

# BASIC HRM AND staffing POLICES AND THEIR ASSOCIATION to THE MULTINATIONALS' COMPETITIVE STRATEGIES (the case of foreign companies operating in albania)

Dr. Albana BORIÇI (BEGANI)

Dr. Ardita BORIÇI

Dr. Arjola DERGJINI

## Abstract

Nowadays globalization represents a multidimensional phenomenon with significant impact on the economy of all countries. In this context, a great contribution is attributed to multinational companies (MNCs), whose success in foreign markets is significantly dependent on their ability to manage international human resources. According to various recent authors, who refer to the Barlett & Goshal typology, MNCs may choose between four basic strategies to compete in today's global markets: a) the multidomestic, b) the global, 3) the transnational and 4) the regional strategy. Each of these strategies can be related to one of the human resources management and recruitment policies proposed by Perlmutter (the ethnocentric, polycentric and geocentric policy) in order to use human resources as a critical asset for the achievement of multinationals' strategic goals. The idea of this paper is to: a) first, present theoretical arguments supporting the association between these two typologies and b) second, try to identify if this relationship exists in the case of foreign companies operating in Albania, through the analysis of a case study (Energy Ashta) and of a survey conducted with a random sample of 40 foreign companies operating in the region of Shkodra.

**Key words:** multinational companies, human resources management, typology, competing strategies, foreign companies, Albania

## 1. THEORITICAL FRAMEWORK

### 1.1. Multinationals basic competitive strategies

The term "globalization" has become a popular word in the last few decades, describing how business has been done around the world during this period, and, it appears that it will continue to be a key word for describing business management in the future decades as well. This phenomenon has been a consequence of developments in the technology of transport and communication and has impacted all the fields of a society's life. From the economic perspective globalization represents "the worldwide trend of economic integration across borders allowing businesses to expand beyond their domestic boundaries" (Cullen & Parboteeah, 2010, pg. 6). In this context a great contribution must be attributed to multinational companies (MNCs).

Multinational companies can be defined as companies with activities expanded in more than one country (Goldstein, 2001) or businesses with direct investments (in the form of subsidiaries with production or marketing activity) which are placed and operate simultaneously in some other countries except their country of origin (Wild et al., 2006; Eitman et al., 2007). This means that what distinguishes these companies from other businesses with international activities, is the fact that the headquarters owns a considerable quantity of assets in one or more foreign countries, from which it pretends to draw profits. For this purpose it is necessary that the headquarter exercises a direct control on its subsidiaries in foreign countries and intervenes continuously in their decision making process. The later depends a considerable amount on the nature of relationship established between the headquarters and its affiliates abroad, which is the result of the strategy chosen by the multinational to compete in the global market.

What are then the strategies used by multinational companies to take advantage of the opportunities in foreign markets and to manage the complexity characterizing the actual global competition? Many studies have been conducted in order answer this question, but, as Harzing (2000) mentions, Barlett & Goshal (1989) have offered maybe the most complete typology of multinational

companies and their competitive strategies. In the 80's they performed a deep study of 9 multinational companies from three different regions, Europe, USA and Japan, and came to the conclusion that such companies, based on the strategy used, can be classified in four categories: a) 1) *the multidomestic (strategy) company*, 2) *the international (strategy) company* 3) *the global (strategy) company*, and 4) *the transnational (strategy) company*. Three organizational characteristics were taken into account in order to distinguish between these strategies (or companies): a) the companies' structure of assets and capacities, b) the role of foreign affiliates and 3) the development and delivery of knowledge.

In the case of a *multidomestic company (strategy)* there is a high level of decentralization in the management and delivery of the firm's assets and capacities. Each foreign subsidiary operates as a small company within the multinational, focusing mainly on the adjustment to the local preferences and tastes, which represents the main strength of the strategy used by this company (Hill, 2005). Low level of knowledge transfer between the headquarters and the affiliates is also characteristic in this case.

On the other hand, the *international strategy (company)* is characterized by the centralization of basic assets and competencies of the multinational at the headquarters and the delivery of the less important assets and competences through the various foreign subsidiaries (Barlett & Goshal, 1998). The centralization of basic competencies at the headquarters is reasonable when they are missing in host markets, therefore allowing the transfer of knowledge from the head office to the affiliates. Then the role of subsidiaries is to modify somehow the strategy of the multinational in order to adjust it to diverse conditions in individual foreign markets, but in this case the level of adjustment is lower compared to the case of a multidomestic company.

The *global strategy (company)* represents the variant with the highest level of centralization of assets and capacities at the head office that intends to draw profits from specialization and economies of scale, therefore bringing to a higher level of efficiency. In this case the duty of

subsidiaries in host markets is to just implement the headquarters global strategy (Hill, 2005). This means that the level of adjustment to the conditions in host countries is quite low, while the level of knowledge transfer from the headquarters to the affiliates is high.

The *transnational strategy (company)* seems to be a hybrid of the multinational and the global strategy. Its goal is to achieve at the same time a high level of adjustment to individual host markets and a high level of efficiency for the multinational as a whole. For that reason company's assets and capacities are delivered throughout its all subsidiaries. Basic competencies are transferred from the head office to the affiliates in order to help them react quickly to the dynamic environment in foreign markets. In this strategy the level of knowledge transfer is the highest. In fact, each affiliate can behave as part of a large network of ideas, competencies and knowledge (Barlett & Goshal, 2000).

Based on a critical analysis of Barlett & Goshal typology as well as of other authors contribution in this field, Harzing (2000) has drawn some conclusions that have helped her build and empirically test her own typology of multinationals. According to her the three main strategies used by multinationals to compete in the global marketplace are: 1) the multidomestic, 2) the global and 3) the transnational strategy. The first is characterized by the combination of a low level of integration between subsidiaries and a high level of adjustment of their activities to environments in host markets. The second, on the other hand, requires a high level of integration between subsidiaries and weak efforts to adjust to foreign markets. The third can be viewed then as combination of the two first, since it combines the high level of integration between subsidiaries with the high level of efforts to adjust to individual host markets.

Furthermore, in a later article of Pudelko & Harzing (2007), the authors have found a strong argument that supports the transnational model of a multinational. They affirm that standardization of the best global practices is being now particularly esteemed by multinational companies, which means that they emphasize on a global learning process or on the process of knowledge transfer between the various subsidiaries, which is the key point of a transnational company.

Tarique et al. (2006) propose another variant of competitive strategies for multinationals, which represents as well a combination of the global and the multidomestic strategy. This is the *regional strategy*. Companies using this strategy tend to consider specific geographical regions as special markets which should be handled in a special way, whereas the affiliates within these regions are viewed as units related to each other which should be managed in the same way. According to (Cullen & Parboteeah, 2010) a company using this strategy attempts to take advantage of economic efficiency and location advantages characteristic for the global strategy and of the local adaptation advantages characteristic for the multidomestic strategy. In this case, instead of producing worldwide products and using a worldwide value chain, companies manage raw-material sourcing, production, marketing, and other activities within a particular region.

## 1.2. Basic human resources management & recruitment policies (Perlmutter typology)

Perlmutter (1969) has been through the first to create a typology on multinationals' staff management and recruitment policies, which has also been considered from many authors as a critical instrument in understanding international strategies used by these companies (Sandberg & Hasen, 2004). According to Perlmutter, the multinational company is initially composed of an *ethnocentric staff*, which gradually is replaced by a *polycentric* one. Later on, after a long experience of the company in international markets, its staffing policy changes from polycentric to *geocentric* (Heenan & Perlmutter, 1979).

✚ An **ethnocentric** management and staffing policy requires individuals from the parent country (parent country nationals or *PCNs* or *expatriates*) to manage multinational operations abroad. This way such companies attempt to maintain a high level of control over decision making in foreign subsidiaries. In general such policy is used only for top managers, while implementing it for every employee in the foreign affiliate would be totally inappropriate (Wild et al, 2003). Ethnocentric policy encourages the transfer of technological and managerial knowledge as well as of cultural values and business practices from the headquarters to subsidiaries, therefore ensuring consistency in the way the later are managed (Trevan, 2001). This means that this policy is more appropriate in cases when qualified and experienced individuals are missing in the host countries or the multinational wants to apply the same organizational culture in all its subsidiaries. Ethnocentric policy is also favorable when companies believe that parent country nationals will defend better their interests as compared to host country nationals. The major disadvantages of this policy are: 1) *lack of familiarity of PCNs with the host country*, 2) *the high probability of them to fail* while exercising their task (because of their and their families difficulties to adjust to the local environment), and 3) *the high cost*. The payment of a PCN can be three times that of a manager from the host country (Bonache Perez & Pla-Barber, 2005).

✚ **Polycentric** policy can be seen as the opposite of the ethnocentric one. In this case individuals from the host country (host country nationals, *HCNs*) are those who manage operations of the multinational company abroad (Wild et al., 2003). This method is applicable to all organizational levels, including the workforce. Companies believing that people from the host country have a better understanding of the host market and culture are more likely to apply this staffing policy. They allow HCNs a great deal of autonomy in decision making, but in general managers from the host country are previously trained at the head office about the operations and the culture of the multinational company. Having managers with deep knowledge of the host country is a big advantage for the firm together with the fact that HCNs are less costly than PCNs (Hill, 2005). However, using a polycentric staffing policy means as well that the headquarters will lose a great deal of control over the activity of its subsidiaries abroad.

✚ On the other hand, the **geocentric** policy consists at the selection of the most qualified employees to accomplish

organizational tasks regardless of their nationality. They may be from the home country, the host country or a third country (the so called third country nationals or TCNs). Their selection depends on a company's specific needs (Wild et al., 2003). This policy is more likely to be applied by companies trying to combine the best managerial practices used by the headquarters and the foreign subsidiaries (Treven, 2001). The biggest advantage of the geocentric policy is the creation of global managers, who are able to adjust easily to different business environments. Nonetheless, many researchers believe that the number of global managers is very low and in such conditions is expectable that the cost the companies have to pay to attract and keep such individuals is really high.

As mentioned above each of the human resources and staffing policies has its advantages and disadvantages, therefore the selection of one or the other depends significantly on the organization's characteristics and goals. It is critical that human resources management policies be based on the organization strategic goals in order to influence positively in its continuous performance improvement.

### 1.3. The relationship among competitive strategies and human resources management and staffing policies

If we go back to the Barlett & Goshal (1989) typology we can notice that there are some similarities between this and Perlmutter (1969) typology. Their authors talk and analyze concepts that are similar or related to each other. So, Barlett & Goshal talk about a company's assets and capacities, while Perlmutter about authority and decision making, which are all concepts related to centralization or decentralization of a multinational's decision making process. Furthermore, while Perlmutter talks about communication, Barlett & Goshal talk about knowledge transfer, which are also two similar concepts. Based on such facts, it is possible to create a relationship between strategies used by multinational companies and the policies they apply to manage their human resources.

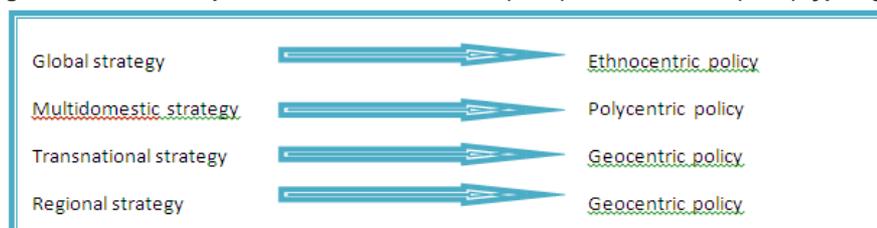
According to Barlett & Goshal, global strategy is characterized by a high level of centralization in the management of multinational companies, where all important decisions are made by the headquarters and subsidiaries have to implement them. This means that there is a high level of knowledge transfer from the headquarters to foreign affiliates. The use of an ethnocentric policy is

more appropriate in this case, because expatriates who are transferred abroad to manage subsidiaries represent the best way to achieve such goals. They possess technical and managerial knowledge earned at the headquarters and behave according to its culture. In addition, they are expected to defend better the interests of the multinational as a whole than local managers.

On the other hand, a polycentric policy is more appropriate for a company using a multidomestic strategy. The later is distinguished for the high level of decentralization in the management of foreign subsidiaries, where each of them possesses a great deal of autonomy in the decision making process and emphasizes on the adjustment of products and managerial practices to characteristics of the host country. In such case a high level of attention should be put on knowledge about the host country and the needs and preferences of its customers. The engagement of local individuals, both at managerial and non managerial positions, is the best way to achieve this goal.

Finally, according to Barlett & Goshal (1989) typology and other authors supporting them, companies using the transnational strategy, attempt to do both, adjust to individual markets in the host countries and achieve a high level of efficiency. Their subsidiaries are considered to be part of a network where loads of knowledge and ideas circulate making possible the transfer of the best management practices between them or between them and the headquarters. The most appropriate individuals who help accomplish this are the so called "global managers", who are able to adjust easily to different business environments in different host countries and therefore to transfer knowledge earned in one country to another one, or even better to the headquarters. Based on what was just mentioned we can conclude that a company using a transnational strategy is more likely to apply a geocentric human resources management or staffing policy. According to Tarique et al. (2006) this policy is appropriate as well for a company using a regional strategy. In this case, managers from a third country, who have been socialized within a regional center of the multinational firm, provide the best fit between the individual and the requirements to be fulfilled by a subsidiary manager, since they have a very good knowledge about the respective region. In a schematic way the relationship between the typologies of Barlett & Goshal (1989) and Perlmutter (1969) can be presented as below:

Fig. 1. The relationship between Barlett & Goshal (1989) and Perlmutter (1969) typologies



Based on the above mentioned arguments, two hypotheses can be raised in the case of foreign companies operating in Albania:

**Hypothesis 1:** If a foreign company in Albania is applying a global, or transnational, or regional strategy to compete internationally, it is more likely to use a foreigner as general manager of its activity in Albania

**Hypothesis 2:** If a foreign company in Albania is applying a multidomestic strategy to compete internationally, it is more likely to use an Albanian as general manager of its activity in Albania.

## 2. METHODOLOGY

### 2.1. Research method, sample and statistical method

In order to test if any relationship exists between Barlett & Goshal (1989) and Perlmutter (1969) typologies in the case of foreign companies operating in Albania, a primary research that combines case study with survey results was conducted. For this purpose, in March 2011, Mr. Dietmar Reiner was interviewed. He is one of the Managing Directors of Energy Ashta, a 50/50 joint venture between Verbund and EVN, constructing in the vicinity of Shkodra the largest matrix power plant using small turbines. A survey was also conducted, during February and March 2011, with 40 randomly selected foreign companies operating in the region of Shkodra, whose data were then processed using SPSS 17.0.

The two variables in the relationship between Barlett & Goshal (1989) and Perlmutter (1969) typologies, respectively competitive strategy (the independent variable) and nationality of general managers (the dependent variable) are both qualitative. Therefore to enter them into the statistical computer program (SPSS 17.0) a coding procedure was followed: a) independent variable, competitive strategy (1=global, 2=regional, 3=transnational, 4=multidomestic); b) dependent variable, *nationality of the general manager* (0=foreigner; 1=Albanian). The *independent sample t test (2 tailed)* together with the *linear regression model* were then used to verify the existence or not of the relationship. Following are presented the empirical results from both the interview and the survey.

### 2.2. Energy Ashta case

Energy Ashta represents the first major Independent Power Plant realized in Albania which will be built and operated based on a concession agreement signed between the Albanian government and two Austrian companies operating in the energy industry, Verbund and EVN<sup>291</sup>. The latter own each 50% of the project and have planned to invest a total amount of 200 million Euros. Verbund is the largest Austrian electricity company and a leading European hydropower producer. In Austria its activity consists on the generation, transmission and trade of the electric energy, while its international activity includes generation and trade in more than 20 foreign countries<sup>292</sup>. Referring to Mr. Dietmar Reiner, Managing Director of Energy Ashta and representative of Verbund Company, the strategy used by the latter to compete internationally is the transnational strategy. EVN on the other hand is a leading international energy and environmental services company. It is headquartered in Austria but has expanded its activity in about 18 countries, by providing its customers electricity, gas, heat, water, waste incineration and other related

services. It has also become an important player in the energy industry in Macedonia and Bulgaria<sup>293</sup>.

The Energy Ashta project involves the construction and operation of a run-of-river plant with an installed capacity of more than 50 MW and a foreseen annual energy generation of about 240 KWh, providing therefore electric energy for about 100.000 Albanian households. The construction of the hydropower plant, which will be located near Shkodra, the fourth largest town in Albania, is planned to finish next year.

According to Mr. Reiner, it is Verbund's and EVN's strategy to expand business activities in Southern Eastern Europe. This is the reason why these companies have chosen to invest in Albania, taking into account as well the fact that our country offers plenty of hydro power resources.

From the interview with Mr. Dietmar Reiner is also revealed that, in the case of Energy Ashta, there are two expatriates with Austrian nationality (each representing the respective investing partners, Verbund and EVN), holding the position of the Managing Director, one of which is also the Energy Ashta CEO. On the other hand, mid and low level managerial positions are all held by Albanians, such as the Technical Manager, the Station Manager, and the Financial Manager, etc. The most important reasons mentioned by Mr. Dietmar Reiner for sending out expatriates to manage Verbund's and EVN's Albanian joint venture, are the necessity to transfer technical or managerial knowledge in Albania and to improve communication channels between the headquarters in Austria and Energy Ashta. Also, the lack of qualified Albanian managers and the need to guarantee the use of the same culture in all subsidiaries abroad, seem to have influenced too the use of these expatriates. According to Mr. Reiner, both partners in the Energy Ashta project, Verbund and EVN, support the policy of using expatriates in the managerial board of their subsidiaries abroad and there are no plans to change it in the near future. However, Mr. Reiner does not exclude the possibility that once sufficient trust is being built up upon Albanian managers and Verbund or EVN expand more extensively their activity in Albania, expatriates could be replaced with Albanian managers. As can be seen, in this case, a company using a transnational strategy to expand internationally is employing a foreigner as general manager of its activity in Albania, therefore supporting the first hypothesis.

### 2.3. Survey results

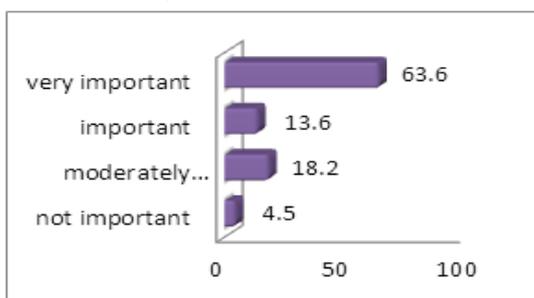
40 foreign companies, randomly selected, operating in the region of Shkodra, were also surveyed in order to test the two hypothesis raised in this paper. From these, 60% were engaged in production activities, against 40% engaged in service activities. 80% of them had chosen capital investment as their entry mode to the Albanian market, while 17.5% had entered through licensing or concession agreements. The majority of the surveyed companies (57.5%), reported they decided to expand their activity to Albania in order to take advantage of the low cost of labor,

<sup>291</sup> <http://www.energji-ashta.al/eashta/>

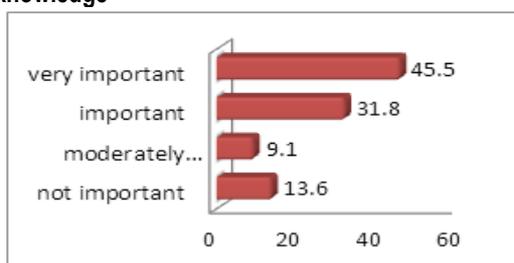
<sup>292</sup> <http://www.energji-ashta.al/eashta/about-verbund/>

<sup>293</sup> <http://www.energji-ashta.al/eashta/about-evn/>

against 27.5% which reported they saw market development opportunities in our country. Others had entered the Albanian market because of their home country geographic closeness to Albania or because of the low cost of raw materials here. In 57.5% of the cases the surveyed companies reported they were employing a foreigner instead of an Albanian as the general manager of their activity in our country. In all these cases managers were expatriates, except for one case where the foreign manager was from a third country. The necessity to transfer technical and managerial knowledge to Albania as well as the need to improve channels of communication between the headquarters and these companies subsidiaries in Albania, were mentioned by them as the major reasons for using an ethnocentric staffing policy for managerial positions. Based on a Likert scale, both these reasons, were evaluated as “important” or “very important” in about 78% of cases.



**Figure 1. Necessity to transfer technical and managerial knowledge**



**Figure 2. Need to improve channels of communication between headquarter & subsidiaries**

The lack of qualified managers in Albania was mentioned too as an “important” or “very important” reason in about 55% of cases. On the other hand, companies which reported they were employing Albanians as general managers of their activity in our country, emphasized familiarity with the Albanian environment as the major reason for making this choice. In 94.1% of cases they rated this reason as a “very important” one. The survey revealed as well an interesting fact, all foreign companies which had more than one branch in Albania, including the one in Shkodra, were placing Albanians in the position of branches managers. In such cases too, familiarity with the local market was mentioned as the most important reason inducing to this choice (in all cases). However, high cost of foreign managers and their difficulties to adjust to the Albanian market were also considered as very important reasons for using Albanians as managers of branches placed in various Albanian cities.

As mentioned earlier, the independent sample *t* test (2 tailed) additionally to the linear regression model were used in order to confirm the existence of a relationship between competitive strategies and staffing policies for managerial positions applied by the 40 surveyed companies. The *t* test consists on the comparison of the mean of the variable “competitive strategy” for the group of companies using an ethnocentric (or geocentric) staffing policy with the mean of the same variable for the group of companies using a polycentric policy. On the other hand, the linear regression model analysis is used to predict the change in the value of a dependent variable (in our case, the nationality of general managers) caused by the change in the value of an independent variable (in our case, competitive strategy), assuming that such relationship is linear. The respective generic equation is:  $Y_i = \beta_0 + \beta_1 X_i + \epsilon_i$ , where  $Y_i$  is the value of the dependent variable for the *i* observation,  $\beta_0$  is the value of the dependent variable when the independent variable value is 0,  $\beta_1$  is the slope of regression line,  $X_i$  is the value of the independent variable at the *i* observation and  $\epsilon_i$  is the standard error for the *i* observation. The *t* test analysis revealed that the mean of the variable “competitive strategy” for the group of companies employing a foreigner to run their activity in Albania was 2.0, while the mean for the group of the companies employing an Albanian was 3.32941. The difference of about 1.29412 between these two means is also significant for an  $\alpha = 0.05$  level of control ( $t = -4.442$ ;  $p = 0.000$ ). This implies that there is a significant relationship between the “competitive strategy” variable and the “nationality of the general manager” variable. The same conclusion is drawn from the analysis of the linear regression model. The ANOVA test proved the impact the strategy used by foreign companies operating in the region of Shkodra has in determining their staffing policies for top level managerial positions ( $F = 19.730$ ;  $p = 0.000$ ). In fact, based on the value of the determination coefficient, 32.4% of variation in staffing policies these companies apply is due to variation in the competitive strategy they use, while the strength of the relationship among these variables is moderate ( $R = 0.585$ ). The regression line equation representing this relationship is  $Y = 0.585X - 0.248$ , showing the relationship is positive. This means that the higher the value of the “competitive strategy” variable the higher the value of the “general manager nationality” variable, in other words, those companies applying a global, regional or transnational strategy are more likely to use foreigners to manage their activity in Albania, while those using a multidomestic strategy are likely to employ Albanians, therefore supporting both hypotheses.

### 3. DISCUSSION AND CONCLUSIONS

Results of both the case study and the survey confirm that in general, foreign companies operating in Albania prefer to use foreigners, more specifically expatriates, as general managers of their subsidiaries in our country. The major reason for this policy is related to their need to transfer technical or managerial knowledge to Albania together with the need to build good communication channels among their headquarters and their activity in Albania. Lack of qualified Albanian managers is also mentioned as an important reason in more than half of the cases. On the

contrary, those companies which prefer to have Albanians as general managers, see familiarity with the Albanian market as a critical success factor for their business activity here. The later reason, along with the high cost of foreign managers and their difficulties to adjust to Albanian environment, are very important reasons why foreign companies use locals as managers of their various branches in Albania. The relationship between the strategy chosen by these companies to compete internationally and the nationality of their top managers in Albania is quite evident. Companies using a global, transnational or regional strategy are more likely to put foreigners instead of Albanians in such positions, while companies implementing a multidomestic strategy are more probable to have Albanians run their business in our country. Therefore, both hypotheses raised in this paper are supported, confirming what theoretical arguments suggest, a relationship between Barlett & Ghoshal (1989) typologies and staffing policies for top level managerial positions (Perlmutter, 1969). These conclusions can be quite interesting for university institutions in Albania. First, since companies applying a multidomestic strategy are more likely to use Albanians in top management levels and all companies are likely to put Albanians as branches managers, Albanian universities can do their homework to promote their best students, to these companies, both recent and past. For that, each university can create a special office which: 1) keeps in touch with the best students close to graduation or graduated, 2) collects and manage data on their student performance and work

experience and 3) informs, advices and promotes them to the above mentioned companies. The office can play an intermediary role between the best students and the foreign companies, by maybe initially providing internship opportunities for the best students. Later, with the consolidation of relations with these companies, this office can make efforts to provide real job opportunities for the best students, especially for those who had been graduated some years ago with very good results, have a good work experience, but are actually unemployed or looking for better job opportunities. This category of individuals can be more appropriate to fill vacant managerial positions in foreign companies.

Second, the necessity to transfer technical and managerial knowledge together with the lack of qualified managers in Albania were emphasized as very important reasons for transferring expatriates to Albania, both in the interview and in the survey. This means that the level of qualification of future Albanian managers must be improved, from both perspectives, technical and managerial, in order to increase the likelihood of replacing these expatriates with Albanian managers. University institutions in Albania must play a crucial role in accomplishing this optimistic goal. They should first improve their study programs and try to adjust them to the job market needs, including the needs of foreign companies in Albania. On the other hand, they should improve the quality of the graduates they generate by applying stricter procedures for students' enrollment and by enforcing objectivity in the evaluation of students.

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