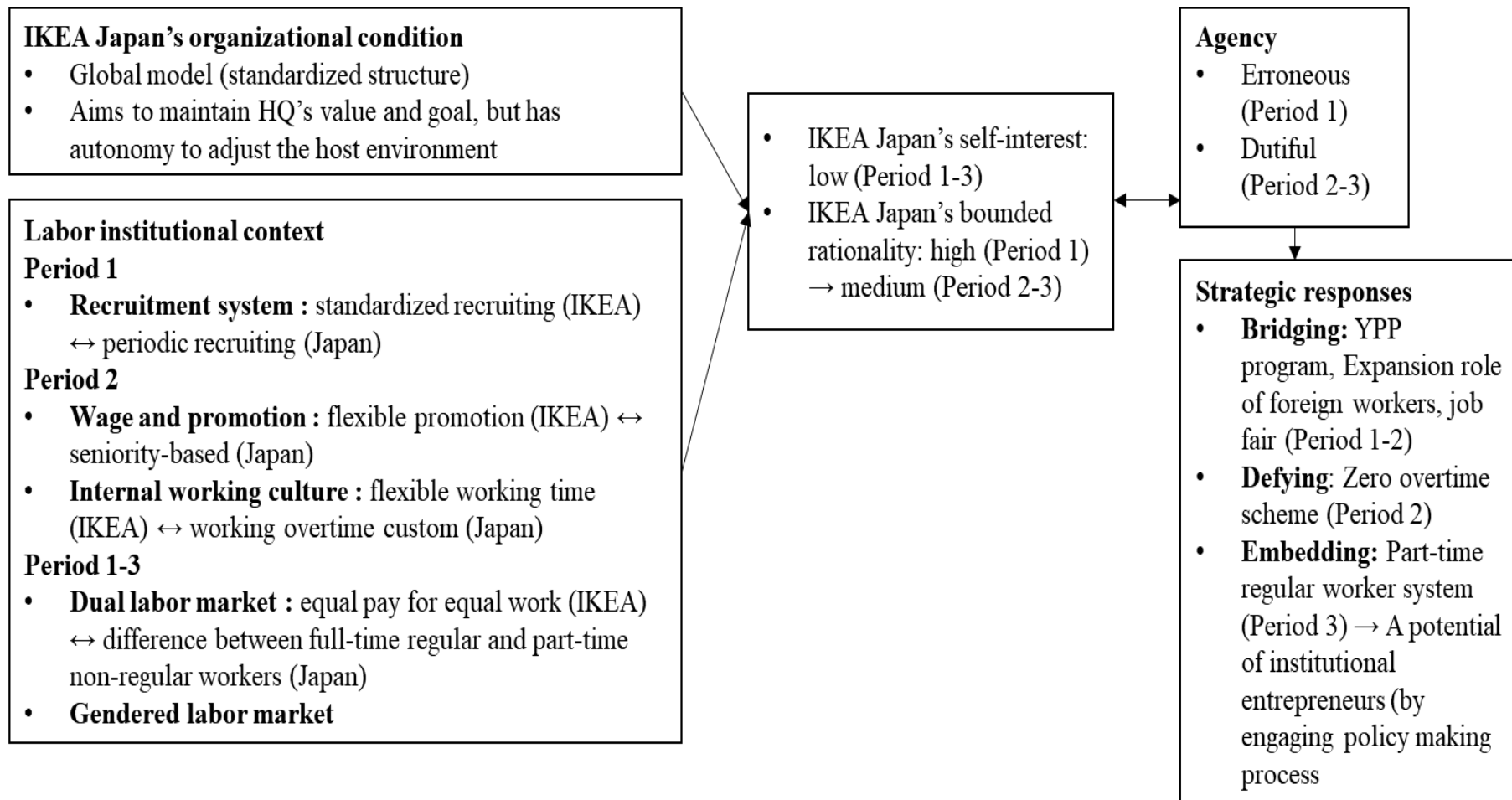
I cannot say IKEA Japan was main actor for the reform. [...] but members in the council, they seriously heard our stories and our value like equal pay for equal work [...] They also asked many questions about difficulties or effects of transferring practices from IKEA Sweden (HQ). I think other members like and want to take our idea and value. (HR employee of IKEA Japan 3)

In this context, the case of IKEA Japan could provide some insights for amending the labor law. In December 2016, the Japanese government announced a draft of proposed changes to the labor law aimed at creating an equal labor market. The proposed changes included measures to reduce working hours by introducing overtime regulations and preparing legislative rules and guidelines to ensure equal pay for equal work.

As the case study shows, IKEA Japan first focused on reducing the gap between host and home country, but after some time, it saw an opportunity to fill the gap in the Japanese labor market by bringing in a new type of employment. The introduction of the part-time regular worker practice might be regarded as a transition from adaptation to active agentic behavior to introduce change. IKEA Japan's participation in the policy-making process may represent a higher level of agency. However, whether this is only window dressing is hard to establish thus far.

From the beginning of the entry-stage, IKEA Japan has been embedded in the HQ's practices since the HQ has tended to implement a strong standardized practice transfer model and maintain the company's unique culture and value and IKEA Japan has been willing to follow them. Yet, the direct impact of host institutions and the distance impact of home- and host-country institutions has caused a challenging environment for IKEA Japan. Thus, the combination of organizational and institutional contexts has led IKEA Japan's low self-interest, but high bounded rationality. At period 1, IKEA Japan's agency can be depicted as erroneous. Kostova et al. (2018) has explained that subsidiaries are erroneous when subsidiaries follow corporate (HQ) focused logic, but have limited knowledge and competence to adapt to host pressures. Yet, after spending an adjusting period (1-2), IKEA Japan's bounded rationality has lowered with various strategic efforts to mitigate the institutional pressures. Thanks to the strategic responses, IKEA Japan's agency has changed as dutiful as intended at the beginning of the entry. Hence, the IKEA Japan case suggests that institutions and the MNE subsidiary may evolve together while interacting with each other, as Cantwell et al. (2010) argue.

Figure 2. IKEA Japan's HRM practice transfer activities



4.2. IKEA Korea case: impatient and aggressive transferring activities

4.2.1. Period 1. Initial phase of practice transfer

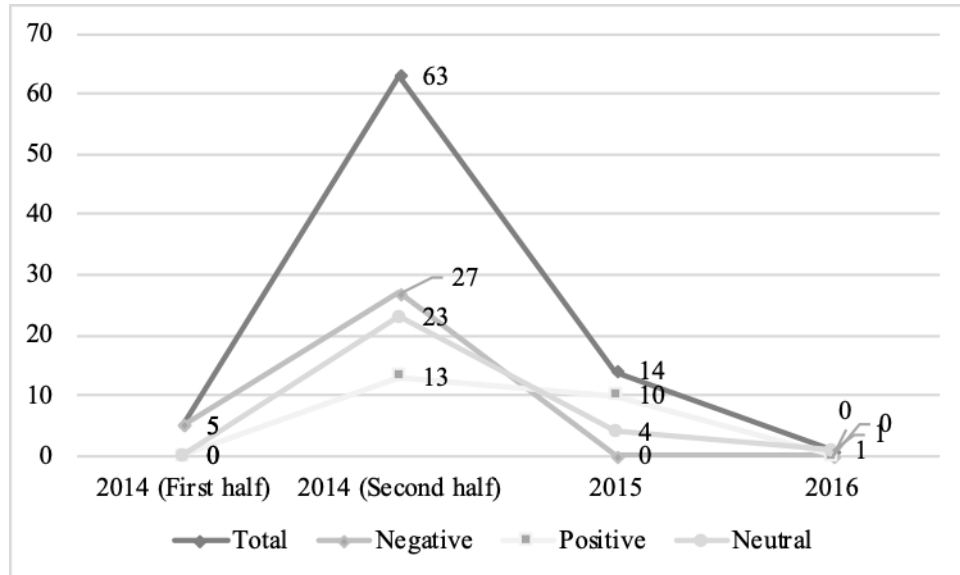
As IKEA had already entered other Asian markets, the company's HQ and the Korea-based team expected to transfer IKEA's value and practices to Korea relatively easily. One former HR manager of IKEA Korea mentioned that since IKEA's brand image was already strong in Korea and subject to significant public attention, the company did not expect to encounter any problems, such as a liability of foreignness, during the preparation period. IKEA Korea's basic stance on managing business and transferring practices was based on HQ's guidelines and rules. The entry preparation team was confident to implement HQ-oriented practices and implant culture and value of HQ because of their Asian experience and careful investigation of Korean market (Interview with former HR manager). Furthermore, before entering the market, IKEA Korea entered into a memorandum of understanding (MOU) with Gwangmyeong, where the first IKEA store was built. The agreement indicated that 400 Gwangmyeong citizens were to be employed by IKEA Korea (90 to be hired as managers) with the aim of mutual growth. IKEA Korea therefore was to engage in pre-emptive activities in order to attain better conditions for transferring practices and to build a favorable environment for the firm.

However, when IKEA Korea was ready to open the Gwangmyeong store, it suddenly faced significant difficulties in transferring practices. Several issues related to recruitment emerged, such as concerns over wages, working conditions, and differences in the working culture. IKEA Korea, like other IKEA subsidiaries, wanted to be near the middle in terms of retail industry wages, but it failed in this regard due to pressure from the public. Korean jobseekers viewed IKEA as a company that would provide decent working conditions and wages. However, in general, IKEA's working culture focused on a flat organization and generous welfare for employees, rather than salaries. Therefore, IKEA Korea first adopted a minimum wage level almost equal to Korea's statutory minimum wage. This led to complaints, as most jobseekers expected higher salaries from IKEA than from other retail firms.

One of the most remarkable episodes related to the wage issue occurred when an executive board member of IKEA Korea was asked to attend parliamentary hearings to explain IKEA Korea's HRM practices, including the decision regarding the wage level, and the benefits of those practices for the Korean labor market. After the board member explained IKEA Korea's practices, IKEA's overall practices, and their expected positive effects on the Korean labor market, he promised that IKEA Korea would change its wage policy. Consequently, the subsidiary increased its minimum wage to the highest level in the Korean retail industry. It shows that IKEA Korea took reactive action while changing their practice in terms of wage level in the face of the complaints.

As confusion and complaints regarding IKEA Korea's HRM practices grew, so did media coverage of the subsidiary. The number of news articles related to IKEA Korea and its HRM practice rose in 2014—the year in which IKEA Korea opened the store in Gwangmyeong. Notably, the number of articles with a negative tone increased from five in the first half of the year to 27 in the second half (see Figure 3). Many of these articles dealt with the confusion among jobseekers and their concerns, and indicated that disappointment ran high. The former HR manager of IKEA Korea mentioned that the overflow of the news articles also affected IKEA Korea's strategy change from maintaining to adaptation.

Figure 3. Number of news articles covering IKEA Korea's HRM practices (2014-2016)



Source: Authors' rendering of data on newspaper articles, 2014-2016

4.2.2. Period 2. Adjusting to the institutional pressure

IKEA Korea tried to transfer IKEA's HRM practices in a way that would conform to IKEA HQ's perspective. However, it failed to adjust to the institutional distance in the initial market-entry phase. Despite the pressure, IKEA Korea still believed that, as in other subsidiaries, IKEA's practices played a central role in ensuring the subsidiary's success. Therefore, IKEA Korea did not revise its plan or strategies.

We are a culture- and value-based company. This makes us different. We cannot compromise in this regard. [...] We want to be IKEA Korea not a Korean IKEA. (HR manager of IKEA Korea)

After the burst of negative media coverage, IKEA Korea worked hard to build a favorable relationship with the media and the public. IKEA Korea's HR team was eager to change the atmosphere within the subsidiary, not only to attract jobseekers but also to support the business. The team also believed that doing so would lessen the gap between IKEA and the host country's institutional context, and improve the public's perceptions of IKEA. This change in IKEA Korea's response to the public and the media was notable.

We are open to talking with the media and attend meetings related to our business. We want to explain what we are doing now and we want to hear what the Korean

people think about us. We believe this approach could be helpful for building a new relationship with the public, including our customers and jobseekers. (HR employee of IKEA Korea 1)

While IKEA Japan faced several issues in the workplace, such as a lack of understanding of the corporate culture among Japanese employees, IKEA Korea managed the differences in the workplace relatively well. IKEA Korea did not make use of a YPP-type program like IKEA Japan. However, the role of foreign managers and employees was still important when it came to introducing IKEA's culture and practices.

We did not have the YPP program, as we simply did not have enough foreigners who could speak Korean and were willing to work in retail. We adopted another approach in which foreigners, like me, come here. We try to train people and to introduce IKEA's culture and values. (HR manager of IKEA Korea)

IKEA Korea also introduced various initiatives to lessen the difference. The subsidiary's HR team actively sought opportunities to explain its culture, values, and practices. They believed that such efforts could help attract customers who might later become interested in working for IKEA. Hence, they organized and participated in different events and tried to contact different communities in order to minimize the gap.

[For me], recruitment is also branding. Marketing and recruitment are connected. We held job fairs and similar events at many universities and here in Gwangmyeong, and we tried to listen to the opinions of people who want to work here. We try to reach different communities and NGOs to attract people, such as women and retirees. (HR manager of IKEA Korea)

4.2.3. Period 3. Introducing new practices and influencing the institutional context

Unlike IKEA Japan, which introduced a part-time regular worker practice after it successfully entered the Japanese market, IKEA Korea introduced equal work-equal benefit practices and a part-time regular worker, practice almost simultaneously with its market entrance. The purposes of introducing the practices were to maintain IKEA's culture and to cope with difficulties in hiring people. Contrary to expectations, IKEA Korea faced challenges and concerns about these new practices, and it was subjected to a significant amount of positive and negative attention from jobseekers, the media, and the public. At the parliament hearings, several lawmakers who were members of the left-wing Minjoo Party remarked that the "part-time regular worker is a new concept of employment that is not covered by national employment law, and it causes confusion for the labor market."

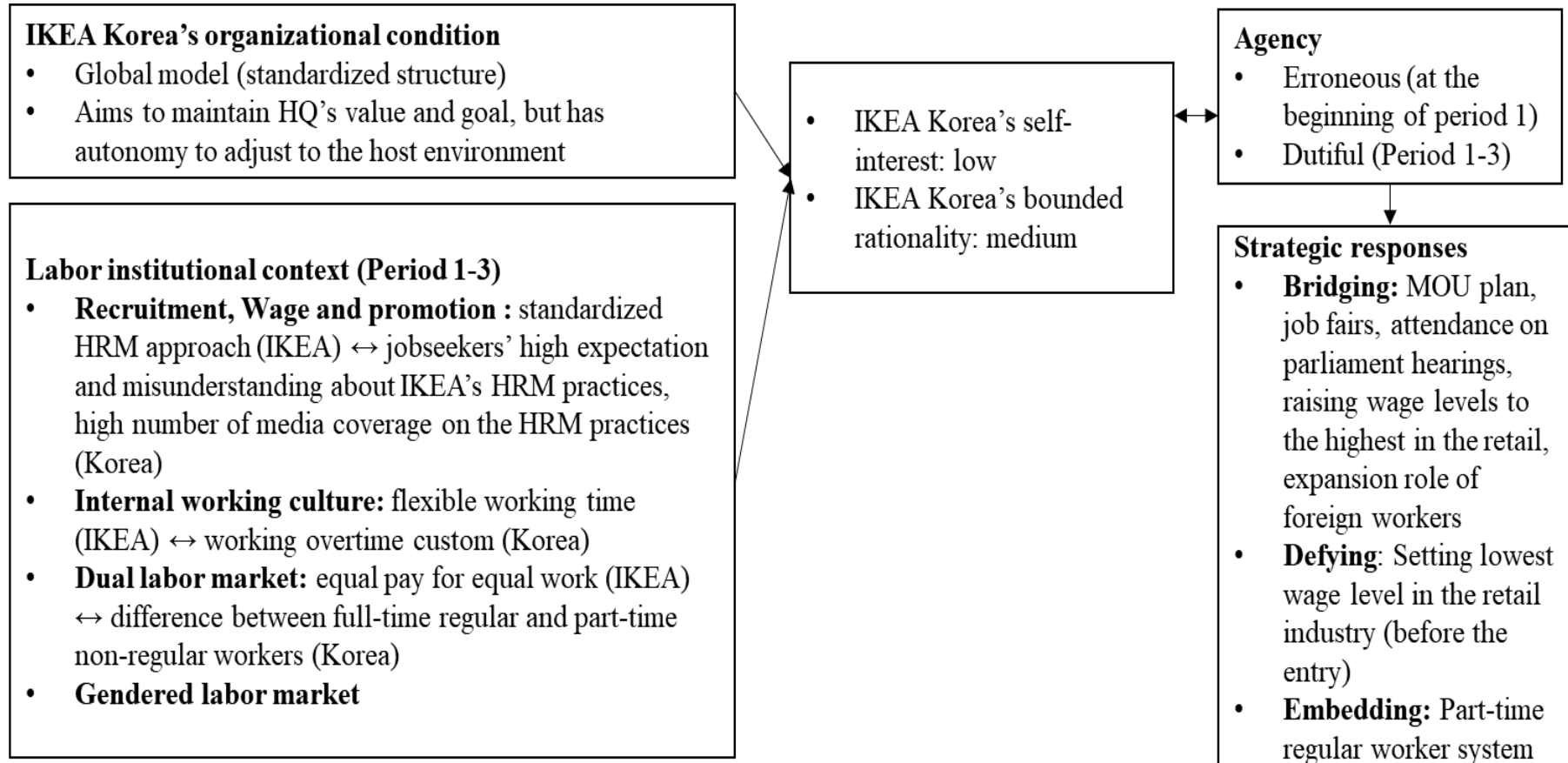
The introduction of the part-time regular worker practice had an impact on the Korean labor market. Given Korea's dual labor market system, IKEA's part-time regular worker system

is an example of how MNE subsidiaries can introduce new institutional elements that are missing in the local environment (Shi and Hoskisson, 2012). This creates opportunities for IKEA Korea as an active agent. For example, IKEA Korea might be welcome because it contributes to the labor market by hiring a significant number of women in Korea, which has low female labor participation. By carrying out agentic behavior, such as introducing new practices, IKEA Korea might succeed in bringing IKEA's values into Korea while simultaneously improving its reputation in the host country and solving the recruitment problem. In the process of introducing the part-time regular worker practice, IKEA Korea noticed institutional voids and unfulfilled needs in Korean labor institutions, that is, marginalized labor force including women and students. IKEA has targeted the groups thus far, but IKEA Korea did not have enough confidence to hire the groups, especially women due to Korea's labor institutional arrangement. Although they needed to explain this new practice to jobseekers and stakeholders many times initially, the HR team became more optimistic and confident of introducing this practice after meeting with them. IKEA Korea thus decided to introduce this practice immediately (HR manager of IKEA Korea). We argue that IKEA Korea captured the gap are created by institutional arrangement, which provide opportunities for IKEA Korea to exploit by introducing the part-time regular worker practice which is a unique combination of resources to generate value.

Despite the challenges IKEA Korea faced in the early stages, it has been operating well so far. The Gwangmyeong store reported KRW 345 billion (USD 303 million) in sales in the 2016, which was the highest turnover among all of IKEA's stores. Notably, the atmosphere surrounding IKEA Korea's HRM policy has changed. For example, the Korean prime minister named IKEA Korea, one of the top companies in promoting gender equality. One of the main reasons IKEA was chosen for this recognition was that its part-time regular worker system created many job opportunities for women. Furthermore, in 2016, the Ministry of Employment and Labor selected IKEA Korea as one of the top 100 companies for job creation. As noted above, to promote a cooperative relationship, IKEA Korea actively cooperated with Gwangmyeong City and hired 400 local residents (of its 900 employees). This contributed to job creation and regional development. The company was also recognized for hiring members of disadvantaged groups in the Korean labor market, such as women and retirees.

As IKEA Japan and other IKEA subsidiaries, IKEA Korea also has maintained the HQ's value and culture and implemented HRM practices originated from the HQ. Yet, unique local institutional pressure from jobseekers' high expectations and negative media coverage made IKEA Korea change its wage practices. As noted above, IKEA's advantages of HRM practices are not high wage level, but the flexible and flat working environment. IKEA Korea has kept HQ's core HRM practices while giving in jobseekers' high demand on wage level. As the pressures were getting intense, IKEA Korea's basic stance and dutiful agency to follow HQ's standard also was weakened. However, IKEA Korea HR team and executives aggressively have adapted the pressures to keep the HQ's practices, culture and value by exercising various strategic responses. Such IKEA Korea's strategic responses not only helped maintain HQ's value, but also influenced host institutional arrangements surrounding the labor market. Moreover, the company had a direct impact on the labor market through the creation of new jobs and it created a positive public perception of IKEA Korea.

Figure 4. IKEA Korea's HRM practice transfer activities



4.3. Cross-case comparison

This paper examines the transfer of HRM practices to two MNE subsidiaries, allowing for the possibility that MNE subsidiaries may serve as agents. Previous research in IB studies of practice transfer has tended to see MNEs as passive receivers or reactive agents under the institutional pressure of home and host countries. Yet, this paper shows that the MNE subsidiaries not only transferred their HQ's HRM practices and responded to the institutional distances they faced, but also influenced institutional change by adding new HRM practices to host countries' extant institutions, engaging in policy-making processes, and serving as role models for domestic firms.

As active agents, IKEA Japan and IKEA Korea implemented different strategic responses to the institutional environments they faced. While IKEA prefers to maintain its corporate practices and cultures across the world, IKEA Japan and IKEA Korea were under the same organizational conditions from the HQ, but they were given different institutional conditions in relation to the labor market. In terms of the time the two subsidiaries had to prepare, IKEA Japan had a relatively long preparation time before entering the market, while IKEA Korea did not. Furthermore, IKEA Japan has a painful experience of entry failure during the 1970s. This made IKEA Japan more cautious when re-entering the Japanese market and transferring practices. To address the institutional distance between home and host country, IKEA Japan introduced a YPP practice, which provided favorable conditions for transfer activities at the beginning, while IKEA Korea had an MOU agreement to gain local legitimacy. Despite the preemptive measures of both subsidiaries to maintain HQ's culture and value, the subsidiaries had faced a lot of challenges in HRM practices-related issues and this affected the subsidiaries' agency and following strategic responses. In other words, the differences in conditions enabled the two subsidiaries to adopt different strategies to adjust the institutional differences. More specifically, IKEA Japan adopted patient and stepwise strategic responses, while IKEA Korea made impatient and aggressive strategic choices. Yet, the common interest of both subsidiaries is to achieve transferring standardized HRM practices of the HQ since they wanted to be dutiful agents, not deviant agents who may cause agency problem. The difference is how to achieve it and what strategy they take for that. In the process to achieve the goal, specific institutional factors impede the subsidiaries' activities, but provide some opportunities for them at the same time.

The strategic actions they took during the HRM practice transfer activities could link with both host countries' national institutional features. As CC literature argues, Japan as a highly coordinated business system has strong institutional complementarities based on the bank-based financial systems and participatory labor relations. Due to the higher degree of coordination in Japanese business system and strong complementarities between institutions, IKEA Japan needed to approach employment institutions cautiously while implementing HRM practices. As a foreign subsidiary, IKEA Japan has had limited space in the highly complemented institutional environment and has been an outsider in the Japanese business system. As the research findings show, with patience and time, IKEA Japan has adjusted to the strong complementary employment institutions and established their practices onto the host country's institutions. It is worth noting here that once the practices were appreciated, IKEA Japan as an agent could proceed further and exercise their agency by participating in the policy-making process. Yet, Korea as a state-organized business system or a SLME has relatively

weak institutional complementarities compared to Japan (Kang, 2010). Hence, IKEA Korea could have more agency than IKEA Japan and engaged with employment institutions in a more aggressive sense. It may explain why IKEA Korea could implement HRM practices quickly and successfully despite the early complaints and turmoil. Furthermore, as noted above, IKEA Korea experienced HR issue-related complaints from job seekers at the beginning of the entry. To address the problems they faced, the subsidiary even had to attend parliament hearings and explain their HR practices' feasibility and legitimacy. Also to lessen the liability of foreignness problem, IKEA Korea has maintained a close relationship with local authorities where IKEA stores are located. It reveals that IKEA Korea needed to participate in the state-led coordination process of Korea as a typical SLME.

Faulconbridge and Muzio (2015) argue that when examining the activities MNEs carry out to participate in institutional change, temporal aspects should be considered. Whether the host-country institutional regimes are stable at a particular moment in time is critical for understanding the extent to which MNEs can influence institutional change. Unstable institutional environments tend to make some core competencies of MNEs increasingly valuable and legitimate as they address unmet requirements (Faulconbridge and Muzio, 2015). For example, prior to both subsidiaries' entry, Japan and Korea's labor markets did not provide satisfying career opportunities for women. IKEA Japan and IKEA Korea introduced the part-time regular worker system and provided a female-friendly working environment, which led to an increasing number of women in the workplace, thereby contributing to a gradual social-paradigm change about working women. The introduction of part-time regular worker systems of IKEA Japan and Korea to host countries is timely to influence the institutional environment of both countries, as these systems filled gaps in labor markets.

5. Implications

In the IB literature focused on MNEs' transfers of HRM practices, researchers have investigated how home-country and host-country contexts influence HRM practices in subsidiaries (Björkman et al., 2007; Björkman and Lervik, 2007; Chiang et al., 2017; Ferner et al., 2005; Minbaeva et al., 2014). It assumed that the main objective of MNEs has been to replicate home country practice and has focused on the country of origin effects or on how the competing effects of country of origin and host country may be played out in practice (Tempel et al., 2006). This study tries to go beyond the current debate of standardization or localization of HRM practice transfer by leveraging the theoretical motivation of being more interested in agency and the role of subsidiaries in the HRM practice transfer process. To do so, this study applies and reformulates the agency theory-inspired framework (Kostova et al., 2018). The application of the contextualized agency model helps provide a more nuanced understanding of subsidiary agency. More specifically, we believe the use of the model could contribute to a growing body of IB literature that recognizes the proactive roles of subsidiaries in the process of HRM practice transfer by showing the multi-faceted agency of subsidiaries.

Embracing the contextualized agency model with the CIA perspective's advantage, this study extends the literature of subsidiary agency in the HRM practice transfer. First, this study shows how the subsidiaries' agency are embedded and shaped given the organizational and institutional conditions. With the framework and unique cases, this study suggests that there

are various agency and following strategic responses subsidiaries could take while recognizing there may be more than two or three different orientations of HRM practice transfer (e.g. exportation, adaptation and integration). We argue that subsidiaries as agents could take various strategic actions to adapt host institutions and distance between home and host institutions in the process of HRM practice transfer, while exercising agency. By considering the interaction between subsidiaries and the institutional environment, this study can bring a greater sense of dynamics to the initially highly static approach of HRM practice transfer.

Second, this study could properly answer the call for more context-oriented research in the subsidiary agency field (Hoenen and Kostova, 2015) by linking the analytical advantage of the CIA perspective to the agency model. With the addition of the CIA perspective which provides a thick description of institutional context and a more open-ended view of institutions and agency (Ahmadjian, 2016), the agency model could benefit more from a detailed understanding of institutional context. Furthermore, unlike the original model (Kostova et al. 2018), this study further analyzes the strategic responses of case subsidiaries in addition to what agency they have. This helps us understand how and why subsidiaries have certain agency and that leads to certain strategic responses. Furthermore, by bringing under-researched research contexts (Sweden, Korea and Japan) and analyzing them with the CIA perspective, this study could make an empirical contribution to the literature of subsidiary agency. The distant environment that home- and host-countries helps us understand how specific institutional contexts shape a subsidiary agency.

Third, this study also links with the idea of institutional co-evolution by Cantwell et al. (2010). We found that while the institutional environment enables or constrains MNEs' practice transfer activities, such activities may influence the institutional environment at the same time. Cantwell et al. (2010) argue that MNE subsidiaries may take three paths when engaging with the institutional environment: institutional avoidance, institutional adaptation, and institutional co-evolution. Institutional avoidance and institutional adaptation are about how subsidiaries respond to institutional differences, but institutional co-evolution recognizes that the subsidiaries' objective may not be to simply adjust to host-country institutions. Instead, the subsidiaries may wish to affect them. Much of the IB literature has focused on explaining the opportunities and constraints inherent in uneven institutional environments, and institutional avoidance and adaptation have often been covered in the literature. However, institutional co-evolution has come to the fore recently with the concept of institutional entrepreneurship, which views actors as purposefully activating resources to create new institutions or to change existing institutions to suit their interests (DiMaggio, 1988; Garud et al., 2007; Maguire et al., 2004; McGaughey et al., 2016). Institutional co-evolution thus includes the introduction of new organizational routines and practices that the MNE subsidiaries have developed locally or are transferred from elsewhere within the MNE network (McGaughey et al., 2016). In this study, both subsidiaries engaged with host countries' institutional environment while transferring their HRM practices and adjusting institutional differences. Especially, as described above, IKEA Japan's active engagement in the institutional change process (legislation process) shows an example of a subsidiary as being an institutional entrepreneur. Hence, this study empirically contributes to the growing discussion about subsidiaries as institutional entrepreneurs and their institutional engagements in practice transfer literature.

Furthermore, the cases of IKEA Japan and Korea show that the outcome of HRM practice transfer led to undesirable recognition and success. In particular, transferring part-time regular worker practice has gained high attention from the public in both countries. The findings of this study shed further light on the discussion of the unintended outcome of practice transfer. Previous studies suggest that the effects of practice transfer and diffusion may not always be desirable due to unintended outcomes (Pudelko and Harzing, 2007; Novitskaya and Brewster, 2016). Yet, as Chiang et al. (2017) point out, few studies explicitly discuss unintended outcomes of the transfer and diffusion of HRM practices. It might be that HQ and subsidiaries both obtain benefits (e.g. greater status and increased recognition) as a result of transferring their newly developed practices to other subsidiaries (Edwards and Ferner, 2004; Tempel, 2001). With the example of part-time regular worker practice transfer, this study shows that regardless of MNEs' original intention (standardization), subsidiaries unintentionally find strategic opportunities or unfulfilled gaps (e.g. low female labor participation, dual labor market) in the host country's institutional environment and fill the gaps by transferring practices.

6. Conclusion

Through the case study of MNE subsidiaries (IKEA Korea and Japan), this study found their HRM practice transfer activities, incorporated agency and strategic responses not only to decrease the institutional gaps between home and host countries, but also to influence host institutional environments. This study's findings are in line with the growing literature of MNEs as agents in transferring practices and influencing the host context (Saka-Helmhout and Geppert, 2011; Becker-Ritterspach et al., 2017; Saka-Helmhout, 2020) and the literature of the role of MNE subsidiaries in HRM practice transfer (Brookes et al., 2017; Ferner et al., 2011; Clark and Lengnick-Hall, 2012). Yet, this study has different analytical lenses and engages with these literatures by using the contextualized agency model to understand the agency of MNE subsidiaries. Taking the reformulated agency model with the CIA perspective helps us understand how and why MNE subsidiaries take certain agency and strategic responses given the institutional environments. With the findings of this study, we argue that subsidiaries as agents could take various agency shaped by organizational and institutional contexts and that subsidiaries could become institutional entrepreneurs while implementing practices and introducing new institutions to adapt to local pressures.

This paper contributes to the extant literature. First, it advances our understanding of subsidiary agency in the HRM practice transfer in distant institutional settings by adding an empirical case study. Second, it highlights the contextualized understanding of subsidiary agency by providing a greater sense of surrounding institutional and organizational conditions to building various forms of subsidiary agency. Third, it touches upon the relevance of a co-evolutionary perspective on interactions between institutions and MNE subsidiaries when it comes to transferring HRM practices by analyzing the cases in sequential order. Fourth, it introduces the potential of the agency theory-oriented model as an alternative approach to exploring institutional context and subsidiaries' agency in it.

7. Limitations and future research

We acknowledge several limitations of the current study and suggest opportunities for future research. Our case study tells an interesting story about how subsidiaries actively respond to challenges while transferring HQ-based HRM practices, but this case study approach could be extended by comparing similar cases of practice transfer such as other Scandinavian firms in Korea and Japan (e.g. Kemper et al., 2019). Furthermore, future research with a large sample would be well placed to explore the patterns of different subsidiary agencies in HRM practice transfer activities and the effects of various factors on them. The study also relies on data mainly from the subsidiaries. Although the focus of this study is the role of subsidiaries, we mainly analyze the subsidiaries' view, particularly the HR team's experience and view on the HRM practice transfer. However, other actors including HQ and other sub-units in subsidiaries could provide different interpretation or view on the HRM practice transfer activities of subsidiaries and agency of them (Kostova et al., 2018). Future research is needed to incorporate the data covering other perspectives of various actors in MNEs. Third, this study mainly focuses on the organizational level of analysis with national institutional level of analysis. Future research could further contribute to studies on agency within MNEs by looking at how agency at the individual level can influence organizational level and national level institutions. Similarly recent work about globalizing actors (Kern et al., 2019) argues that we need to shed lights on individuals who could create organizational norms in MNEs and the skills and resources they use to navigate diverse organizational and institutional contexts.

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