

Research on the influence mechanism of host country's institutional pressure on the performance of Chinese enterprises in Vietnam - The mediating role of human resource localization and human resource autonomy

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Abstract

Purpose: The current study aims to address these issues and provide insights into the Chinese enterprises' experiences in Vietnam by researching on influence mechanism of host country's institutional pressure on the performance of Chinese enterprises in Vietnam with the mediating role of human resource localization and human resource autonomy.

Design/methodology/approach: The study uses a quantitative method to examine the influence of host country institution pressure on the organization performance of Chinese enterprises in Vietnam. The sample includes 400 management level employees from Chinese enterprises in Vietnam. A questionnaire survey will be used for data collection and descriptive statistics and Partial Least Squares Structural Equation Modeling (PLS-SEM) for data analysis. **Findings:**

Research limitations/implications: This study aims to help Chinese enterprises in Vietnam overcome challenges such as lack of localization and human resources autonomy, which can negatively impact their organizational performance. It focuses on the relationship between institution pressure, human resources localization, and organizational performance, enabling better strategic planning and gaining a competitive advantage. The study also serves as a reference for Chinese enterprises planning to expand their business in Vietnam, helping them understand and plan their strategies for success. It also contributes to the research field by filling the gap in existing studies on Chinese enterprises in Vietnam.

Practical implications: The study provides actionable insights for Chinese enterprises, helping them refine their strategic planning to improve competitive advantage and organizational performance. The findings emphasize the importance of aligning HR practices with local cultural and regulatory contexts, which can enhance employee engagement, productivity, and overall organizational outcomes. For businesses considering market entry into Vietnam, this study serves as a critical reference, helping them assess readiness and strategic fit, and make informed decisions on entry strategies and resource allocation. Additionally, this study contributes to the broader research community by expanding the scope of knowledge on international HR management and offering a comprehensive analysis of HR localization and autonomy in a specific international context.



Originality/value: There is very rare of them are researching on Chinese enterprises in Vietnam. This study will focus on Chinese enterprises in Vietnam.

Keywords: Institutional Pressure, Organization Performance, Chinese-Vietnam

Introduction

China and Vietnam have a strong relationship, rooted in their Communist party leadership and socialist system. Their ideological growth routes, social structures, and values are intertwined. President Xi emphasized the importance of maintaining robust bilateral connections for both nations and peoples (Hua, 2020). Despite the COVID-19 outbreak, China-Vietnam cooperation is accelerating in trade and other fields. To deepen understanding of the socialist cause, China and Vietnam should reaffirm their commitment to the Communist parties and socialist system's leadership, uphold high-level political guidance, and maintain inter-party experience exchanges. They are actively advancing bilateral cooperation, unlocking potential for collaboration, and maximizing synergy between China's Belt and Road Initiative and Vietnam's "Two Corridors and One Economic Circle" plan (Hua, 2020).

Bilateral trade volume between the two nations has been steadily expanding since the start of 2020, with bilateral commerce exceeding US \$160 billion in 2019 and reaching around \$150 billion in the first ten months of 2020, a 16.2% rise year on year (Han & Jian, 2020). China has invested \$21.1 billion in 3,049 projects in Vietnam, ranking third in investment. However, the US-China Trade War has led to increased tariffs, affecting Chinese enterprises, particularly in the manufacturing industry. The Vietnamese economy is among the most open in Asia, with commercial activity accounting for 208% of Vietnam's GDP in 2020. Vietnam's primary trade partners are the United States, China, Japan, and South Korea, accounting for 27.4% of total exports and 32.2% of total imports (Crédit Agricole CIB, 2022). Vietnam's export value is projected to increase from 264.2 billion USD in 2019 to 282.7 billion USD in 2020, with a record-breaking 19% rise in exports in 2021.

China and Vietnam share similar political and cultural backgrounds, leading to governments encouraging foreign direct investment (FDI) in their respective states. China has been more effective in pushing multinational firms to invest overseas, particularly after entering the World Trade Organization and creating a free trade agreement with ASEAN (Chiang, 2019). Both countries have economies designed from the center and are moving from a planned to a market one. Chinese multinational firms have developed their marketing skills, technology, and management systems during the economic transition, benefiting from ownership benefits in Vietnam.

The Chinese-Vietnamese relationship presents opportunities for cooperation between enterprises, with Chinese enterprises expanding in Vietnam due to the country's favorable foreign commerce environment. However, obstacles remain, such as small investment projects and lack of understanding of local rules and localization. BACV has been promoting bilateral cooperation in commerce, economy, and investment to address these issues. Understanding host country culture helps enterprises understand the diversity of customers and staff, and adapt to operating in a beneficial manner. However, Chinese enterprises in Vietnam lack a full grasp of local rules and localization, which may negatively affect their organization's performance (Obiekwe & Nwaeke, 2019). There is a lack of research on Chinese enterprises in Vietnam, and there is a need for further research in this area. The current study aims to address these issues and provide insights into the Chinese enterprises' experiences in Vietnam by researching on influence mechanism of host country's institutional pressure on the performance of Chinese enterprises in Vietnam with the mediating role of human resource localization and human resource autonomy.



Literature Review

Organization Performance

Organizational performance was defined as the difference between an organization's actual output or outcomes and its anticipated outputs (Al Marshoudi, Jamaluddin, Aween, Al Balushi & Mohammad, 2023). Additionally, organizational performance may be defined as the organization's success or achievement of goals after the conclusion of a program or project (Widjaja, Sumintapura & Yani, 2020). The achievement of organizational performance plays a pivotal role in the attainment of company success, exerting a significant impact on the outcomes of both products and processes. Highly effective businesses exhibit the ability to promptly make decisions, efficiently execute strategies, and successfully attain targeted goals (Tiwari, 2022). In order to sustain optimal performance, enterprises must prioritize continuous improvement, effectively respond to evolving circumstances, and harness the potential of technological advancements. Esteban-Lloret, Aragón-Sánchez and Carrasco-Hernández, (2018) stated performance was influenced by various aspects, such as economic-rational and institutional considerations, diversified human resource management strategies, employee skills, organizational fairness, work/life balance programs, and human resource autonomy. By prioritizing these variables, businesses could sustain optimal performance and achieve the desired outcomes.

Institutional Pressure

According to Gunarathne and Lee (2019), institutional pressure is a concept that describes the need for individuals and groups within an institution to conform to its expectations and standards. Institutional pressure refers to external forces exerted by a company or organization to maintain its reputation and stability (Beddewela & Fairbrass, 2016). It can come from strict laws, regulations, or social expectations. Institutional pressure is deeply embedded within society and can come from within the institution itself, peers, or external sources like regulatory bodies or the public. It can range from larger organizations to smaller entities, imposing expectations on businesses to conduct themselves and provide products or services (Gunarathne & Lee, 2019). This pressure can be seen in various forms, and it could be categorized into three types which are, coercive pressures, normative pressures and mimetic pressures.

Firstly, coercive pressure is a form of institutional pressure that involves the use of direct threats or other forms of punishment to compel people or organizations to behave in a certain way (Pan & Fan, 2023). This type of pressure is often used by governments and other large organizations to enforce regulations or to demand compliance with certain standards. Then, normative pressure is a type of institutional pressure that involves the desire for individuals or organizations to conform to beliefs, attitudes, and behaviors that are generally accepted by society (Jianxun, Arkorful & Shuliang, 2021). Lastly, mimetic pressure is a concept in sociology that explains how social norms are formed. Mimetic pressure is a type of social influence that explains how people imitate each other from the fear of being excluded from the group (Latif, Mahmood, Tze San, Mohd Said & Bakhsh, 2020).

Human Resources Localization

Human Resource Localization is the process of adapting a company's human resources to the local culture and market, focusing on recruiting local talent, adjusting organizational structure, and supporting local communities (Zhu, 2018). This can foster harmonious relationships between the company and locals, create a successful business model, and align with the unique needs of the local market. HR localization involves developing recruitment, training, and



development strategies that align with local needs and goals (Dickmann, Parry & Keshavjee, 2020), while being mindful of local laws and regulations (Baek & Choi, 2020). It increases employee engagement, morale, and productivity, and is crucial for global business strategies of the Chinese enterprises (Fei, 2020). HR localization is a key aspect of human resource management, ensuring compliance with local regulations and creating a more inclusive workplace environment (Hasan, 2015).

Human Resources Autonomy

Human resources autonomy refers to an organization's ability to make resource-related decisions independently of its political and administrative authority (Suhail & Steen, 2018). It is crucial in global human resource management, as it allows employees to make decisions based on their local market needs. This autonomy can lead to more flexible working hours, career development opportunities, and increased participation in decision-making processes. It is essential for global strategies to create a loyal workforce, respect local customs and laws, and foster loyalty. HR autonomy allows companies to create a compliant and beneficial work environment for the employees and organizations (Spivack & Woodside, 2019).

Environmental Uncertainty

Environmental uncertainty refers to the volatility of the market, influenced by events such as shifting client preferences and unpredictable market demand (Chu, Xu, Lai & Collins, 2018). Contingency theory suggests that environmental uncertainty can be categorized into contextual factors, performance factors, and reaction factors (Lufti, 2020). Companies must maximize their skills and knowledge to integrate into markets with high uncertainty. Empirical research suggested that ambiguous markets can lead to increased mimetic, normative, and coercive pressures, leading to a lack of confidence in management and delayed decision-makingn (Tolbert & Darabi, 2019).

Institutional Theory

Institutional theory is a social theory that explores the role of norms, beliefs, and conventions in shaping an organization's institutional landscape (Kuijpers & Eijdenberg, 2021). It suggests that organizations are influenced by their environment and societal values, norms, and expectations. Institutional pressures can be both positive and negative, depending on the type of institution and the organization. Positive pressures include competition, innovation, and a supportive regulatory environment, while negative pressures include monopolistic market structures, limited competition, and heavy regulatory burdens.

Institutional theory suggests that external stakeholders, such as government agencies and non-governmental organizations, exert coercive pressure on enterprises to comply with new environmental standards and norms (Gunarathne & Lee, 2019). These pressures can have a detrimental effect on businesses' environmental performance, as they can lead to severe repercussions and penalties. Government agencies often provide favorable conditions for companies to adopt certain policies, which motivates them to improve their environmental performance in order to obtain government support and economic benefits. Normative pressure is exerted by suppliers, customers, associations, the media, and other social groups (Gunarathne & Lee, 2019). In developing countries like Vietnam, normative pressure is viewed as a significant factor influencing norms and a feeling of responsibility. It multiplies through cooperative alliances across numerous organizational networks and persists in the external environment. This pressure ensures that customers and suppliers act socially responsibly and that businesses implement non-discriminatory actions towards unions. Mimetic pressure occurs when companies compete for superior performance, encouraging transnational and



multinational corporations to improve their environmental management (Yang & Kang, 2019). Strong mimetic pressures may compel governments and stakeholders to ensure that enterprises adopt contemporary qualified management and technology, resulting in enhanced performance in local organisations. Firms that respond to mimetic forces may gain competitive and adjust to these forces, gaining competitive advantagesn (Alshumrani, Baird, & Munir, 2022).

Institutional theory also suggested the influence of socially constructed norms on organizational behavior, arguing that firms should strive to maintain a sense of coherence by following local customs and regulations while staying true to their own values and mission (Kim, 2019). By doing so, companies can ensure their workforce is loyal, dedicated, and operates with integrity. Companies are shaped by external social forces and organizations that influence their decision-making (Yang & Kang, 2019). Companies must be proactive in managing their workforce to stay competitive in their local environment. The adoption of HR autonomy can help create an environment of compliance by following both local laws and customs, as well as global trends. The adoption of HR autonomy is beneficial for companies as it helps create an environment compliant with local customs and regulations, builds trust, loyalty, and commitment among employees, and allows organizations to respond quickly to changing trends in the local context (Lazarova, Peretz, & Fried, 2017).

Hypothesis Development

Institutional pressures, including coercive, normative, and mimetic pressures, play a significant role in determining organizational performance. These pressures can encourage environmental management accounting adoption, positively affect environmentally friendly business strategies, and buffer the link between institutional pressures and performance (Latif, Mahmood, Tze San, Mohd Said & Bakhsh, 2020).

H1:There will be a significant relationship between institution pressure and organization performance of Chinese enterprises in Vietnam.

Baik, Kim, and Park (2021) demonstrated that strategic and organisational considerations had an impact on the structure of subsidiary workforces. This research also reveals that the interaction effects between strategic and organisational components are significant only when there is congruence between demands from different environmental dimensions. Researchers Rydehell, Isaksson, and Löfsten (2018) demonstrated that business networks and localization aspects such as professional network services, as well as industrial and regional areas, have a significant effect on entrepreneurial performance. They also demonstrated that product differentiation is positively associated with industrial and regional areas. Moideenkutty, Murthy and Al-Lamky (2016) suggested localization strategies were associated to financial performance after adjusting for size, type of company, average price earnings ratio of the industry and Omanization levels. The results of the study of Foroutan, Timur and Abubakar (2018) reveal that localized human resource management favorably improved employees' intention to stay and extra-role performance. However, there was no significant association between localized human resource management and person-organization fit. Dickmann, Parry, and Keshavjee (2019) observed impacts on localization at the social and organizational levels, and they conducted further research to confirm their findings. These include ongoing security concerns, as well as factors that influence localization, such as corruption, impartiality, and the requirement for outside experiences, among others. The research also discusses the need of finding acceptable locally valued human resources and utilising relevant internal skills to develop and deploy them in such a way that they may be used to generate firm-specific assets, rather than depending solely on foreign resources.



Human resources localization is a key strategy for Chinese enterprises operating in Vietnam, enhancing their performance by bridging institutional pressures and addressing regulatory, cultural, and competitive aspects. By recruiting local employees and fostering local talent, Chinese businesses gain insights into market dynamics, cultural nuances, and evolving regulatory landscapes. This aligns operations with local requirements, mitigates risks, and improves integration with the host country's economy. Localized HR practices also enhance agility and adaptability to changing market conditions. Incorporating local talent into decision-making processes aligns enterprises with the broader social context, contributing to their competitive advantage.

H2: There will be a significant mediator effect of human resources localization between institution pressure and organization performance of Chinese enterprises in Vietnam.

Renkema, de Leede, and Van Zyl (2021) found that when workers perceive engagement practises positively, they are more likely to think they have job autonomy and are loyal to the organization, which positively influences their behaviour. Wong, Kerlavaj and Erne (2017) discovered that congruence between leader and subordinate autonomy expectations contributes to subordinates' perceptions of their skills being successfully utilised at work. As a result, the experience of competency mobilisation teaches people how to construct their jobs. Tao, Liu, Gao, and Xia (2018) discovered that a rise of expatriates reduces subsidiary autonomy, which has a detrimental effect on subsidiary performance. Additionally, the researchers demonstrate that the institutional quality of host nations increases expatriates' negative impact on subsidiary autonomy while decreasing their influence on subsidiary performance. Additionally, Van Scotter and Van Scotter (2021) established that perceived autonomy acts as a moderator of the relationship between interpersonal facilitation and overall effectiveness. The relationship between task performance and overall effectiveness was unaffected by autonomy.

Human resources autonomy plays a crucial role in the relationship between institutional pressure and organizational performance in Chinese enterprises operating in Vietnam. The degree of autonomy given to HR departments directly influences how an organization adapts to external pressures, such as cultural differences, legal requirements, and the local labor market. Higher HR autonomy allows Chinese enterprises to tailor recruitment, training, and retention strategies to meet their business environment, leading to improved performance outcomes. Lower HR autonomy may hinder businesses' adaptability and limit their success in a competitive market. Enhanced HR autonomy promotes cross-cultural understanding and adaptability, contributing significantly to organizational resilience under various institutional pressures.

H3:There will be a significant mediator effect of human resources autonomy between institution pressure and organization performance of Chinese enterprises in Vietnam.

The significance of environmental uncertainty as a moderator has a notable impact on the link between institutional pressure and organizational performance of Chinese firms operating in Vietnam. Environmental uncertainty arises from a range of external influences, including regulatory rules, market rivalry, and cultural elements. Chinese firms may encounter difficulties in comprehending and adjusting to local norms, resulting in diminished efficacy of their methods in addressing institutional pressures, particularly when confronted with high levels of environmental unpredictability. As a result, this could potentially impact their overall success inside the Vietnamese market. In situations when the degree of environmental uncertainty is minimal, Chinese enterprises are able to strategically align their operational strategies with local customs and expectations, thereby enhancing their resilience against institutional constraints. Therefore, enhanced organizational performance can be attained. In



summary, it is imperative to take into account the moderating influence of environmental uncertainty when assessing the effects of institutional pressure on the performance of Chinese enterprises operating in Vietnam.

H4:There will be a significant moderator effect of environmental uncertainty between institution pressure and organization performance of Chinese enterprises in Vietnam.

The proposed model presented as follows:

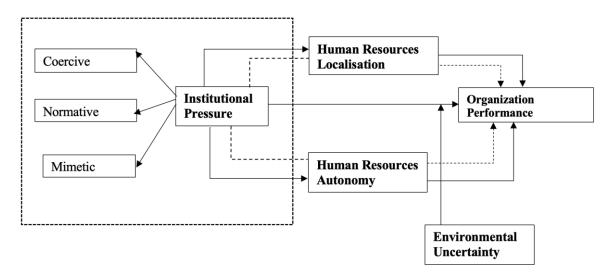


Figure 1 Proposed Model

Methods

The current study will adopt quantitative method. Quantitative method refers to a research method that collects parametric data with use of statistical approach. It always useful for measuring the relationship between variables with providing statistical evidence (Mohajan, 2020). Also, quantitative method allows the researcher to gain a larger population and get help with the generalization of the research paper. Since the current study will examine the relationship between the variables (institutional pressures, human resources localization, human resources autonomy, organization performance and environmental uncertainty) in a large population, quantitative method is highly fit to the current study.

The current study aims to examine the influence mechanism of host country' institution pressure (coercive pressure, normative pressure, mimetic pressure) on organization performance of Chinese enterprises in Vietnam; the mediator effect of human resource localization and human resource autonomy between them; as well as the moderator effect of environmental uncertainty. The population of the current study will be employees from Chinese enterprises while the sample will be employees from management level in Chinese enterprises in Vietnam. According to Yamane formula, the ideal sample size is 398. Hence, the current study will include 400 employees from management level in Chinese enterprises in Vietnam. Indeed, simple random sampling will be used as for reaching the respondents and reducing the respondents' bias.

The current study will use questionnaire survey as the research tool. The scale of the questionnaire survey will be adapted based on the scale that are existed and used in the past studies. The questionnaire will be adapted to fit in the current study. Since the researcher adapting as modifying the questionnaire to fit in the context in the current study, the reliability



and validity of the questionnaire will be crucial to look into. The current study will conduct pilot study with a smaller sample size to ensure the reliability and validity of the questionnaire. The pilot study will include 40 respondents (10% of the total sample size) to test for the reliability and validity of the questionnaire. The Cronbach Alpha and KMO and Bartley test will be carried out, and the analysis of the pilot study should reach the acceptance level (Cronbach Alpha>0.7; p-value of KMO and Bartley<0.5).

This study will use descriptive statistic and PLS-SEM as the data analysis approach of the current study. Partial Least Squares Structural Equation Modeling (PLS-SEM) is a statistical technique for the examination of relationship between observable and latent variables in empirical research. The estimation process encompasses both the measurement model, which examines the links between latent variables and their indicators, and the structural model, which explores the relationships between latent variables. PLS-SEM will be used to examine the direct effect of coercive pressure, normative pressure, mimetic pressure on organization performance of Chinese enterprises in Vietnam; and the indirect effect of the mediator effect of human resource localization and human resource autonomy between them; as well as the moderator effect of environmental uncertainty. Path analysis will be used to analyse the direct effect within PLS-SEM, while the bootstrapping will be used to analyse the indirect effect.

Discussion and Conclusion

Theoretical Implications

Theoretically, it contributes to the literature on HR localization and autonomy by examining the influence of institutional pressure on organizational performance. This study fills a critical gap in research, offering insights into the unique challenges faced by Chinese companies in Vietnam, a context that has been underexplored. By providing empirical evidence, the study advances understanding of how localized HR strategies and granting autonomy to local managers can enhance organizational success. This framework can be a foundation for future research in other cultural and geographical contexts, enabling comparative studies and deeper exploration into the dynamics of international business.

Practical and Social Implications

This study benefits Chinese enterprises that are planning to expand into Vietnam or are already present in the Vietnamese market. It addresses the challenges these enterprises may face, such as the lack of localization and insufficient HR autonomy, which can lead to poor organizational performance. The study examines the relationship between institutional pressure, HR localization, HR autonomy, and organizational performance, providing valuable insights that can enhance strategic planning in Vietnam. By doing so, it helps enterprises gain a competitive advantage through effective strategic management, ultimately improving their organizational performance.

Furthermore, the study is a valuable resource for Chinese enterprises considering expansion into Vietnam. It enables these organizations to make well-informed decisions about their readiness to enter the Vietnamese market. Understanding and planning for the unique challenges of expanding into a foreign market is crucial, and this study offers a reference for Chinese enterprises to strategize and gain a competitive edge if they decide to invest in Vietnam.

Lastly, the study contributes to the research field by filling a gap in existing literature. There is a scarcity of research focusing on the specific variables and context of Chinese enterprises in Vietnam. This study provides a foundation for future research and aids researchers interested in this area by addressing the gaps in past studies.



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