CHAPTER 1: INTRODUCTION

BACKGROUND

Multinational enterprises (MNEs) setting up production sites abroad face the ongoing challenge of how to configure their subsidiaries’ production systems. This configuration related challenge involves the questions: Whether MNEs should define and transfer whole production system templates or only apply a limited range of policies? What kinds of adaptations are possible and required to match the transferred templates with local or host context conditions? And which templates and practices may not be transferable at all but either have to be drawn from or customized to the local or host contexts?

Based on these configuration related challenges for MNEs, this work tries to understand how and why the MNEs’ subsidiaries production systems may differ with regard to their different dimensions’ contextual origin or constitution. Drawing on seminal contributions of hybridization research (e.g. Boyer, 1998) different kinds of contextual constitution can be captured as different hybridization outcomes. The word ‘hybrid’, which means in its Latin root ‘of two origins’, refers in this context to the emergence of organizational forms that are constituted by different contextual origins. Based on earlier work, it is suggested that there are four ideal typical hybridization outcomes, involving: imitated, local, hybrid and customized/novel solutions. These are the result of the dynamic relation between three crucial factors comprising: the transfer scenario, contextual (mis)fit/recontextualization pressure and the recontextualization mode. The transfer scenario involves the question, whether or not an MNE transfers a template or poses demands vis-à-vis a local production system. There are three ideal typical starting points for transfer scenarios: A foreign parent template transfer, a host/local template use or, neither a foreign parent template transfer nor a local/host template use. Based on the different transfer scenarios there are different kinds of fits or misfits these starting scenarios can face. For example, a foreign parent context tem-
plate can (mis)fit the local/host context just as a local/host context template may (mis)fit the foreign parent context. Misfits of whatever kind tend to induce pressures for adaptation, i.e. recontextualization pressures. The final factor involves the question how misfit induced recontextualization pressures are resolved. It is argued that two principle recontextualization modes exist that can be simultaneously at work. The first mode involves the adaptation of foreign parent context (templates, demands or conditions) to the local/host context. The second mode involves the opposite, the adaptation of the local/host context to the foreign parent context (templates, demands or conditions). Depending on the interaction of these three variables we can expect different hybridization outcomes.

This work seeks to make two contributions to the emerging body of hybridization research in organization studies in general and with regard to production system hybridization research in MNEs in particular. The first contribution of this work is to address the problem how the complex embeddedness of subsidiary production systems in different context impacts their hybridization profiles. In contrast to much of earlier hybridization research, it is stressed that production systems emerge out of both specific strategic and institutional contexts. It is argued that if production systems or some of their parts are transferred across borders, chances are that both the strategic and institutional contexts are different and do not fit or provide the contextual conditions the production system requires. Therefore, it is proposed in this work that we need to consider how different strategic contexts – defined as supply and demand market conditions in the host context as well as corresponding local task profiles – and different institutional contexts of production systems – defined as habitual patterns that find expression in specific societal subsystems such as education systems, industrial relation systems – constitute two distinct, yet interrelated, sources of contextual distance that impact transfer scenarios, (mis)fits/recontextualization pressures and thereby hybridization outcomes. The second contribution of this work is to explore the association between production system hybridization in MNEs’ subsidiaries and different strategic choices at the corporate and subsidiary level. In contrast to the neglect of this relationship in much of earlier hybridization research, it is proposed that strategic choices at both the corporate and subsidiary level, namely the generic product strategies of MNEs and the entry modes of their subsidiaries, have a strong impact on transfer scenarios, (mis)fits/recontextualization pressures, recontextualization modes and consequently on hybridization outcomes.

While there is no organizational hybridization theory as such, there have been a number of studies from different research traditions that have either contributed to or adopted a hybridization perspective. Many of these contributions have focused on MNEs because it is particularly challenging to understand the contextual constitution of organizations that are embedded in different national contexts. In this work three main bodies of research are identified that have made important contributions to the questions how we can capture hybridization outcomes and why these outcomes occur when organizational forms and prac-
tices are transferred across borders and units in MNEs. These bodies include: the Japaniza-
tion literature, Institutionalist approaches and contributions from the field of International
Business (IB). It should also be noted that these bodies cannot always neatly be told apart,
given some degree of overlap. The first body of literature to be looked at in this work is the
enormous body of Japanization literature, which emerged in the 1980s, and investigated the
transferability of production systems across national contexts. It is also this body of re-
search that introduced the notion of ‘hybridization’ – or similar concepts – to the organiza-
tional context and has given differentiated answers with regard to to the question, what
organizational forms and practices emerge as a consequence of transfer and recontextualiza-
tion (e.g. Abo et al., 1994; Liker et al., 1999; Smith and Elger, 2000).
The second body of literature to be reviewed involves contributions drawing on Institution-
alist thought. Broadly speaking, Institutionalist scholars have focused on the question how
organizations are constituted that straddle different institutional context. Scholars in this
body of literature have increasingly asked what happens to organizational forms and prac-
tices when they are transferred across borders. Research in this tradition mainly investigates
how different institutional pressures or institutional conditions enable or inhibit the transfer
of organizational forms and practices across different institutional contexts.
The last body of literature to be looked at can be located in the Field of International Busi-
ness. In this body of research we find strong inward oriented perspectives on the MNE.
While this body of research has probably been the weakest with regard to identifying differ-
ent hybridization outcomes, it can make a valuable contribution to our understanding how
MNEs’ and subsidiaries’ strategic contexts and choices impact hybridization outcomes.
Based on a sound literature review, it is argued in this work that all three bodies of literature
remain unsatisfactory for our understanding of hybridization in MNEs, if they are left un-
connected. Each of the bodies of research have particular strengths and provide seminal
contributions that need to be exploited and combined to gain a richer understanding of how
production system hybridization outcomes can be captured, and why they come about. To
conclude, in contrast to much of the existing work on production system hybridization, this
work explores the effect of both strategic and institutional distance on hybridization out-
comes. Moreover, this work tries to fill a crucial research gap by asking how strategic
choices at both the corporate and subsidiary level impact the hybridization profiles of sub-
sidiary production systems in MNEs. For it is argued that only if we consider the impact of
strategic choices of MNEs and their subsidiaries as well as the role of both the institutional
and strategic contexts, can we understand how the three elements that constitute a hybridi-
ization process – transfer scenarios, (mis)fits/recontextualization pressures and recontextu-
alization modes – play together to bring about specific hybridization outcomes.
RESEARCH OBJECTIVE

The research objective of this project is to explore how and why the hybridization profiles of four automobile-subsidiary production systems in India differ. The how-question in this work involves identifying the hybridization profiles of the four subsidiaries’ production systems. Such a profile essentially seeks to describe how different dimensions, defined to constitute the core of a production system, reflect different contextual origins in their configuration. Looked at from a result perspective, a hybridization profile describes here the contextual origin of organizational configurations along a number of predefined organizational dimensions. The approach in this work differs from much of the earlier work in this field in that it does not predefine a specific production system to be transferred and then investigates what is implemented and what is not. Instead, it takes a more open approach by defining core dimensions of a production system and then identifies how they are origin-wise contextually constituted. Such an approach is based on the assumption that transfers in MNEs understood as ‘transnationals’ (Bartlett and Ghoshal, 1998) may have many sources, drivers, and may be, instead of being based on clearly intended and comprehensively defined transfer templates, based on transfer restraint, selective transfer intentions or even inarticulate, fuzzy transfer efforts.

The why-question asks why similar or different hybridization profiles have come about. Drawing on earlier research, hybridization outcomes are seen to be constituted by three varying factors comprising: transfer scenarios, contextual misfit/recontextualization pressures and recontextualization modes. However, in contrast to earlier research, it is argued that the variance on these three constituent elements of production system hybridization can only be properly understood, if we consider: 1.) the role of both strategic and institutional distance, 2) the impact of strategic choices at the corporate and subsidiary level, and 3.) the possible interplay of strategic choices and contextual distance. Given that the research focus is the hybridization of production systems, the strategic choices considered at the corporate level will focus on different generic product strategies of the MNEs. For it is assumed that different product strategies are closely related to the strategic distance between the MNEs production sites and strongly impact transfer scenarios, recontextualization pressures and modes of recontextualization. On the subsidiary level, the strategic choices to be looked at will be entry modes, specifically, establishment and equity modes. Again, it is assumed that entry modes have strong impact on transfer scenarios, recontextualization pressure and recontextualization modes. With regard to investigating the relationship between strategic choices and hybridization outcomes, it is particularly the focus on product strategies on the corporate level and equity modes on the subsidiary level that go beyond earlier research in this area. However, a note of caution is also in place here.
Rather than researching the effect of isolated factors, the goal of this work is to discover the interplay of different explanatory dimensions in their effect on hybridization outcomes. To that end, an analytical framework is developed that identifies broad dimensions of possible influence, without being able or inclined to specify in detail interactions and directions of influences in advance. This analytical framework is derived from a review of three strands of research that have produced substantially different perspectives for our understanding of hybridization.

**RESEARCH DESIGN**

It is proposed here that a research design best suited to approach the research goal is a *qualitative comparative case study* with a strong *exploratory* element. *Why qualitative?* Understanding how hybridization outcomes differ and why such outcomes have come about is essentially about understanding *qualitative changes* in an organizational phenomenon in relation to its complex contextual embeddedness. Such a research focus requires qualitative methods that are defined by Marschan-Piekkari and Welch (2004) as “procedures for ‘coming to terms with the meaning not the frequency’ of a phenomenon by studying it in its social context” (Marschan-Piekkari and Welch, 2004: 6). *Why case studies?* Case studies are suggested to be particularly suited in IB research when cross-border or cross-cultural issues are involved (Ghauri, 2004). Moreover, Yin suggest that “case studies are the preferred strategy when ‘how’ or ‘why’ questions are being posed, when the investigator has little control over events, and when the focus is on a contemporary phenomenon within some real life context” (Yin, 2003: 1). Both conditions apply when we are asking how and why hybridization profiles of production systems in MNEs differ. Moreover, case studies employed in this research context should ideally adopt a multiple-case design (Yin, 2003). A multiple-case design suggests itself when investigating the analytical value of a theoretical framework that explores associations between variations in strategic choices and hybridization profiles (Yin, 2003; Pauwels and Matthyssens, 2004). The case selection for the overall comparative case study is based on ‘theoretical sampling’ (Eisenhardt, 1989). While in principle the first research question whether both strategic and institutional distance impact hybridization outcomes could be investigated in a single case study (based on within case variation of different production system dimensions), the second question, involving how different strategic choices impact hybridization outcomes, cannot. In this latter respect, we need to compare cases that vary systematically with regard to their strategic choices at the corporate and subsidiary level.

While the selection of cases is driven by broad theoretical propositions, the study’s analytical framework is formulated in an open and tentative way. Following Eisenhardt’s (1989) suggestions for theory generating research, the analytical framework developed seeks to minimize elaborate propositions. Although some propositions are posited, the work retains a
strong explorative component. What unit of analysis? The emergence of hybrid organizational forms and practices can principally occur in any kind of organization and production system. However, it can be expected to be particularly prevalent and observable in those organizations or production systems that are embedded or at the interface of markedly different strategic and institutional contexts. It is, therefore, the MNE that is in the focus of this study. At the same time, this work chooses the subsidiary as the main level of analysis because it is expected that different contextual pressures are more tangible and their empirical investigation more manageable at subsidiary level, compared to the corporate level.

Production systems of automobile subsidiaries in India are selected as the unit of analysis for three reasons. First, apart from the fact that the research of production system hybridization is justified in its own right, given its crucial importance for the internationalization of production in MNEs, production systems as defined here are multi-dimensional constructs whose different dimensions may be more or less impacted by different kinds of context. Thus, unlike a research that focuses solely on the transfer and hybridization of specific practices – such as human resource management (HRM) practices – a focus on whole production systems provides us with a within case variation that renders it easier to observe whether and how different organizational dimensions are impacted by different contexts. Second, the focus is here on automobile production because extant research showed that sectoral difference has a strong impact on hybridization outcomes. To rule out such a sectoral impact and to reduce research complexity the study is confined to the automobile industry. Moreover, a focus on the automobile industry allows a selective comparison of the findings of this study to those of others. After all, most of the hybridization research on production systems has been conducted in the automobile industry. Third, past research has shown that host country variation has a strong impact on outcomes of transfers in MNEs. Therefore, to reduce contextual complexity, subsidiaries were chosen, which not only operate in the same industry but also in the same host country. Finally, the choice of India as the focal host context is motivated by the theoretical sampling logic of this study and informed by the state of hybridization research. On the one hand, the Indian context offered a range of cases where both parent generic strategies as well as entry modes differed systematically in line with broad propositions posited in this study. Additionally, the within host context variation for the different cases was relatively low due to a modest variation of entry times. On the other hand, India was chosen because hybridization research has not paid much attention to emerging market contexts, let alone to India, which is in the shadow of China and East Asia in general.

**THE STRUCTURE OF THIS WORK**

This work is structured as follows. The introductory chapter 1 is followed by the literature review and discussion in chapter 2. In chapter 2 three major strands of literature are dis-
cussed – the Japanization, the Institutionalist and the International Business literature – that were identified as making substantial contributions to the question of how we can capture hybridization outcomes in organizations and why hybridization emerges in MNEs, their subsidiaries and in the context of cross-border transfer. Chapter 2 will mainly serve to identify research gaps with regard to subsidiary production system hybridization and will provide building blocks for the development of an analytical framework in chapter 3. In chapter 3 an analytical framework is presented that will guide the empirical analysis. In this chapter the unit of analysis and different kinds of hybridization outcomes will be defined. Moreover, analytical dimensions and propositions will be posited that are expected to explain the hybridization profiles of the subsidiaries’ production systems to be compared.

Chapter 4 is the methodology chapter. In this chapter the basic research design, the method of data collection, the data analysis as well as questions of validity and reliability are addressed. The methodology chapter is followed by the main empirical parts of this work in chapters 5 and 6. After a brief introduction of major institutional and strategic conditions in the Indian context in chapter 5, chapter 6 is devoted to the hybridization profiles of the four cases. After introducing the cases, chapter 6 describes by cases and by production system dimensions the hybridization outcomes found, and it explores why the respective outcomes have come about. In chapter 7 a comparative analysis is conducted. In this chapter an effort is made to compare and explain similarities and differences found across different cases and production system dimensions. This comparative analysis will already touch upon the question to what extent the analytical dimensions and associations posited suffice to explain the variance found in the hybridization profiles. This question is carried through into chapter 8, comprising a discussion of major findings, a critical reflection of the research work as well as a brief outlook for further research.
CHAPTER 2: LITERATURE REVIEW

CONTRIBUTIONS TO A HYBRIDIZATION PERSPECTIVE

While the transfer of elements from one context to another and their hybridization is as old as humankind – be it through war, trade, migration and the like – its analysis in business and organization studies is a rather recent phenomenon. The following literature review discusses core contributions from Japanization, Institutionalist and International Business literature. In the course of the literature review these three bodies were identified as the most relevant for the research goal of this work – exploring hybridization in MNEs’ subsidiary production systems – and widely referred to by contributions in a similar research context. It will be shown that each of these bodies of literature either make or could make important contributions to our understanding of how and why hybridization occurs in MNEs’ subsidiary production systems. The scrutiny of the three bodies of research shows different strengths and weaknesses in conceptualizing hybridization in MNEs. Most importantly, it will be shown that no one approach makes an effort to relate systematically different hybridization outcomes of subsidiary production systems to the impact of both the strategic and institutional distance, and to strategic choices at both the corporate and the subsidiary level. The literature review not only serves to identify blind spots in the respective approaches. It also forms the basis for developing the analytical framework that guides the empirical analysis in chapter 3. While contributions from the Japanization, Institutionalist and International Business literature can be distinguished on characteristics such as underlying theory, units of analysis, channels of research output, country-of-origin and country-of-destination of transfers observed, there is clearly a substantial degree of overlap between them (see figure 1). As the different bodies of literature cannot neatly be distinguished on one dimension only, specific contributions cannot always be placed into one or the other category. A case in point is Westney’s (1987) work. Her work strongly focuses on Japan. At the same time, she draws on Institutional theory and applies it to the Field of International Business. Now, the literature discussion is structured as follows: After briefly introducing the different bodies of literature, different strands within each body are identified and discussed along the how-and why-question. At the end of each strand, a selected contribution will be discussed that can be regarded as a seminal contribution within the strand and is of crucial importance for the analytical framework discussed in chapter 3. This chapter concludes with a comparison and discussion of the strengths and weaknesses of the different approaches presented.
2.1 JAPANIZATION PERSPECTIVES

**INTRODUCTION**

Hybridization perspectives have strong roots in the Japanization research of the 1980s and 1990s. Triggered by a stark rise in Japanese FDI to the US and UK, combined with the influential work of management gurus and a perceived superiority of Japanese business practices an immense body of literature evolved around the transferability of Japanese organizational forms and practices (e.g. White and Trevor, 1983; Turnbull, 1986; Ackroyd et al., 1988; Morris, 1988; Marchington and Parker, 1988; Dickens and Savage, 1988; Graham, 1988; Oliver and Wilkinson, 1988; Bratton, 1990; Milkman, 1991; Florida and Kenney, 1991a/b; Garrahan and Stewart, 1992; Elger and Smith, 1994; Wood, 1996; Mair, 1998; Steward, 1998; Liker et al., 1999; Pil and McDuffie, 1999; Adler, 1999). Westney argues that transplant research – as a part of the wider Japanization research – not only emerged as a subfield in MNE-research but was “arguably the most widely studied aspect of
the organization of multinational enterprise in the 1980s and 1990s” (Westney, 2001: 640). Peaking in the mid 1990s the Japanization debate is lingering on (e.g. Morgan et al., 2002). Commonly, two major strands have been identified in the Japanization literature: the Labor Process and the Lean Production perspective (Saka, 2003; see Stewart, 1998 for a similar mapping of the debate). This distinction is particularly helpful with regard to mapping the early contributions of the literature. For the two perspectives not only vary in focus – ‘managerial-user vs. labor control’ (Saka, 2003) – but offer strikingly different answers to the questions whether the cross-national transfer of Japanese production systems is possible and whether contextual differences play a constraining or modifying role for such transfers.

To be sure, the transferability question is not the prime concern for the Labor Process strand. Instead, the Labor Process wing of the Japanization literature has been mainly concerned with the transfer related issues of labor control, conflict and the question whether or not the transfer of Japanese production systems bears an emancipatory potential for work and employee relations. However, while the demarcating lines between the two strands are to a large extent defined by their normative focus, there are important underlying theoretical differences. Both strands have important contributions to make to the how-related question of production system hybridization. Interestingly, Japanization contributions not only mainly originate from the US and the UK – reflecting FDI pattern of Japanese companies throughout the 1980s and early 1990s (c.f. Elger and Smith, 1994) – but they also feature markedly different emphases on the two sides of the Atlantic.

**THE LEAN PRODUCTION PERSPECTIVE**

The North American side of the Japanization debate tends to be associated with the Lean Production wing of the Japanization literature (Saka 2003). Contributions located within the Lean Production perspective of the Japanization literature were overall more optimistic, if not enthusiastic, about both the prospects for successful transfer of Japanese production systems (Krafcik, 1986; Adler, 1993) and their progressive nature for human relations (e.g. Adler and Cole, 1993). Furthermore, having strongly the managerial-user in mind, the Lean Production perspective’s main level of analysis is the firm. Although, the Lean Production perspective has substantially developed over time, its original proposition was the universal applicability and competitive superiority of the Japanese production systems. The most prominent representations of this view are Womack et al.’s (1990) work and in a more elaborate fashion the work by Florida and Kenney’s (1991a; 1991b; Kenney and Florida, 1993; see also Pil and MacDuffie, 1999). Based on both survey and case study research, these authors investigate to which extent a predefined ideal Japanese production system can be transferred to the United States. With regard to the how-related question the Lean Production wing is initially only marginally concerned with hybrid or novel outcomes of production system transfer. Excepting the work of Abo et al. (1994), there is little elaboration and con-
ceptualization of outcomes other than successful transfer or imitation. However, it should be noted that even these early Lean Production contributions admit that adaptations – i.e. changes or modifications – on certain dimensions of the transferred production systems are unavoidable. Nevertheless, these adaptations are generally either rated as ‘transfer-with-secondary-adaptations’ or as ‘functional equivalents’ which are not in any way compromising the transfer of the core of the production system or its performance (Kenney and Florida, 1993; see also Oliver and Wilkinson, 1988; Mishina, 1998; Adler et al., 1998; Pil and MacDuffie, 1999). What these contributions also suggest is that transfer success may differ across different dimensions of a production system. Thus, despite overall optimism about transfer success, these studies typically show that transfer is not equally successful in all respects of a production system. Although it is played down, we see that the need for adaptation varies by dimension of the production system or by the kind of content transferred. Typically, adaptations are found in the companies’ industrial relations and the human resource management. For example, aspects such as wage determination and labor relations are adapted to fit the U.S. context (e.g. Pil and MacDuffie, 1999; Adler et al., 1998). This leads us to the why-question: Why transfer success is widely assumed or found and how the incidence of at least some adaptation is explained? Especially early contributions are stressing that contextual differences are not impeding transfer in a meaningful way. For instance, in their article Organisation vs. culture: Japanese automotive transplants in the US, Florida and Kenney come to conclude:

_In summary findings do not support theories which suggest that Japanese work organizations are culture-bound and therefore not amenable to transfer (Florida and Kenney, 1991b: 193)_

Japanese production systems are generally hailed as universally applicable and independent of specific contextual conditions. In areas of a production system where contextual misfit cannot be ignored entirely, the ability of powerful firms to select, change and/or to create the required context is emphasized. In their paper Transplanted Organizations: The transfer of Japanese Industrial Organizations to the U.S. Florida and Kenney (1991a) reason that certain types of organization are resource-rich and powerful enough to “alter a new environment in the light of their functional requirements” (1991a: 381; see also Pil and MacDuffie, 1999). Referring to ‘strategic actions’, Florida and Kenney (1991a) show that Japanese firms adapted their internal and external context. These adaptations created contexts that fitted with the transferred production systems. For example, as regards internal context the concrete repertoire of such proactive measures comprised a careful site selection (preferably Greenfield sites in unindustrialized/non-union regions), a careful selection of human resource (a young, homogeneous and disciplined workforce) and the socialization of personnel (extensive transfers of personnel). With respect to external relations it involved
the import of Japanese suppliers or alternatively a change of U.S. suppliers through close cooperation and support. The authors come to conclude:

_The transplants provide clear evidence that organizational forms can be effectively lifted from an originally supportive context and transferred to a foreign environment. Furthermore they show that organizations can mold the new environment to their needs and to some degree create the conditions of their own embeddedness._

(Florida and Kenney, 1991a: 395)

Thus, while the context-boundedness of certain aspects of Japanese production systems and the need for adaptations is not completely denied, early proponents of the Lean Production wing stress the willingness of firms to transfer Japanese production systems as far reaching as possible and their ability to select, change, or create the context required. This allows the implementation of the transferred system without alternation.

To be fair, like in the Labor Process wing, more recent contributions from the Lean Production wing are increasingly interested in transfer outcomes beyond 1:1 imitation. North American scholars in the Japanization literature started to embrace the notion of ‘hybridization’ or of similar concepts such as ‘third culture’, ‘transformation’ or ‘recontextualization’ to capture transfer outcomes in a more differentiated and complex way (e.g. Wilms et al., 1994; Liker et al., 1999; Adler et al., 1998; Adler, 1999; Babson, 1998; Brannen et al., 1999). Also, with respect to the _why-question_ there is an increasing attention to the question how contextual difference and the context-boundedness of certain practices impact transfer propensities and adaptation pressures. A few contributions also identify institutional or societal difference as crucial factors for transfer and adaptation dynamics (e.g. Liker et al., 1999; Adler et al., 1998; Adler, 1999; Babson, 1998; Brannen et al., 1999; Pil and MacDuffie, 1999). The main reasoning is that as some practices (or dimensions of a production system) are more dependent on the institutional environments than others. As institutional environments differ from country to country, the ease of transfer varies with the kind of practice and the level of institutional difference. Pil and MacDuffie (1999) argue that some aspects of production systems are dependent on institutional conditions, while others are not. They suggest, for instance, while human resource related matters, such as compensation schemes, are institutionally dependent, technology is not or much less. Similarly, Brannen et al. (1999) show that some transferred aspects require more ‘recontextualization’ than others depending on their level of ‘system embeddedness’ and their level of ‘tacit or explicit knowledge base’ (c.f. Liker et al., 1999). Put simply: The higher the ‘embeddedness’ in technical and social systems and the higher the ‘tacitness’ of a practice transferred, the higher the occurrence of recontextualization.

However, while the conceptualization of institutional contexts and their impact on the transferability of Japanese production systems remains sparse, ad hoc and without much theori-
zation in the Lean Production contributions, scholars from the Lean Production wing have increasingly stressed the impact of task environmental and business contextual difference on transfer propensity and adaptation requirement. We could also say that contextual difference with regard to more traditional contingency factors received increasing attention. For example, Abdullah and Keenoy (1995) show, in the case of Japanese electronics firms in Malaysia how low labor costs and low profit margins in the host context led to transfer restraints on the part of the Japanese parent (see also Dedousis, 1995). In a similar vein, Kenney and Florida (1995) find substantial difference in transfer propensity depending on the sector or industry. Kenney and Florida (1995) show that while automobile transplants transferred core features of their home country systems, most electronic transplants of their sample resembled their U.S. counterparts. In fact the authors (Kenney and Florida, 1995: 789) stress: “In many electronics operations it appears as though Japanese managers never seriously attempted to implement the Japanese system” (c.f. Abdullah and Keenoy, 1995). Although Kenney and Florida (1995) do not develop a theoretical framework that systematically relates strategic choices to transfer propensity, adaptation requirements, different adaptation modes and hybridization outcomes, their findings suggest a close connection between transfer propensity and strategic factors, such as time of market entry, establishment modes. They also cite connections between the nature of the production process (labor intensive task environment or not), the international division of labor in the firm and the transfer propensity (Kenney and Florida, 1995; see also Abdullah and Keenoy, 1995; MacDuffie, 1995 International Trends; Dedousis, 1995; Wilkinson et al., 2001). Particularly in contrast to the automobile industry, where transfer levels were generally high, the electronics industry was marked by strong differences between sub-sectors, firms and even within individual plants. Kenney and Florida (1995) see three principal reasons for the much lower transfer propensity in Japanese electronics transplants: “(1) the production activities that were undertaken required little training; (2) some of the electronics companies do not have very strong production engineering and management in Japan, so they simply adopted US styles; and (3) US labor and managers resisted Japanese style management and the Japanese did not consider it worthwhile to overcome the resistance” (Kenney and Florida, 1995: 801). In a more recent publication, Kenney (1999) explores – next to technical and historical factors – more elaborately the lower transfer propensity in the case of US television transplants:

Strategically speaking, the U.S. television transplants were essentially “branch” plants. Even when they progressed beyond screwdriver stage, they were not chartered to serve as autonomous business pursuing their own strategies. And the economics of television assembly meant that such branch plants could indeed be moved quickly and cheaply to areas of lower labor cost-rather than investing the manage-
Over all, strategic choices are suggested as a potentially relevant in the American and or Lean Production Japanization debate. However, there is little systematic attention to the question how different corporate strategies – particularly product strategies and entry modes – impact hybridization outcomes. Although, the choice of Greenfield operations in US American transplants is generally regarded as conducive to the successful imitation of Japanese production systems, there is practically no attention to the question how the different equity modes impact hybridization outcomes.

SELECTED CONTRIBUTION: ABO AND COLLEAGUES

The work of Abo et al. (1994) can be grouped into the Lean Production wing of the Japanization literature because of its underlying conviction that Japanese production systems are ‘best practices’ and that anything but their full application is a trade off. Yet, Abo and colleagues concede that some adaptation may be required as local contexts differ. Abo et al. (1994) formulate a common dilemma Japanese firms are facing when they transfer their production systems overseas. They call it the “Application-Adaptation Dilemma”:

On the one hand, they attempt to introduce superior elements of their management and production system to the maximum extent possible (“application”), but on the other hand, they must modify those same elements in an effort to adapt to various local environmental conditions (“adaptation”). This is what we call “Application-Adaptation Dilemma Model.” (Abo et al., 1994: 19)

The work of Abo et al. (1994) was selected for a more detailed discussion because the ‘The hybrid factory’ was among the first, to conceptualize and empirically research different hybridization outcomes and patterns. In a study of 34 Japanese auto assembly, auto parts, consumer electronics and semiconductor firms in North America, they address very explicitly and deliberately the how-question of production system hybridization within the context of transfer processes in MNEs. Abo et al.’s work (1994) is based on the assumption that Japanese production system transfers may lead to different hybrid outcomes because of contextual constraints. But let us take a closer look. With regard to the how-question their study identifies different hybridization outcomes. Abo et al. (1994) distinguish four types of outcomes: outright application, revised application, active adaptation and passive adaptation (Abo et al., 1994: 29). Outright application involves that a predefined element or elements of the Japanese production system are applied without alternation. While outright application is the ideal scenario, Abo et al. (1994) concede that adaptation may be a deliberate choice for certain elements which may facilitate, in turn, the application of others. This is
what they call a revised application. A revised application is a situation where a Japanese firm draws on certain local elements to allow the application of other – potentially more important – elements of the Japanese production system. Active adaptation implies that a firm deliberately draws on a wide range of typical elements of the local production system, actively seeking its duplication. Finally, a passive adaptation means that an application has failed and that instead of the Japanese production system, the local production system is used or prevails.

Now, Abo and his colleagues (1994) basically determine the kind and degree of hybridization by the extent to which typical Japanese production system elements are found in Japanese owned production plants in the United States. In order to identify different ‘degrees of hybridization’ of the Japanese transplants an ‘application-adaptation-evaluation form’ or ‘hybrid form’ is constructed. The evaluation form is based on 24 items classified into seven subject groups (see table 1). Using this evaluation form, the core question is to what extent the American subsidiaries applied predefined elements of the Japanese production systems. Specifically, each of the 23 elements were rated on a one to five scale, in which ‘five’ indicated the full application of the Japanese production system and ‘one’ the use of the local/American Production System. By placing the Japanese and American System at opposite ends of a continuum, the authors are able to determine the degree of application or adaptation. The ‘evaluation form’ is the basis to calculate different ‘hybridization ratios’ and determine the kind of hybrid outcome.

Table 1: Application-adaptation evaluation form

<table>
<thead>
<tr>
<th>23 Items</th>
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<tbody>
<tr>
<td>G1: Work organization/administration</td>
<td>Job classification, Job rotation, Training, Wage, Promotion, Supervisor</td>
</tr>
<tr>
<td>G2: Production control</td>
<td>Equipment, Maintenance, Quality control, Operation management</td>
</tr>
<tr>
<td>G3: Parts procurement</td>
<td>Local content, Suppliers, Methods</td>
</tr>
<tr>
<td>G4: Team Sense</td>
<td>Small Group, Information, Unity</td>
</tr>
<tr>
<td>G5: Labor Relations</td>
<td>Employment policy, Employment security, Union, Grievance</td>
</tr>
<tr>
<td>G6: Parent/Subsidiary</td>
<td>Japan ratio, Power delegation, Local managers</td>
</tr>
<tr>
<td>G7: Donations and volunteer activities</td>
<td></td>
</tr>
</tbody>
</table>

Source: compiled from Abo et al. 1994: 27

With the help of this framework, Abo and his colleagues identify in their survey different hybridization patterns, varying by industry, plant, and the kind of element transferred. For example, the study shows that auto assembly and auto component firms transfer far more
Japanese elements compared to consumer electronics firms. Drawing on a ‘four-perspective model’ (see table 2) the authors show that certain aspects are more widely transferred to the US than others. The study reveals that the transfer of ‘results’ is much more prevalent than the transfer of ‘methods’ – human as well as material. However, while one of the core findings is the comparatively lower degree of transfer of methods, the Japanese firms make serious efforts to transfer Japanese-style labor relations and group consciousness as a precondition for the transfer of other Japanese methods (Abo et al., 1994).

Table 2: ‘Four-perspective model’

<table>
<thead>
<tr>
<th>Element Mode of transfer</th>
<th>Human</th>
<th>Material</th>
</tr>
</thead>
<tbody>
<tr>
<td>Method</td>
<td>Work Organization, Administration, Team Sense, Labor Relations</td>
<td>Production control, Parts procurement</td>
</tr>
<tr>
<td>Results</td>
<td>Parent-subsidiary relations</td>
<td>Production control, Parts procurement</td>
</tr>
</tbody>
</table>

Source: compiled from Abo, 1998: 219

The authors are also able to show strong correlations among ‘result items’, on the one hand, and ‘method-items’, on the other. Over all, the authors show that the ideal Japanese production system as initially defined does not exist in the American plants. With an average ratio of 3.3 for all plants, transfer success is a little more than 50%. In other words, the authors find a dominance of hybrid systems which neither reflect the Japanese nor the US production system in purity.

However, although Abo et al. (1994) concede that “certain practices take on a new form, quite apart from anything that already exists in America or in Japan” (Abo et al., 1994: 36), they do not really pay attention to truly novel outcomes with regard to specific production system elements. In their survey analysis Abo et al. (1994) identify hybridization profiles on an aggregate level by calculating to what extent the Japanese or the American production system has been ‘applied’ or ‘adapted’. By design, the dichotomous concept is not open to the emergence of new or innovative forms. Although Abo et al. (1994) introduce the notion of hybridization; the concept remains limited because it implies no more than the aggregate result of predefined degrees of Japanese/local solution mixes. Abo et al. (1994) present a dichotomous view of hybrid outcomes, i.e. Japanese/imitated vs. American/local solutions.

Let us turn to the why-question: How do Abo et al. (1994) explain the need for adaptation? Why is there a need for adaptation? First of all, it has to be noted that Abo et al’s study is mainly concerned with identifying different hybridization patterns and is highly outcome focused. Abo et al. (1994) essentially explain difficulties in transferability/adaptation needs of Japanese production systems with the interrelatedness of different production system elements and their embeddedness in the Japanese culture and society. The key argument is
that the Japanese context is a high context culture contrasting with the low context culture of the United States. It is stressed that Japanese production systems are strongly human centered and, therefore, require specific contextual conditions that may not be readily available in historically and culturally different environments (Abo et al., 1994). While Abo and his research team are able to show substantial variation in hybridization patterns across firms and across industries their work is utterly weak in explaining such variation. Although the study is based on the assumption that cultural and societal differences as well as technical factors cause hybrid outcomes, such causation is not an integral part of the analytical framework. For the most part, the differing patterns are explained ex post. Alder (1999) similarly argues that Abo and his colleagues offer no theoretical rationale for these patterns. The work of Abo et al. (1994) is built on the idea that Japanese firms posses a strong transfer propensity due to their production systems’ superiority. This assumption is problematic, however, as firms have different strategic intents and face different task environments within and across industries. Although Abo et al. (1994) refer to aspects such as nature of production process, operation size and operational characteristics to explain different application levels across industries (e.g. Abo et al., 1994), they leave the connection between strategic choices, transfer propensity and different hybridization outcomes largely unexplored. Whether and why something is or can be transferred in the first place neither is systematically theorized nor empirically explored. It also remains unclear whether the Japanese production system’s superiority is seen universal or contextually founded. This also leads to some ambivalence of the work with regard to the question whether a full transfer is always the ideal solution. Moreover, the operation with an ideal Japanese production system ignores the fact that even Japanese firms differ markedly with regard to their production systems.

**THE LABOR PROCESS STRAND**

With strong roots in the Labor Process tradition (Braverman, 1974) the British side of the Japanization debate tends to be very skeptical about both the prospects of widespread transfer of Japanese production systems and its emancipatory value (e.g. Turnbull, 1986; Ackroyd et al., 1988; Dickens and Savage, 1988; McKenna, 1988; Marchington and Parker, 1988; Briggs, 1988; Morris, 1988; Crowther and Garrahan, 1988; Bratton, 1990; Garrahan and Stewart, 1992; Delbridge et al., 1992; Sewell and Wilkinson, 1992; Delbridge, 1995; Wood, 1996; Danford, 1997; Procter and Ackroyd, 1998). As far as the level of analysis is

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1 Some authors take a middle ground. Wilkinson et al. (1995), for example, are critical about the emancipatory potential of Japanese production system but see their transfer as generally feasible.
concerned, the Labor Process influenced Japanization literature varies between the industry and the firm level. At the firm level, which is of prime concern here, the question is not only whether Japanese companies succeed in transferring their production systems but also whether British firms are able to emulate Japanese production systems. Turnbull (1986) is generally seen to have opened the Japanization debate with regard to the question of the transferability of Japanese production systems to the UK. In a case study on the firm Lucas Electrical he asks whether British firms successfully emulate Japanese management practices. Turnbull’s answer to this question is largely pessimistic. While Turnbull identifies industry-driven and government supported changes towards “manufacturing ‘a la Japanese style’”, he is very skeptical about the possibility of transferring “‘high-trust’ management techniques into an essentially ‘low trust’ environment” and stresses “the problems of ‘grafting on’ Japanese production methods without some wider social or institutional parameters found in Japan” (Turnbull 1986: 204). Following a conference on ‘The Japanization of the British Industry’ at the Cardiff Business School the _Industrial Relations Journal_ presents in 1988 a special issue with a focus on the effects of Japanization on industrial control, industrial efficiency and industrial relations. In this context Ackroyd et al. (1988) set out to clarify the potentially different meanings of the term ‘Japanization’. Going beyond Turnbull’s emulation perspective, the researchers come up with a widely used distinction comprising: “direct Japanization, mediated Japanization and permeated or full Japanization” (Ackroyd et al., 1988: 12). While the ‘direct Japanization’ refers to direct transfer by means of Japanese FDI, the ‘mediated Japanization’ refers to the more indirect process of copying or emulating Japanese production systems or business practices on the part of British firms. ‘Permeated or full Japanization’ refers to the wider possibility of Britain replicating institutional patterns of the Japanese economy and society. The authors see these different forms of Japanization as ideal-types rather than reflecting empirical factuality (see also Procter and Ackroyd, 1998; Stewart, 1998). In fact, like Turnbull (1986), Ackroyd et al. (1988) are highly critical about prospects for a widespread direct, mediated, let alone permeated Japanization. The main counter argument is that Japanese FDI is far to negligible to impact the British economy as a whole. Moreover, the selective nature of the Japanese practice adoption, combined with mere Japanese labeling, render a comprehensive Japanization at different analytical levels an unrealistic proposition (Ackroyd et al., 1988; Procter and Ackroyd, 1998; Graham, 1988). Now, what does the Labor Process wing of the Japanization debate offer with regard to the how- and why-question of production system hybridization? Concerning the how-question, there is essentially a dichotomous perspective varying between the identification of transfer success and transfer failure. Put differently, a dichotomy between either imitation of Japanese elements – which is generally held unlikely or very difficult – or a continuation of local patterns. Especially, the early contributions are little concerned with the possibility of an emergence of mixed organizational outcomes, such as hybrid or novel forms and practices. However, what these early contributions show to some
degree is that ‘the Japanization’ may vary across different dimensions of a production system. Some aspects appear easier to be transfer than others. This brings us to the why-question: Why is the transfer and imitation of Japanese production systems difficult and why are some dimensions of a production system easier to transfer than others? Labor Process representatives see the contextual difference between home and host contexts as the key reason for the transfer difficulties of Japanese production systems. Production systems are embedded and develop out of specific capitalist social relations. If such a supporting context is different in the host country context, transfer becomes very difficult, if not impossible. Scholars in the Labor Process wing tend to implicitly or explicitly stress society as well as region specific expressions of the universal tensions in capital-labor relations (most pointedly Elger and Smith, 1994). Thus, they come to recognize and stress the context-boundedness of organizational forms and potential difficulties to transfer them to new contexts. With a strong focus on social relations in general and labor relations in particular, contributions in the British strand are sensitive to the institutional-origin of transfer contents as well as different kinds of institutional barriers to transfer or conflicts related to it (e.g. Ackroyd et al., 1988; Dickens and Savage, 1988; Graham, 1988; Procter and Ackroyd, 1998; Morris et al., 1998). Smith and Elger even come to call their approach a “context-driven” research agenda (2000: 234). In sum, the British Japanization debate, which is strongly influenced by the Labor Process theory (admittedly different authors to a different degree), also made first steps towards hybridization research by pointing to processes of conflict and institutional constraints within the context of Japanese production systems transfers. Importantly, some recent contributions in this research tradition even moved beyond dichotomous views of transfer results and adopted the notion of hybridization. This is a crucial step towards giving more complex and differentiated answers to the how-question of production system hybridization (Scarborough and Terry, 1998; Mair, 1998; Wilkinson and Ackroyd, 1995; Smith and Elger, 2000; Wood, 1996). With regard to the why-question, particularly Elger and Smith/Smith and Elger (1994, 2000) make important contributions for our understanding of the complex contextual embeddedness of transfer processes in MNEs. Their contribution is important for this work because they stress that national institutional differences form but one dimension of contextual embeddedness that impacts the transferability of production systems in MNEs. Although they do not systematically explore

2 While the Labor Process wing was to a large extent congruent with the Japanization debate in Britain it should also be mentioned that some British researchers leaned more towards the US based lean production debate, most notably Oliver and Wilkinson in their widely reviewed book, *The Japanization of the British Industry* (1988). Similarly, a number of North American scholars are closer to their British counterparts with regard to how widespread Japanization is viewed and how it is to be evaluated (e.g. Fucini and Fucini, 1990; Milkman, 1991; Rinehart et al., 1997).
the impact of different strategic choices on hybridization outcomes, their work suggests that firm strategies may play an important role for the transfer propensity in MNEs. Finally, although few systematic comparisons of the impact entry modes on hybridization outcomes are undertaken in the British Japanization literature, different authors touch upon the question whether Greenfield operations facilitate transfer and mediate institutional distance. However, findings have been inconclusive in this regard (c.f. Garrahan and Stewart, 1992; Oliver and Wilkinson, 1988; Smith and Elger, 1998).

SELECTED CONTRIBUTION: ELGER AND SMITH

The work of Smith and Elger is discussed here because within the Labor Process literature of the Japanization debate, it is most intimately and elaborately concerned with questions of transfer and transferability of Japanese production systems. Elger and Smith are also critical about the ease to transfer Japanese production systems across national contexts and their emancipatory value. However, considering the *how-question* of production system hybridization, the authors do not deny that transfer may be successful to some extent. In fact, being critical about both an overestimation and an underestimation of institutional pressures, they see possibilities for hybrid outcomes to emerge from transfers. It is fair to say that they assume an intermediate position between seeing transfers as always reverting to local patterns in the face of nationally specific institutional systems and seeing transfers as remaining unaltered in the face of foreign parent pressure and demand. In their words:

> Thus we cannot assume that packages of measures developed in specific conditions can simply be taken up and generalized across the globe, but neither can we argue that such innovation must be forever bounded by particular social circumstances of their origin (Elger and Smith, 1994: 42)

Let us consider the *why-question* in the work of Elger and Smith. In their 1994 publication *Global Japanization: The transnational transformation of the labor process* Elger and Smith (1994: 31) offer “a framework for interpreting the diffusion of work practices associated with Japan to other capitalist societies”. They argue against ‘needlessly dualistic’ debates that polarize between context bound and context free positions. Instead they suggest that organizational forms and practices are “simultaneously the embodiment of general economic efficiencies, culturally specific institutional supports and dominant best practices of a powerful economy” (Elger and Smith, 1994: 31). Accordingly, the authors see the transfer of organizational forms and practices and their adaptation constituted by different contextual pressures. In a more recent contribution, they further specify these different factors or contextual effects and come to call them capitalist ‘system imperatives’, ‘societal effects’ and ‘dominance effects’ (Smith and Elger, 2000). By ‘system imperatives’ the authors mean typical manifestations and dynamics of capitalist social relations.
Capitalist competition, technological dynamism and capital labor conflict underpin and exert common pressures on all specific manifestations of capitalist social relations, within enterprises, sectors and national economies (Smith and Elger, 2000: 226).

However, these systemic features take on distinctive shapes in the various national economies and are manifested in specific national institutional patterns. It is these distinctive institutional patterns full of tensions, incoherence, conflict and contradictions the authors refer to as ‘societal effects’. These societal effects or institutional patterns are by no means seen as simply external to firms, but penetrate well into their internal operations. Now, while institutional effects pose serious constraints on a neat transfer without alternations, the authors also doubt that national institutional effects “will always override transnationally transmitted models and practices, in ways which reinforce national distinctiveness” (Smith and Elger, 2000: 230).

Once both the strength of established institutional frameworks and the leverage and commitment of the innovating enterprises are seen to vary, this opens the possibility of some form of ‘hybridization’ of corporate practices in a way which moves closer to an alternative model, rather than merely assimilation to an entrenched national form. (Smith and Elger, 2000: 231)

Like the Lean Production proponents, Elger and Smith (1994) see internationalizing firms not only as reactive or constrained by a given host environment but as powerful and able to impose their standards and shape aspects of the host environments. The leeway to impact the local environment is mediated by different factors in the host country such as “the strengths of the institutions and civil society and the state, and the efficiency of domestic firms” (Elger and Smith, 1994: 45). Moreover, the authors argue that only looking at societal effects “risk[s] abstracting national states and their associated institutional forms from the global system within which they are embedded” (Smith and Elger, 2000: 226). This leads the authors to identify a third important effect, the ‘dominance effect’.

In part this involves specific hierarchies of economic, military/political and cultural dominance and subordination among national states, and this is clearly signaled by our use of the label ‘dominance effects’. However, the global processes of uneven development, interdependence, conflict and crisis, within which nation state institutions are embedded and qualified, do not simply sustain coherent or stable patterns of hegemonic and subordinate nation states but involve a problematical recasting of trans-state and supra-state institutions, often associated with contested realignments of regional and other alliances, and we also wish to embrace these features under the heading of ‘dominance effects’ (Smith and Elger, 2000: 227).
While it remains somewhat vague and implicit how the complex embeddedness and interplay of capitalist, societal and dominance effects impact transfer propensities and adaptation needs and thereby production system hybridization, Smith and Elger (2000) become more specific when they discuss MNE as a prime mechanism for the transfer of Japanese practices. Based on their findings on Japanese subsidiaries in the UK, the authors stress that the transfer of organizational practices primarily functions through MNEs and rests on three processes.

The first of these is the ‘capability of transfer’. The ‘capability of transfer’ refers to those factors that condition whether a company can actually transfer. Smith and Elger (2000) refer to differing human and financial capability between firms, depending on “standard contingencies of size, power resources, technology and international experience” (Smith and Elger, 2000: 229-230). The second factor is the ‘propensity to transfer’ which the authors relate to the “strategic intentions of the MNC in building home-standard or more differentiated manufacturing facilities and methods of work organization in overseas subsidiaries” (Smith and Elger, 2000: 232). Smith and Elger (2000) suggest that the transfer propensity may be linked to the level of standardization and internationalization of different sectors. In this context Elger and Smith also allude to the fact that more often than not transfers are piecemeal, rather then comprehensive and complete. In their 1994 contribution, they also relate this selectivity to ‘enterprise and sectoral contingencies’ without showing how such contingencies vary by sector or company strategic choices.

The third factor they introduce is the ‘negotiated appropriateness’. It refers to the adaptation requirements and modes, when practices are transferred. The authors discuss what adaptation requirements transfers face, when they arrive in a particular local context of a particular workplace embedded in particular locality (mainly looking at local labor market conditions). However, instead of describing this adaptation as a unidirectional process, they suggest “that there is a working out of transfer or a ‘fit’” (Smith and Elger, 2000: 232). The transfer outcome is the result of different recontextualization pressures from different contexts: the local and the foreign parent context. In this process, the Japanese practices as well as the local context change to some extent (c.f. Wilkinson and Ackers, 1995). In their empirical study on Japanese transplants in the UK, Smith and Elger (2000: 236) find no evidence of a “full and coherent package of management techniques suggested by ideal type portrayals”. While they find in some respects implemented features of an ‘ideal’ production system, the overall picture is one of diversity and variation. In other words, hybrid outcomes.

**CONCLUSION**

While generally starting ideologically from opposite ends, Lean Production and Labor Process proponents have moved closer to each other in dealing with production system
hybridization. Like their British counterparts, North American scholars in the Japanization
debate have increasingly reached beyond dichotomous conceptions of transfer outcomes.
Moreover, both wings have come to consider contextual differences causing recontextual-
ization pressure, when Japanese production systems are transferred abroad. However, apart
from some ad hoc reference to institutional, cultural and historical-political environments of
host countries, the Lean Production wing has remained weak in considering the impact of
institutional difference on the hybridization of production systems. However, the Lean Pro-
duction wing has started to show us, how different strategic contexts and different strategic
roles of subsidiaries operating in different countries, impact the hybridization of production
systems. Starting from the ability and willingness of firms to comprehensively transfer
Japanese production systems there has been a shift towards acknowledging the selective
nature of transfer intentions due to strategic contextual difference. It has been increasingly
shown that there may be transfers and transfer intents short of a full foreign-parent or home-
country model replication because task environments and business environments of subsidi-
daries differ, not least because of different strategic choices.

In contrast, to the Lean Production wing of the Japanization literature, the Labor Process
strand has had all along a clear theoretical foundation of how to define societal contexts.
While rooted in a rather universalistic Marxist theory, there is an acknowledgement that
capital-labor relations not only vary in a historical perspective but also from country to
country. This understanding allowed the Labor Process wing to conceive of the impact of
societal/institutional difference on the hybridization of production systems. However, with
the notable exception of Elger and Smith’s work, this strand of literature has largely ne-
glected how different strategic contexts – understood as task environments and market con-
ditions – and strategic choices of firms impact the hybridization of production systems.

2.2 INSTITUTIONALIST PERSPECTIVES

INTRODUCTION

In contrast to the Japanization literature but also in contrast to the International Business
literature (to be covered below), Institutional perspectives elaborately theorize the social or
better institutional constitution of organizations. Despite different concepts and definitions
of institutions a common denominator in Institutional approaches is seeing organizational
behavior as socially embedded. Institutionalist approaches generally reject the notion that
organizations are rational actors operating in response to singular and universal logics of
economic efficiency. Saka, for example, formulates this common denominator as follows:
Institutionalist approaches share “a belief that the rules of the competitive game are socially
constituted by different state structures and policies and institutionalized patterns of behav-
ior and so differ significantly between institutional contexts” (Saka, 2003: 22). However, in contrast to the Japanization literature, the transfer and adaptation of organizational forms and practices within the context of MNEs has only recently received full attention. Nonetheless, Institutionalist approaches fill an important gap in hybridization research for two reasons. First, Institutionalist approaches – even those that do not consider cross-border transfers – provide elaborate concepts for institutional contexts and differences that potentially impact production system hybridization. Second, more recently Institutionalist approaches apply Institutionalist thought to the MNE and its subsidiaries addressing: 1.) the question how MNEs and their subsidiaries are contextually constituted given their operation across different institutional contexts and 2.) the question how the transferability of organizational forms and practices in MNEs is impacted by different institutional contexts.

While different Institutionalist approaches share at a general level a common understanding of organizations as social contextually constituted, the approaches differ markedly in their conception of institutions which is attributed to their different disciplinary roots (Saka, 2003). Different Institutional approaches have also provided – at least initially – markedly different answers with regard to the transferability question of organizational forms and practices. Based on these two major differences – concepts of institutions and the transferability question – two bodies of approaches can be broadly distinguished and are discussed here. The first body of approaches is commonly described as the Varieties of Capitalism literature (e.g. Whitley, 1992; Lane, 1994; Hall and Soskice, 2001). The second body comprises approaches that build on New Institutionalist thought (e.g. Meyer and Rowan, 1977; Zucker, 1977; DiMaggio and Powell, 1983). Interestingly, both strands dominate again in the US and Europe respectively and are, therefore, also labeled American Institutionalism and European Institutionalism (Tempel and Walgenbach, 2003; Geppert et al., 2004). Although Institutional perspectives with their strong focus on the social constitution of organizational forms suggest themselves for analyzing questions of organizational hybridization, early Institutional contributions were reluctant to do so. In fact, both the American and the European Institutionalism neglected the conceptualization of hybrid organizational forms and practices. This initial neglect has basically two reasons: first, a relatively modest concern with MNEs and their subsidiaries as special kinds of organizations facing a particular institutional contextual complexity, and second, different contextual frames of reference, with organizational fields being the main frame of reference on the American side and the nation on the European side. However, more recently contributions from both research traditions started to focus on the MNE and asked what happens when organizations face ‘institutional duality’ (Kostova and Roth, 2002) or are ‘organized across institutional divides’ (Morgan, 2001a). Thus, a number of studies emerged that apply institutional thought to the question how MNEs are contextually constituted and to the question how contextual differences impact the cross-contextual transfer of organizational forms and practices in
MNEs. In the following section, the focus is on major contributions of the American and European Institutionalism.

**AMERICAN INSTITUTIONALISM**

American Institutionalism or New Institutionalism is crucially defined by the seminal contributions of Meyer and Rowan (1977), DiMaggio and Powell (1983), Zucker (1991) and Scott (1995). One of the core rationales of American Institutionalism is that pressures of isomorphism in organizational fields – defined as “those organizations that, in the aggregate, constitute a recognized area of social life: key suppliers, resources and product consumers, regulatory agencies, and other organizations that produce similar services or products” (DiMaggio and Powell, 1983: 65) – drive organizations or firms to adopt similar organizational forms and practices. The basic idea is that processes of isomorphism in organizational fields lead to an increasing homogenization of organizational structures forms and even practices (DiMaggio and Powell, 1983). Regarding the *how-question*, early contributions in the American Institutionalism suggest that the diffusion, i.e. transfer and imitation of organizational forms and practices within structured organizational fields is not only possible but widespread. Organizations grow more alike as certain organizational forms and practices diffuse in organizational fields. In this perspective there is only little room for concepts about alternations of what is being transferred. The focus is on the unifying forces of the field and field embeddedness of the organization. Let us look at the *why-question*. Essentially, the shared institutional context and pressures facing organizations in the same field explain the diffusion of organizational forms and practices across organizations. In this context, the work of DiMaggio and Powell (1983) is most detailed in mapping these unifying institutional pressures, comprising of: coercive, mimetic and normative forces. For example, the coercive mechanism forces organizations dependant on other organizations in a field to adopt certain organizational models. Similarly, the mimetic mechanism drives organizations to emulate other successful organizations in the field, particularly under conditions of uncertainty. The normative mechanism, in turn, operates through shared understandings of organizational design, mainly constituted by professional socialization (DiMaggio and Powell, 1983). The lacking consideration of hybrid or novel outcomes in the early American Institutionalism can probably be explained by the neglect of MNEs that straddle by their very nature substantially different (nationally) institutional contexts or fields. Temple and Walgenbach (2003) point their finger in the same direction, when they comment with regard to American Institutionalism:

A key question with reference to the globalization debate is whether normative organizational and management concepts are interpreted and utilized differently against the background of national differences in cognitively, normatively and regu-
relatively institutionalized structures and activities. (Temple and Walgenbach, 2003: 6).

To be fair, even early approaches from American Institutionalism cast doubts over the question whether a neat diffusion and imitation of organizational forms can be expected under all circumstances. They recognize that organizations may face different or even contradictory institutional pressures, which may be resolved by decoupling (Meyer and Rowan, 1977) or ceremonial adoption (DiMaggio and Powell, 1983) (c.f. Oliver, 1991). However, DiMaggio (1988) also admits that initial contributions from New Institutionalism did not pay attention to results short of perfect diffusion or institutionalization:

In other words, the theoretical accomplishments of institutional theory are limited in scope to the diffusion and reproduction of successfully institutionalized organizational forms and practices. Institutional theory tells us relatively little about “institutionalization” as an unfinished process (as opposed to an achieved state), about where institutions come from, why some organizational innovations diffuse while others do not, and why innovations vary in their rate and ultimate extent of diffusion. (DiMaggio, 1988: 12)

More recently, New Institutional thought was taken up and applied to the MNE (e.g. Westney, 1993; Rosenzweig and Singh, 1991; Kostova, 1999; Kostova and Roth, 2002). In these contributions the main level of analysis shifts from the organizational field to the organization. In contrast to earlier contributions, this work explicitly addresses the questions: 1.) how the subsidiaries of MNEs are contextually constituted given their embeddedness in different institutional contexts, conceptualized as ‘institutional duality’ (Kostova and Roth, 2002), and 2.) how ‘institutional distance’ (Kostova, 1999) between transfer origins and destinations impact the adoption of such transfers in MNEs. With regard to the how- and why-question, this body of newer contributions argues that simple diffusion and imitation of organizational forms and practices is doubtful because MNEs and their subsidiaries face different – oftentimes contradicting isomorphisms – that may pull in different directions. But let us take a close look at the how and why-question across different New Institutionalist inspired contributions. Rosenzweig and Singh (1991) and Westney (1993) probably are among the first to apply Institutionalist though to MNEs. Westney (1993) raises three crucial issues that come into focus if we apply New Institutional thought to MNEs.

Turning the lenses of the institutionalization paradigm on the MNC brings into sharper focus several areas in which the paradigm itself needs further development. These include the analysis of the organization that straddles organizational field; changes in the boundaries of organizational fields; and the relationship between isomorphism and innovation. (Westney, 1993: 60)
It is the last point which is of particular interest to this research. Westney (1993) suggests that Institutionalist thought and the idea that MNEs straddle different organizational fields can make an important contribution to explain the emergence of innovations. In contrast to other contributions that apply New Institutionalist thought to MNEs, Westney (1993) emphasizes – with respect to the how-question – the possibility of the emergence of novel or innovative solutions. Westney (1993) identifies two reasons why innovations may emerge. On the one hand innovations emerge, “when an organizational pattern institutionalized in one field is introduced into another” (Westney, 1993: 64). This outcome basically occurs, when organizational practices originating in one institutional context, are transferred to another and modified to fit the new context. As we will see below, in more detail, there are unintended as well as intended factors that can cause a transferred model to change in a new context. For instance, unintended changes may emanate from imperfect and distorted knowledge about the original model, or idealizations and interpretations. Intended changes may be the result of model adaptations to a new organizational field – such as another industry or country (Westney, 1993). According to Westney innovations also emerge, “when conflicting isomorphic pulls produce new structures or processes” (Westney, 1993: 65). In this case, there must not necessarily be a transfer effort. A new structure or process may simply emerge because an organization responds to different institutional demands. While Westney (1993) underlines that not all changes of organizational forms justify labeling them an innovation, pure imitations are the least likely outcomes to occur in processes of transfer. Thus, regarding the why-question Westney argues “[w]hen organizational patterns cross fields, isomorphism produces innovation” (Westney, 1993: 66).

Next to Westney work, Rosenzweig and Singh’s (1991) contribution Organizational Environments and the Multinational Enterprise is a crucial road post in applying Institutionalist thought to the MNE. The authors introduce the idea that MNEs and their subsidiaries operate under the condition of multiple isomorphic pressures. Rosenzweig and Singh (1991) argue that subsidiaries face a ‘dual pressure’. They discuss these different pressures as ‘an imperative for consistency within the organization’ and a pressure ‘to achieve isomorphism with the local institutional environment’ (Rosenzweig and Singh, 1991: 340). Essentially, the authors suggest that both the importance of national institutional contexts (forces for local responsiveness) and the integrating pressure of the organizational context of the MNE (forces for global integration) need to be considered, to account for the contextual constitution of subsidiaries. Regarding the how-question, the authors reason that two principle outcomes are possible. Any given element of subsidiaries’ structures and processes either can resemble other organizations in the local context or other subsidiaries in the MNE. Let us turn to the why-question. Rosenzweig and Singh (1991) see subsidiaries to face different contextual pressures. The local institutional pressure is mainly seen as constituted by legal requirements, local norms, values, practices and preferences. The parent contextual pattern, in contrast, is constituted by ‘organizational replication’ and ‘the imperative of control’
(Rosenzweig and Singh, 1991: 345). But what factors determine which pressure – the local or foreign parent one – prevails with regard to a structure- or process-related element of a subsidiary? Here Rosenzweig and Singh (1991) draw on national, sectoral as well as organizational contextual variables. They hypothesize the following factors to be crucial:

- Legal and regulatory constraints in the host country (defining degree of local pull),
- Multidomestic and global industries (local vs. foreign parent pull),
- Shared technology (foreign parent pull),
- Parent country culture (depending on parent country, more or less foreign parent pull),
- Cultural distance (depending on distance, more or less foreign parent pull),
- Composition of the work-force (depending on staffing policy, more or less foreign parent or local pull),
- Acquired vs. Greenfield (local vs. foreign parent pull),
- Dependence of host country on the MNE (depending on dependence more or less foreign parent or local pull).

However, while Rosenzweig and Singh (1991) provide a very comprehensive assemblage of variables – including institutional/cultural factors and strategic choices of MNEs – that determine the degree of local or foreign parent pressures on a given organizational element and even concede that “[p]ractices introduced by the subsidiaries of MNE will vary in the extent of adoption, and the degree of adoption, and the degree to which they are modified in a new country” (Rosenzweig and Singh, 1991: 357), their explanatory framework remains dichotomous with regard to the organizational outcomes of different contextual pressures. What is more, they do not focus directly on the transfer of organizational forms and practices.

This is different in the work of Kostova (1999) and Kostova and Roth (2002) who are building on Rosenzweig and Singh’s (1991) work but apply New Institutionalist thought more directly to transfer processes in MNEs. Kostova and Roth (2002) examine the adoption of organizational practices by subsidiaries of MNEs under conditions of ‘institutional duality’. They explicate this condition as follows:

> Particularly important in our research setting is recognizing that a foreign subsidiary is not an independent entity; hence, if a practice is mandated by the parent, the subsidiary is obligated to comply. In other words, there is a within-organization domain that defines a set of pressures to which all units within the organization must conform. At the same time, the foreign subsidiary resides in a host country with its own institutional patterns specific to that domain. As a result, each foreign subsidiary is confronted with two distinct sets of isomorphic pressures and a need to maintain legitimacy within both the host country and the MNC. (Kostova and Roth, 2002: 216)
Concerning the *how*-question, Kostova and Roth (2002) investigate to which extent organizational practices mandated for implementation by the parent are actually *implemented and internalized* by MNEs’ subsidiaries and their employees (c.f. Kostova, 1999). The authors differentiate implementation and internalization levels between high or low and come to identify in their empirical study four different patterns of adoption: ‘active’ (implementation: high/internalization: high), ‘minimal’ (implementation: low/internalization: low), ‘absent’ (implementation: low/ internalization: high) and ‘ceremonial’ (implementation: high, internalization: low). While this approach shows that organizational practices transferred can be adopted by subsidiaries to different degrees, it tells us little about qualitative changes in what is transferred. Such a research design does not allow discovering hybrid or novel organizational solutions because outcomes are again dichotomously pre-defined. Concerning the *why*-question Kostova and Roth (2002) reason that the successful practice adoption by subsidiaries is crucially related to two factors: 1) the ‘institutional profile’ of the host country and 2) the ‘relational context’ in the MNE.

The first aspect suggests that the transfer success depends on the ‘favorability’ of the host countries’ regulatory as well as the cognitive and normative institutional profile. This reasoning draws on Scott’s (1995) definition of institutions – involving a regulatory, cognitive, and normative dimension – and mirrors the concept of ‘institutional distance’, which was earlier developed by Kostova (1999). In her largely conceptual work *Transnational Transfer of Strategic Organizational Practice: A Contextual Perspective* Kostova (1999) defined ‘institutional distance’ as “difference between the institutional profiles of the two countries – the home country of the practice and the country of the recipient organizational units” (Kostova, 1999: 316). The core assumption is that:

1. countries differ in their institutional characteristics;
2. organizational practices reflect the institutional environment of the country where they have been developed and established; and, therefore,
3. when practices are transferred across borders, they may not "fit" with the institutional environment of the recipient country, which, in turn, may be an impediment to the transfer. (Kostova, 1999: 314)

The second aspect, the ‘relational context’ refers to the relation between the subsidiary and the parent. In this respect Kostova and Roth (2002) refer to organization or firm level factors (c.f. Kostova, 1999) and hypothesize that the level of dependence, trust, and the identification of the subsidiary with the parent organization crucially impacts the transfer success. In their empirical study of 104 subsidiary locations in ten countries, Kostova and Roth (2002) test their explanatory model and confirm that transfer success – practice implementation and internalization – varies across foreign subsidiaries depending on the institutional context in the host country and the relational context in the MNE.
CONCLUSION

Clearly, New Institutionalist approaches, particularly those focusing on MNEs and their subsidiaries, have come to more differentiated answers with regard to hybridization outcomes. In these contributions the transfer of organizational practices in MNEs is not pictured as simple diffusion, leading to the clean adoption or imitation under all circumstances. At the same time, apart from the work of Westney, most contributions take a dichotomous approach to describe different transfer outcomes. Concerning the why-question, New Institutionalist approaches convincingly argue that the ‘institutional duality’ of the subsidiary embeddedness and the ‘institutional distance’ between the origin and the destination of a transferred practice are root causes for transfer outcomes beyond simple imitation. In contrast to European Institutionalism, American Institutionalism emphasizes much more comprehensively the relevance of organizational-context variables (particularly Rosenzweig and Singh, 1991; and Kostova, 1999) – including specific strategic choices – for the different contextual constitution of subsidiaries or for different transfer outcomes. This attention can be attributed to the firm embeddedness of this literature and its authors in the field of IB. Nevertheless, like in the European Institutionalism, the impact of strategic choices and strategic distance between different sites on the contextual constitution of subsidiaries’ production systems has not received much attention.

SELECTED CONTRIBUTION: WESTNEY

Westney (1987) is briefly discussed here because her work contrast with other New Institutionalism inspired work in that it focuses on innovations or modifications in the context of transfer processes. More importantly, Westney’s work offers probably the most systematic account, on which different modes of adaptation firms draw to deal with transfers that do not fit a receiving context.

Westney (1987) asks in her historical analysis *Imitation and Innovation - The Transfer of Western Organizational Patterns to Meiji Japan* what happened to Western organizational forms, when they were transferred to the Japanese environment in the Meiji Japan. Her core argument is that the transfer of organizational forms across societal contexts always brings about departures from the original model no matter how hard a perfect copy is sought (Westney 1987: 25). Departures from original models, whether intended or not, produce innovations (how-question).

Let us turn to the why-question: Westney (1987) argues that departures occur deliberately and unintended. Unintended departures result from “imperfect information” about the original model and “implicit alternative concepts” of the workforce in the receiving context (Westney 1987: 25). Even if a perfect imitation is intended, lacking information and a different local reading and interpretation, causes changes in the implementation of the model.
As far as deliberate departures are concerned, Westney identifies three causes: “selective emulation”, “adapting the patterns to different societal scales” and “adapting the new organization to an environment that lacks some of the organizations that support it in the original setting” (Westney 1987: 25). These have an effect on different kinds of outcomes with regard to the replication of the original model. Selective emulation can occur for different reasons. Westney discusses in this context a possible conflict with valued local patterns or simply a preference for only some aspects in the original model. Whichever way, it means that certain elements from the model are eliminated. As a result the transferred model undergoes change, when implemented in a new context. Moreover, a different geographic and demographic scale of the receiving environment can lead to an adapted model. In this respect, Westney (1987) essentially introduces a contingency variable – difference in scale – impacting the transfer outcome. However, Westney sees the root cause for deliberate departures in different organizational environments in the receiving context. Westney argues that organizational forms are embedded in specific ‘organization-sets’ in their home environment. If transferred, the new host environment may either lack or differ in terms of organization-sets required. In the face of this environment misfit organizations have four principle options. They include: ‘elimination’, ‘internalization’, ‘functional equivalents’, and ‘organization creation’. In all four scenarios there is initially a different or lacking outside organizational context standing in the way of a full replication of the original organizational model. The elimination solution is about doing without or not transferring a certain element because the outside organizational context simply lacks the conditions needed for a transfer. As a result of elimination there is a departure from the original model. The original model is reduced and implemented without certain elements to make it work in the new context. Internalization is about trying to replicate a model by internalizing parts of the organizational context which are in the original model placed in the organizational environment. In this scenario, the original model is also changed given the adaptations required for the intake of originally organization-external context. The functional equivalent solution implies less change to the original organizational model. Although the host context does not provide the exact organizational environment required, functional equivalents are available in the host context. Finally, in the organization-creating solution, the external organizational context is again unfit for a replication of the original model. However, in this scenario an effort is made to create the needed organizational context in the host environment. In this case, there is the least amount of departure from the original model. This implies, however, some change in the host country organizational context. As Westney’s (1987) historical analysis does not deal with model transfer in MNEs, typical host country/local solutions are not strongly considered in her conceptualization of different transfer outcomes. However, the strength of her approach lies in identifying different organizational options to compensate for lacking or different environmental conditions as well as in considering the implications this has for the departure from an original model or template.
European Institutionalism tends to be equated with the *varieties of capitalism literature* (Whitley, 1999; Hall and Soskice, 2001). However, not all European Institutionalists can be placed or like to be placed under the label of *varieties of capitalism* (e.g. Sorge, 2004). In contrast to American Institutionalism, European Institutionalism is more diverse. Tempel and Walgenbach (2003) state, for example, that European Institutionalists differ widely ‘in focus and terminology’ (Tempel and Walgenbach, 2003). Major approaches to be subsumed under the broad label of European Institutionalism include the ‘societal effect approach’ (e.g. Maurice et al., 1980; Sorge, 1991) the ‘national business system’ approach (e.g. Whitley, 1992), the ‘industrial order’ approach (Lane, 1994) and the ‘social systems of production’ approach (Hollingsworth and Boyer, 1997). However, despite all diversity, European Institutionalists generally focus on the importance of national institutional settings and logics and posit these contexts as crucial for the contextual constitution of organizations. In line with this focus, the main *analytical level* tends to be the nation. European Institutionalists also tend to share defiance against propositions about global convergence or statements denying the ongoing relevance of national institutional systems in how business is conducted (Tempel and Walgenbach, 2003). In fact, some European Institutionalists even argue that national distinctiveness not only persists despite of globalization but that globalization itself increases and generates it (e.g. Sorge, 2005).

Like American Institutionalists, European Institutionalists were initially not particularly concerned with organizational hybridization. European Institutionalists neglected organizational hybridization because they focused on the national distinctiveness of institutional systems and their organizations (mainly in comparative studies). This implied little concern for organizations straddling different institutional contexts, such as MNEs. Moreover, European Institutionalists were initially only little concerned with cross-border transfers of organizational practices. Even where such transfers were considered, national institutional forces were seen as overriding the foreignness of imported organizational practices (e.g. Sorge, 1995a). In other words, these early approaches suggested with regard to the *how-* and *why-question* that transfer outcomes mainly end up being local solutions, due to the overriding power of national institutional settings.

However, since the late 1990s European Institutionalists have started to discover the MNE. They pay increasing attention to MNEs and ask: How do national institutional contexts shape the strategies and structures of firms that are organized “across institutional and national divides”? (Morgan, 2001a: 1). Like their American counterparts, European Institutionalists focus on the question 1.) how MNEs and their subsidiaries are contextually constituted, given their embeddedness in different institutional contexts, and 2.) how different institutional contexts between transfer origins and destinations impact the adoption of such transfers in MNEs. What is more, not only has it been realized that MNEs and their subsidi-
aries are impacted by institutional systems in complex ways, but it has also been questioned whether national institutional systems suffice to account for the contextual constitution of MNEs (e.g. Morgan, 2001c).

As mentioned, European Institutionalism is more diverse in focus and terminology than American Institutionalism. As not all approaches from European Institutionalism have come to be concerned with the how- and why-question of (production system) organizational hybridization in MNEs and their subsidiaries, we will discuss only those that have such a focus. As we shall see, the level of analysis in these studies involves both the MNE as a whole and the subsidiary.

**FOCUS ON THE ORGANIZATIONAL HYBRIDIZATION OF THE MNE AS A WHOLE**

Richard Whitley (e.g. 1998, 2001), one of the most widely cited European Institutionalist, is interested in how MNEs from contrasting business systems internationalize and asks whether and under which conditions MNEs develop into distinctive organizational forms. He asks if “new organizational properties and capabilities are being developed as a direct consequence of their authoritative coordination of economic activities across territorial boundaries and societies” (Whitley, 2001: 28). For it is “the coordination of major activities across significantly different institutional contexts through organizational routines that potentially make MNCs distinctive kinds of organizations” (Whitley, 2001: 32). What does Whitley implicitly or explicitly have to say about the question how and why MNEs and their subsidiaries vary in their contextual constitution or hybridization profile?

Whitley is mainly concerned with the circumstances under which MNEs as a whole get detached from their domestic contexts, develop into corporation-wide hybrids and emerge as entities in their own right. While Whitley is not directly interested in different kinds of contextual constitutions at the subsidiary level, his theorizing does include suggestions in this regard. Regarding the how-question, how MNEs are differently contextually constituted, Whitley offers a distinction between four contrasting ideal types of MNEs: the similar multi-domestic, the fragmented, the similar integrated and the hybrid. Regarding the why-question, the development of these types hinges upon two variables (of strategic choice): the ‘variety of institutional contexts’ in which the MNE operates and the level of ‘organizational integration’ (see table 3).

<table>
<thead>
<tr>
<th>Variety of institutional contexts</th>
<th>Low</th>
<th>High</th>
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<tr>
<td>Organizational integration</td>
<td>Low</td>
<td>High</td>
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<tr>
<td></td>
<td>similar multi-domestic</td>
<td>fragmented</td>
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<tr>
<td></td>
<td>High</td>
<td>similar integrated</td>
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Source: Whitley 2001: 36
Put simply, the more integrated the MNE and the greater its commitment to a variety of business contexts of operation, the more likely the hybrid corporation emerges. But let us take a closer look at the four ideal-types and what they imply for the contextual constitution of MNEs and their subsidiaries. The similar multi-domestic MNE neither is very diversely contextually constituted across different subsidiaries nor within different units. Since these kinds of MNEs operate in similar contexts, the contextual constitution across subsidiaries is not very different. Low integration implies, in turn, that subsidiaries are likely to reflect the respective local contexts of operation. Moreover, due to low integration, the foreign operations have little or no impact on the constitution of each other, that is, on the home operations or third country operations. Low integration and low variety of institutional contexts suggest that the transfer propensity to subsidiaries is low and suggest that even if some transfer occurs, there will be low adaptation needs and little chance for innovation. As far as the MNE as a whole is concerned, there is little chance for a repatriation of local innovations given its decentralized management.

The fragmented MNE, in contrast, is very diversely contextually constituted across different subsidiaries but not so much within specific subsidiaries. This type of MNE operates in contrasting business systems and is not very integrated. Subsidiaries are very, therefore, differently contextually constituted across the MNE. While low integration implies low transfer propensities and subsidiaries to reflect for the most part local contexts, the fact that contrasting business systems are involved implies that if some transfer occurs, nonetheless, there will be substantial adaptation needs with a good chance for innovations. As far as the MNE as a whole is concerned, there is again little chance for a repatriation of local innovations due to decentralized management.

The similar integrated MNE neither shows much contextual diversity across the MNE subsidiaries nor within these subsidiaries. Given high levels of integration, Whitley expects these MNEs to have a high transfer propensity to “extend [their] domestic patterns of behavior to their new locations” (Whitley 2001: 37). As these MNEs operate in contexts that are either not fundamentally different from domestic operations or tolerant to different patterns, such as arm’s lengths business systems, we are most likely to observe a domestic-contextual constitution of these subsidiaries. High integration implies substantial transfer propensity. However, this transfer will not see much adaptation needs, as business contexts are either not very different or not adverse, allowing reproduction of domestic patterns (adaptation of the local context). Consequently, Whitley does not expect much innovation in these units. The MNE as a whole is again not likely to change fundamentally, as these firms are not likely to develop major innovations in subsidiaries and because the high integration probably strongly favors domestic patterns.

The only type of MNE that is not only contextually diverse across and within subsidiaries but also as a whole is the hybrid MNE. This type of MNE operates in contrasting business systems and is, at the same time, quite integrated. Given that these firms are high on inte-
gation, we are likely to see strong transfer propensities – which must not be necessarily an expression of domestic patterns. Moreover, high transfer propensities and contrasting contextual pressures across different subsidiaries imply different local adaptation needs and the emergence of innovations. In contrast to fragmented MNEs, these MNEs’ propensity for strong integration opens up the way for corporation wide repatriations of local innovations. Their “strong concern to integrate operations and business units on a world-wide basis through establishing common routines and procedures throughout the entire organization means that they have to change their domestic operations as well as further modifying subsidiaries’ routines to adapt to innovations being developed elsewhere in the network” (Whitley, 2001: 37). Only this kind of MNEs is likely to develop into a globally hybrid configuration and into an entity in its own right.

However, this is not the end of the story. Whitley then asks how likely it is that the respective ideal-types emerge against the background of different domestic business systems of MNEs. The main rationale is that different kinds of firms – opportunistic, cooperative hierarchy, isolated hierarchy – develop out of different domestic business systems or business environments – particularistic, collaborative, and arm’s length respectively – and that they reflect based on their institutional background different propensities for global integration as well as where they locate key assets and activities. The interesting difference is mainly between cooperative and isolated hierarchies. Cooperative hierarchies are tied into strong societal interdependencies and lock-in effects. Isolated hierarchies in contrast are much less integrated and much less tied to collective institutional arrangements. Formal procedures and markets govern their business relationships. As isolated hierarchies rely on financial controls they are much less integrated compared to their counterparts in collaborative business systems. In Whitley’s more poetic terms isolated hierarchies “operate as isolated islands of order in a sea of market disorder (Whitley, 2001: 42). Their competences and capabilities are firm specific, rather than embedded in cooperative arrangements which make it easier for them to internationalize. Cooperative hierarchies, in contrast, are generally more reluctant to internationalize because their competences and capabilities are embedded in networks and thereby more reliant on supportive contexts. Cooperative hierarchies are, therefore, also less inclined to venture into radically different or adverse business environments. In short, because coordinated hierarchies are strongly tied into institutional interdependencies or networks, they are more sensitive to institutional difference. Moreover, if they venture into new business environments they will try to transfer these supporting institutional constellations and are more likely to imitate domestic patterns in their subsidiaries. They will, thus, either chose very similar institutional contexts or contexts that are not so tightly coupled. Because they rely so much on the reproduction of specific contextual conditions, they require tight control of their subsidiaries. This again limits the integration of subunits into local economies and makes them less likely to contextually feature local con-
texts. Based on their business systems’ background they are probably most likely to develop into similar integrated MNEs.

Isolated hierarchies, in contrast, are less reluctant to internationalize since their capabilities and competences are not dispersed but firm specific. They are also less dependent on a supportive institutional context and, therefore, more flexible to operate in contrasting business contexts. Isolated hierarchies are also more likely to switch or venture into new sectors because they “cannot rely on business partners to manage sector risks on a joint cooperative basis” (Whitley 2001:49). As a result they become quite proficient in controlling unconnected business activities. This suggests, in turn, stronger reliance on financial controls and lower levels of integration. More independent and decentralized subsidiaries suggest, however, that isolated hierarchies are less inclined to transfer/imitate domestic patterns to subsidiaries and that they have more leeway to become integrated into local contexts. Thus, based on their business systems’ background, they are most likely to develop into fragmented MNEs.

Without being able to go further into details here, Whitley’s model implies that the different contextual constitution is related to three variables: 1.) the nature (e.g. strength, coherence, integration) of national institutional systems from which firms originate 2.) the nature (e.g. strength, coherence, integration) of national institutional systems in which the subsidiary operates, as well as 3.) the resulting institutional distance between the two business systems. Although Whitley does not have high hopes that the MNE as a whole, is likely to become hybrid as it internationalizes, his work does suggest that subsidiaries may be contextually constituted in complex ways (see also Morgan and Whitley, 2003). Over all, he remains highly skeptical about the idea that such localized effects could feedback to fundamentally change MNEs and their largely home country founded constitution.

In contrast to Whitley, Morgan (2001a/b) sees much more scope for the development of MNEs as distinctive kinds of organizations. Positioning himself between hyperglobalists and globalization skeptics, Morgan explores a third way. He wants to understand “what is happening to business in the process of internationalization” (Morgan 2001b: 114). Morgan conceptually starts from a business system perspective but tries to link this perspective with the concept of “transnational spaces and communities”. He understands “transnational spaces” as “arena[s] of social action distinct from that of the ‘national’ context” or as “cross-border connections”, “a social space sui generis” where the significant patterns of interaction is across borders rather than within them (Morgan 2001b: 115). With regard to the how-question, Morgan focuses on the MNE as a whole and asks if we “can still understand firms from the perspective of their national origins” or if we require “new concepts that acknowledge the significance of transnational flows and spaces” (Morgan 2001b: 116). Essentially, Morgan theorizes that MNEs can be conceptualized as creating transnational social spaces in which “transnational communities” can emerge. Particularly, global/transnational MNEs (unlike the multinational type) that are built on extensive inter-
actions across different sites are seen as potential spaces for the development of transnational communities. The emergence of these transnationally constituted MNEs (how-question), is largely explained by increasing cross-border interaction (why-question). According to Morgan, such interaction could come with competition, cooperation, learning, transfers, or even collective resistance across MNE sites. In any event, such MNEs create a social space where the actors involved – whether the act in unison or against each other – interact across borders with the aggregate effect of constituting a community in its own right. Morgan’s approach could also imply that organizational forms emerge that do not mirror any one national context but rather reflect different or aggregate effects of different contextual influences with the overall result of bringing about something novel. The drivers of such complex contextual confluences are cross-border interactions and communications, management transfers and learning processes. Thus, in contrast to Whitley (2001), Morgan (2001 a/b) sees the constitution of MNEs not simply based on different national institutional systems. Such a shift in perspective marks an increasing doubt among European Institutionalist whether the institutional constitution of MNEs can be fully accounted for by the national institutional level (see also Morgan, 2001c; Maurice, 2000; Théret, 1997). While Morgan’s work suggests that the institutional constitution of MNEs cannot be fully grasped by only looking at the national business system, his concept has few implications for the question of how and why subsidiaries are differently contextually constituted.

Similar to Whitley and Morgan, Lane (2000, 2001) – who has also been identified with the Industrial Orders approach – shifted her attention the constitution of MNEs as a whole. Lane (2001) is also interested in the possible emergence of the transnational corporation, as a particular type of MNEs. In terms of the how-question, Lane is interested in how MNEs are contextually constituted given their complex societal embeddedness. In her discussion about the relevance of the societal effect approach within the context of MNEs (Lane 2000) she states:

> Although societal effects are still evident in the different national routes to globalisation, they will be more difficult to discern in fully globalised companies. […] These emerging changes mean that corporate actors will no longer be interacting with, and be constructed by, mainly domestic social institutional complexes. Instead, they will be placed in multiple societal environments, and ensuring unavoidable embeddedness in foreign societies will provide them with different and competing social templates to structure their activities and goals. (Lane, 2000: 204)

In contrast to Whitley (2001), Lane is much more positive about the possible emergence of MNEs as distinctive organizational or hybrid forms and their ability of departing from their domestic roots. While Lane does not develop differentiated typifications of how MNEs or their subsidiaries are differently contextually constituted, she also embraces the concept of
hybridization. Contrasting her approach with Whitley’s (2001), on the one hand, Bartlett and Ghoshal’s (1998) Strategy-Structure paradigm, on the other, Lane argues that the MNE is not simply “passively exposed to and constrained by either the domestic system in which it is located or by global contingencies” (Lane, 2001: 71). Instead, she argues that MNEs should be considered as having an independent capacity for strategic action. Without going into detail, Lane (2001) suggests with regard to the why-question that hybrid outcomes are the overall result of different national business systems, globalization processes as well as strategic choices. Above all, Lane stresses that such outcomes are the results of “political negotiation between powerful actors in and around the company” (Lane, 2001: 71). In her empirical analysis of German MNEs she concretizes these findings and shows that hybrid organizational configurations can be attributed to different factors including: the adoption of global best practices, learning from experience in subsidiaries, through cross-border mergers and acquisitions as well as the intervention of powerful actors. What she finds is very much in contrast to what Whitley’s (2001) approach suggests. However, similar to Morgan, Lane has little concrete suggestions as to the how and why of subsidiary hybridization.

**FOCUS ON THE ORGANIZATIONAL HYBRIDIZATION OF THE SUBSIDIARY**

While Morgan (2001b), Whitley (2001) and Lane (2001) address the issue of contextual constitution of MNEs on the overall MNE level and mainly refer to national institutional contexts or above (transnational contexts), Sharpe (1997), Saka (2003), Lorenz (2000) look at the firm or subsidiary level and different institutional layers below the national level. These works investigate the importance of different institutional situations at the regional, the firm level and take a closer look at the nature of what firms transfer, i.e. the transfer content.

Sharpe’s study (1997) ‘Compromise Solutions: A Japanese Multinational Comes to the UK’ is a comparative ethnographic study of two British subsidiaries of a Japanese MNE. The study draws on an institutional perspective to understand processes and outcomes of the transfer of Japanese management practices on the micro-level. The research design is based on two contrasting cases: A Brownfield-acquisition in a traditional manufacturing region and a Greenfield site in a non-traditional manufacturing region.

Sharpe investigates how the transfer of the same Japanese management practices to two different sites of the same MNE in the UK is received. She finds that the two sites show very different levels of resistance and implementation. With regard to the how-question, Sharpe describes very detailed different levels of transfer success and the emergence of what she calls ‘compromise solutions’. In her Brownfield case local contextual counterpressures are so high that the implementation of the Japanese practices becomes very difficult. In this case, clear departures from the transferred practices emerge and the site’s hybridization outcome or profile can be best described as a mix between mostly local and
some foreign contextual elements. In the Greenfield case, by contrast, the implementation is much more successful and the hybridization profile of the site reflects more the practices of the foreign parent context. As far as the why-question is concerned, Sharpe shows that resistance and implementation differences can be systematically related to the interplay of more or less established institutional patterns at the sites in combination with the surrounding regional institutional context. Sharpe details, how entrenched regional institutional systems, on the one hand, and local practices and attitudes at the firm level, on the other, mutually enforce each other and pose serious impediments to the implementation of Japanese forms and practices – particularly in the Brownfield case. Sharpe’s example is interesting in two respects. First, the study is remarkable, as it looks at the institutional effect of regional embeddedness. Secondly, and more importantly, the study highlights institutional conditions at the firm level and shows how these are intertwined with wider regional conditions. While this study still sees subsidiaries contextually constituted by institutional contexts, this perspective focuses more on the interplays between different institutional levels and allows for varieties in firms and varieties within national business systems. In other words, firms neither reflect macro-institutional conditions in homogeneous ways, nor are national business systems homogeneously institutionalized.

Similar to Sharpe’s work, Saka (2003) also deals with questions of organizational hybridization in MNEs at the subsidiary level. Saka is interested in the ‘diffusion of work systems’. She focuses on the context-boundedness and limitations of this process. Like Sharpe’s, Saka’s research design is based on a comparative study of Japanese subsidiaries in the UK who try to adopt similar practices from the parent companies. With regard to the how-question, Saka’s work identifies different levels of diffusion based on the extent to which the transferred practices have been implemented and internalized by the adopter firm’s actors. Similar to Kostova’s work (1999), Saka does not make an effort to typify different outcomes of contextual constitution. Instead, she identifies different degrees of implementation and internalization. However, her findings do include a notion of contextually mixed outcomes with regard to the diffused work systems, as she underlines the selective nature of what is adopted locally and the occurrence of blended and redesigned systems – best understood as translations mediated and impacted by different analytical levels. Concerning the why-question, i.e. explaining different levels of implementation and internalization of practices, Saka looks mainly at the institutional- and organizational-level variables.

*The fundamental line of reasoning underlying this study is that institutional and organizational characteristics can hinder or facilitate the degree to which the source company’s work systems may be internalized by adopter firms.* (Saka 2003: 6)

Saka’s (2003) conceptual starting point is Whitley’s National Business System approach. A core rationale is that the diffusion of work systems or practices from ‘highly coordinated’
contexts to ‘compartmentalized’ institutionalized context is bound to face severe difficulties due to substantial institutional distance. Similar to Sharpe’s work, her explanatory framework goes beyond a national-level biased business system perspective in three crucial respects. First, in contrast to the national business systems approach, the role of actors on the micro-level is stressed. Actors are seen to shape work systems and how imported work systems or practices are integrated. Actors are the crucial link and put to use a diffused work system or practice by acts of translations. Second, looking at the diffusion of work systems to UK sites of Japanese firms, she identifies local institutional settings as an important variable. With respect to this level, she mainly refers to site locations as different bases of skilled labor and different bases of industrial dispute. She argues that different levels of implementation and internalization are linked to specific conditions at different local sites within the same National Business System. Third, Saka moves beyond established Institutionalist thought by factoring the organizational level of individual firms into her framework. Drawing from the diffusion of innovation literature, she focuses on the transfer content and the local adopter organization characteristics. She looks at the “nature of the diffused work system” (i.e. conceptualized as structural, cultural, control-related and technological) and the “adopting teams’ perceived value of and commitment to the work systems” (Saka, 2003: 43-51). A crucial factor is the ‘degree of compatibility’ between the imported work systems and the existing work system, particularly how local employees perceive and interpret the import. This marks again an interesting break from earlier work in the Institutionalist body of literature insofar as it not only considers institutional contexts more elaborately but also emphasizes firm/organization specifics and transfer content characteristics. Just like Sharpe (1997), Saka (2003) stresses the role of the interplay between different analytical levels for processes of diffusion and the degree of implementation and internalization.

Let us finally turn our attention to the work of Lorenz (2000) who does not draw on Whitley’s National Business Systems approach but on the societal effect approach. Lorenz does not directly refer to MNE subsidiaries but looks more generally at how firms embedded in national context emulate organizational forms and practices that have come from foreign institutional contexts. He asks: “How can the notion of societal differences in work administration be reconciled with a body of literature documenting how competitive pressures have led national producers to emulate the organizing principles of other nations that are perceived as providing a basis for superior economic performance?” (Lorenz 2000: 241). Lorenz argues that a one-to-one transfer of organizational forms and practices is hardly possible and also opts with regard to the how-question for a notion of hybridization. Regarding the why-question, he focuses on three sources of ‘societal effects’ that lead to hybridization as opposed to straight forward transfer (i.e. imitation). The first source is related to the local learning that becomes necessary, as organizational forms and practices to be emulated may be distant and embedded in tacit knowledge. He stresses that the more
distant and tacit the emulated forms and practices are from local ones, the more time-consuming the local learning-process will be. The second source of hybridization springs from what Lorenz sees as ‘institutional lock-ins’ and ‘positive network externalities’ which create positive incentives to conform with existing institutional conditions (Lorenz, 2000: 244). If for example, a nation’s training systems is rich in positive network externalities (e.g. a highly qualified labor force) organizations will tend to adapt emulated organizational forms and practices in a way compatible with the existing qualifications and training standards. The result is again more likely a contextually mixed solution or hybrid, rather than a pure foreign context constitution or imitation. The author mentions a third source of hybridization. This is the conflicts resulting from threats to institutionally entrenched claims. Such conflicts and negotiations tend to modify the emulated forms and practices. Similar to Saka (2003), Lorenz (2000) introduces the nature of the transfer content as an important variable to explain the possibly different contextual constitution.

CONCLUSION

The literature discussion showed that European Institutionalists focusing on MNEs and their subsidiaries increasingly come to consider concepts of organizational hybridization within the context of the more complex contextual constitution of MNEs. The strength, of European Institutionalist approaches (e.g. Sharpe, 1997) is the fine grained description of how these hybrid forms look like and how they come about in specific interactions on the micro-level and between different institutional levels (Becker-Ritterspach, 2005). However, it must be added that European Institutionalist approaches differ substantially in whether and how they try to capture hybrid outcomes. While there is a substantial debate whether hybrid solutions can be expected to emerge at the level of the MNE as a whole (e.g. Whitley, 2001 vs. Lane, 2001), approaches dealing with the question at the subsidiary level, leave little doubt about such a possibility. Over all – with the exception of Boyer’s contribution – European Institutionalists are weak in defining and typifying systematically a full range of different hybridization outcomes. Concerning the why-question, European Institutionalist attribute the possibility of hybrid outcomes mainly to the condition that MNEs are embedded in different institutional environments and that these institutional environments may differ strongly from one another (e.g. in strength, coherence etc.). However, it is noteworthy that the approaches differ again with regard to the level at which the relevant institutional context is located. Clearly, the national level has become but one level being looked at. Increasingly supra-national and regional contexts come into the focus. Even the level of the organization or firm and the nature of the transfer content itself receive attention (Sharpe, 1997; Lorenz, 2000; Saka, 2003). Nevertheless, different institutional contexts remain the core focus to explain why organizational forms and practices change when transferred in MNEs. In contrast, European Institutionalist pay little attention to the question how differ-
ent task environments or supply and demand market conditions in different markets impact hybridization outcomes. Generally, the embeddedness of the subsidiary in the organizational context of the MNE and the impact of strategic choices at the MNE or subsidiary level are not addressed and empirically researched. While Whitley’s work makes some suggestions in this direction, he over-institutionalizes the strategic choices in the internationalizing firm. If at all, we could see Sharpe’s work – comparing a Greenfield and a Brownfield site – as considering the impact of strategic choices on hybridization outcomes at the subsidiary level.

**SELECTED CONTRIBUTION: BOYER**

Boyer’s hybridization approach (1998) is selected here because it is probably one of the most systematic and comprehensive approaches with regard to capturing the how and explaining the why of production system hybridization. Boyer’s approach takes its starting point in a critique of “One-Best-Way” claims of Lean-Production models. Although Boyer admits that certain production models (e.g. Fordist, Sloanist, Toyotist) achieved epochal dominance, he underlines that different production models have always coexisted in any given period of time. This coexistence has been and will remain possible because models of production are not universally superior but contextually optimized. Therefore, a concept of global model-diffusion is misguided because transferring a model from one institutional context to another requires adaptations, calling into question its universal applicability. Stressing the ongoing relevance of different institutional contexts Boyer argues:

> Recognition of the relative character of superiority in production opens the way for a plurality of models to coexist because they are better adapted to various contexts, to the point that durably divergent trajectories may characterise the evolution of industrial models. In this context the notion of hybridization becomes significant, not just as a mere short-term adaptation to environmental resistance, but as a principle of transformation, indeed of genesis, of industrial models themselves, through their interaction with social and economic systems which are different from those in which they first developed. (Boyer 1998: 27)

Boyer focuses on different transfer outcomes when MNEs transfer their production systems or rather productive models across borders. With regard to the how-question his approach not only allows for contextually mixed organizational forms – hybrids – but for a whole range of outcomes including: imitation and different modes of hybridization (see table 4). He also considers the possibility of complete transfer failure. By developing taxonomy along the dimensions ‘nature of process’ and ‘breadth of process’ Boyer refines the concept of hybridization. In a first step he distinguishes ‘straightforward imitation’ from hybridization and further distinguishes hybridization depending on whether it rests on functional
equivalents or the emergence of novelty. Whereas ‘functional equivalents’ refer to the replacement of specific practices of a model with host context practices, whilst the general principle of the model remains untouched, ‘novelty’ or ‘innovation’ refer to the situation when a transplant comes up with principles and practices that neither show resemblance to host context practices nor to the principles and practices of the original production model (Boyer, 1998: 35). Boyer, finally, distinguishes hybridization on yet another dimension which is the ‘breadth’ of the hybridization process. This indicates that imitations, functional equivalents as well as novelties can comprise of some components only or alternatively of all components of a production model.

Table 4: Four main types of hybridization

<table>
<thead>
<tr>
<th>Nature of process</th>
<th>Breadth of process</th>
<th>The search for a functional equivalent (FE)</th>
<th>Novelty (N)/Innovation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Partial:</td>
<td>Some components</td>
<td>Imitation 1 Imitation</td>
<td>Hybridization 1 FE</td>
</tr>
<tr>
<td>Complete:</td>
<td>All components</td>
<td>Imitation 2 Complete Imitation</td>
<td>Hybridization 2 FE</td>
</tr>
</tbody>
</table>

Source: Boyer 1998: 35

In a second step Boyer addresses the why-question and links possible outcomes to two core variables. In his view, different transfer outcomes are the result of the compatibility or incompatibility between the “requirements of a model of production” of a firm and the “constraints and opportunities of the local institutions” of the host space (Boyer, 1998: 34). Boyer indicates that the factors which influence the likelihood of particular outcomes are, on the one hand, related to the firm’s production model, i.e. how clearly defined and complimentary its principles and practices/routines are (i.e. dependence of transfer components on one another and context) and, on other hand, related to the institutions of the host space, i.e. how strong, coherent, and homogeneous institutional configurations are. By correlating the variable institutional context conditions with the variable production model Boyer constructs a framework of likely trajectories of hybridization (see table 5).
Table 5: Nature and likelihood of hybridization in different industrial models and national institutions

<table>
<thead>
<tr>
<th>National institutions of host space Firm’s model of production</th>
<th>Weak and heterogeneous</th>
<th>Rather strong, compatible with some diversity</th>
<th>Strongly coherent and homogeneous</th>
</tr>
</thead>
<tbody>
<tr>
<td>Precisely defined principles and routines</td>
<td>Transplantation possible with some minimal congruence</td>
<td>Uncertainty because of the discrepancy between the profit strategy and national institutions</td>
<td>Conflict between the profit strategy and the national institutions of the host country</td>
</tr>
<tr>
<td>Clear principles, but some flexibility of routines</td>
<td>Partial hybridization is likely (same principles but different routines)</td>
<td>Hybridization as a functional equivalent is possible owing to some degree of freedom in the host institutions</td>
<td>Pressure towards hybridization as innovation: restructuring of the objectives and routines of the firm induced by the institutional environment</td>
</tr>
<tr>
<td>Neither principles, nor routines are strongly implemented</td>
<td>Likely incoherence and non-viable productive model</td>
<td>A new trajectory is possible in response to the institutions of the host country</td>
<td>Similarity of industrial model to that already implemented by firms of the host country</td>
</tr>
</tbody>
</table>

Source: Boyer, 1998: 38

The following citation may serve as an illustration for different trajectories of hybridization flowing from the combination of certain institutional conditions and production model characteristics:

To illustrate, hybridization is the most unlikely outcome when one is far removed from two polar cases. At one pole similar modes of regulation in the original and host space make the transposition of production principles easy. [...] At the other pole, a particularly coherent model of production encounters a space where the macroeconomic and social institutions are the opposite of what the model requires. The resultant conflict would usually lead to the failure of the hybridization. [...]. Conversely the ‘acclimatisation’ of a model of production through hybridization takes place largely in a ‘grey zone’ when clarity of organisational principles offers a guide to action for companies without completely determining their internal organisation and their relations with the environment. In a sense, hybridization is relatively easy but is likely to be partial when the local institutional architecture is loose and heterogeneous. It is more difficult but more promising when a mode of regulation is quite constraining but accepts a certain diversity of organisational forms. Lastly there is a transition from hybridization as the search for a functional equivalent to hybridization as innovation, when a profit strategy which has proved itself is sought by transplant managers faced with highly organised economic insti-

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It is important to note that Boyer understands hybridization as a process that follows a certain order. A “process of hybridization follows, at first a static order to get the factory up and running, and then [a] dynamic order to maintain and improve its initial performance and to respond to economic and social changes peculiar to a new space” (Boyer, 1998: 38). In line with the other theorists, Boyer perceives hybridization as process of permanent adaptation and learning.

Boyer’s approach is particularly helpful for this research context because it offers a complex and systematic framework of production system hybridization. However, the framework suffers from a substantial weakness. In a way we can criticize in Boyer’s approach, albeit on a lower-level, the same he criticizes in Lean Production approaches. Namely that automobile MNEs have something like a defined a ‘One-Best-Productive Model’ or template which they seek to transfer anywhere and everywhere. While it cannot be denied that different MNEs follow different generic product strategies, it is doubtful if all automobile MNEs come to develop a specific productive model and seek its transfer to each and every institutional and strategic context in which they operate. Such an assumption essentially disregards that MNEs, related to their diverse strategic and institutional embeddedness, and related their different brands, strategic choices and international division of labor, may not have a transfer intent in the first place (c.f. Pries, 2003).

2.3 INTERNATIONAL BUSINESS PERSPECTIVES

INTRODUCTION

The International Business perspective has like no other perspective furthered our understanding of the MNE, why the MNE comes into being, and how it is organizationally configured. While the explanation of why MNEs come into existence was strongly associated with economic paradigms (e.g. Hymer, 1976; Dunning, 2000), the study of organizational design and their relations to strategic contexts tended to be developed in corporate strategy and business policy literature (Ghoshal and Westney, 1993). The latter body of research has also come to be known as the Environment Structure Strategy Paradigm. This section will focus exclusively on the Environment Structure Strategy Paradigm within the IB literature because it systematically relates the organizational configuration of MNEs to strategy and strategic contextual conditions. At the heart of the perspectives lies the assumption that there has to be “a good fit between strategy and environmental demands, and between organizational structure/processes and strategy” (Harzing, 1999: 31). From relatively early on, this body of literature recognizes that MNEs need to organizationally respond to internal
and external contextual complexity. Contributions from the *Environment Structure Strategy Paradigm* mainly focus on different internal (i.e. mainly task environmental aspects) and external contingencies (i.e. mainly market related aspects) to explain the contextual constitution of the MNE and its subunits (Westney and Zaheer 2001). In the following paragraph there will be a selective review of a variety of perspectives from IB, again moving from a corporate to a subsidiary level of analysis. The main perspectives discussed here include: *the Integration-Responsiveness framework, the related MNE Process strand, the Strategic Role and the Knowledge Flow strand*. The guiding question is what insights can be gained from IB literature for our understanding of the *how and why* of organizational (production system) hybridization?

**DIFFERENT INTEGRATION AND RESPONSIVENESS REQUIREMENTS ACROSS TASKS**

The *Integration-Responsiveness framework* can be seen as the mother of the *Environment Structure Strategy Paradigm* in the IB literature. The framework is introduced by Prahalad (1975) and subsequently taken up by a number of scholars. It rests on the contingency theory as presented by Lawrence and Lorsch (1967), that is, on the idea that firms face two fundamental environmental forces, i.e. pressures for differentiation and pressures for integration. Translated to the MNE, these pressures are labeled by Bartlett and Ghoshal (1998) ‘forces for global integration’ and ‘forces for national differentiation’ and by Prahalad and Doz (1987) ‘pressure for global integration’ and ‘pressure for local responsiveness’. The MNE’s need to strategically and structurally respond to these distinct environmental contexts was initially seen to vary by industries and historical period. Based on the integration-responsiveness framework (high/low global integration and high/low responsiveness) Prahalad and Doz (1987) distinguished: multidomestic (low/high), international (medium/medium), global (high/low) and transnational (high/high) industries, strategies and structures. While the level of global integration represents the need for central or global coordination, the level of local responsiveness expresses the need for local approaches. However, the *Integration-Responsiveness framework* is not only applied at the level of industries or firms. Bartlett (1985) for example, show that, even within the same company, some function and tasks are more subject to global integration while others are more subject to local responsiveness.

What are the implications of the *Integration-Responsiveness framework* for the question *how and why* subsidiaries are contextually constituted? First, it suggests that subsidiaries are either reflecting globally unified organizational forms and practices (whether these are home/parent patterns or transnational remains open here) or local ones depending on the nature of environmental pressure and corresponding internationalization strategy of the MNE. Second, it suggests that certain organizational elements in the subsidiaries are either contextually reflecting globally unified organizational forms and practices or local ones
depending on the nature of functions/tasks. For some tasks and functions may be more subject to pressures for global integration, while others may be more subject to local responsiveness. But let us take a closer look at this argument by paying attention to different MNE strategies and the different strategic roles subsidiaries can assume.

**DIFFERENT INTERNATIONALIZATION STRATEGIES IN THE MNE STRATEGY STRUCTURE STREAM**

Different authors in the IB literature come to relatively similar descriptions of what alternative internationalization strategies firms can chose (see Harzing, 1999 for a good overview). Bartlett and Ghoshal’s (1998) work *Managing Across Borders, The Transnational Solution* can be viewed as typical for this body of literature. Bartlett and Ghoshal’s (1998) starting point is that MNEs may respond to three distinct environmental forces to different degrees. These are: ‘forces for global integration’, ‘forces for local differentiation’ and ‘forces for worldwide diffusion of knowledge’. The forces rest in principle on environmental conditions mainly understood as market conditions for inputs and outputs. The following table is a compilation of what conditions constitute these different forces in the business environment (see table 6). Bartlett and Ghoshal neither systematically theorize the environment that brings about such forces nor how such forces translate into strategies or strategic choices of firms. Basically, the forces are seen as given. The main level of analysis is the MNE as an organization, the relations between strategy, structures or processes in MNEs. Overall, the approach has a strong inward bias.

**Table 6: Distinct environmental forces and their sources**

<table>
<thead>
<tr>
<th>Forces for global integration</th>
<th>Forces for local differentiation</th>
<th>Forces for worldwide diffusion</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Unified world market place</td>
<td>• Nationally differentiated</td>
<td>• Increasing parity among</td>
</tr>
<tr>
<td>• Convergence of consumer</td>
<td>market structures</td>
<td>players</td>
</tr>
<tr>
<td>• Market liberalization</td>
<td>• Difference in consumer preferences</td>
<td>• Rising R&amp;D costs</td>
</tr>
<tr>
<td>• Economies of scale</td>
<td>• Host government policies</td>
<td>• Shortening product life-</td>
</tr>
<tr>
<td>• Reduced transportation</td>
<td>• Liability of geographic</td>
<td>cycles</td>
</tr>
<tr>
<td>and communication cost</td>
<td>distance for transport and</td>
<td>• A shifts from freestanding</td>
</tr>
<tr>
<td></td>
<td>coordination</td>
<td>products to integrated systems</td>
</tr>
<tr>
<td></td>
<td>• Flexible production technology</td>
<td>• Global standards and</td>
</tr>
<tr>
<td></td>
<td></td>
<td>specifications</td>
</tr>
</tbody>
</table>

Source: compiled and adapted from Bartlett and Ghoshal, 1998

Now, for the MNE these environmental forces translate into three distinct and at times contradictory strategic needs: the need for global efficiency, the need for local responsiveness, and the need to develop and diffuse innovations worldwide. Based on their responses to the different strategic needs, Bartlett and Ghoshal (1998) distinguish four distinct internation-
alization strategies labeled: the multinational, the global, the international and the transnational solution. While the multinational, the international and the global MNEs develop strategies that focus respectively on national responsiveness, global integration and transfer of knowledge; the transnational solution is able to respond to all three strategic needs at the same time. In line with their different strategies the four types of MNEs also differ on three crucial dimensions of organizational design: the configuration of assets and capabilities, the roles of overseas operations and the development and diffusion of knowledge (see table 7).

**Table 7: Organizational characteristics of the transnational solution**

<table>
<thead>
<tr>
<th>Organizational Characteristic</th>
<th>Multinational</th>
<th>Global</th>
<th>International</th>
<th>Transnational</th>
</tr>
</thead>
<tbody>
<tr>
<td>Configuration of assets and capabilities</td>
<td>Decentralized and nationally self-sufficient</td>
<td>Centralized and globally scaled</td>
<td>Source of core competencies centralized, others decentralized</td>
<td>Dispersed, inter-dependent and specialized</td>
</tr>
<tr>
<td>Role of overseas operations</td>
<td>Sensing and exploiting local opportunities</td>
<td>Implementing parent company strategies</td>
<td>Adapting and leveraging parent company competencies</td>
<td>Differentiated contributions by national units to integrated worldwide operations</td>
</tr>
<tr>
<td>Development and diffusion of knowledge</td>
<td>Knowledge developed and retained within each unit</td>
<td>Knowledge developed and retained at the centre</td>
<td>Knowledge developed at the centre and transferred to overseas units</td>
<td>Knowledge developed and shared worldwide</td>
</tr>
</tbody>
</table>

Source: Bartlett and Ghoshal, 1998: 75

Although Bartlett and Ghoshal do not directly address the question how and why subsidiaries are differently contextually constituted, we can infer from their work that different business environment related internationalization strategies of MNEs (the why-question) are likely to impact the contextual constitution of their subsidiaries (how-question).

MNEs following a multinational/multi-domestic strategy mainly respond to forces for global integration. As their subsidiaries are largely decentralized, self-sufficient, exploits local opportunities and receive little knowledge from the parent, their organizational forms and practices can be expected to reflect local/host context solutions (e.g. national/regional).

MNEs following a global strategy are about the opposite and focus on global integration. Subsidiaries in this scenario are tightly integrated and dependent on the parent. They implement parent strategies. Centrally produced knowledge flows uni-directionally to the subsidiaries. Therefore, we can imagine that subsidiaries embedded in MNEs following a global strategy mainly reflect home/parent or global contextual conditions in their organizational forms and practices. MNEs following the international strategy can probably be perceived best as half way between the multinational and the global MNE. The international MNE focuses on knowledge diffusion with the goal to leverage parent company competen-
cies. While knowledge flows remain one-way from the parent to the subsidiaries, the transfer is not as encompassing as in the global MNE and some competencies remain decentralized. As a result, we can expect subsidiaries in this scenario to reflect the parent/home or global context in some areas or functions, and the local/host context in others. In MNEs following a transnational strategy things are far more complex as the company responds at the same time to national responsiveness, global integration and worldwide knowledge diffusion. The key-word is differentiation here. Different subsidiaries have different assets and capabilities, they have different strategic roles and receive and distribute knowledge to different degrees. Some subsidiaries and functions will be tightly centralized and globally integrated reflecting home/parent or global solutions. Others remain decentralized reflecting local/host context solutions. In this scenario different subsidiaries and different functions within subsidiaries can be very differently contextually constituted. Dichotomies between parent/home or global vs. local/host and dependent vs. independent give way to a universe of national or even transnational contextual influences (e.g. home, host and third countries context influences flowing together) and a whole spectrum of relations, ranging from dependence to interdependence (Bartlett and Ghoshal, 1998). In fact, in the transnational the possibilities of different contextual constitutions become so complex that the focus has to shift to subsidiaries’ particular roles and situations to understand how they are contextually constituted. This has been increasingly done by the strategic role stream in the IB literature which will be discussed next.

**DIFFERENT STRATEGIC ROLES OF SUBSIDIARIES**

To understand MNEs as transnational types or differentiated networks implies that subsidiaries take on different strategic roles. The subsidiary role focus in the IB literature sets out to understand the different subsidiary roles or strategies (e.g. White and Poynter, 1984; Bartlett and Ghoshal, 1986; Ghoshal and Nohria, 1989; Jarillo and Martinez, 1990; Birkinshaw and Morrison, 1996; Taggart, 1997; Beechler et al., 1998) and their evolution in MNEs (e.g. Birkinshaw and Hood, 1998; Chang and Rosenzweig, 1998; Delany, 1998; Peters, 1999; see Birkinshaw, 2001 for an excellent overview). Particularly in the latter contributions, the subsidiary is increasingly seen as a unit that is “not just an instrument of the parent, but has certain degrees of freedom in shaping its own destiny” (Birkinshaw, 2001: 383). Regarding subsidiary role definitions, many typologies are based on at least two of the following three aspects: the nature of the subsidiary’s local context, the nature of the subsidiary’s wider corporate context and the nature of the subsidiary’s resources and capabilities. Ghoshal and Nohria (1989), for example, differentiate four subsidiary types – clans, integrative, hierarchies and federative subsidiaries – based on the complexity of the subsidiary’s local environmental and local subsidiary resources. Jarillo and Martinez (1990) see the strategic role defined by the degree of integration between the subsidiary and other parts of
the corporation and the degree of localization and distinguish active, receptive, autonomous subsidiaries. Birkinshaw and Hood (1998) and Birkinshaw (2000) probably most extensively explore subsidiary roles and their evolution. Birkinshaw and Hood (1998: 780) “embrace the network conceptualization of the MNC by modeling the subsidiary as a semiautonomous entity, capable of making its own decisions but constrained in its action by the demands of head-office managers and by the opportunities in the local environment”. As compared to earlier work in the subsidiary role stream, they not only distinguish different subsidiary roles but seek to understand how such roles change. A cornerstone of their concept of subsidiary evolution is seeing subsidiary roles as essentially based on two dynamic aspects: 1.) their stocks of resources/capabilities and 2.) their charter. Birkinshaw and Hood (1998: 781) define “resources as the stock of available factors owned or controlled by the subsidiary and capabilities as a subsidiary’s capacity to deploy resources, usually in combination, using organizational processes to affect a desired end”. Resources/capabilities of subsidiaries are always to some extent peculiar to a subsidiary reflecting its unique path. New capabilities develop out of existing ones in “path-dependent trajectories” (Birkinshaw and Hood, 1998: 781). The charter, is according to Birkinshaw “[t]he visible manifestation of the subsidiary’s role in the MNC”. He defines the charter as:

\[
\text{[T]he business, or elements of the business, in which the subsidiary participates, and for which it is recognized to have responsibility within the MNC (Galunic and Eisenhardt, 1996). Charter can thus be defined in terms of the markets served, products manufactured, technologies held, functional areas covered or any combination thereof. The Charter is typically a shared understanding between the subsidiary and the HQ regarding the subsidiary’s responsibilities (Birkenshaw, 2000: 86).}
\]

The relationship between the charters and resources/capabilities is a problematic one. Equilibrium between a subsidiary’s resources/capabilities and its official charter is the exception, rather than the rule. More often than not, there will be mismatches between capabilities/resources and charters. In the view of Birkinshaw and Hood (1998), the development of the subsidiary’s role is linked to three contextual factors: parent company factors, subsidiary factors, and host country factors.

Parent company factors comprise the nature of the competitive internal resource allocation, the decentralization of decision making, and the ethnocentrism of parent management. They also refer to this factor as ‘head-office assignment’ which essentially refers to the task or charter assigned to subsidiaries. Subsidiary factors include the track record of the subsidiary, the credibility of subsidiary management, the entrepreneurial orientation of subsidiary employees, and the contestability of subsidiary’s existing charter. This dimension refers to abilities of and initiatives taken by the subsidiary to extent the charter. Such initiatives can be the development new capabilities/resources or ceasing new market opportunities. Host
country factors, as the third aspect, include the strategic importance of the country, the relative cost of factor inputs and the dynamism of local environment. These factors are also summarized as ‘local environment determinism’ and refer to local market conditions (including customers, competitors, suppliers as well as government agencies) posing opportunities and constrains for the subsidiary’s role development. Birkinshaw and Hood (1998) see these three factor complexes as interacting in defining a subsidiary’s role at any given point in time.

Irrespective of different subsidiary role definitions one can easily imagine that the contextual constitution of a subsidiary, its hybridization profile (how-question) is crucially impacted by role defining factors (why-question). The latter include: parent company factors, such as task assignments, the degree of integration, interdependence and centrality in the MNE network etc.; the nature of the host context, such as the degree of local environmental complexity, specificity and dynamism, strategic importance of the host country, supply and demand market conditions in the host country; and subsidiary factors, such as the nature a subsidiary’s capabilities and resources, its entrepreneurship etc. After all, these conditions strongly influence transfer pressures from the parent or pressures from the local/host context to adopt certain organizational forms and practices. We can imagine that the lower the degree of subsidiary integration, the more unique its task assignment, the higher its resource and capability endowment, and the more important and specific the local/host market environment, the less likely a subsidiary will receive large scale transfers and contextual influences from the parent or other sites in the MNE and the more likely the hybridization will reflect a local solution. Moreover, the different task profile of different subsidiaries may call for adaptations if certain organizational forms and practices optimized for one task environment (e.g. high production volume, high labor cost market conditions) are transferred to another (low volume, low labor cost market conditions). What is more, the less a certain function or task is unique to or dependent on subsidiaries’ specific task environments, the subsidiaries’ local input/output market conditions, the more likely these functions will be contextually constituted by global solutions. Without being able to explore this idea further at this point, the basic rationale is that if we wish to understand how subsidiaries are contextually constituted – based on different contextual pressures and transfers as well as why transferred contents may need to be adapted – we cannot look at institutional contexts only but also need to consider different MNE strategies and different strategic roles of subsidiaries. We need to take into account the roles of subsidiaries, defined by the specific tasks profiles and markets they respond and their resources and capabilities. For it is the strategic distance between subsidiaries with regard to their roles that crucially impacts transfer propensities and possibilities between them as well as the needs for adaptations of transfers.
KNOWLEDGE FLOWS IN THE TRANSNATIONAL CORPORATION

The last body of approaches from IB literature reviewed is the Knowledge Flow strand. In contrast to the other IB strands discussed, this body of research comes closest to dealing with the how- and why-question of organizational hybridization because is intimately concerned with transfer processes in MNEs. Starting from the assumption that the creation, diffusion and adoption of innovations is the single most important strategic challenge to MNEs (e.g. Bartlett and Ghoshal, 1998), this body of research focuses on the enabling and constraining conditions of knowledge flows in MNEs. This body of research has mainly conceptualized MNEs as ‘differentiated networks’ (Doz and Prahalad, 1991; Nohria and Ghoshal, 1997) and is looking at the subsidiary as the main level of analysis. Largely kicked off by the work of Gupta and Govindarajan (2000) the field of International Business has recently seen an enormous upsurge in publications on knowledge processes in MNEs. These contributions for the most part investigate how complex organizational characteristics of MNEs, the characteristics of the knowledge transferred, and the knowledge-related characteristics of sending and receiving subunits, impact knowledge flows in MNEs. With regard to theoretical roots, the knowledge flow literature draws strongly on the Environment Strategy Structure paradigm. In addition, it draws on a broader scope of theories and approaches, including the diffusion of innovation literature (Rogers, 2003), organizational learning perspectives (e.g. Cohen and Levinthal, 1990), Polanyi’s (1962) seminal contribution on different types of knowledge as well as the resource based views of the firm (Penrose, 1959; Barney, 1991). But let us specify what this work has to say about the how- and the why-question. With regard to the how-question, the knowledge flow studies measure, for the most part, knowledge flows or successful knowledge adoption by either patent citations (Almeida and Phene, 2004; Singh, 2004; Yamin and Otto, 2004), product introductions (Tsai, 2001) or alternatively by the presence of predefined kinds of knowledge (Gupta and Govindarajan, 2000; Hansen, 2002; Schulz, 2003). The main interest is the successful diffusion, adoption or application of pre-defined knowledge in subsidiaries. However, there is hardly any concern for potential transformations or alternations resulting from knowledge flows (Becker-Ritterspach, 2006). There is little concern for hybrid organizational outcomes as the transfer outcome perspectives are largely dichotomous, i.e. between successful and failed transfer. On the why-question, in turn, the Knowledge Flow literature focuses mainly on firm level factors, either at the subsidiary or at the MNE level. A cursory review of recent publications in the MNE Knowledge Flow literature shows that frequently cited factors impacting outcomes of knowledge processes in MNEs mainly include:

1.) The characteristics of the sender unit – such as motivation and knowledge stock (Szulanski, 1996; Foss and Pedersen, 2002; Gupta and Govindarajan, 2000);
2.) The characteristics of the receiving unit – most notably its motivational conditions and ‘absorptive capacity’ (Szulanski, 1996; Foss and Pedersen, 2002; Gupta and Govindarajan, 2000; Minbaeva et al., 2002; Tsai, 2001);

3.) The characteristics of intra-organizational or relations context in the MNE – based on structural configurations as well as coordination- and control mechanisms (Szulanski, 1996; Almeida and Phene, 2004; Björkman et al., 2004; Foss and Pedersen 2002; Gupta and Govindarajan, 2000; Hansen, 1999, 2002; Hansen and Lovas, 2004; Teigland et al., 2001; Tsai, 2001);

4.) The characteristics of the transferred knowledge (Szulanski, 1996; Foss and Pedersen 2002; Hakanson and Nobel, 2000; Hansen, 1999, 2002; Kotabe et al., 2003; Schulz, 2003) – frequently based on the classical distinction between tacit and explicit knowledge going back to Polanyi (1962);

5.) The characteristics of a unit’s business and technological environment as well as external/local network relations (Almeida and Phene, 2004; Forsgren et al., 1999; Foss and Pedersen, 2002; Frost, 2001; Mudambi, 2002; Pearce and Papanastassiou, 1999; Kotabe et al., 2003; Yamin and Otto, 2004).

One of the most frequently cited studies within the Knowledge Flow literature is Gupta and Govindarajan’s (2000) study Knowledge Flows within Multinational Corporations. Based on the network concept of the MNE, the authors take a “nodal (i.e. subsidiary) level of analysis” (Gupta and Govindarajan, 2000: 473) and predict positive associations between “knowledge outflows” and sender subsidiary characteristics such as “motivational disposition to share knowledge of the source unit”, the kind of the sender subsidiaries knowledge, i.e. the “value of source unit’s knowledge stocks”, and in addition to that the “existence and richness of transmission channels”; and conversely positive associations between “knowledge inflows” and receiver subsidiary characteristics such as “motivational disposition to acquire knowledge, and the capacity to absorb incoming knowledge” plus again the “richness of transmission channels”. In their large scale study on 374 subsidiaries Gupta and Govindarajan (2000) find their predictions largely confirmed.

Now, while some studies in the Knowledge Flow literature touch on external environmental factors such as technological richness and diversity in the host country, there is practically no attention to the question how different institutional contexts in home, host, third countries or beyond impact knowledge flows and their outcomes. The vast majority of these studies is highly inward looking, firm centered, and focuses: on the configuration of the MNE, specific knowledge related characteristics of sending and receiving subsidiaries, the character of the knowledge, and the relations between different units as well as how these relations are governed. Bhagat et al.’s (2002) study Cultural Variations in the Cross-border Transfer of Organisational Knowledge is a notable exception in this regard. For it looks at the impact of cultural contexts, i.e. cultural distance, on the effectiveness of knowledge
flows across borders. Curiously, the more recent Knowledge Flow literature does not pay much attention to the question how different internationalization strategies and knowledge flows are related. This can be attributed to the condition that most of these contributions are postulating MNEs to be ‘differentiated networks’, featuring a ‘transnational strategy’.

**CONCLUSION**

IB literature allows us to relate the question how and why subsidiaries are differently constituted to strategic and structural conditions in the MNE. The strong focus on the MNE as a firm, its strategies and structural configurations, and its increasing differentiation in terms of roles suggest that whether and what is being transferred and whether and how the transference needs to be adapted is strongly dependent on firm and task specific conditions within the MNE. The IB literature can be read to suggest that we not only have to take note of *Varieties of Capitalism* or varieties of institutional contexts but also of the varieties of firms and strategic contexts. IB literature tries to explain contextual constitution of MNEs with specific external and internal contingencies. External contingencies, although generally weakly theorized, mainly involve market conditions, i.e. the nature of input/supply factors (e.g. availability, quality, and cost) and the nature of output/demand factors (e.g. nationally differentiated vs. globally unified demand conditions). Internal contingencies comprise different task profiles and functions as well as linkages between different organizational features. While different market conditions and internal contingencies lie at the centre of why MNEs are differently constituted (i.e. local or global) there is practically no attention to the institutional contextual constitution of MNEs and their subsidiaries. Moreover, apart from simple dichotomies between transfer success and failure or global/parent vs. local solutions, there is little concern for the emergence of mixed or hybrid organizational forms and practices.

**SELECTED CONTRIBUTIONS: SZULANSKI AND BEECHLER, BIRD AND TAYLOR**

Szulanski (1996) is discussed here because much of the MNE Knowledge Flow literature is strongly based on the rationale of his work and because he is exceptionally detailed in mapping the full sequence of transfer processes. While not referring explicitly to MNEs, Szulanski’s work represents ideal typically core ideas present in much of the transfer of knowledge stream the IB literature. Szulanski focuses on major barriers to the transfer of best practice within the firm. Practices are defined as “the organization’s routine use of knowledge” often having “a tacit component, embedded partly in individual skills and partly in collaborative social arrangements” (Szulanski, 1996: 28). Szulanski deliberately uses the term ‘transfer’ instead of diffusion to underline that “the movement of knowledge within the organization is a distinct experience, not a gradual process of dissemination, and depends on the characteristics of everyone involved (Szulanski, 1996)”. With regard to the
Szulanski’s work is more explicit in suggesting that adaptation or changes to the transference may occur in a new organizational context. Let us turn here to the *why*-question: Szulanski conceptualizes the transfer of best practices as a ‘dyadic relationship’ between a sending and receiving unit. According to Szulanski (1996), transfer processes are constituted by different stages or phases including: initiation, implementation, ramp up and integration. The initiation stage comprises all events related to the transfer decision. According to Szulanski, the precondition for a transfer is that a problem/need and a solution to that problem/need exist within an organization. He stresses, however, that this sequence may also be the other way round. The implementation stage is characterized by resource flows between the recipient and the source of transfer. In this phase:

>*Transfer specific social ties between the source and the recipient are established and the transferred practice is often adapted to suit anticipated needs of the recipient, to pre-empt problems experienced in a previous transfer of the same practice, or to help make the introduction of knowledge less threatening to the recipient.* (Szulanski, 1996: 29)

In the ramp-up or adaptation phase, the recipient starts using the knowledge that has been transferred. In the ramp-up phase problems are identified and *adaptations made* that lead to a gradual performance improvement. The integration or institutionalization phase is all about the establishment of a routine use of the transferred knowledge. According to Szulanski:

>*As time passes, a shared history of jointly utilizing the transferred knowledge is built up in the recipient, actions and actors become typified, and types of actions are associated with types of actors. These shared meanings and behaviours facilitate co-ordination of the activities, making behaviours understandable, predictable (March and Simon, 1958; Nelson and Winter, 1982; Tolbert, 1987) and stable (Berger and Luckmann, 1967). In this way, new practices become institutionalized.* (Szulanski, 1996: 29)

The described transfer process is by no means always smooth but rather beset with transfer barriers. In this context, Szulanski introduces the metaphor of ‘stickiness’, connoting the difficulty of transferring knowledge within an organization. He stresses that transfer related problems of stickiness vary with the stage of transfer. Szulanski (1996) identifies four principle factors impacting the difficulty of knowledge transfer. They include: the characteristics of the knowledge transferred, the characteristics of the source of knowledge, the characteristics of the recipient knowledge, and the characteristics of the context. With regard to the *characteristics of the knowledge* transferred Szulanski stresses the degree of the knowl-
edge’s causal ambiguity and unprovenness. Causal ambiguity refers to the possibility that the different component of knowledge and their interactions is not entirely understood. Such problems could stem from the tacit components of knowledge or the “idiosyncratic features of the new context in which knowledge is put to use” (Szulanski, 1996: 31). Unprovenness refers to the question if there is a “proven record of past usefulness” related to the transfer. If such a record doesn’t exist, it is more difficult to “induce potential recipients to engage in the transfer (Rogers, 2003) and to legitimize controversial integration efforts” (Szulanski, 1996: 31). Transfer barriers that refer to the characteristics of the source of knowledge mainly are a lack of motivation and a lack of perceived reliability of the transfer source. Lack of transfer motivation from the source’s side may stem from fears of knowledge drain or uncompensated costs of transfer efforts. Additionally, if the potential recipient does not rate the transfer source and its knowledge as reliable and trustworthy it will be difficult to facilitate the transfer. Concerning transfer difficulties related to the characteristics of the recipient knowledge Szulanski looks at the lack of motivation, lack of absorptive capacity, and lack of retentive capacity in the receiving unit. While the lack of motivation speaks for itself, lack of absorptive capacity and lack of retentive capacity may be further detailed. With respect to absorptive capacity, Szulanski (1996) draws on Cohen and Levinthal (1990) and sees it as a function of existing knowledge stocks, manifested in abilities to “value, assimilate and apply new knowledge successfully to commercial ends” (Szulanski, 1996: 31). Retentive capacity refers to the ability of the recipient to retain the knowledge transferred. It is essentially the recipient’s ability to institutionalize the knowledge received. Finally, there are transfer barriers stemming from the organizational context. Here, Szulanski (1996: 32) refers to “formal structure and systems, sources of coordination and expertise, and behavior framing attributes of the organizational context [that] affect the number of attempts to transfer knowledge and the outcome of those attempts”. Moreover, the organizational context also refers to the nature of the relationship between the sending and receiving unit. If the relationship is ‘arduous’ based on difficult communication and lacking ‘intimacy’ between the sender and receives transfer becomes potentially more difficult. Testing his model, Szulanski finds that:

Contrary to conventional wisdom, this blames motivational factors almost exclusively for internal stickiness, the findings suggest that knowledge related barriers – recipient’s lack of absorptive capacity, causal ambiguity, and the arduousness of the relationship between source and recipient are most important impediments to knowledge transfer within the firm (Szulanski, 1996:37).

A main weakness in Szulanski’s (1996) work is that – like most of the Knowledge Flow literature – it focuses on the organizational factors or contexts but leaves the relevance of institutional or wider societal contexts for such processes unexplored.
Beechler, Bird and Taylor’s (1998) work Organizational Learning in Japanese MNCs: Four Affiliate Archetypes as the last selected contribution is discussed here because it can be grouped into the IB literature with its focus on different affiliation types and is, at the same time, exceptional because it explicitly focuses on questions of different contextual constitutions of subsidiaries, i.e. questions of their hybridization profile. Beechler et al. (1998) build on the idea that subsidiaries face dual contextual pressures from the parent and the local/host context (c.f. Rosenzweig and Singh, 1991). Their main interest is the ability of MNEs to learn in and from their overseas affiliates. Their basic argument is that:

As organizations expand overseas, they must, by necessity, establish new systems for managing that operation. These events present an occasion for organizational learning. (Beechler et al., 1998: 333)

Beechler et al. (1998) link such learning opportunities to different affiliate types or models. However, while Beechler et al. (1998) are mainly interested in the learning link, their work has important implications for how and why these different affiliate types – or concretely their management systems – are differently contextually constituted. As this work is interested in the how and why of different hybridization profiles in subsidiaries, the following discussion focuses on only those aspects. Concerning the how-question Beechler et al. (1998) distinguish four types of affiliates: the exportive, the closed hybrid, the adaptive and the open hybrid. Beechler et al.’s work (1998) suggests that the exportive model or affiliate essentially mirrors a parent template (the foreign parent context) and that the adaptive model mainly mirrors a local template (i.e. the local/host context). In contrast, the closed and open hybrid involves major adaptations. However, while the closed hybrid is likely to reflect the parent context, the open hybrid is most likely to reflect hybrid or mixed – local as well as parent organizational – solutions.

Now, what does the work of Beechler et al. (1998) suggests with regard to explaining such outcomes? The work implies that there are: different transfer scenarios, different misfit scenarios, and different adaptation modes in the case of misfit. First, the authors suggest that foreign (Japanese) affiliates are either built on a local or a parent template (c.f. Abo, et al. 1994). Second, their work suggests that these templates can be more or less fitting with the local environment. And third, their work suggests that this misfit can be overcome by either adapting the template or by selecting or buffering the firm from the local context. Thus, Beechler et al. (1998) see firms as capable to achieve fit through manipulation of their environments. Based on these different options and situations, Beechler et al. (1998) derive different MNE affiliate types (see table 8). In detail: The exportive model outcome describes a successful transfer of a parent template to a permissive local context, where no adaptations are required. The closed hybrid model describes the transfer of a parent template that does not fit the host context. However, instead of changing the template the firm
seeks to shield the firm from the host context. The authors call this buffering and give the example of a careful workforce selection. In the adaptive model there is no transfer effort of a parent template. Instead, the subsidiary set-up either is based on a local template (with minor adjustments to parent requirements) or customized to fit the local environment. The open hybrid outcome either is based on a parent or a local template. Difficulties or misfits between the subsidiary set-up and the local context are the starting point in this scenario. As problems of misfit are potentially attributed to both the existing set-up or template and the local context, adaptations may involve the adaptation of the local context as well as adaptations of the existing template of the site. It involves “[u]sing a customised template, modified from the parent and local models, and open to change once they encounter difficulties” (Beechler et al., 1998: 352). In this scenario, customized templates emerge that may differ from typical local templates and parent templates. The model of Beechler et al. (1998) is interesting because it offers a full range of hybridization outcomes and relates these outcomes systematically to different transfer scenarios, contextual (mis)fits, and different re-contextualization modes. We draw on this conceptualization in a refined version in the analytical framework below. It should be finally added that the contribution of Beechler et al. (1998) is quite vague in terms of explicating the cause and nature of contextual misfits. The authors only loosely refer to ‘local environment, culture and needs’.

Table 8: A comparison of four learning cycle models

<table>
<thead>
<tr>
<th></th>
<th>Exportive</th>
<th>Closed hybrid</th>
<th>Adaptive</th>
<th>Open hybrid</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enactment</td>
<td>Parent template</td>
<td>Parent template</td>
<td>Local template</td>
<td>Customized temporary template</td>
</tr>
<tr>
<td>Selection</td>
<td>Minor adjustments</td>
<td>Major adjustments</td>
<td>Minor adjustments</td>
<td>Major adjustments</td>
</tr>
<tr>
<td>Retention</td>
<td>Verification of fit; fine-tuning</td>
<td>Identification of success consistent with self-image</td>
<td>Local success</td>
<td>Cautions success</td>
</tr>
</tbody>
</table>

Source: Beechler et al., 1998: 355

2.4 APPROACHES COMPARED: STRENGTHS AND WEAKNESSES

The discussion above has shown that each body of literature has different contributions to make to the how- and why-question of production system hybridization. However, before we turn to the analytical framework, a summary and comparison of the respective approaches’ strengths and weaknesses is presented.

The different strands of the Japanization literature made important contributions to the how- and why-question of hybridization research. With regard to the how-question, the Lean Production perspective initially largely ignored the possibility of transfer outcomes other
than successful transfer and imitation. Conversely, the Labor Process perspective initially was largely pessimistic about transfer success and stressed the continuation of local patterns. However, even early contributions from both strands admitted that transfer success or failure varies by different dimensions of production systems. More recently both strands adopt or embrace notions of hybrid or mixed outcomes as a result of transfer processes. The work of Abo et al. (1994) has to be seen as a seminal contribution in having sensitized us for such hybrid outcomes. With regard to the why-question there are more marked differences or strengths and weaknesses between the two Japanization strands. While the Lean Production strand initially fails to realize or plays down that contextual differences impact transfer propensities and outcomes, the Labor Process strand emphasizes all along that contextual or rather institutional differences form barriers to transfer. Lean Production contributions, in contrast, only slowly and selectively refer to the relevance of institutional contexts for transfer outcomes. While adaptations to certain institutional conditions are not denied, their relevance as transfer constraints tends to be applied in an ad hoc fashion. Institutional conditions rarely form an integral part of an overall explanatory framework. In short, there is no coherent or elaborate concept for institutional contexts in this stream.

This even has led some to suggest that Lean Production perspectives take on a universalistic approach that “ignores the contextualities of the diffusion process” (Saka, 2003: 37). However, this is not entirely true, particularly not with regard to more recent studies. The Lean Production strand increasingly pays attention to the impact of those contextual differences that are related to sectoral or firm specific task environments and strategic choices. Excepting the work of Smith and Elger (2000), this attention is absent in the Labor Process strand which remains little concerned with the question how task environmental differences and different strategic choices impact hybridization outcomes. Moreover, the Labor Process strand does not pay serious attention to the question whether and how firms can shape their environments, a strength of Lean Production contributions. The latter see internationalizing firms not merely as reactive to new environments but rather as actors able to select, change and create their environments to some extent.

Let us finally look at some common strength and weaknesses of both strands. The Japanization literature has not least been discussed here because it focuses on the hybridization of whole production systems. This is of particular relevance for this research context. Both strands increasingly highlight that firms may differ with regard to their transfer propensity depending on different kinds of contextual conditions. However, both strands of the Japanization literature – probably somewhat more the Labor Process strand – share the weakness that they fail to look more closely how transfers, adaptations, and hybrid outcomes are shaped by particular conditions of the subsidiary embeddedness in the MNE and more generally by MNEs as special kinds of organizations. Both strands draw only little on the Environment Strategy Structure paradigm of the IB literature or on elaborate institutional concepts from Institutionalist approaches. The disregard for the IB literature implies that much
of this work suggests that transfers are based on one transfer source (parent company), one transfer template (parent company) and one transfer driver (parent company), rather than seeing subsidiaries embedded in corporate networks, where transfer sources, templates and drivers can be diverse and dispersed. To summarize: While some Japanization contributions address the relevance of institutional differences and others the relevance of task environmental differences and strategic choices, no one approach in this body of literature systematically conceptualizes or empirically explores how hybridization outcomes are impacted by both institutional and task environmental differences and their relation to strategic choices at the subsidiary or corporate level. As regards strategic choices, there is some limited attention to establishment modes and sectoral differences. Strangely, however, this production system focused literature leaves the relationship between different generic product strategies and transfer outcomes largely unexplored.

**Institutionalist approaches** were initially little concerned, albeit for different reasons, with hybrid organizational constitutions or hybrid outcomes as a result of transfers in MNEs. However, when these approaches start to look at MNEs as special kinds or organizations this changes. American Institutionalist become increasingly interested in transfer processes in MNEs, different transfer outcomes and the question how MNEs and their subsidiaries are contextually constituted, given their complex institutional embeddedness. As we saw American Institutionalist look at different degrees of adoption of organizational practices and are concerned with the question to what extent the organizational elements of subsidiaries reflect the foreign parent or local/host context. However, while American Institutionalist come to admit that we cannot expect simple diffusion and imitation, if organizational practices are transferred from one institutional context to another, there still is little effort to identify new or hybrid outcomes. Much of the work offers hardly more than dichotomies typologies for outcomes. Local units in MNEs either reflect parent company forms/origins or local firm forms/origins. Mixes are seen as different degrees of implementation/internalization of home/corporate vs. host/local organizational forms. With the exception of Westney’s work the emergence of innovative or hybrid solutions is not much considered or empirically described. Such neglect is problematic in the light of the fact that New Institutionalist (Strang and Meyer, 1993) also emphasize the abstract and general nature diffused forms and practices. If it is true, however, that diffused forms and practices tend to be rather abstract in nature, then there is an inbuilt propensity for their ever new manifestation in ever new contexts (Tempel and Walgenbach, 2003). European Institutionalist are also critical about propositions of an easy transfer of organizational forms across borders. They increasingly try to understand how we can capture the contextual constitution of MNEs and their subsidiaries. While it is difficult to make generalizing statements about this divers body of literature, it is fair to say, that most proponents of in this strand either acknowledge the possibility of the emergence of hybrid forms (as a
result of transfer and adaptation) or explicitly describe hybrid or compromise solutions. However, although European Institutionalists start to capture hybrid solutions, there is little effort to systematically typify different transfer/hybridization outcomes or different kinds of contextual constitution. A notable exception is Boyer’s (1998) framework which will be applied in the framework below. Let us turn to the strengths and weaknesses with regard to the why-question in Institutionalist approaches. Although European and American Institutionalists differ markedly in their definitions of institutions both approaches convincingly show that institutional context and differences across countries and different subsidiaries have a strong impact on transfer outcomes and the contextual constitution of subsidiaries. The basic rationale in both approaches is that organizational forms and practices emerge out of particular institutional contextual conditions. If we seek to transfer them across institutional contexts their successful transfer depends on the extent to which the receiving context differs from the original institutional context. However, there are some important differences here. European Institutionalists are particularly strong in understanding the interplay of different institutional levels – ranging from the actors level in organization, the regional level, national level and supranational or transnational level – on transfer success. Such a multi-level analysis finds only little attention in the work of American Institutionalist. American Institutionalists, on their part, emphasize different levels of institutional influence which have not found much attention by European Institutionalist. The strength is here the focus on the dual embeddedness of subsidiaries in a parent institutional context and a national institutional context. This focus reflects American Institutionalism’s proximity to the Integration-Responsiveness framework borrowed from the field of IB. American Institutionalism tends to refer more to IB literature and generally adopts a stronger focus on the relevance of MNEs’ internal organizational context for transfer outcomes. This also implies that American Institutionalism develops a more complex understandings how strategic choices and relational contexts in MNEs impact transfer outcomes. While some European Institutionalists suggest the relevance of strategic choices (notably Lane, 2000) for the contextual constitution of MNEs, the approaches are generally weak in addressing relationships between strategic choices and relational conditions in MNEs, on the one hand, and transfers in MNEs and the contextual constitution of subsidiaries, on the other. Although, for example in Sharpe’s (1997) and Saka’s (2003) work, some organization- or firm-level factors are looked at, the European approaches generally remain weak with regard to seeing transfer processes in MNEs impacted by strategic choices. All in all, there remains little attention to the enormous body of IB literature which is suggests that different roles of subsidiaries and their embeddedness in corporate networks may impact transfer propensities and outcomes. What is more, where differences in strategic choices are considered (e.g. Whitley, 2001), they are largely derived from the national institutional origins or used (i.e. different establishment modes) to compare the impact of different local institutional environments (e.g. Sharpe, 1997; Saka, 2003). Particularly Whitley’s (2001) work ignores that firms from the
same institutional background and industry may exhibit substantially different internationalization strategies. Finally, both approaches share a fundamental weakness. Neither the European nor the American Institutionalism considers or systematically explores the relevance of different task environmental contexts for transfer propensities and hybridization outcomes in MNEs’ subsidiaries. There is little attention to the question how different task environments or roles of subsidiaries, as a result of different internationalization strategies and the global divisions of labor, impact hybridization profiles. There is in both Institutionalist strands little systematic reasoning how different transfer propensities/scenarios and different adaptation modes affect hybridization outcomes in production systems. This neglect is probably related to the fact that Institutionalist are – compared to the mainstream Japanization literature – generally not interested in the transfer or constitution of whole production systems and generally not strongly consider the ability of firms to shape their environments (c.f. Westney, 1993; Saka, 2003). To summarize, Institutionalist approaches are strong in showing how institutional differences impact the outcomes of transfers across institutional contexts. On the other hand, they are utterly weak in considering the impact of different task environments on organizational hybridization in general and production system hybridization in particular. While there is some sporadic attention to strategic choices at the subsidiary level and even the wider corporate level, there is no systematic concern how different entry modes and generic strategies impact the hybridization of production systems in MNEs.

The International Business perspectives is least concerned with identifying different hybrid outcomes as a result of cross-contextual transfer of organizational forms and practices. However, while the Integration-Responsiveness framework, the Strategy-Structure strand as well as the Subsidiary Role strand do not address transfer processes and outcomes in any detail, these approaches suggest certain outcomes with regard to the contextual constitution of subsidiaries. These outcomes can be seen to vary, for the most part, between global/parent and local/host country solutions. For example, while not explicitly referred to, the Integration-Responsiveness perspective can be read to give rise to organizational forms that reflect either parent/global or host/local context (This is in fact what the Institutionalist approach on MNEs essentially does). Moreover, the fact that the need for integration and local responsiveness may vary by function or task, suggests complex mixes of local and global solutions in subsidiary production systems depending on the functional area or the kind of task. Similarly, the Strategy-Structure strand can be read to suggest that the contextual constitution of subsidiaries varies between parent/global or host/local context. However, this only partly holds true with regard to MNEs and subsidiaries that are described as ‘transnational solutions’ or ‘differentiated networks’. Here the work implies that the simple dichotomy between parent/global and local/host does not apply any longer to their contextual constitution because relations and knowledge flows become interdependent and com-
plex, allowing the emergence of organizational practices and forms – hybrids – that reflect many different contexts. While the more recent IB literature – particularly the Subsidiary Role and Knowledge Flow strands – suggests itself for an attention to the emergence of hybrid organizational forms, there are no conceptualizations or studies in this regard. Curiously, while transfer processes are at the heart of the Knowledge Flow strand, there is little, if any, fine-grained description of hybrid or even novel outcomes (Becker-Ritterspach, 2006). Instead, we find a bias towards dichotomous outcome perspectives. Let us turn to the strength and weakness with regard to the *why-question*. The strength of IB literature for this research context is that it implies strong relations between different business contexts, task environmental conditions, strategies and the contextual constitution/hybridization profile of subsidiaries. The Integration-Responsiveness framework sensitizes us for the fact that transfer attempts and hybridization profiles of subsidiaries (e.g. local vs. global) may depend on or vary by business, function, and even by task within a function. For example, with regard to the production function of a subsidiary some organizational aspects of a production system may be subject to global design/standard procedures (e.g. quality assurance), while other aspects may need to respond to the particular local production program in line with local consumer demands. The MNE Strategy-Structure strand suggests, in turn, that transfer attempts and hybridization outcomes may depend on or vary with the internationalization strategy of the MNE. While a multinational strategy suggests that subsidiaries largely follow local organizational forms and practices, the global strategy suggests the opposite. The increasing views of the MNE as a ‘transnational’ or ‘differentiated network’ and along with that the focus on different subsidiary roles is probably the most relevant for this work’s research context. The ‘differentiated network’ approach suggests that transfers of organizational forms and practices flow in MNEs in many directions and that subsidiaries may receive transfers from many poles. Moreover, the Subsidiary Role strand suggests that different organizational roles and the increasing division of labor in MNEs render it increasingly difficult to develop and transfer the same template to many sites. For the approach implies that what is transferred or transferable to a subsidiary is strongly dependent on the subsidiary’s local task and business environment as well as its local resource and capability endowment. Thus, the Subsidiary Role strand sensitizes us that what is transferred to a subsidiary unit may depend on the internal strategic/task environment such as the production program, available resources and capabilities, functions covered by the site as well as the importance and nature of the markets of input and output factors where the site is located. In contrast to the other strands in the IB literature, the Knowledge Flow strand looks closest at conditions in MNEs that impact transfer processes and outcomes. The major interest is to understand barriers and enabling conditions for knowledge generation and dissemination in MNEs. Regarding these enabling and constraining conditions, the focus is on conditions within the MNE and on the nature of the knowledge. Curiously, this strand of literature not only neglects the impact of different institutional or cultural environments but also fails to
focus on the effect of different internationalization strategies on transfer outcomes. The main reason for this neglect is that the Knowledge Flow research is generally based on the assumption that all MNEs are ‘differentiated networks’ following a ‘transnational strategy’. To summarize: The IB literature suggests that contextual constitution of MNEs and its subsidiaries is related to external and internal contingencies of the MNE. Overall, the strength of the IB literature rests with its elaborate inward focus on MNEs which comes at the costs of not comprehensively theorizing external-environment relations. We learn little about how environmental pressures are translated into strategies and strategies into structures or processes. For the most part, the focus is on configuration related aspects amounting to a fairly schematic approach on the relations between different organizational characteristics. While different market conditions, task environmental conditions and strategic roles lie at the centre of why MNEs are differently contextually constituted, there is practically no attention to the institutional contextual constitution of MNEs and their subsidiaries. Finally, IB literature is generally not concerned with production systems, their hybridization profiles and how such profiles are related to different generic product strategies and entry modes. Excepting the work of Beechler et al. (1998), there is also no systematic attention to possible transfer misfits and different adaptation modes when and where misfit occurs.

**CONCLUSION**

The foregoing discussion of different approaches shows (see table 9 for an overview) that no single body of literature discussed, systematically addresses the impact of both strategic and institutional contextual difference on production system hybridization. More importantly, while the importance of strategic choices is not entirely ignored, there is hardly any work that thoroughly theorizes and empirically researches the question how foreign parent strategic choices on the corporate and subsidiary level interact with transfer scenarios, contextual (mis)fits/recontextualization pressures and recontextualization modes to influence hybridization outcomes/profiles of production systems in MNEs. In the following chapter an analytical framework is developed that tries to spell out such relations.
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<tr>
<th>Approach</th>
<th>How</th>
<th>Why</th>
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<td>Contextual distance</td>
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<tr>
<td>Japanization</td>
<td>Institutional distance</td>
<td>Strategic distance</td>
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<tr>
<td>Lean Production</td>
<td>From dichotomous to increasingly complex</td>
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</tr>
<tr>
<td>Labor Process</td>
<td>From dichotomous to increasingly complex</td>
<td>Somewhat considered</td>
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<td><strong>Institutionalist</strong></td>
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<td>American Institutionalism</td>
<td>Largely dichotomous</td>
<td>Strongly considered</td>
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<td>European Institutionalism</td>
<td>Largely complex descriptive</td>
<td>Strongly considered</td>
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<td><strong>International Business</strong></td>
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<tr>
<td>Integration-Responsiveness</td>
<td>Not explicitly considered but suggests dichotomous outcomes</td>
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<td>Strategy Structure</td>
<td>Not explicitly considered but allows for complex outcomes</td>
<td>Weakly considered</td>
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<tr>
<td>Subsidiary Role</td>
<td>Not explicitly considered but allows for complex outcomes</td>
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<tr>
<td>Knowledge Flow</td>
<td>Mainly dichotomous outcomes</td>
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CHAPTER 3: THE ANALYTICAL FRAMEWORK

3.1 INTRODUCTION

This chapter develops a framework to guide the analysis of how and why the hybridization profiles of four automobile subsidiaries in India differ from or resemble each other. With regard to the how-question the framework adopts and adapts Boyer’s (1998) concept of different hybridization outcomes. These comprise: localization, hybridization, imitation and customization/novelty. Regarding the question of why different cases differ from one another this analytical framework suggests, as a starting point, a fourfold embeddedness of the subsidiary’s production system under research. It is argued that subsidiaries are simultaneously embedded in a host country and parent company context (Rosenzweig and Singh, 1991) as well as in a strategic and institutional context. Starting from here it is assumed that hybridization outcomes rest on three interlinked steps that can vary (Beechler et al., 1998). These comprise: different transfer scenarios, different misfits/recontextualization pressures and different recontextualization modes (Beechler et al., 1998; Westney, 1987). Based on the research gaps identified above, it is argued that hardly any contribution has so far looked at the influence of both strategic and institutional fits/misfits on hybridization. Moreover, hardly any work has systematically looked at the question of how foreign parent strategic choices on the corporate and subsidiary level interact with transfer scenarios, contextual fits/misfits and recontextualization modes to influence hybridization outcomes. It is for this reason that four firms are selected denoting polar opposites with regard to their generic strategies and entry modes. How strategic choices as well as subsidiary specific strategic and institutional contexts play together to form hybrid outcomes is left open to exploration. Nonetheless, this chapter identifies broad dimensions of influence on hybridization outcomes.

This chapter is structured as follows: In a first step, a working definition of the unit of analysis – an automobile production system – is proposed. The hybridization outcome across the defined dimensions of the production system are the basis to determine the hybridization profile. Secondly, a typology is introduced to capture different possible hybridization outcomes (how-question). Finally, major factors that influence the hybridization outcomes are proposed (why-question).
3.2 UNIT OF ANALYSIS

The unit of analysis of this research project is the production systems of four automobile subsidiaries in India. The core goal is to identify, compare and explain the hybridization profiles of their production systems. Instead of identifying the hybridization profiles by asking if predefined aspects of a production template or model (e.g. the Japanese) were successfully applied or adapted (e.g. Abo et al., 1994), this project turns the identification of hybridization profiles upside down by asking about the contextual origins of the organizational configuration on functionally predefined dimensions of a production system. In such an approach transfers and adaptations are still relevant for the identification of the profile. However, this approach allows seeing hybridization profiles also as a result of more or less deliberate non-transfer. If, for example, a certain dimension of a production system is not targeted by transfer, it may either be locally constituted or neither locally nor foreign constituted. This perspective stresses the possibility that firms do not always undertake the transfer of clearly defined production templates. Instead, they may be very selective with regard to what they transfer, depending on particular strategic and institutional context conditions of their subsidiaries. The advantage of this approach is that instead of defining some abstract transfer model in advance – as is often the case in the Japanisation literature – that may or may not exist, a more functionalistic stance is taken by defining core dimensions of a production system and by trying to identify, what is transferred from where and what contextual origin a certain production system dimension reflects. However, before we come to understand the different possible outcomes that can establish a hybridization profile of a production system we first need to identify a production system’s core dimensions.

DIMENSIONS OF A PRODUCTION SYSTEM

Defining a production system is no easy task as the question arises how comprehensively or detailed it should be defined. Trist, one of the leading thinkers of the socio-technical approach, stresses that researching a production system as a functioning whole always calls for a consideration of both the social and the technical components of a system (Trist, 1975: 201). In the early works of the socio-technical school the term ‘primary work systems’ takes the centre stage. A primary work system is understood as an operative subsystem of an organization. It centers on a functional task that assures system reproduction through input-output transformations. Most importantly, a primary work system consists of a technical and a social subsystem and the relation between the two is a major field of inquiry (Trist, 1981: 7). By the same token, ‘work organizations’ are not just social systems but social and technical systems “where the substantive factors – the people and the equipment” interact (Trist, 1981: 10). Moreover, the use of the system term is a deliberate choice of what can be called an open system approach (c.f. Trist, 1981:12). The term stresses various kinds of
interdependencies inside the system as well as between the system and its environment. The latter mainly concerns input and output relations between the system and its environment. In its original focus the socio-technical system approach has only organisational subsystems – primary work systems – in mind. Subsequently, however, the idea of socio-technical systems is broadened and applied to organizations as a whole (Emery, 1959; c.f. Sydow, 1985: 27). According to Trist such ‘whole organization systems’ would be:

\[ \text{At one limit [...] plants or equivalent self-standing workplaces. At the other they would be entire corporations or public agencies. They persist by maintaining a steady state with their environment. (Trist, 1981: 11)} \]

While the socio-technical approach is a helpful stepping stone towards a holistic definition of a production system, there is some lack of clarity with regard to its terminology and definitions that render the concept’s operational usefulness problematic. Sydow (1985: 27) shows that even core terms of the approach lack a clear definition. In a comprehensive review of the approach Sydow finds that the key-term ‘social system’ generally refers to the members of an organization – including their entire personality – and the relations of interaction among them. While Trist applies the term to whole work roles of individuals others define the term to comprise a psychological system, mainly referring to attitudes and values. Emery (1959) understands the ‘social system’ as occupational roles, their structure, methods of payment, the supervisory relationship and the work culture etc. Similarly a ‘technical system’s’ definition varies substantially. According to Sydow (1985), early studies limit the use of the term to technology. In later studies other aspects are included (c.f. Sydow, 1985) such as: the level of mechanization/automation, unit operations, the temporal-spatial scale of the production process, the material, the degree of centrality of the various productive operations, the character of the maintenance and supply operations, the immediate physical work setting (Emery, 1959), the information needed (Davis, 1971), the whole transformation process or the totality of requirements organisational members are facing (Susman, 1976).

More recently, Sorge (1993) takes up the notion of a ‘socio-technical work systems’ and redefines them in a more comprehensive manner. According to him, work systems comprise four main components: organization structure, process organization, technical equipment, human competence (Sorge, 1993: 550). The \textit{organization structure} indicates how comprehensive systems are differentiated by function, geographic location, products and markets into subsystems. The \textit{process organization} indicates how inputs of various kind move through the system and are transformed into outputs. The transformative process is based on a specific combination of the technical equipment (tools, machines, aggregates) and the human competence (know how, knowledge, social dispositions, and mentality). According to Sorge, the organization of work, the work organization, together with technical equip-
ment and human qualification form the core of a work system. Sorge (1993) sees organizations such as firms, corporations or even divisions within companies as work systems that are furnished with a particularly high degree of autonomy and demarcation. The social and economic relations – work relations – between such demarcated and autonomous work systems (organizations) are defined by him as ‘inter-organizational relations’. In contrast, the work relations within autonomous work systems are defined as labor relations. According to Sorge (1993), work systems, inter-organisational relations, and labor relations cannot be told neatly apart. For they partly consist of or interpenetrate each other.

The following definition of a ‘production system’ draws on the socio-technical school’s and Sorge’s concept of work systems. Based on this, a production system is defined as a system that manufactures a specific product or a range of products, which constitutes its primary task (e.g. parts, components or finished products such as automobiles as in this research case). The production system comprises an organization structure (i.e. functional units and hierarchical levels) and a process organization. The process organization is constituted by the interplay between a production system’s technical configuration (physical infrastructure of plant, factory layout, aggregates, machines, tools, levels of mechanization, automation and flexibility, temporal-spatial organization of material flows) and human resource profile (skill levels, qualification, attitudes). These together define the work organization. Moreover, in line with Sorge (1993), two crucial relational aspects are looked at that closely interpenetrate and partly constitute a production system. These are: work and labor relations as well as inter-organizational relations (mainly supplier relations) (see figure 2). Work and labor relations appear particularly important to look at because smooth work and labor relations are seen as crucial ingredients – if not a sine qua non – for the functioning of modern production systems, particularly to implement high workforce involvement concepts. For where production models depart from traditional Taylorist modes and rely on the involvement of a polyvalent workforce, excellent work relations take on a facilitating role. The level of inter-organisational relations looked at in this work are pragmatically derived. Based on the selected research focus, the analysis is restricted to those relations that revolve around the primary task, i.e. the core material inputs to the production process. Therefore, the concentration lies on major aspects of supplier relations of the automobile manufacturing sites. This implies both relations that may be under one corporate legal structure and relations that are constituted by legally distinct entities. In short, the center of attention is on the character of internal and external supplier relations. This restricted focus on inter-organizational relations not only is justified on the ground of the research goal but is also based on the view that the success of production systems in the automobile industry is increasingly attributed to the structuring and process organization of supplier relations, i.e. essentially the whole supply chain (Taylor and Brunt, 2001). What is more, the reshaping of the division of labor between final assemblers and suppliers, to the extent of even integrat-
ing suppliers on site for final assembly, blurs the line between an ‘external’ supplier and the core production system itself (i.e. if defined by spatial boundaries) (c.f. Camuffo, 2002). In other words, in the automobile industry the final assembler plays a diminishing role regarding the scale and scope of his contributions to the transformation and value creation (e.g. through modularity and increased outsourcing to suppliers who are operating on or off final assembly sites) of the finished product (Camuffo, 2002). This calls for an inclusion of supplier relations in an overall definition of a production system.

Figure 2: Dimensions of a production system

<table>
<thead>
<tr>
<th>Organization Structure:</th>
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<tr>
<td>Functional differentiation</td>
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<td>Hierarchical differentiation</td>
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<tr>
<th>Process Organization:</th>
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<tr>
<td>Technical configuration</td>
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<td>Human Resource profile</td>
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<tr>
<th>Organizational Relations:</th>
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<tbody>
<tr>
<td>Work and labour relations</td>
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<tr>
<td>Inter-organizational relations</td>
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</tbody>
</table>

3.3 THE HOW-QUESTION: IDENTIFICATION OF DIFFERENT HYBRIDIZATION OUTCOMES

Asking how the contextual constitution of subsidiary production systems differs is about identifying different contextual origins in their configuration. The literature review above offers different concepts, how we can capture a subsidiary’s contextual constitution. As we saw approaches from IB are utterly weak in typifying or describing to what extent organizational forms and practices reflect different contextual origins. For the most part, such typifications are dichotomous and vary between global and local solutions with little explicit consideration where they originate from. The IB literature practically offers no conceptualization to describe hybrid organizational forms. The same holds true for American Institutionalism, with the exception of Westney’s (1993) work. European Institutionalism in contrast, details specific hybrid outcomes but fails, with exception of Boyer’s (1998) work, to develop a systematic typology to capture different kinds of contextual constitution. While the Japanization literature, most notably the work of Abo et al. (1994), started to develop such typifications, it is probably Boyer (1998) who developed the most systematic classifi-
cation to capture the different contextual origins of production systems. We will therefore draw on Boyer’s framework with some minor adaptations. In line with Boyer (1998), we can imagine four ideal-types of how subsidiary production systems and their dimensions can be contextually constituted (see table 10). These ideal types include: imitations, hybridizations, customizations/novelties and localizations. Specifically, a subsidiary or the different dimensions of its production system can:

1.) resemble a transferred foreign parent context organizational-template (imitation),
2.) resemble a local/host context organizational-template (localization),
3.) resemble both a transferred foreign parent context organizational-template and a local/host context organizational-template (hybridization),
4.) resemble neither a transferred foreign parent context organizational-template nor a local/host context organizational-template (novelty/customization).

Table 10: Different hybridization outcomes

<table>
<thead>
<tr>
<th>Contextual origin</th>
<th>Local / host</th>
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<tbody>
<tr>
<td>Foreign parent</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>Hybrid</td>
</tr>
<tr>
<td></td>
<td>No</td>
</tr>
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<td></td>
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</tbody>
</table>

3.4 THE WHY-QUESTION: EXPLANATORY DIMENSIONS

TRANSFER, (MIS)FIT AND RECONTEXTUALIZATION

Drawing on Beechler et al.’s (1998) and Westney’s (1987) work, it is argued in this analytical framework that an understanding of hybridization outcomes rests first of all on the dynamic relation between three crucial factors: The kind of transfer scenario, the kind of (mis)fit/recontextualization pressure and the kind or mode of recontextualization. Let us look at these factors respectively.

TRANSFER SCENARIOS

To explain the different hybridization outcomes it is crucial to understand that there are different starting points that strongly affect them. It is theorized that there are three ideal typical transfer scenarios: A foreign parent template transfer, a host/local template use or neither a foreign parent template transfer nor a local/host template use. The first principle starting point is the transfer of a foreign parent template (e.g. from the home or a 3rd country site). A second principle starting point is the use of a local/host context template (e.g. from the local parent). There is, however, also a third principle starting point defined by the
absence of a foreign parent context template transfer as well as the absence of a local/host context template use. Such an absence of a defined foreign parent and local/host context template does not mean, however, that the local production system does not have to respond to different foreign parent and host/local demands and conditions. A production system template is understood here as a coherent organizational pattern or structure that either exists or is defined as an ideal to configure some or all dimensions of a production system. In contrast to templates, demands are expectations vis-à-vis the local production system that vary much more with regard to their explicitness and coherence in defining a desired configurational state of the production system. Often demands may just involve pressures or expectations to achieve a certain result (e.g. local content rates) rather than defining a coherent organizational pattern or structure to achieve such a result.

**(MIS)FIT/RECONTEXTUALIZATION PRESSURE**

The different transfer scenarios can face different kinds of fits or misfits which influence the hybridization outcomes. In the first transfer scenario, the foreign parent template may either fit or misfit the local/host context conditions and demands. Depending on the misfit, the transferred template will be subject to pressures for recontextualization. Conversely, in the second transfer scenario, the local/host context template can either fit or misfit the foreign parent context conditions and demands. Again depending on the misfit, the local/host template will be subject to pressures for recontextualization. In the third transfer (or rather non-transfer) scenario there neither is a foreign parent context template transfer nor a local/host context template use. However, even in this scenario we can picture fits and misfit (see figure 3) between the local/host-context conditions and demands and foreign parent-context conditions and demands. In this scenario, the local production system possibly faces (more or less contradictory) contextualization pressures from the foreign parent and/or the local/host context in the form of demands and conditions that need to be accommodated.
The final step in understanding different hybridization outcomes involves asking how different misfits and corresponding (re)contextualization pressures are resolved or responded to.

Let us start again with the first transfer scenario. If the foreign parent template fits well with local/host context conditions and demands and there is basically no recontextualization pressure. Therefore, we can expect a smooth transfer and imitation of the foreign parent template. However, if there is a foreign template misfit and a corresponding recontextualization pressure, there are three modes of recontextualization imaginable. The first mode is...
to adapt the foreign template to the local/host context. That is, some or all aspects of the foreign parent template are adapted – selected/deselected, changed or created/added – to fit the local/host context conditions and demands. Here we can imagine outcomes ranging from hybrid to local solutions (possibly even novel) depending on how much the foreign parent template is adapted to the local/host context. The second mode of recontextualization involves overcoming the foreign parent template’s misfit by adapting – selecting/deselecting, changing or creating – the host/local context to the foreign parent template. Depending on the extent to which the host/local context demands and conditions are adapted, we can imagine outcomes ranging from hybrid to imitation. The third form involves both an adaptation of the foreign parent template as well as of the host/local context demands and conditions with hybridization as the most likely outcome here.

Starting from the second transfer scenario there is a similar range of modes of recontextualization thinkable. On the one hand, there may be a good fit between the local/host template and foreign parent context demands and conditions. If there is such a fit, the local/host context template is not likely to face much recontextualization pressure and we are likely to see a local outcome as a consequence. Things are different, on the other hand, if there is misfit and recontextualization pressure. The first mode of recontextualization involves an adaptation – selection/deselection, change, and creation/addition – of the local/host context template to fit the foreign parent context demands and conditions (or maybe even the requirements of a parent template). Here we can imagine results ranging from hybrid (possibly even novel) to almost full imitation as an outcome – where not much is left of the local/host context template – depending on its adaptation to foreign parent demands. Conversely, the second form involves an adaptation – selection/deselection, change, creation/addition – of parent context conditions and demands. In this case, we can imagine results ranging from hybrid to a continuation of local solutions – where not much is changed of the local/host context template – depending on how much foreign parent context demands and conditions are being adapted. The third form of recontextualization is again a combination of the first two with the most likely result being hybrid outcomes.

Finally, we can imagine a third transfer scenario. In this scenario neither a foreign parent context template is transferred nor is a host context template being used. There may be, however, different contextual conditions and demands to be met. To the extent that foreign parent context demands fit local/host context conditions and demands and vice versa, there is not any recontextualization of either required. The local production systems may be simply created, i.e. contextualized, to meet these demands and conditions. However, it is not easy to determine ex ante, if these organizational set-ups will resemble a typical foreign parent context (imitation) template, a host/local context (localization) template, both or none. Some aspects may be created in line with foreign parent demands and conditions in the absence of contradictory local/host context demands, which can – but does not have to – mean that they resemble imitated solutions. They may as well be just customized to foreign
parent context demands and conditions not reflecting any particular foreign parent template or pattern. In turn, some aspects may be created in line with local/host context demands and conditions in the absence of contradictory foreign parent context demands, which can – but does not have to – mean that they resemble local solutions. They may as well be just customized to local/host context demands and conditions not reflecting any typical host context template. Things become even more unpredictable under the scenario where foreign parent context demands misfit/contradict local/host context conditions and demands and vice versa. However, again two principle modes of recontextualization and their combination are possible. In line with this reasoning local/host context conditions and demands may be adapted to foreign parent context demands as much as the foreign parent context demands may be adapted to local/host context conditions and demands. In the first case, we would be more likely to see possible variations in organizational set-ups between imitated to hybrid or customized solutions and in the second between local to hybrid or customized. In turn, foreign parent conditions and demands may be adapted to host/local context demands as much as the local/host context demands may be adapted to foreign parent context conditions and demands. The former involving for the local subsidiary likely outcomes between local to hybrid or customized and in the latter between imitated to hybrid or customized. It is important to note that customized solutions are in all cases possible where demands are involved. Organizations following the demands of a particular context may develop organizational forms that come to reflect a typical template of that context. It is also possible, however, that something customized/novel comes about as demands may just define certain goals without defining the organizational means to achieve them (see table 11 for an overview). Novel solutions are probably most likely when an organizational set-up responds to contradictory contextual demands and conditions at the same time (c.f. Westney, 1993).
Table 11: Different transfer scenarios, misfits, recontextualization modes and outcomes

<table>
<thead>
<tr>
<th>Is there a foreign parent template?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
</tr>
<tr>
<td>Is the foreign template transferred?</td>
</tr>
<tr>
<td>Yes</td>
</tr>
</tbody>
</table>

Does the foreign parent template fit the host/local strategic/institutional context conditions and demands?

<table>
<thead>
<tr>
<th>Yes (fit)</th>
<th>No (misfit)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreign parent template adaptation not needed: ⇒ no adaptation of local/host context conditions and demands</td>
<td>No/hardly any foreign parent template adaptation: ⇒ adaptation of local/host context conditions and demands</td>
</tr>
<tr>
<td>Foreign parent template adaptation as well as adaptation of local/host context conditions and demands</td>
<td>Partial or complete foreign parent template adaptation: ⇒ hardly/no adaptation of local/host context conditions and demands</td>
</tr>
<tr>
<td>Set up of production system or parts thereof to meet foreign parent context and/or local/host context demands ⇒ adaptation of local context in line with demands and conditions</td>
<td>Set up of production system or parts thereof to meet foreign parent context and/or local/host context demands ⇒ adaptation of both local context and foreign parent context demands and conditions</td>
</tr>
<tr>
<td>Set up of production system or parts thereof to meet foreign parent context and/or local/host context demands ⇒ adaptation of both local context and foreign parent context demands and conditions</td>
<td>Set up of production system or parts thereof to meet local/host context demands and conditions: ⇒ no adaptation of foreign parent context conditions</td>
</tr>
<tr>
<td>Local/host template adaptation not needed: ⇒ no adaptation of foreign parent context conditions</td>
<td>Set up of production system or parts thereof to meet local/host context demands and conditions: ⇒ adaptation of foreign parent context conditions</td>
</tr>
<tr>
<td>Form of recontextualization?</td>
<td></td>
</tr>
<tr>
<td>Imitation (Local)</td>
<td>Variation between imitation and hybrid</td>
</tr>
<tr>
<td>Hybrid</td>
<td>Variation between hybrid and localization</td>
</tr>
<tr>
<td>Imitation</td>
<td>Variation between Imitation / localization or customized</td>
</tr>
<tr>
<td>Hybrid or customized</td>
<td>Variation between hybrid or customized</td>
</tr>
<tr>
<td>Localization</td>
<td>Variation between localization/ hybrid or customized</td>
</tr>
<tr>
<td>Imitation</td>
<td>Localization (Imitation)</td>
</tr>
<tr>
<td>Hybrid</td>
<td>Partial or complete local template adaptation: ⇒ hardly/no adaptation of foreign parent context conditions</td>
</tr>
</tbody>
</table>

Outcome

<table>
<thead>
<tr>
<th>Imitation (Local)</th>
<th>Variation between imitation and hybrid</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hybrid</td>
<td>Variation between hybrid and localization</td>
</tr>
<tr>
<td>Imitation</td>
<td>Variation between Imitation/ localization or customized</td>
</tr>
<tr>
<td>Hybrid or customized</td>
<td>Variation between hybrid or customized</td>
</tr>
<tr>
<td>Localization</td>
<td>Variation between localization/ hybrid or customized</td>
</tr>
<tr>
<td>Imitation (Imitation)</td>
<td>Localization (Imitation)</td>
</tr>
<tr>
<td>Hybrid</td>
<td>Partial or complete local template adaptation: ⇒ hardly/no adaptation of foreign parent context conditions</td>
</tr>
</tbody>
</table>
Understanding the hybridization outcome implies as a first crucial step to conceive of the variations in starting points, variations in (mis)fit and corresponding recontextualization pressures as well as variations in modes of recontextualization (see figure 4).

**Figure 4: Dynamic triad of transfer scenarios, (mis)fits/recontextualization pressures and modes**

<table>
<thead>
<tr>
<th>Different transfer scenarios:</th>
<th>Different (mis)fits / recontextualization pressures between:</th>
<th>Basic recontextualization modes:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreign parent context template</td>
<td>Foreign parent template and local/host context</td>
<td>Adaptation of foreign parent context templates, demands and conditions</td>
</tr>
<tr>
<td>Local/host context template</td>
<td>Local/host context template and foreign parent context</td>
<td>Adaptation of local/host context templates, demands and conditions</td>
</tr>
<tr>
<td>No template, but demands</td>
<td>Foreign parent and local/host context</td>
<td></td>
</tr>
</tbody>
</table>

**STRATEGIC AND INSTITUTIONAL CONTEXT AND DISTANCE**

To take the analytical framework presented above a step further, we need to ask about the grounds for different (mis)fits as well as transfer scenario and recontextualization mode choices. This work proposes that contextual distance plays a key role for hybridization outcomes because it affects both transfer scenarios, misfits and possibly also recontextualization modes. Drawing on the literature discussion earlier, the dominant focus has been on the institutional (cultural) distance between the source context and the destination context (of a transfer or demand). In contrast, the role of strategic distance between the source context and the destination context (of a transfer or demand) has received much less attention. Furthermore, rarely has the impact of both strategic and institutional distance been conceptualized as different kinds of contextual distance affecting hybridization outcomes. Whether the institutional or strategic distance is more relevant for certain dimensions of a production system will be left open to exploration. It is important to understand, however, that a subsidiary’s institutional and strategic embeddedness may differ from those of other units in the MNE and that this difference impacts, in turn, transfer scenarios, (mis)fits/recontextualization pressures and modes.
THE INSTITUTIONAL CONTEXT DIMENSION

The Labor Process wing of the Japanization debate and Institutionalist approaches have largely looked at the transferability of organizational forms and practices from one institutional context to another. The major focus has been on the role of national institutional contexts – be they conceptualized as different expressions of capitalist relations, different institutional complexes of habitual regularities or different cognitive, normative and regulative frameworks. The basic reasoning is that firms or their organizational forms and practices are embedded and grow out of distinct institutional contexts. As such, their functioning is inextricably linked to a specific institutional context (c.f. Kostova, 1999). In other words, organizations and their elements are institutionally constituted. While European institutionals have focused for the most part on institutional systems at the national level, more recent studies in this research tradition have extended the focus. In these studies the relevance of institutional conditions at the organizational level has also been recognized. Now, when foreign parent templates are transferred to a different local/host (local meaning here essentially the organizational) institutional context, chances are that misfits emerge between what the transferred templates (based on the source unit/country of origin context) institutionally require and what the local/host context conditions of the subsidiary (based on the target unit/country of destination) institutionally offer or demand. This is mainly because production system templates rely, albeit to different degrees, on specific institutional conditions, which may or may not be available in a local/host context of a subsidiary. Put differently, the misfit depends on the degree to which transfer templates depend on specific institutional contexts and the degree to which the receiving context provides such institutional conditions and favorable demands. Further, it is assumed that the recontextualization mode, the question whether an institutional distance induced misfit leads to an adaptation of the transfer template or to an adaptation of the local/host context, is linked to the interplay between the willingness and ability of a foreign parent to invest resources and the nature and resilience of the receiving (local/host) institutional context. What is more, the institutional distance may not only induce the misfit and potential recontextualization pressure after a transfer took place, but may impact the transfer scenario in the first place. If, for example, institutional conditions in the local/host contexts are very distant but rated advantageous, the foreign parent may refrain from template transfer and draw on a local/host template. Similarly, if institutional conditions in the host/local contexts are very distant but rated not very conducive in the face of the institutional requirements of a foreign parent template, the foreign parent may also refrain from its transfer. Thus, institutional distance is likely to impact the transfer scenario. A large institutional distance is likely to cause transfer restraints and induce recontextualization pressures on transferred templates. We can conclude, therefore, that transfer scenarios and needs for recontextualization vary because: there can be more or less of an institu-
tional-contextual distance between the origins and destinations of a transfer template. It should be added that the institutional distance is not only relevant for the fit/misfit between a foreign parent template and local/host context conditions and demands. There may as well be an institutional distance between a local/host template and foreign parent demands and conditions, causing misfits and recontextualization pressures.

**DEFINITIONS**

Institutional distance is defined here as the difference between a foreign parent’s local/home or local/3rd country site institutional context conditions and the local/host country institutional context conditions of the subsidiary under investigation. An institutional misfit is defined here as the mismatch/incompatibility between what a transferred template institutionally requires or is designed for, and what the local/host context institutionally offers or demands or alternatively as the mismatch/incompatibility between what a local/host template institutionally requires or is designed for, and what the foreign parent context institutionally offers or demands. Or in more simple terms, an institutional misfit is defined here as the mismatch/incompatibility between foreign parent templates or demands and the local/host institutional context conditions of a subsidiary or alternatively as the mismatch between local/host templates or demands with institutional context conditions of the foreign parent. Drawing on Sorge (2004), institutions are understood here as habitual regularities. At the level of a country or the societal level such habitual regularities find expression in differentiated yet ‘reciprocally interdependent’ institutional domains (Sorge, 2004). Firms and organizations are institutional domains themselves and are in an interdependent relationship with other institutional domains such as education systems, industrial relation systems etc. The relevant institutional context for an organization in this approach is pragmatically derived, depending on ‘reciprocal interdependencies’ between the focal organization and other institutional domains. Such a pragmatic approach is also applied in this research context. Adopting and adapting earlier Societal Effect research in the manufacturing sector (Maurice et al., 1980), it is suggested that family structures, social stratification, education systems, industrial as well as supplier relations systems form core institutional domains that are in an interdependent relationship with a productions system’s configuration.

The Societal Effect approach’s insight to capture institutional context conditions is used here for three reasons. First, it belongs to the core strength of the framework that the mutual constitution of different institutional domains is theorized (Sorge, 2004). The approach underlines the ‘reciprocal interdependence’ (Sorge, 1995a: 115) between different institutional domains (e.g. the work organization in firms is linked, for example, with vocational training systems and vice versa). This allows us to absorb some of the criticism that has been voiced against institutional perspectives with regard to their (lacking) conceptualization of the organizations’ ability to act on their environment (Saka 2003). For, if taken seri-
ously, the tenet of ‘reciprocal interdependence’ implies that organizations are not only constituted by their contexts but simultaneously constitute them. Second, from an empirical point-of-view, the Societal Effect contributions are particularly suited for this research context as they are empirically rooted in the manufacturing sector. As a concomitant those institutional aspects have been highlighted that are closely interrelated with the structuring of production systems in manufacturing operations (e.g. Maurice et al., 1980; Sorge and Warner, 1986). Third, the approach suggests an open approach as to what relevant institutional contexts are. This allows the researcher to discover in the research processes relevant institutional domains that have not been considered before.

**THE STRATEGIC CONTEXT DIMENSION**

The IB literature and also the Lean Production stream of the Japanization literature has largely ignored the institutional embeddedness of production system templates as well as the fact that institutional distance influences transfer scenarios and causes misfit induced recontextualization pressures. Moreover, there has also been little systematic attention to different recontextualization modes. In areas where institutional contextual misfits could not be entirely denied, it has been suggested that MNEs can adapt – select, change and create – contexts to their liking. This generally implied that only one mode of recontextualization has been considered, that is the adaptation of local/host institutional contexts to the foreign parent template, conditions and demands. Put simply, transfer contents do not necessarily change or have to be changed in the face of institutional contextual distance and misfit. Global or local solutions seem to be decided on rational strategic grounds with little concern for institutional mismatches upon arrival. Strangely, not even the growing body of Knowledge Transfer literature in IB has come to acknowledge the crucial role of institutional barriers to transfer. However, while there seems to be some underlying conviction about the global transferability and imitability, if strategically required, the IB literature and the Lean Production body of the Japanization literature can be read to suggest that there are strategic contextual misfits that affect transfer scenarios and misfits/recontextualization pressures. These impacts on transfer scenarios and needs for recontextualization mainly derive from different strategic roles, one could also say from the different strategic contexts of subsidiaries in MNEs. Specifically, from strategic contextual differences with regard to the task profiles as well as the demand and supply market conditions of subsidiaries.

Adopting the IB literature’s differentiated network perspective of the MNE, in which subsidiaries are seen to take on different and evolving roles (Birkinshaw, 2000) has three important implications for our understanding of transfer scenarios and recontextualization dynamics in subsidiaries. First, the differentiated-network perspective allows us to envision many more transfer origins than have commonly been considered in Japanization and Institutionalist approaches. In such a perspective, the parent is but one transfer source: other
subsidiaries and even other organizations, as part of local networks, come into the picture here. Second, by adopting a subsidiary perspective, we can see subsidiaries not only as instruments of the corporate parent but as actors in their own right, more or less resourceful and capable, needy and greedy for transfers. This also allows considering local transfer initiatives as much as changing transfer propensities and pressures for recontextualization as subsidiaries and their environments evolve over time. Thirdly, and probably most importantly, seeing subsidiaries with Birkinshaw (2000) as differentiated by their role, defined as differences in resource/capability endowments and differences in charters (i.e. defining the latter as shared understandings between the subsidiary and the HQ regarding markets served, products manufactured, as well as functional areas covered) suggests different transfer scenarios and misfits/recontextualization pressures on strategic grounds.

If a foreign parent template is transferred from one subsidiary to another, chances are that a strategic misfit emerges between what the transferred production system template was strategically contextually optimized for – with regard to task profile and supply/demand market conditions – and what the receiving subsidiary’s strategic context offers or demands. This is the case because production systems rely, albeit to different degrees, on specific strategic conditions, which may or may not be present in the receiving local/host context. Put differently, the misfit depends on the degrees to which the transfer content depends on specific strategic contexts and the degree to which the receiving context offers similar strategic context conditions. We can therefore imagine different degrees of strategic contextual misfit between what a foreign parent production system template is strategically contextually optimized for and the strategic context of a subsidiary. For example, the more specific and distant the task profile of a subsidiary and the more specific and distant the host country market conditions (e.g. quality, quantity and price of input and output factors) from other operations in the MNE, the less likely a transfer of a foreign parent template without recontextualization pressure. Again, the question whether such a distance leads to an adaptation of the transfer template or to an adaptation of the local/host context is linked to the interplay between the willingness and ability of a foreign parent to invest resources and the nature and resilience of the local/host strategic context. It is important to note that the strategic distance may not only cause a misfit, a recontextualization pressure on what has been already transferred, but may influence the transfer scenario in the first place. If, for example, strategic conditions in the host/local contexts are very distant but rated advantageous (e.g. low labor costs) the foreign parent may refrain from template transfers and draw on a local/host template or a locally customized solution instead. Similarly, if strategic conditions in the host/local contexts are very distant but rated not conducive, given the strategic contextual requirements of a foreign parent template, the foreign parent may refrain entirely from its transfer. Thus, the strategic distance is likely to impact transfer scenarios.

A large strategic distance is likely to cause transfer restraints and induce recontextualization pressures on transferred templates. Parallel to the reasoning on the institutional dimension
we can imagine that transfer templates can be more or less dependent on the strategic context of subsidiaries, defined by task profiles, capabilities/resources and supply/demand market conditions. We can, therefore, conclude that *transfer scenario* and *recontextualization needs* are likely to vary because: *there can be more or less of a strategic-contextual distance between potential origins and destinations of transfers*. It should be added, that the strategic distance is not only relevant for the (mis)fit between the foreign parent template and the local/host strategic context conditions and demands. There may as well be a strategic distance between the local/host template and the foreign parent strategic demands and conditions causing a misfit and recontextualization pressure.

**DEFINITIONS**

*Strategic distance* is defined here as the difference between a foreign parent’s local/home or local/3rd country site strategic context conditions and the local/host country strategic context conditions of the subsidiary under investigation. A *strategic misfit* is defined here as the mismatch/incompatibility between what a transferred template strategically requires or is designed for, and what the local/host context strategically offers or demands or alternatively as the mismatch/incompatibility between what a local/host template strategically requires or is designed for and what the foreign parent context strategically offers or demands. Or more simply, a *strategic misfit* is defined here as the mismatch/incompatibility between foreign parent templates or demands and the local/host strategic context conditions of a subsidiary or alternatively as the mismatch between local/host templates or demands with strategic context conditions of the foreign parent. Drawing loosely on Birkenshaw (2000), *strategic contexts* are defined as the task profiles of firms – constituted by markets served, quality and quantity of products manufactured, as well as functional areas covered – and their supply and demand market conditions – quality, quantity and price of supplies/inputs and quality, quantity and price demands for outputs. Clearly, task profiles of firms and market conditions mutually constitute each other. However, in the case of foreign subsidiaries, the local task profile and the host market conditions can be decoupled from one another as the local site can serve global markets. In the sample of cases researched in this work, this was only marginally the case. The FDI observed was for the most part market-seeking production FDI. In sum, more recent findings from the International Business and the Lean Production literature imply that there are varying transfer scenarios and pressures for recontextualization because subsidiaries in MNEs vary with regard to their local/host strategic context. Subsidiaries can be more or less strategic contextually distant from one another. A subsidiary that features a strategic context similar to that of other sites in the MNE, is much more likely to receive production system templates from those sites and face much less recontextualization pressure upon their arrival (see figure 5 summarizing core ideas of the analytical framework).


**Figure 5: The fourfold embeddedness of the local subsidiaries’ production systems**

![Diagram of fourfold embeddedness]

**Strategic Choices: Global Product Strategy and Entry Mode**

The final step in this analytical framework is to link the triad of transfer scenario, institutional and strategic (mis)fit/recontextualization pressure, recontextualization mode – and consequently the hybridization profiles of production systems – to strategic choices at the corporate and the subsidiary level. A core argument of this work is that this complex has been only weakly explored so far. It is asserted that specific strategic choices – the generic strategy of the MNE as well as entry modes – strongly interact with transfer scenarios, institutional and strategic (mis)fits as well as with pressures and modes of recontextualization. Furthermore, since we are dealing here with production systems, it is argued that generic strategies, i.e. global product strategies, will be of particular relevance. Without formulating specific propositions, leaving the specific patterns of interaction open to empirical exploration, a number of potential interactions that may impact hybridization outcomes shall be discussed here.

**Corporate Level: Generic Strategies**

Porter (1980) distinguishes three generic strategies: The segmentation/focus, the differentiation and the cost leadership strategy. These strategies rest on a demand side dimension – the
choice between a broad or a narrow market scope – and a supply side dimension – the strength or core competency of the firm – mainly varying between product differentiation/uniqueness and product cost/efficiency (see table 12).

Table 12: Porters generic strategies

<table>
<thead>
<tr>
<th>Strategic strength</th>
<th>Product uniqueness</th>
<th>Product cost (efficiency)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Broad market scope</td>
<td>Differentiation strategy</td>
<td>Cost leadership</td>
</tr>
<tr>
<td>Narrow market scope</td>
<td>Segmentation / Focus Strategy</td>
<td></td>
</tr>
</tbody>
</table>

Source: Adapted from Porter, 1980

With regard to the relationship between generic strategies and transfer scenarios, contextual misfits and recontextualization modes, the following associations can be asserted: firms whose competitive strategy mainly rest on controlling production costs and who have a narrow market scope, have the highest propensity to develop similar production sites when they internationalize. As the product portfolio does not vary much and cost control takes on a prime importance, there is a high incentive to develop standard production system templates for global operations. This is particularly the case when entry barriers to different markets disallow an export-led internationalization or servicing all markets from global/central hubs. In other words, firms with a combination of cost leadership and focus strategies are very likely to define and transfer templates when they engage in FDI. The moderate strategic distance between sites (based on narrow market scope implying similar task profiles and market environments across sites) allows these firms to develop/define standard templates. These firms also have strong incentives to control cost by applying standard templates in different locations. What is more, since contextual distance is moderate or low these firms will face less recontextualization pressure when they engage in template transfer. Finally, as cost control through standard template application forms a central part of their competitive strategy, they will have a strong preference for an adaptation of the local/host context to the foreign template, rather than the other way round. In summary: we can expect firms with a combination of cost leadership and focus strategies to have a high propensity to develop/define and transfer foreign parent templates, to face low strategic misfits/recontextualization pressures, to adapt the local/host context to their templates in the case of misfit and to feature high degrees of imitation as outcomes.

This is very much in contrast to what we can expect when firms with a differentiation strategy internationalize. These firms’ competitive advantage rests on broad market scope and product uniqueness. Since their sites are likely to be strategically distant from each other – based on more differentiated task profiles and market conditions – and since cost advantage
plays less an important role for their competitive strength, they will also have less incentive
to define/develop and transfer standard production system templates. However, when for-
eign parent transfers occur or demands are made, there is a high chance of strategic misfit
and recontextualization pressure because the sites will be very strategically distant. At the
same time, these firms may be more flexible and willing to adapt their templates or de-
mands to the local/host context because differentiation and difference is a crucial element of
their competitive advantage. In summary: we can expect firms with a *differentiation stra-
tegy* – compared to firms with *combination of cost leadership and focus strategies* – to be
less likely to develop/define and transfer a foreign parent template, to face more strategic
distance between different sites, to face more recontextualization pressures when they en-
gage in transfers, to be more flexible to adapt their templates or demands to the local/host
context and to feature a higher incidence of local, hybrid, and customized/novel solutions as
a result. Finally, firms that combine *a differentiation and cost leadership strategy* or a *dif-
ferentiation and focus strategy* are likely to be between the poles of high and low imitation.
As will be shown in the next chapter, different generic strategies are one core selection
criterion for the sampling of research cases.

**SUBSIDIARY LEVEL: ENTRY MODES**

The second aspect of strategic choice that has received remarkably little attention is the
influence of entry modes – defined as the combination of establishment (Greenfield site vs.
Brownfield site) and equity modes (wholly-owned vs. JV) (Pan and Tse, 2000; Harzing,
2002; Dikova, 2005) – on transfer scenarios, institutional/strategic misfits and recontextu-
alization modes (see table 13 for different entry mode combinations).

### Table 13: Entry mode combinations

<table>
<thead>
<tr>
<th>Equity mode Establishment mode</th>
<th>Wholly-owned</th>
<th>Joint venture</th>
</tr>
</thead>
<tbody>
<tr>
<td>Greenfield</td>
<td>Wholly-owned Greenfield</td>
<td>Greenfield JV</td>
</tr>
<tr>
<td>Brownfield</td>
<td>Acquisition</td>
<td>Brownfield JV</td>
</tr>
</tbody>
</table>

While there are a few works that have looked at the effects of *establishment modes* on the
transferability of organizational practices, there is remarkably little work on how different
equity modes affect hybridization outcomes. Regarding the importance of establishment
modes for hybridization outcomes Sharpe (1997) has shown, for example, that different
levels of institutionalization between Greenfield and Brownfield sites within the same firm
strongly influence the ease to transfer templates from institutionally distant origins. Saka
(2003) has also stressed the importance of the internal institutional set-ups. Thus, there is
evidence to suggest that Greenfield sites either reduce or mediate institutional distance which reduces, in turn, institutional misfit and recontextualization pressure. In this work it is argued that the establishment mode impacts all components constituting hybridization outcomes including: transfer scenarios, misfits/recontextualization pressures and recontextualization modes. In contrast to Brownfield sites, Greenfield sites lack existing production systems. Their local institutional contexts and local strategic contexts have to be created afresh. This implies that they are in need of some configuration which increases the likelihood of a template transfer. Moreover, their low level of institutionalization implies a lower contextual distance compared to Brownfield sites which poses less constraints for the transfer of a foreign parent template or the realization of foreign parent demands. By the same token, Greenfield sites are likely to show lower levels of misfit and recontextualization pressures when transfer occurs. Again, lower levels of local institutionalization and strategic context imply that there is less existing context that can be incompatible with what is being transferred. Finally, even if some misfit occurs, it is comparatively easier to adapt the local context to foreign parent demands and templates because there is a lower level of institutionalization. Thus, in contrast to Brownfield sites, Greenfield sites are expected to have a higher propensity for a foreign parent template transfer, to have lower levels of misfit when transfer occurs, to find it easier to adapt a local context to foreign templates or demands and to feature, as a result, higher degrees of imitation. Conversely, Brownfield sites may require less foreign parent template transfer because of an existing local production system (i.e. an existing local institutional and strategic context). And even if there is no intention to draw on or use the local institutional/strategic contexts of an existing site (e.g. because of institutional or strategic misfit with foreign parent templates or demands), these very same existing conditions may make a transfer of foreign parent templates more difficult and misfit related recontextualization pressures more likely. Finally, in the face of an existing institutional context, an adaptation of the local context to foreign demands and templates is less likely than in Greenfield sites. Thus, in contrast to Greenfield sites, Brownfield sites are less likely to see a transfer of a foreign parent template, will face higher levels of misfit when transfer takes place, will find it more difficult to adapt a local context to the foreign template and will feature higher degrees of localization as an outcome.

However, the establishment mode is only one crucial aspect of entry mode choice to affect the hybridization outcomes. With respect to equity modes it is suggested that they impact all components constituting hybridization outcomes as well. It is assumed here that the equity mode has an influence on whose management controls the company and whose management can decide: What is or can be transferred or demanded? What is rated as a misfit and requires recontextualization? And to what extent the foreign parent template/demands/conditions or local/host templates/demands and conditions have to be adapted, rejected or responded to?
Now, in the case of a wholly-owned subsidiary the situation is rather clear. As the foreign parent is in full control we can expect here a higher propensity of foreign parent template transfer and demands as in JVs. At the same time, given the stronger foreign parent transfer and demand propensity, there is also more scope for misfit and recontextualization pressure. However, where misfits and recontextualization pressures occur, foreign parents with full ownership will find it easier to put through their templates and demands without facing the intervening power of a local partner. As a consequence, adaptation of the local context (e.g. local templates, demands) to foreign demands and templates may be a more prevalent re-contextualization mode than in JVs.

In JVs, certainly also depending on whether there is a minority or majority equity of the foreign partner, the situation is different. Here shared ownership increases the number of template sources and demands (local partner vs. foreign partner) that can potentially play into the configuration of a production system. Shared ownership can imply divided responsibilities and the simultaneous impact of different demands and templates. This situation probably increases the chance of hybrid and/or customized/novel outcomes because templates and demands from markedly different contexts may be integrated or observed at the same time.

However, in JVs the equity share of the parties involved may play an important role. For the equity share may be decisive for the question whose management controls the site. For example, if the foreign parent takes a minority position, the foreign parent may be less likely to transfer templates because of fears of knowledge loss or a lacking permission. In this scenario the chance of misfit and recontextualization pressure is also less because there is less foreign parent influence or presence that can potentially cause a misfit and induce recontextualization pressure. Moreover, even if a foreign parent transfer takes place and a misfit occurs, the adaptation of foreign parent demands and templates to the local/host context is more likely because the local parent is in control giving preference to local/host solutions. As a result JVs where the foreign parent takes a minority position will have a high propensity to feature hybridization outcomes between hybrid and local solutions. Thus, the higher the local parent equity, the higher the chance that the site uses local/host templates and responds to local/host context demands, the lower the chance of misfits/recontextualization pressures, the higher the likelihood that foreign parent templates and demands are adapted to the local context in the case of misfit and as a consequence, the more likely localization as an outcome. The opposite is asserted when the foreign parent holds the majority in the JV. If the foreign parent takes a majority position, the foreign parent may be more likely to transfer templates or pose demands because it controls the site. At the same time the chance of misfit and recontextualization pressure is higher because there is more foreign parent influence or presence that can potentially cause a misfit and induce recontextualization pressure. When misfit occurs, the adaptation of the local/host context to foreign parent demands and templates is more likely because the foreign parent is
in power and will give preference to foreign parent solutions. As a result, JVs where the foreign parent takes a majority position will have a higher propensity to feature hybridization outcomes between hybrid and imitated solutions. Therefore, it is asserted that the higher the foreign parent equity, the more likely are we to see the transfer of foreign parent templates and/or the influence of foreign parent demands, the higher the chance of misfit and recontextualization pressure, but also the more likely an adaptation of the local context to foreign parent templates and demands as the dominant recontextualization mode and as a consequence a higher the likelihood of imitation as an outcome.

Referring to entry modes as a whole we can expect – based on the foregoing reasoning – wholly-owned Greenfield sites to feature the highest degree of imitation and Brownfield minority JVs the highest degree of localization. Based on these assumptions, the second important selection criterion of research cases is based on different entry modes. (Figure 6 summarizes the core relations to be explored in this work).

Figure 6: Core relations to be explored in this work
CHAPTER 4: METHODOLOGY

4.1 A QUALITATIVE COMPARATIVE CASE STUDY WITH A STRONG EXPLORATIVE ELEMENT

The goal of this research project is to explore whether possible variations in hybridization profiles (how-question) of MNE subsidiary production systems can be related to both an institutional and a strategic distance as well as to the systematic variation in strategic choices (why-question). The latter comprise both variations at the corporate and the subsidiary level. While strategic choices at the corporate level involve different generic strategies, strategic choices at the subsidiary level refer to different entry modes. These are defined as constituted by establishment and equity modes. Based on this research goal two methodological decisions suggest themselves: to conduct a comparative investigation of cases controlled by well-defined selection criteria and to build on explanatory case studies with a strong explorative element. It is important to note that ‘explorative’ does not imply that the derivation of tentative theoretical inferences is impossible (Eisenhardt, 1989).

WHY A QUALITATIVE EXPLANATORY COMPARATIVE CASE STUDY WITH A STRONG EXPLORATIVE ELEMENT?

Why qualitative research? Researching how hybridization outcomes of production systems differ and why such outcomes come about is essentially about understanding the relation between qualitative differences of organizational phenomena and a complex, multidimensional contextuality. Based on this research interest, it requires qualitative methods that are defined by Marschan-Piekkari and Welch (2004) – based on Van Maanen (1983) – as “procedures for ‘coming to terms with the meaning not the frequency’ of a phenomenon by studying it in its social context” (Marschan-Piekkari and Welch, 2004: 6). Qualitative research is particularly appropriate when the relevant contextuality is not sufficiently known ex-ante and requires a good deal of exploration and flexibility as is suggested by this project. Marshall and Rossman (1995) assert that the qualitative approach is “uniquely suited to uncovering the unexpected and exploring new avenues” (Marshall and Rossman 1995: 26). For it provides “the flexibility needed to allow the precise focus of the research to evolve during the research process itself” (Marshall and Rossman 1995: 37). As this research posits only tentative associations – without formulating specific propositions or hypothesis – and leaves specific causalities open to exploration, a qualitative approach suggest itself. In sum, qualitative research has been generally recommended where social phenomena are related to complex social contextuality as is the case in this research.
Why case studies? Yin (2003: 1) suggests that “case studies are the preferred strategy when ‘how’ and ‘why’ questions are being posed, when the investigator has little control over events, and when the focus is on a contemporary phenomenon within some real-life context”. Case studies are also suggested to be an ideal option when cross-border or cross-cultural issues are involved. Ghauri (2004) claims that in IB research case study approaches are particularly suited “where data is collected from cross-border and cross-cultural settings” (Ghauri, 2004: 111). For:

In spite of rather sophisticated methods of questionnaire translations and cross-translations, the understanding and interpretation of questions by respondents and of answers and findings by researchers are very difficult to compare and often lead to misleading conclusion. The case study method provides excellent opportunities for respondents and researchers to check their understanding and keep on asking questions until they obtain sufficient answers and interpretations. (Ghauri, 2004: 111)

Clearly, all of the above conditions apply when we are investigating how and why hybridization profiles of production systems in automobile subsidiaries in India differ. The decision for a case study approach still leaves open the question: what kind of case study to conduct? According to Yin (2003), case studies can be used for explorative research when causalities are not well understood or known as well as for simply describing a social contemporary phenomenon. However, case studies are also suitable to conduct explanatory inquiries where propositions are tested or basic associations explored. Depending on the research goals of a case study we can distinguish three ideal types of case studies: explorative, descriptive and explanatory (c.f. Eisenhardt, 1989). According to Yin (2003) ‘what-questions’ are likely to indicate an exploratory research interest. ‘How-’ and ‘why-questions’, in turn, usually indicate a more explanatory kind of investigation. At the same time, Yin (2003) sees no rigid boundaries between the different types as explanatory case studies may be complemented by exploratory or descriptive case study components. Given the research interest of this study, focusing on the how- and why-question of production system hybridization, this case study is at its core an explanatory case study. Yet, as a number of causal relations between strategic choices, different kinds of contexts and hybridization outcomes are far from clear, specific propositions are deliberately avoided and left open to exploratory investigation. Therefore this case study can best be described as a mix between an explanatory and an exploratory case study.

There is a second important decision to be taken with regard to the kind of case study. This involves the question whether the case study should be based on single or multiple/comparative case study designs? Pauwels and MatthysSENS (2004: 129) argue that the “only argument to switch from single to multiple case study research (at the risk of loosing
depth) is to create more theory-driven variance and divergence in the data, not to create more of the same”. Based on this reasoning, a multiple-case design suggests itself when we are exploring associations between variations in strategic choice on the one hand and variations in hybridization profiles on the other. This leads us to the question on what grounds to select the cases? In multiple case studies, the case selection follows what Yin (2003) calls a ‘replication-logic’ or others the logic of ‘theoretical sampling’ (Glaser and Strauss, 1967; Eisenhardt, 1989; Pauwels and Matthyssens, 2004). The basic rational is that “each case must be carefully selected so that it either (a) predicts similar results (a literal replication) or (b) predicts contrasting results but for predictable reasons (a theoretical replication)” (Yin, 2003: 47). Similarly, Eisenhardt (1989: 537) reasons that in case study research the “cases may be chosen to replicate previous cases or extend emergent theory, or they may be chosen to fill theoretical categories and provide examples of polar types”. In line with these suggestions and given the analytical framework presented, this research will be based on ‘theoretical sampling’ involving the selection of four ‘categorial types’ that differ systematically with regard to major variation causing factors theorized. More specifically, while the first research goal, the question whether both strategic and institutional distance impact hybridization outcomes could be investigated in a single case study (i.e. mainly through variation across different production system dimensions within a single case), the second research goal of this project, involving the question how different strategic choices impact hybridization outcomes, relies on ‘theoretical replication’ through a multiple case study. Although the selection of cases is driven by broad associations posited, the study’s analytical framework is formulated in an open and tentative way. Again, the formulation of propositions on specific relationships between core analytical dimensions is avoided in line with a theory-building research design (Eisenhardt, 1989).

4.2 DATA COLLECTION

CASE SELECTION: FOUR AUTOMOBILE SUBSIDIARIES IN INDIA

The comparative study involves four cases for two reasons. On the one hand, four cases allow a relatively complete variation of the major variance causing factors posited in this study (i.e. variation in generic strategy and entry mode). On the other hand, given the comprehensiveness of a production system as defined in this work and given the time-intensity of qualitative case studies as well as the limited financial resources of the project, four cases were considered the maximum that could be handled. The study is restricted to one sector – the automobile industry – and one host country context – India. These restrictions are based on the following reasons. Previous hybridization research has shown that transfer propensities and hybridization profiles differ markedly by industrial sector (e.g. Florida and Kenney,
To control for this sector-effect the study is confined to one sector. The automobile industry or production systems of the automobile sector are chosen because they are well understood and because there is an emerging body of hybridization research in this sector. The latter allows selective comparison of the findings of this study with those of others. Moreover, to reduce the research complexity the host-country context is also held constant. Previous research (e.g. Kostova and Roth, 2002) has shown that different host-country contexts have a great impact in the transferability of management practices within MNEs. As the impact of host country variance is not at the heart of this study and would unnecessarily increase the contextual complexity impacting the hybridization outcome, the project is limited to one host country only. India is chosen as the focal research context on two grounds. First of all, the country choice is based on the theoretical sampling requirements of this study. The Indian context offers a range of cases of automobile subsidiaries that differ systematically with regard to both parent generic strategies and entry modes. Additionally, the variation in entry times of these subsidiaries is moderate, which helps to reduce local contextual change effects as far as possible. Secondly, India as a research context poses a valuable addition to extant hybridization research. Not only has hybridization research been largely restricted to Japan as the main country-of-origin of transfers but it has also mainly focused on the US and the UK as the main countries-of-destination (Becker-Ritterspach, 2005). Although more recently research on transfer and adaptation has grown beyond Japan as the sole source-of-transfer and/or beyond the UK and the US as sole destinations-of-transfer, an overall research bias towards Japanese-FDI remains. Furthermore, while researchers pay increasing attention to Asia, most notably China (e.g. Taylor, 1999; Noronha, 2002), India, one of the most important emerging economies in Asia, has been largely neglected with regard to organizational hybridization research. Apart from a few studies (e.g. Okada, 1998; D’Costa, 2003) that focus on Japanese-FDI and only touch sporadically on FDI-related transfer and adaptation issues, there are virtually no studies that systematically research organizational hybridization in the Indian context.

**INTRODUCING THE FOUR CASES**

The four cases selected for this research project include the subsidiaries Maruti Udyog Limited (MUL), Fiat India Private Limited (FIPL), DaimlerChrysler India Private Limited (DCIPL), Skoda Auto India Private Limited (SAIPL). Although a thorough introduction of the four cases will be performed in the individual case discussions in chapter 6, a brief introduction of the cases is made here to render the sampling-logic of this project more comprehensible.

MUL was founded in 1976 as M/s Maruti & Co Ltd. by Sanjay Gandhi, the son of Indira Gandhi. However, Sanjay Gandhi’s Maruti project turned out to be a failure. It was not until
1983, when Suzuki entered the company, that MUL started producing its first cars. As no meaningful production infrastructure and labor force existed, the establishment of the site was basically a Greenfield project. As regards the equity mode, Suzuki was initially involved as a minority JV partner. In 1992 MUL seized being a public sector company when the Suzuki Motor Company (SMC) acquired a 50% share in the JV. In 2002, SMC finally acquired a majority in the JV. With regard to the generic strategy, SMC showed the clearest signs of combining a cost leadership and focus strategy.

Fiat entered the Indian market in 1996 in the format of a majority JV with Premier Automobiles Limited (PAL). Although the company initially planned to set up a wholly-owned Greenfield operation, market conditions forced the company to freeze its plans. Instead, Fiat engaged in a JV with the former technical-collaboration partner PAL and took over its ‘Brownfield’ site. Practically from the beginning, Fiat had a majority (51%) in the JV with PAL and raised its stake continuously. With the shift in equity the Indo-Italian JV, India Auto Limited (IAL), was renamed to Fiat India Private Limited (FIPL). Fiat’s generic strategy can be described as combining a differentiation and cost leadership strategy. However, as far as Fiat’s generic strategy for emerging markets is concerned, it is more appropriate to label it a combination of a focus and a cost leadership strategy.

DaimlerChrysler India Private limited (DCIPL; initially Mercedes-Benz India Limited) was founded in 1994 as an Indo-German JV between Daimler-Benz and the Indian truck producer Tata Engineering and Locomotive Company Limited (TELCO). From the start the German partner held a majority in the JV and continuously increased its equity in the operation. The establishment mode of DCIPL was basically a Greenfield format. Although some employees were delegated from TELCO, the labor force was for the most part young and newly recruited. The production facilities were also newly installed in a new factory hall. DaimlerChrysler’s generic strategy can be best categorized as a combination of differentiation and focus.

SAIPL was founded in 2000 as a wholly-owned Greenfield site. The generic strategy of SAIPL’s parent Volkswagen (VW) can be best described as combining a differentiation and cost leadership strategy. Although VW, like Fiat, differentiates its product portfolio by world regions, Skoda’s generic strategy for emerging markets can still be considered a combination of differentiation and cost leadership. Table 14 outlines the major difference between the cases with regard to their strategic choices. Figure 7 shows graphically the equity development of the four cases between 1982 and 2005.
Table 14: Selection criteria and variance of cases based on theoretical sampling

<table>
<thead>
<tr>
<th></th>
<th>MUL</th>
<th>FIPL</th>
<th>DCIPL</th>
<th>SAIPL</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>MNE related strategic choices</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Generic strategy</td>
<td>Combining a focus and cost leadership strategy</td>
<td>Overall combining a differentiation and cost leadership strategy (World Car is combining a focus and cost leadership strategy)</td>
<td>Overall combining a differentiation and focus strategy</td>
<td>Overall combining a differentiation and cost leadership strategy</td>
</tr>
<tr>
<td>Internationalization focus on emerging or developing markets</td>
<td></td>
<td>Internationalization focus on emerging or developing markets</td>
<td></td>
<td>Internationalization focus on emerging or developing markets</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Entry mode subsidiary related choices</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Establishment mode</td>
<td>Greenfield</td>
<td>Brownfield</td>
<td>Greenfield</td>
<td>Greenfield</td>
</tr>
<tr>
<td>Equity mode</td>
<td>Joint Venture</td>
<td>Joint Venture &gt; wholly-owned (From majority JV to wholly-owned)</td>
<td>Joint Venture &gt; wholly-owned (From majority JV to wholly-owned)</td>
<td>Wholly-owned (Wholly-owned from the outset)</td>
</tr>
</tbody>
</table>

Figure 7: Foreign ownership of MUL, FIPL, DCIPL and SAIPL.
DATA COLLECTION METHOD

The study’s data collection rests on the triangulation method (Miles and Huberman, 1994). The study makes use of multiple sources of data and collection methods including: observation, documentation and guided open-ended interviews (Eisenhardt, 1989; Patton, 1990; Yin, 2003). The main benefit of triangulation and integration of multiple data sources is an increased internal validity of the study. Pauwels and Matthyssens (2004) summarize the two goals and benefits of triangulation as follows:

First, it is proposed as ‘a near-talismanic method of confirming findings’ (Miles and Huberman 1994: 266). In this perspective, data-source triangulation mainly reduces random measurement error (Kumar et al. 1993). Second, triangulation is useful in so far as different facets of the phenomenon are investigated through the most appropriate combination of methods and sources (Yeung 1995). (Pauwels and Matthyssens, 2004: 129)

In this study triangulation is of paramount importance because there is an imbalance with regard to different types of data available for the respective cases. For example, while there is a high saturation with regard to interview data in the DCIPL case, there is only a moderate amount of external (press/media) documentation available for this company. This is just the other way round in the case of MUL where the interview saturation-level is moderate and the availability of external documentation is very high. Thus, the combination of these different sources of data not only helps to cross-check the validity of findings but is also a prerequisite to establish a sound comparison across different dimensions under conditions of financial resource and information/data access constraints.

DATA COLLECTED

The data collection method of this work rests on three pillars. The first pillar comprises the collection of documents available within and outside the companies. Data collection for this kind of data lasted practically throughout the whole period of the research project starting in February 2002 and ending in December 2005. This implies that data collection overlapped with data analysis, which is a key element and advantage of case study research (Eisenhardt, 1989). The second pillar involves observations made during factory and site visits and the third pillar consists of guided/semi-structured interviews. The factory-visits and company-interviews were mainly conducted during the research stay in India between September 15th, 2002 and February 29th, 2003. Only in the case of DCIPL there was an earlier research stay in India between July 6th and July 27th, 1998 during which a total of 24 interviews were conducted. During the second and main research stay for this comparative study a total of
38 interviews were completed in the four subsidiaries as well as with different organizational and institutional representatives/experts outside these firms. Over all, the interviews served two broad goals. Interviews in the automobile subsidiaries were conducted to establish a solid understanding about their production system hybridization profiles and the contextual conditions that brought these about. Interviews with outside agencies were conducted to acquire a more solid understanding of the strategic and institutional context in India as well as to establish an external perspective on the companies. Table 15 gives an overview of the data collected, ordered by research case, by data-collection activity, and by date. Table 16 gives an overview about the interviews conducted with representatives of company external agencies and experts.

Table 15: Summary of activities at different research sites

<table>
<thead>
<tr>
<th>Activity Case</th>
<th>Research period</th>
<th>Document collection</th>
<th>Factory visits</th>
<th>Interviews</th>
</tr>
</thead>
<tbody>
<tr>
<td>MUL</td>
<td>Mainly between February 2002 and February 2003</td>
<td>Company website, company documents and reports, IPO red herring prospectus, academic books and articles, newspaper and website articles, press interviews</td>
<td>Tour of production site in Gurgaon, the State of Haryana on 18.01.2003</td>
<td>6 interviews conducted between 13.12.02 - 22.01.03</td>
</tr>
<tr>
<td>FIPL</td>
<td>Mainly between February 2002 and February 2003</td>
<td>Company website, company documents and reports, academic books and articles, newspaper and website articles, press interviews</td>
<td>Tour of production site in Kurla/Mumbai, the State of Maharashtra on 07.01.2003</td>
<td>4 interviews conducted on 07.01.2003</td>
</tr>
<tr>
<td>DCIPL</td>
<td>Mainly between February 2002 and February 2003</td>
<td>Company website, company documents and reports, academic books and articles, newspaper and website articles, press interviews</td>
<td>Tour of production site in Pimpri/Pune, the State of Maharashtra on 12.11.2002</td>
<td>10 interviews conducted between 10.11.02 - 18.11.02 (24 interviews conducted during first research stay between 15.07.1998 - 29.07.1998)</td>
</tr>
<tr>
<td>SAIPL</td>
<td>Mainly between February 2002 and February 2003</td>
<td>Company website, company documents and reports, academic books and articles, newspaper and website articles, press interviews</td>
<td>Tour of production site in Walju Industrial Estate/Aurangabad, the State of Maharashtra on 25.01.2003</td>
<td>3 interviews conducted on 25.01.2003</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td></td>
<td>23</td>
</tr>
</tbody>
</table>
## Table 16: Summary of data collection regarding India’s institutional and strategic context

<table>
<thead>
<tr>
<th>Expert Interviews</th>
<th>Interview date</th>
<th>Number of interviews</th>
<th>Factory visit where applicable</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Motors India Vice President Corporate Affairs</td>
<td>Gurgaon, 27.01.2003</td>
<td>1</td>
<td>-</td>
</tr>
<tr>
<td>Technical Vocational Educational and Training Consultant</td>
<td>New Delhi, 25.10.2002</td>
<td>1</td>
<td>-</td>
</tr>
<tr>
<td>Free Journalist - Motoring columnist</td>
<td>New Delhi, 25.10.2002</td>
<td>1</td>
<td>-</td>
</tr>
<tr>
<td>Eicher Motors Limited Chief Strategic Planning, General Manager Manufacturing and Director Supply Chain</td>
<td>Indore, 03.01.2003</td>
<td>3</td>
<td>Tour of production site in Pithampur/Indore, in the State of Madhya Pradesh on 03.01.2003</td>
</tr>
<tr>
<td>Gesellschaft für technische Zusammenarbeit (GTZ) - Indo-German Tool Room Program</td>
<td>New Delhi, 28.10.2002</td>
<td>3</td>
<td>-</td>
</tr>
<tr>
<td>Automotive Component Manufacturers Association (ACMA) of India - Executive Director</td>
<td>New Delhi, 06.11.2002</td>
<td>1</td>
<td>-</td>
</tr>
<tr>
<td>Society of Indian Automobile Manufacturers (SIAM) - Assistant Director</td>
<td>New Delhi, 29.11.2002</td>
<td>1</td>
<td>-</td>
</tr>
<tr>
<td>Indo-German Chamber of Commerce (IGCC) - Director General</td>
<td>Mumbai, 09.01.2003</td>
<td>1</td>
<td>-</td>
</tr>
<tr>
<td>Friedrich Ebert Stiftung - Expert on Industrial Relations in India</td>
<td>New Delhi, 12.12.2002</td>
<td>1</td>
<td>-</td>
</tr>
<tr>
<td>Business Standard Motoring - Assistant Editor - Features</td>
<td>Mumbai, 09.01.2003</td>
<td>1</td>
<td>-</td>
</tr>
<tr>
<td>Engineering und Design AG (EDAG) - Managing Director</td>
<td>New Delhi, 10.09.2002</td>
<td>1</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>15</strong></td>
<td></td>
</tr>
</tbody>
</table>

It should be added that the geographical spread of the four sites, initial access difficulties and financial constraints regarding trips to and stays at the different site locations did not allow prolonged research stays in some of the locations. Therefore, the number of interviews remained below the level originally targeted. Finally, although case study protocols were carefully developed (c.f. Yin, 2003) including a detailed scheduling for the different kinds of research activities at different research sites, realities on the ground made a frequent rescheduling necessary. Nevertheless, the case study protocol served to systematically guide the research process and to track the achieved research goals.
INTERVIEW GUIDE AND INTERVIEWEES

The main goal of the company interviews and the document collection was gathering information on the how and why the local subsidiaries’ production systems differed with regard to their hybridization profiles. This involved as a first step to develop an understanding how the hybridization profile actually looked like and to identify the contextual origin of particular production system dimensions. To establish such an understanding and to identify the contextual origin, interviewees were generally asked first specific questions about the configurational properties of the local production system across different dimensions. In a second step the interviewees were asked more specifically about the conceptual and physical origin of these configurational properties. In this context interviewees were also requested to compare the local production systems with those of other sites in the corporation and to identify similarities and differences as well as possible reasons for such differences.

In a third step interviewees were asked specific questions aiming at identifying the transfer scenario, (mis)fits/recontextualization pressure experiences as well as adaptation measures taken. This involved questions such as: Whether the foreign parent defined and transferred a template? Which production system dimensions were covered by the template and whether or not there were transfer restraints or adaptation needs due to local/host contextual conditions? The last and final bloc of the interview guide was geared more specifically at identifying local/host contextual conditions as well as local subsidiary and MNE strategy related issues that may have impacted transfer scenarios, misfits/recontextualization pressures and recontextualization modes (see table 17).

Table 17: Structure and main topics covered by the interview guide

<table>
<thead>
<tr>
<th>Personal Information of interviewee</th>
</tr>
</thead>
<tbody>
<tr>
<td>♦ Function, company membership, career etc.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>General company information:</th>
</tr>
</thead>
<tbody>
<tr>
<td>♦ Foundation, products manufactured, vertical integration and history of site, locational choices, employee numbers etc.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Production system configuration across dimensions</th>
</tr>
</thead>
<tbody>
<tr>
<td>♦ Organizational Structure: Functional differentiation &amp; hierarchical differentiation</td>
</tr>
<tr>
<td>♦ Organizational Relations: Work and Labor Relations &amp; Inter-organizational Relations</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Contextual origins across production system dimensions</th>
</tr>
</thead>
<tbody>
<tr>
<td>♦ Identify transfer scenario</td>
</tr>
<tr>
<td>♦ Identify (mis)fits/ recontextualization pressures</td>
</tr>
<tr>
<td>♦ Identify dominant recontextualization modes</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Contextual conditions impacting transfer scenarios, recontextualization pressures and modes</th>
</tr>
</thead>
<tbody>
<tr>
<td>♦ Strategic conditions in the local/host context</td>
</tr>
<tr>
<td>♦ Institutional conditions in the local/host context</td>
</tr>
<tr>
<td>♦ Strategic conditions at the subsidiary and MNE level</td>
</tr>
</tbody>
</table>
Expert interviews that were conducted with representatives of institutions or organizations followed a different format. In this respect, interview guides were specifically tailored to the host institutional or strategic context to be inquired, i.e. host country conditions focusing on the educational system, the industrial relations system and the automotive industry in India. As far as the selection of interviewees was concerned, there was only a limited influence on the part of the researcher. However, the interview-request to companies involved asking for interviewees who were ideally: in a top to middle management position, preferably in a production or human resource management function; interviewees who knew well other sites of the foreign parent company or even stayed there for some time; and interviewees who worked at the local subsidiary for an extended period of time. The reasoning behind this ideal interviewee profile was: that the interviewees needed to have a functional competence to answer production system and human resource related questions; that they needed to have a sufficient overview to answer questions concerning the whole production system; that the interviewees featured a comparative competence to answer questions about differences between the local site and other corporate sites; and that they should have some historical knowledge about the local site to be able to answer questions about developments and changes over time. Table 18 presents a broad overview of the functional and hierarchical positions covered by the interviewees in the respective subsidiaries.
**Table 18: Interviewees function and position across firms as well as their coding**

<table>
<thead>
<tr>
<th>Function / Position / Interview date</th>
<th>Code</th>
</tr>
</thead>
<tbody>
<tr>
<td>MUL</td>
<td></td>
</tr>
<tr>
<td>Assistant General Manager Production on 13.12.02</td>
<td>MUL 1</td>
</tr>
<tr>
<td>Assistant Manager Marketing on 18.01.03</td>
<td>MUL 2</td>
</tr>
<tr>
<td>Assistant Manager Production on 18.01.2003</td>
<td>MUL 3</td>
</tr>
<tr>
<td>Former Manager R&amp;D on 20.01.03</td>
<td>MUL 4</td>
</tr>
<tr>
<td>General Manager HRM on 20.01.2003</td>
<td>MUL 5</td>
</tr>
<tr>
<td>Assistant General Manager Maruti Supplier on 21.01.2003</td>
<td>MUL 6</td>
</tr>
<tr>
<td>FIPL</td>
<td></td>
</tr>
<tr>
<td>Senior Advisor to the Managing Director on 07.01.2003</td>
<td>FIPL 1</td>
</tr>
<tr>
<td>Italian Head of Production on 07.01.2003</td>
<td>FIPL 2</td>
</tr>
<tr>
<td>Manager Production on 07.01.2003</td>
<td>FIPL 3</td>
</tr>
<tr>
<td>Manager Organization and Development on 07.01.2003</td>
<td>FIPL 4</td>
</tr>
<tr>
<td>DCIPL</td>
<td></td>
</tr>
<tr>
<td>German Vice President and Head of Production on 18.11.2002</td>
<td>DCIPL 1</td>
</tr>
<tr>
<td>Head of Human Resources on 12.11.2002</td>
<td>DCIPL 2</td>
</tr>
<tr>
<td>German General Manager Production on 18.11.2002</td>
<td>DCIPL 3</td>
</tr>
<tr>
<td>General Manager Human Resources on 13.11.2002</td>
<td>DCIPL 4</td>
</tr>
<tr>
<td>General Manager Materials on 13.11.2002</td>
<td>DCIPL 5</td>
</tr>
<tr>
<td>General Manager Quality on 14.11.02</td>
<td>DCIPL 6</td>
</tr>
<tr>
<td>Divisional Manager Human Resources on 12.11.2002</td>
<td>DCIPL 7</td>
</tr>
<tr>
<td>Divisional Manager Planning on 14.11.02</td>
<td>DCIPL 8</td>
</tr>
<tr>
<td>Divisional Manager Production on 14.11.02</td>
<td>DCIPL 9</td>
</tr>
<tr>
<td>German Meister on 10.11.2002</td>
<td>DCIPL 10</td>
</tr>
<tr>
<td>SAIPL</td>
<td></td>
</tr>
<tr>
<td>Czech General Manager Technical/Quality on 25.01.2003</td>
<td>SAIPL 1</td>
</tr>
<tr>
<td>Head of Production on 25.01.2003</td>
<td>SAIPL 2</td>
</tr>
<tr>
<td>Production Worker on 25.01.2003</td>
<td>SAIPL 3</td>
</tr>
</tbody>
</table>

**4.3 DATA ANALYSIS**

**The analytical steps taken**

Eisenhardt (1989) notes that data-analysis is on the one hand the most difficult step of research and the least codified one on the other. The data analysis of this project mainly follows Eisenhardt’s (1989) suggestion of starting with a within-case analysis and then moving on to a cross-case analysis. Moreover, the study follows Miles and Huberman’s (1994) suggestions concerning the main components of qualitative data analysis, based on the overlapping and intertwined activities of: data reduction, data display, conclusion drawing and
verification. According to Eisenhardt (1989: 540) “[w]ithin-case analysis typically involves detailed case study write-ups for each site”. Such detailed and descriptive ‘write-ups’ for each of the four cases were also the first step of this study. The write-ups were mainly structured along the how- and why-question of different production system dimensions. However, before these write-ups were made, field notes, transcribed interviews and documents were thoroughly read and manually coded according to analytical categories derived from the theoretical framework. In this process interviews were decomposed and chunks of coded interview-sections grouped according to analytical dimensions theoretically defined. The categorizing/coding and subsequent regrouping was based on the different dimensions of the production system and simultaneously the how- and why-question. The second crucial analytical step involved a cross-case comparison. The main goal of this analytical step was to identify pattern similarities and differences across cases (see chapter 7). To make this process possible, the initial detailed write-ups were further reduced (c.f. Miles and Huberman, 1994) and condensed into shorter case profiles.

Following the ‘pattern matching logic’ (Yin, 2003; Pauwels and Matthyssens, 2004), the final analytical step of this study involved investigating and exploring whether or not the similarities and differences found across the cases could be attributed to predicted associations posited in the theoretical framework. This process was supported by extensive efforts of data display as suggested by Miles and Huberman (1994) (see also within-case and cross-case comparing tables widely used throughout the study). In addition to detecting matches/contradictions based on comparisons between theory and data, an effort was made to specify associations that were deliberately not explicated in the theoretical framework. Contradictions, matches and newly emerging causalities were then fed into refined theoretical statements discussed in the conclusion (see chapter 8) of this work (c.f. Eisenhardt, 1989).

4.4 QUALITY OF RESEARCH

Pauwels and Matthyssens’ (2004) contribution suggests that the quality of qualitative research and its validation cannot be assured by output control but has to be built into the research design and process. Pauwels and Matthyssens (2004) state:

> [V]alidation is the ongoing deliberate creation and examination of possible sources of (in)validity. Sources of (in)validity may emerge from (1) juxtaposition of data, extant literature and the emergent theory, and (2) iteration between case selection, data collection, data analysis and comparison with extant theories (Dubois and Gadde 2002; Orton 1997). (Pauwels and Matthyssens, 2004: 130)
A careful crafting of the research design – as is described in this chapter for this study – i.e. matching the research method, the data collection method, the sampling strategy and the data analysis with the research goal, is probably the most important building bloc to assure the validity of any research. But let us take a close look at validity criteria generally employed to evaluate the quality of case study research. Yin (2003) suggests four core quality criteria including construct validity, internal validity, external validity and reliability. We shall briefly discuss these criteria with regard to this study.

**CONSTRUCT VALIDITY**

Construct validity deals with the question whether appropriate operational measures are established for the concepts under research (Yin, 2003) and whether saturation is achieved (Glaser and Strauss, 1967). A number of measures were undertaken to enhance construct validity. First, the theoretical framework involves a clearly defined unit of analysis as well as clearly defined explanatory dimensions. This explanatory framework was systematically translated into a research design, topics in the case study protocol and ultimately into questions in the interview guide. This process of translation was embedded in the review and feedback of academic peers at conferences and workshops. Thus, the theoretical framework and the research design were presented at an early stage at conferences and workshops to allow for modifications and increased coherence (c.f. Saka, 2003). Initial case findings were partly presented in articles subjecting findings and conclusions to the scrutiny of academic peers.

Following Yin (2003), multiple sources of evidence were used by drawing on interview, observation and documentation. Moreover, to enhance ‘theoretical saturation’ the multiple respondents were made use of. The interview guide also assured that different interviewees in different firms were responding to the same set of questions. While the level of ‘theoretical saturation’ was not optimal in the firms, where only a small number of interviews were conducted, the researcher went to great length to achieve such saturation through secondary data collection. Fortunately, such data was available for the firms under investigation as the Indian automobile industry has received strong media coverage. Furthermore, key informants were asked to review a draft of the respective firm’s case write-ups and give their comments. Finally, by presenting comprehensive empirical evidence mainly in chapter 6, this study has tried to keep the ‘the chain of evidence’ (Yin, 2003) and the link between evidence and conclusions as transparent as possible.

**INTERNAL VALIDITY**

Internal validity is concerned with the challenge of “establishing a causal relationship, whereby certain conditions are shown to lead to other conditions as distinguished from
spurious relationships” (Yin, 2003: 34). In line with Yin (2003), this work employed the following techniques to enhance internal validity. First, the theoretical framework and associations posited were from the outset formulated in an open and tentative way. Therefore, the work was utterly open to rival or refined explanations, which were actually found and fed into revised theoretical statements in the conclusion. Secondly, such openness was supported by the guided interview approach, which not only assured an in-depth understanding of causalities but also assured an openness for emerging issues and unpredicted associations. Thirdly, internal validity was enhanced by employing the ‘pattern-matching logic’ as suggested by Yin (2003) and Pauwels and Matthyssens (2004). In this process, theory derived association between hybridization profiles, contextual distance and strategic choices were rigorously compared with the empirical data. Finally, the findings were compared with the extant literature, relating findings to external reference points.

**EXTERNAL VALIDITY**

Pauwels and Matthyssens (2004) suggest that while case study research cannot provide ‘statistical generalization’, it can provide ‘analytical generalization’. Analytical generalization involves “to generalize a particular set of results to some broader theory” (Yin, 2003: 37). In the research context of this work, theories about production system hybridization in MNEs subsidiaries are the domain to which the results of this study can be generalized. The theoretical domain this study addresses was clearly delineated. Moreover, to enhance external validity, the study employed, in line with Yin’s (2003) suggestions, a multiple-case design based on a replication-logic.

**RELIABILITY**

Reliability involves the question whether the research process, if repeated by another researcher, would produce the same results (Yin, 2003). Based on Yin (2003), the following measures were taken to enhance the study’s reliability. The research work involved developing and using a case study protocol. Interview evidence was for the most part tape-recorded and transcribed. Key respondents were asked for feedback. Where ‘theoretical saturation’ through interviewing was suboptimal, a great effort was made to collect secondary information and compare primary with secondary data. Moreover, the study systematically organized the evidence in a case-based data base (Yin, 2003). Finally, an effort was made, as evidenced in this chapter, to explicate the research rationale and to account for the basic research steps taken.
CHAPTER 5: INDIA AS AN INSTITUTIONAL AND STRATEGIC CONTEXT

This chapter provides a brief introduction to those institutional and strategic host context conditions in India that appeared particularly relevant for the production system hybridization. This discussion is brief, as the impact of specific institutional and strategic contexts conditions will be mostly discussed in chapter 6, that is, when and where it shows its direct empirical relevance for the production systems’ hybridization. Nevertheless, this chapter provides the reader with some basic background and key characteristics of India’s institutional and strategic context without which we cannot develop a proper understanding of the host context conditions impacting the hybridization of automobile production systems. It should be clear, however, that the institutional patterns discussed describe tendencies at a rather general level. Such a word of caution is particularly required for a country as diverse and large as India, which has undergone tremendous societal transformations in last 25 years.

5.1 INDIA’S INSTITUTIONAL CONTEXT

HIERARCHY AND DEMARCATION IN FAMILY, EDUCATION, SOCIAL STRATIFICATION AND BEYOND

FAMILY

Traditionally the Indian family is an extended or joint family where up to four generations live under one roof. The decision making power rests mainly with the father of the family who involves the eldest son. It is also the eldest son to whom responsibility is transferred after the father’s death. The typical Hindu-family is patriarchal and hierarchical (Kakar, 1997) with the family bonding fundamentally based on father-son and brother-brother relationship (Schmitt, 1984; Tayeb, 1988). While it is true that the Indian family is shifting towards a nuclear family – for example with regard to not living in a singly household any more – it is also true that traditional family ties remain functional. If, for instance, a younger brother passes away, the eldest son still becomes responsible for the whole family left behind. Regarding the upbringing of children, with all due caution, it may be stated that discipline, subordination, and deference towards the father, the elders or other authorities are among the cornerstones of socialization. Kanungo (1994) even comes to state:
Unconditional obedience by surrendering to authority is considered a virtue. Personal initiative, originality and independence in thinking and decision making in every sphere of life meet with social disapproval. As a result, independent thinking and reasoning [...] diminish. (Kanungo, 1994: 241)

In a similar vein, Tayeb (1988) underlines the high degree of economic and emotional dependence of children on their family until late in life. Decisions related to educational, professional choices and even choices of marriage partner are largely taken by parents. The socialization goals and structures of families also interpenetrate into schools and ultimately into the work context. The authoritarian relationships in the family extend to authoritarian teacher-pupil relations in schools, with teaching methods resting on compliance and passive reproduction of knowledge (Schmitt, 1984). Kanungo (1994) and Sinha and Sinha (1994) show that patriarchal and hierarchical structures are also reproduced in the work context. Like the father in the family, the superior is consulted on all major issues. There is little scope for argument and open confrontations with superiors are disapproved of (Sinha, 1990a; Virmani, 2000). “Check with the boss’ is the crux of the majority of decision making which naturally shifts the locus of control into the highest position in the organization” (Sinha and Sinha, 1994: 167). The authors also state that clear superior-subordinate work roles are generally preferred over equality-based ones in the Indian work context (Sinha, 1980; Sinha and Sinha, 1994; Sinha, 1999). Sinha (1990b) also raises doubts about the ability to implement team work in the Indian context.

Lack of team orientation is one of the typical characteristics of Indians. The only kind of teams which can function effectively is the vertical ones where the status differential is readily accepted and vertical solidarity develops. The top man in such teams meets his obligations. He must provide leadership, guidance and direction, and above all nurturance to his dependents. They must be protected and taken care of. The top man should ideally listen to them and their needs. If he does so, the group is activated by social energy and remains effective. (Sinha, 1990b: 482)

Kanugo (1995) sees authoritarian and patriarchal institutional patterns as the root cause for work-dispositions marked by strong feelings of dependency, a tendency towards conformity and blind obedience. The overall implication of the socialization patterns cited is a general difficulty to implement equality based work concepts in the Indian work context. At the same time, hierarchical and patriarchic relations place an great emphasis on certain authority figures which renders it equally difficult to achieve a far-reaching taking of responsibility of individuals, especially at the lower levels of an organization. As a result it is difficult to implement concepts such as management-by-objectives (MBO) or downward delegation in general.
Those work relations that have been described as effective in the Indian context, such as ‘nurutant task leadership’ (Sinha, 1980; Sinha, 1999), are based on strong personal relations where personal affection between the superior and subordinate takes on an important role for the task achievement. To be fair, India is undergoing tremendous change. In the urban centers traditional patterns of socialization described are seeing transformation and increasing heterogeneity (Saraswathi and Pai, 1997; Becker-Ritterspach, 2000). On the other hand, the patterns still form basic tendencies and certainly hold true for the generation of employees researched in this case study.

Higher Technical Education

The Indian higher education system (see figure 8) is largely discontinuous and compartmentalized with different educational paths posing alternatives rather than building on one another (Heitmann, 1995). The technical education and vocational training in India broadly rest on a ‘three tier system’ (Palit, 1998; Thete, 1999). At the lowest level we find trade-courses for skilled workers and craftsmen, which are either taught at Industrial Training Institutes (ITI) or Higher Secondary Schools. At the middle level we find technical training programs of Polytechnics that produce technician engineers or so called diploma engineers. The highest level is constituted by “first degree and post-graduate courses in engineering and technology” (Thete, 1999: 25). These courses are imparted at Engineering Colleges or the highly prestigious Indian Institutes of Technology (IIT) which are producing graduate engineer degrees. It is important to understand that the structural conditions of the three tier system and the financial endowment (Schmitt, 1984; Heitmann, 1995) required for education, practically rule out much vertical mobility across the three levels. Moreover, the educational content in terms of the share of practical experience and theoretical training varies starkly with the three levels. Two interviews with representatives of a development-project for vocational training (interview Indo-German Tool Room Project, 2002; Heitmann, 1995) explained that while ITI graduates have some degree of practical training and conclude their education with an apprenticeship, diploma engineers and even more so graduate engineers have hardly any practical hands-on training as a part of their education. There is a striking resemblance between the Indian technical education – which was founded to a large extent during British colonialism (Thete, 1999) – and the British system in this respect. For India, like in the British system (Sorge, 1995b), it holds true that educational programs with strong links between academic knowledge and practical experience are associated with lower prestige. Similar to Britain, the link is stronger in polytechnics than at universities, and stronger at regular engineering colleges than at the prestigious IITs. Like their British counterparts (Sorge, 1995b), Indian graduates from the prestigious institutions have little practical experience. As a result, diploma engineers and engineering graduates feature a managerial work-identity that clearly does not have a physical involvement in the manufacturing proc-
ess within its ambit. In India, different educational paths create a strong professional distance. The overall effect of such demarcations is that different employee categories tend to distance themselves from one another, creating communication boundaries in Indian organizations.

Figure 8: Different manpower categories in India’s higher technical education

Source: GTZ Indo-German Tool Room Project, 2002

SOCIAL STRATIFICATION

The professional distance between different employee categories generated by India’s educational system is complemented or rather in a ‘reciprocal interdependence’ (Sorge, 2004) with a social distance produced by traditional caste-related principles of social-stratification. Bouglé (1997) identifies three constituting elements of the Indian caste system. These are “repulsion, hierarchy and hereditary specialization” (Bouglé, 1997: 65). Like Bouglé, Dumont sees these principles as constitutive but argues that they can be reduced to the one core principle of the opposition of the pure and the impure (Dumont, 1997). For:
This opposition underlies hierarchy, which is the superiority of the pure to the impure, underlies separation because the pure and impure must be kept separate, and underlies the division of labour because the pure and impure occupations must likewise be kept separate. (Dumont, 1997: 477)

Interestingly, the structuring principles of the caste-system are ‘reproduced non-identically’ (Sorge, 2004) in India’s modern industrial work-context in two core respects. Firstly, the principle of hereditary specialization is socially functional in that there is a strong correlation between certain caste-backgrounds, educational-choices and professions (Dupont, 1992; Bronger, 1996; Panini, 1996; Sharma, 1997). Secondly, and more significantly, the principle of the opposition of the pure and impure remains strong. It finds expression in a marked social distance between different employee categories (c.f. D’Costa, 2003) and in a strong preference of mental over physical work (Gosalia, 1992; Ramaswamy, 1996; Panini, 1996). The ‘reciprocal interdependence’ between the education system and traditional stratification principles of the caste-system constitute strong socio-professional demarcations between different employee-categories as well as a low prestige for physical work in general. The low prestige for physical work finds different expressions. Ramaswamy states, for example that ‘[b]land labels such as ‘operators’, ‘technician’ and ‘craftsman’ are increasingly the mean or minimum expectation, especially in high technology industry where the more conventional ‘worker’ is itself an opprobrium’ (Ramaswamy, 1996: 35).

Industry is replete with evidence of the search for designations, especially expressive ones which stress rank and progression from physical to mental work, and the creation of new layers of the hierarchy to accommodate new designations. (Ramaswamy, 1996: 36)

Generally, manual activities provide much lower prestige compared to clerical work no matter how simple it may be (Ramaswamy, 1996; interview Director General Indo-German Chamber of Commerce, 2003). Needless to say that cleaning activities are amongst those with the lowest prestige. Perceived as ‘polluting’, cleaning activities are still largely reserved for lower social strata or castes.

Social Stratification and Organizational Hierarchy

In India particularly old family enterprises and Public Sector Undertakings (PSUs) dating from the pre-liberalization era feature extensive hierarchies. Such organizations can easily comprise 20 hierarchical levels or more. The institutional background of this proliferation of hierarchical levels and corresponding designations can be explained by the general importance of hierarchy in family and social stratification but also by developments in PSUs. One source of the tremendous importance of hierarchical designations stems from condi-
tions in PSUs. In these organization pay-rises were limited by government regulation so that there was not a pronounced difference in pay between workers and managerial levels (c.f. Okada, 1998). At the same time, this lacking differentiation – in a highly demarcation conscious society – was compensated by quasi-automatic advancements in the organizations to ever higher status giving designations.

In addition to these organization-internal dynamics, India’s social stratification and family patterns play a crucial role. Contemporary India can hardly be classified as a pure caste-society. Instead, ascriptive and meritocratic status-criteria exist side by side. Particularly in the urban and industrialized regions, with the emergence of new modern profession, traditional caste-related professions have partly lost their meaning. However, while meritocratic status-criteria are becoming increasingly important, it is also true that ascriptive (i.e. Jati and Varna) and meritocratic status-criteria (income, educational degree, and designation held) are not readily separable (Bronger, 1996; Sharma, 1997). After all, the social status of an individual or rather of the whole Joint-Family – whether they live in one household or not – is crucially defined by a combination of class- and caste-specific attributes. There is a coexistence of modernism and traditionalism where formal educational degree, profession and designations held in a company combine with traditional caste-backgrounds. The most shining examples of this coexistence are weekly newspaper marriage market advertisements. Under the category ‘Brides Wanted for Brahmin’ can we read in the Hindustan Times, for example:

Wanted: Really Beautiful Professional girl below 25 yrs for Delhi based Status Gaur Brahmin boy B.E., MBA, 30/174/ 12 Lakhs [income] p.a., Manager in Top MNC.
Reply with Horoscope & Photo to […]. (Hindustan Times, 2002)

Clearly, professional advancement in an organization and the status of the family are closely connected. Tayeb (1988) stresses that professional success of an individual is always connected to the success of the whole family. As hierarchical designations are one of the most visible signs of success, there is a permanent family-induced pressure for advancement in the organizational status hierarchies (Ramaswamy, 1996). Although, job contents often does not even change, companies have increasingly given in to demands for ever better designations to avoid loosing their best employees. Ramaswamy (1996) nicely describes this development as follows:

Among the more significant developments in industry in recent times is the proliferation of levels and labels in the management cadre. Managers consider it burdensome to carry the same designation for any length of time, and quick promotions have become the common method of alleviating this sense of stagnation. Without an appropriate rank and label, companies would certainly find it difficult to retain their best talent. Caught between the demand for status-giving designations (as, for ex-
ample, deputy general manager, general manager, senior general manager, group
general manager, executive director, associate vice president, group vice president) 
and the limit to the creation of functions which go with these labels, companies have 
chosen to give a change of designation without a change of job. As a result, a pro-
motion may get the recipient a superior title and the perquisites which go with it [...] 
but neither significantly increased pay [...] nor the job content appropriate to the ti-
tle. This is an especially common predicament in the public sector: one can find no 
fewer than a dozen general managers in some plants. The designation is nevertheless 
extremely important as a symbol of rank in the firm and a measure of worth in 
the wider society. (Ramaswamy, 1996: 38)

The overall result of this development is that many Indian organizations have seen a tre-
mendous inflation of hierarchical designations and reporting/responsibility levels (Bhadury, 
2000). In India, “[t]he typical organizational chart would show structures which are neither 
flat and modern, nor even traditionally pyramidal, but shaped like a barrel, with bulging 
midriff and (counting out the chief executive) a flat top not very much smaller than the 
bottom” (Ramaswamy, 1996: 39). Ramaswamy (1996) underlines that such structures are 
the crucial reason for job-rigidity and poor labor-utilization in the Indian work context. 
Table 19 summarizes associations between institutional conditions and behavioral disposi-
tions in the Indian work context.

Table 19: Institutional foundations of work dispositions in the Indian work context

<table>
<thead>
<tr>
<th>Institutional foundations</th>
<th>Expectations &amp; behavioral dispositions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Compartmentalized vocational training &amp; technical education enforced by caste-system related principles of social-stratification</td>
<td>Indian employees (IE) perceive high vertical professional and social distance between white and blue collar occupations close to the shopfloor</td>
</tr>
<tr>
<td>Practical and theoretical training content varies strongly with different educational programs</td>
<td>IE have a low appreciation for physical/manual work in general</td>
</tr>
<tr>
<td>Polytechnics trained supervisors generally form the first level of management and play a weak roles as practical trainers of worker</td>
<td>Supervisor levels dislike physical involvement on the shopfloor and feel distant from workers</td>
</tr>
<tr>
<td>Industrial Training Institute trained workers generally have superior practical manufacturing know how compared to supervisors or managerial levels above</td>
<td>Workers find it hard to accept supervisors as practical trainers &amp; to form a close ties with them</td>
</tr>
<tr>
<td>Patriarchal/hierarchical-orientated relationships in family, school and beyond based on socialization patterns serving to create deferential and collectivist personalities</td>
<td>IE tend associate taking of responsibility &amp; decision-making with specific social/organizational authority roles or figures.</td>
</tr>
<tr>
<td>Strong socio-religious and professional hierarchies</td>
<td>IE find it hard to take individual responsibility</td>
</tr>
<tr>
<td></td>
<td>Push for organizational designations</td>
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</tbody>
</table>
**INDUSTRIAL RELATIONS IN INDIA**

The Industrial Relations System in India is traditionally described by three characteristics. First, a state domination of the industrial relationship, including a strong affiliation between unions and political parties—rooted in the colonial past, legislation, India’s independence struggle and its post-colonial political economy. Second, a legislative framework that creates extreme employment inflexibility, particularly with regard to recruiting, deploying, disciplining, and dismissing labor. Third, a legacy of highly confrontational and adversarial employer-union and employment relations.

**THE BASIC LEGAL FRAMEWORK**

Different scholars have pointed out that the prominent position of the state in India’s Industrial relations is rooted in India’s labor laws which were largely drafted before independence. As such they reflect the British colonial effort to keep labor conflict down and production up during the Second World War (e.g. Gupta and Sett, 2000; Ramaswamy 2000). According to Gupta and Sett (2000) and Ramaswamy (2000) three laws have played a pivotal role in shaping Indian industrial relations as a distinct system (Ramaswamy, 2000). These are the Trade Union Act (TUA), 1926, The Industrial Employment Standing Orders Act (IEA), 1946, and the Industrial Disputes Act (IDA), 1947.

The TUA creates the legal foundation for unions to exist. It “confers on unions the basic minimum legality which protects them from civil and criminal liability arising out of industrial disputes and enables to function as lawful associations” (Ramaswamy, 2000: 113). Under the law any seven workers can form a union. For companies this means that even outsiders, non-company members, could form a union and pose demands on behalf of company employees. For some external union leaders this has even been quite a lucrative business as one of my interviewees stressed (DCIPL 2). However, as Gupta and Sett (2000: 145) point out a “mere registration of a union under the TUA does not entitle it to recognition by the employer as a legitimate representative of his workers, or to the bargaining relationship that would arise from such recognition”. Thus, one crucial reason for the prominent position of the state in Indian industrial relations is related to the condition that the TUA includes no provision that recognizes trade unions as collective bargaining agents. This condition is further strengthened by the IDA. Gupta and Sett (2000) state in this context:

*Under the IDA, the government enjoys full discretionary power whether or not, when and how to intervene in an industrial dispute actual or threatened. It may or may not decide to conciliate, it may refuse to send a dispute for adjudication or it may decide not to implement the award of a Labour Court or Industrial Tribunal. While it may prohibit strikes or lock-outs, or it may refuse permission for a lay-off, retrenchment or closure, no court can take cognizance of an offence under the IDA.*
The IDA cements further the vital role of government in Indian industrial relations and forms the basis for the strong political involvement in Indian unions. Ramaswamy (2000) even suggests that the system creates a “fertile ground for political meddling” and underlines that “[t]he history of industrial disputes is replete with instances of the abuse of political power and the subversion of conciliation to promote political interest” (Ramaswamy, 2000: 121). Ramaswamy summarizes the conciliation-related repercussion of the IDA as follows:

*It is clear that the industrial relations system offers immense potential for political manipulation. Conciliation with all its accretions is especially prone to such manoeuvre. Workers and employers know that it is more important to influence the state than to pressurize each other. The quality of access to state power has a vital bearing on the outcome of their industrial relations battles.* (Ramaswamy, 2000: 125)

However, the IDA has not only been problematic for unions and their recognition. For employers, the IDA and its subsequent amendments (in 1976) imply substantial employment and labor market inflexibilities. After all, lay-offs, retrenchments or closures are under the ultimate guard of political leaders as they require government permission. Moreover, the system implies that small unions whether or not they have a constituency in companies, can push through their demands as long as they have political patronage (Gupta and Sett, 2000; Ramaswamy, 2000).

The last piece of legislation that crucially impacts Indian industrial relations is the Industrial Employment (Standing Orders) Act (IEA). The IEA “requires every establishment employing a hundred or more workers to have a set of certified standing orders defining conditions of employment such as hours of work, attendance, proper conduct, punishment for misconduct, and means available for redressal against unfair treatment” (Ramaswamy, 2000: 114). The law’s basic purpose is to guarantee a minimum protection of the workforce where no union is established.

*THE BASIC UNION STRUCTURE AND LEVELS OF COLLECTIVE BARGAINING*

The legal framework and India’s struggle for independence implied that there has traditionally been a strong nexus between political parties/movements and unions (Mankoottam, 2000). In 2003 there were about five central trade union federations that were more or less affiliated with a political party. These included as the main important ones:
- The All India Trade Union Congress (AITUC)
- The Bharatiya Majdor Sangh (BMS)
- The Indian National Trade Union Congress (INTUC)
- The Centre of Indian Trade Unions (CITU)
- The Hind Majdoor Sabha (HMS)

According to Bhattacherjee (2001), India’s planned economy and growing public sector after independence “provided a terrain for large scale unionization” and “quite naturally led to the formation of public sector unionism” (Bhattacherjee, 2001: 248). One of India’s first union federations was the communist-led AITUC which was founded before independence. After independence other political parties and movements followed suit. The Congress Party founded, for example, the INTUC. As socialist broke away from the Congress Party and radial communists broke away from the Communist Party a new union federation was founded, the CITU. Particularly between the 1960s and 1970s, there was an increasing “proliferation of union affiliations to more radical political organizations” (Bhattacherjee, 2001: 251). Over all, the strong connectedness between political parties and the proliferation of unions implied that: 1.) political party or movement rivalry was carried all the way down into rivaling unions in companies, 2.) political movements or politicians instrumentalized labor conflict for their personal or partisan interest, but also that 3.) local labor disputes led to a wider politicization by calling in politicians and political parties (Mamkoottam, 2000). However, from the 1980s onward and accelerated by India’s liberalization in the 1990s, India’s union landscape saw yet another a shift. Already in the 1980s, failed industrial action and disillusionment with politically affiliated unions (Sinha, 2002; Budhwar, 2003) led to a “rise and proliferation of ‘independent’ unions operating in the major industrial centers and competing with the traditional party affiliated unions” (Bhattacherjee, 2001: 254). On average this development de-radicalized industrial action and led to less labor conflict particularly in private sector companies. Moreover, leftist unions lost increasingly support which was rooted in their opposition to decentralized bargaining (Bhattacherjee, 2001). It is also suggested that the increased attractiveness of unaffiliated unions is related to their greater success in achieving wage increases (Bhattacherjee, 2001). All in all, these developments led to a growing diversity in labor-management/union-employer relations between industries, states, and regions (Ratnam, 2001; Bhattacherjee, 2001). Presently, as Bhattacherjee (2001) nicely points out, different bargaining levels and union structures co-exist in the Indian economy.

In the private corporate sector, plant-level bargaining takes place with enterprise based unions that may or may not be affiliated with political parties. In the public sector enterprises, centralized union federation that are affiliated with to political parties bargain with the states (as employer) at the industry- and/or national-level.
Central state government employees in the service sector (transportation, postal services, banking and insurance, police and firefighters, etc.) have their (typically) politically-affiliated unions bargaining at the national and/or regional levels. (Bhattacherjee, 2001: 247)

Although politically affiliated unions have lost power, they still play a role depending on region, sector, and industry. And even if a company union has no political affiliation such a possibility always looms as a potential threat for employers and has created willingness on their part to foster and cooperate with internal unions. While unaffiliated company unions have generally claimed industrial relations in private sector enterprises in general and MNE in particular, an unaffiliated company union is still no guarantee for absent union militancy.

**PRE- AND POST-LIBERALIZATION EMPLOYEE RELATIONS**

Employee relations in pre-liberalized India are frequently described as adversarial in a great number of ways. At its worst, different company unions would fight each other, employer-union relations would be highly confrontational, and so would be labor-management relations. Even relations between different employee categories would be antagonistic. Lack of labor commitment and indiscipline as well as a culture of militant and negative trade unions characterize traditionally the core challenges to managing the Indian workforce (Bhadury, 2000). Along similar lines, Venkataramani (1990) describes the prevalent employment relations in pre-liberalized India:

> Discussions with the Indian entrepreneurs and managers promptly bring out their belief that the central problem they have to contend with is the lack of a sense of identification of employees with the interests of the company. There is little recognition of the importance to the employees themselves of the company remaining competitive, making profits, growing, and equipping itself to meet economic and technological challenges that may arise in future. Employees according to the entrepreneurs experience no meaningful personal commitment to productivity and improve quality. The general mood among employees is as in the American sample cited earlier, one of “Us versus Them” with the company virtually perceived as antagonist. As a result, communication between the company and its employees gets distorted and interaction takes on a confrontationist pattern. Such a pattern extends to interaction between supervisors and shopfloor workers, and between non-technical office staff and the rest. Employees perceive owners and top management of the company as interested only in quick profits and maximum exploitation of workers. Workers are perceived by top management as potential trouble makers and malcontents who are to be kept on proper behavior through the show of firmness and threat of disciplinary action. (Venkataramani 1990: 114)
What is more, industrial conflicts once they broke out could be long-lasting, frequently involving industrial action such as go-slow, strikes, hunger-strikes, political agitation and even physical threat and violence. The employer’s side would most commonly react to such industrial action with lock-outs (Gupta and Sett, 2000). The state conciliation machinery, in turn, which has a prominent role for settling labor disputes could not be counted on, as it was arbitrary with regard to referring disputes for adjudication (Gupta and Sett, 2000). Furthermore, judicial processes would be slow and long-lasting with court cases pending over years.

However, while such kinds of employee relations have still not perished from the Indian industrial relations landscape, modern companies, especially MNE are increasingly able to establish an alternative scenario. This scenario generally implies the presence of just one unaffiliated company union and involves increasingly cordial and cooperative employee relations. Even the much bemoaned employment inflexibility is seen to be less of a problem with the Indian government’s shift to new economic imperatives (essentially favoring the employers’ cause) – starting in the mid 1980s and coming into full wing the New Economic Policy after 1991 (Gupta and Sett, 2000). Although even before liberalization firms found ways to circumvent employment security (Gupta and Sett, 2000), India’s post-liberalization governments resorted themselves to public sector retrenchment through so-called ‘golden handshakes’ or Voluntary Retirement Schemes (VRS). In doing so they rendered such retrenchment practices also acceptable in private sector firms (c.f. Gupta and Sett, 2000). Bhattacherjee (2001), for example, points out that employment flexibility has increased through all kinds of new contract provisions and measures involving “bans on recruitment, job transfer to non-bargainable categories, introduction of parallel production, mergers, suspension of industrial action for a period of five years, concession bargaining (Venkataratnam, 1996)” (Bhattacherjee, 2001: 259). It may be noted that part of the inflation of hierarchical designations and levels in Indian companies is probably related to the union-avoidance strategy, i.e. turning labor into a non-bargainable category. Finally, union power and membership in India has steadily declined since the late 1970s (Gupta and Sett, 2000; Sinha, 2002; Budhwar, 2003). However, as Bhattacherjee (2001: 259) also points out: “[I]ndia loses more days annually as a result of strikes and lock-outs than any other country” (ILO, 1997/98).

**INDIA’S ECONOMIC REFORMS**

In 1991 the Congress-led coalition headed by Prime Minister Narashimah Rao launched a comprehensive reform program that marked a historical transition of India’s highly interventionist planned economy toward a market economy. Although it was Rajiv Gandhi who started reforming the Indian economy in 1995, it wasn’t until the 1991 reforms that a clear cut turning point emerged. Prior to this turning point India followed a mixed economy
model, half way between socialist planned economy and capitalism. While investment in key sectors – such as heavy, basic and capital goods industries – were reserved for the public sector, the private sector was invited to invest in specific consumer goods industry according to the five year plans. However, even in those industries where the private sector was allotted a role, no full market competition unfolded. Instead, a widespread licensing system, strict investment control and protectionism shielded many consumer industries from domestic and international competition. Despite some successes, India’s economic policy had become unsustainable by the early 1990s. Facing severe fiscal and trade imbalances, double digit inflation, India was on the verge of defaulting its external debt obligations and forced to take up an IMF loan. In reaction to this crisis, a comprehensive reform program was launched headed by Prime Minister Narashimah Rao and Finance Minister Manmohan Singh. The new approach focused on stabilizing the Indian economy: reforming the fiscal sector, public enterprises, and the investment, trade and tax regimes and giving the private sector including foreign direct investment a much greater role in the Indian economy (Becker-Ritterspach, 2000).

**THE EMERGENCE OF A FOREIGN DIRECT INVESTMENT REGIME IN THE INDIAN AUTOMOBILE INDUSTRY**

In the 1990s inviting FDI became a corner stone of the India’s New Economic Policies (NEP). Since then India’s emerging FDI regime has aimed at developing India into a global production base and ensuring net foreign exchange inflows. But let us look more specifically at developments in India’s FDI regime in the automobile industry. Taking a historical perspective, these developments can be divided into three phases (Schwerdt, 2004): the license-phase, also called by some as the ‘License Raj’, from the 1950s until the mid 1980s; the phase of deregulation from the mid 1980s until the early 1990s; and the phase of liberalization, from the early 1990s onward. The first, the license-phase, was characterized by stringent restrictions on investments and imports in the industry. Technology imports required government permission and investments in the sector were subject to government licenses. Even capacity enhancement of existing operations required permission (WTO, 1998). Degnbol-Martinussen (2001) details the system as follows:

*The industrial approval system was introduced in India in 1951 under the IDR Act [Industries Development and Regulation Act]. The provisions of this Act made it compulsory for all manufacturing companies to obtain written permission from the government for*

a.) establishing a new industrial undertaking

b.) taking up the manufacture of a new article

c.) substantially expanding the capacity of an industrial undertaking and
In the 1970s an additional legislation was put in place that substantially restricted trade and foreign direct investment in industries. In 1974 the Foreign Exchange Regulation Act (FERA) was put in place restricting foreign equity in Indian companies to a maximum of 40% (Degnbol-Martinussen, 2001).

The phase of deregulation started with Rajiv Gandhi in 1985. In this phase 32 industries were freed from the requirement of obtaining a license for new investments. Moreover, the Indian Government introduced a system of ‘broad-banding’ allowing licensees to produce (without a new license) an alternative range of products with their existing production facilities. (Rieger, 1989; Mohnot, 2001). Although the new system was applied to a range of industries from 1983 onward, it wasn’t until 1985 that it applied to the automobile industry. The ‘broad band system’ essentially allowed all automobile manufactures and automotive parts manufacturers with an existing license to diversify their automotive product range (Rieger, 1989). The deregulation phase also saw a range of other developments such as a loosening of the Monopolies and Restrictive Trade Practice Act (MRTP) and reductions on import duties (Mohnot, 2001). It should be noted that SMC’s involvement in government owned MUL and MUL’s initial requirements for component imports were a crucial trigger for trade liberalization and benefited the whole Indian automobile industry. As the Indian Government could not just favor MUL, the same regulations applied to other players as well. Moreover, FDI was required to engage in ‘phased manufacturing programs’ which obliged foreign investors to achieve a 95% percent local content within an certain time-span.

The third phase of development began with the NEP in 1991. The main goal was to create a competitive industrial base in India by gradually abolishing investment-, production- and sales-restrictions. The increase in market driven productivity, product quality and demand satisfaction became high on the political agenda. This also meant that FDI was for the first time actively sought and invited by the Indian government. Table 20 summarizes India’s emerging FDI regime in the automobile industry.

5.2 INDIA’S STRATEGIC CONTEXT

DEMAND MARKET CONDITIONS IN INDIA’S AUTOMOBILE INDUSTRY

Since the 1980s and boosted by the market reforms in the 1990s, the Indian automobile market has seen a sea change in qualitative and quantitative terms. The market has developed from a sellers market, involving only a few domestic players protected from internal and external competition, to a highly competitive buyers market, involving almost all players of the international automobile industry.
Table 20: India’s emerging FDI regime in the automobile industry

The most important FDI generating measures involved:

- Allowing foreign equity participation of up to 51%; and subsequently up to 74% and 100%
- Simplified procedures for FDI approvals; automatic approvals for FDI up to 51% in priority industries.
- FDI in the passenger car sector above 51% required approval by the Foreign Investment Promotion Board. In 2002, a new auto policy was drafted also involving automatic approval for 100% foreign equity participation.
- Reductions of corporate tax rates for foreign companies
- Abolishment of the system of industrial licensing in 15 industries including the automobile industry; in 1993 abolishment of the system for the passenger car industry
- Abolishment of the pre-entry scrutiny for investment decisions of big companies, including companies falling under the MRTP
- Revision of MoUs regulations. MoUs have to be signed between the Union Government (the Directorate General of Foreign Trade) and a car maker. The new auto policy drafted in 2002 foresees the abolishment of MoUs. (It is unclear, however, if the existing MoUs are still legally binding)
- MoU revisions involved different regulations for the import of SKD/CKD-kits
- Under the new MoU regulation car companies are required to set up a production unit and not merely an assembly facility. In addition, a minimum foreign equity of $50mn has been brought into the operation within three years of establishment.
- Companies are required to observe a broad neutralization of foreign exchange over the entire period of the MoU, obliging them to balance imports and export
- Companies have to comply with export obligations after the third year of operation
- Modification of the Phased Manufacturing Program requiring 95% indigenization within five years. Companies are now required to achieve a 50% level of local content after three years and a 70% after five years of operation. The new auto policy drafted in 2002 also foresees an abolishment of local content requirements. (It is not clear if this policy has taken effect already).
- Reduction of import duties for SKD/CKD kits.
- Introduction of a graded customs duty structure distinguishing between CBU (completely built-up units), SKDs, CKDs and parts and components.
- Introduction of fiscal and monetary reforms impacting the automobile market demand in India. For example, a reduction of the excise duty on automobiles, introduction of VAT etc.

Source: compiled from Mohnot (2001); Schwerdt (2004); Ministry of Heavy Industries & Public Enterprises (2002)

Before SMC entered the Indian automobile market in the early 1980s annual production was around 40,000 vehicles per annum (Mohanty et al., 1994; Schwerdt, 2004). At that point, there were only three players – Premier Automobiles Limited (PAL), Hindustan Motors Limited (HML), and Standard Motors Products of India Limited (MPIL) – producing passenger cars for the Indian automobile market (Mohanty et al., 1994; Schwerdt, 2004). This scenery changed with SMC’s market entry in the 1980s and the market entry of other international auto MNE after the market liberalization of the 1990s. Table 21 shows the major players in the Indian market following India’s deregulation and liberalization. For Indian consumers these developments implied a shift from being able to choose among two to three models that were marked by outdated technology and long waiting times, to being able to choose from an ever growing product range. At the time of research in 2003, the Indian automobile market had developed into a differentiated and segmented automobile
market, involving five basic market segments based on price (Segment A – cars priced lower than Rs. 300,000; Segment B – cars priced between Rs. 300,000 and Rs. 500,000; Segment C – cars priced between Rs. 500,000 and Rs. 1,000,000; Segment D – cars priced between Rs. 1,000,000 and Rs. 2,500,000; Segment E – cars priced above Rs. 2,500,000) (Red Herring Prospectus, 2003). Table 22 shows the market segment coverage by model and manufacturer. Figure 9, 10 and 11 describe the development of the market share in the passenger car sector before and after liberalisation.

**Figure 9: Market share in the passenger car sector by company, India 1990-91**

```
<table>
<thead>
<tr>
<th>Company</th>
<th>Market Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Premier Automobiles</td>
<td>23.7%</td>
</tr>
<tr>
<td>Hindustan Motors</td>
<td>13.9%</td>
</tr>
<tr>
<td>Maruti</td>
<td>62.4%</td>
</tr>
</tbody>
</table>
```

Source: Mohnot, 2001: 61
Figure 10: Market share in the passenger car sector by company, India 1999-00

Source: compiled from Centre for Industrial & Economic Research, 2002: 9

Figure 11: Market share in the passenger car sector by company, India 2002-03

Source: compiled from ACMA, 2004
Table 21: Major players in the Indian automobile market

<table>
<thead>
<tr>
<th>OEM</th>
<th>Indian partner (production site)</th>
<th>Share of the foreign partner</th>
<th>Car or MUV models</th>
<th>Number of employees 2000-01</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bajaj Tempo Ltd. (29.11.1958)</td>
<td>(Pithampur, Madhya Pradesh)</td>
<td></td>
<td>MUVs: different Trax models</td>
<td></td>
</tr>
<tr>
<td>Daewoo (12.10.1994)</td>
<td>Formerly DCM (Surajpur, Uttar Pradesh,)</td>
<td>74% → 91% → 100%</td>
<td>Matiz, Cielo, Nexia</td>
<td>2006</td>
</tr>
<tr>
<td>Daimler-Chrysler (22.11.1994)</td>
<td>Formerly Telco (Pune, Maharashtra)</td>
<td>51% → 76% → 86% → since 2001: 100%</td>
<td>C-class, E-class, S-class</td>
<td>332</td>
</tr>
<tr>
<td>Fiat (16.12.1997)</td>
<td>Premier Automobiles (PAL) (Mumbai, Maharashtra)</td>
<td>51% → 76% → 93% → 95%</td>
<td>Uno, Siena, Palio</td>
<td>2171</td>
</tr>
<tr>
<td>Ford (1995 / 1.2.1999)</td>
<td>Mahindra &amp; Mahindra (Chengalpattu, Tamil Nadu)</td>
<td>50% → 85% → 90%</td>
<td>Ikon (formerly Escort), Mondeo</td>
<td>922</td>
</tr>
<tr>
<td>Mahindra &amp; Mahindra (1945)</td>
<td>(Mumbai, Maharashtra)</td>
<td></td>
<td>MUVs: Armada, Bolero, Scorpio</td>
<td>15,653</td>
</tr>
<tr>
<td>General Motors (15.4.1994)</td>
<td>Hindutan Motors (Hald, Gujarat)</td>
<td>50% → 85%</td>
<td>Astra, Corsa, Swing</td>
<td>461</td>
</tr>
<tr>
<td>Hindustan Motors (11.2.1942)</td>
<td>(Uttarpara, West Bengal; Hosur &amp; Thruval- lur, Tamil Nadu)</td>
<td>Ambassado, (Contessa, Lancer)</td>
<td>11.270 (total)</td>
<td></td>
</tr>
<tr>
<td>Mitsubishi</td>
<td>Hindustan Motors (Thiruvallur, Tamil Nadu)</td>
<td>10%</td>
<td>Lancer, Pajero</td>
<td></td>
</tr>
<tr>
<td>Honda (5.12.1995)</td>
<td>SIEL (Gautambudh Nagar, Uttar Pradesh)</td>
<td>90%</td>
<td>City, Accord</td>
<td>811</td>
</tr>
<tr>
<td>Hyundai Motor India (6.5.1996)</td>
<td>– (Chennai, Tamil Nadu)</td>
<td>100%</td>
<td>Santro, Accent, Sonata</td>
<td>2461</td>
</tr>
<tr>
<td>Peugeot (1995-97)</td>
<td>Premier Automobiles (PAL)</td>
<td>50% → 33,96% → 0%</td>
<td>Peugeot 309</td>
<td></td>
</tr>
<tr>
<td>San Motors (1996)</td>
<td>(Goa &amp; Bangalore, Karnataka)</td>
<td>Storm</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Skoda (2000)</td>
<td>– (Aurangabad, Mahara- rashtra)</td>
<td>100%</td>
<td>Octavia, Superb</td>
<td>ca. 130</td>
</tr>
<tr>
<td>Telco (Tata Engi- neering) (1.9.1945)</td>
<td>(Pune, Maharashtra)</td>
<td>Indica, Indigo, Sumo, Spacio, Safari</td>
<td></td>
<td>24,440 (total)</td>
</tr>
<tr>
<td>Toyota (6.10.1997)</td>
<td>Kirloskar Group (Bangalore, Karnataka)</td>
<td>70% → 88,86%</td>
<td>Qualis, Camry, Corolla</td>
<td></td>
</tr>
</tbody>
</table>

Source: Schwerdt, 2004
<table>
<thead>
<tr>
<th>Manufacturer</th>
<th>Name of the model</th>
<th>Segment as per length-based classification</th>
<th>Segment as per price-based classification</th>
</tr>
</thead>
<tbody>
<tr>
<td>Daewoo Motors India Ltd.</td>
<td>Cielo</td>
<td>A3: Mid-size</td>
<td>C</td>
</tr>
<tr>
<td></td>
<td>Matiz</td>
<td>A2: Compact</td>
<td>B</td>
</tr>
<tr>
<td>Daimler Chrysler India Pvt. Ltd.</td>
<td>C Class</td>
<td>A4: Executive</td>
<td>E</td>
</tr>
<tr>
<td></td>
<td>E 250</td>
<td>A5: Premium</td>
<td>E</td>
</tr>
<tr>
<td></td>
<td>S Class</td>
<td>A6: Luxury</td>
<td>E</td>
</tr>
<tr>
<td>Fiat India Automobiles Pvt. Ltd.</td>
<td>Fiat Palio</td>
<td>A2: Compact</td>
<td>B</td>
</tr>
<tr>
<td></td>
<td>Fiat Siena</td>
<td>A3: Mid-size</td>
<td>C</td>
</tr>
<tr>
<td></td>
<td>Fiat Uno</td>
<td>A2: Compact</td>
<td>B</td>
</tr>
<tr>
<td></td>
<td>Palio Adventure</td>
<td>A3: Mid-size</td>
<td>C</td>
</tr>
<tr>
<td>Ford India Ltd.</td>
<td>Escort</td>
<td>A3: Mid-size</td>
<td>C</td>
</tr>
<tr>
<td></td>
<td>Ikon</td>
<td>A3: Mid-size</td>
<td>C</td>
</tr>
<tr>
<td></td>
<td>Mondeo</td>
<td>A5: Premium</td>
<td>D</td>
</tr>
<tr>
<td>General Motors India Ltd.</td>
<td>Opel Astra</td>
<td>A3: Mid-size</td>
<td>C</td>
</tr>
<tr>
<td></td>
<td>Opel Corsa</td>
<td>A3: Mid-size</td>
<td>C</td>
</tr>
<tr>
<td></td>
<td>Opel Swing</td>
<td>A3: Mid-size</td>
<td>C</td>
</tr>
<tr>
<td>Hindustan Motors</td>
<td>Ambassador</td>
<td>A3: Mid-size</td>
<td>B</td>
</tr>
<tr>
<td></td>
<td>Contessa</td>
<td>A4: Executive</td>
<td>C</td>
</tr>
<tr>
<td></td>
<td>Lancer</td>
<td>A3: Mid-size</td>
<td>C</td>
</tr>
<tr>
<td>Honda SIEL Cars India Ltd.</td>
<td>Accord</td>
<td>A5: Premium</td>
<td>D</td>
</tr>
<tr>
<td></td>
<td>City</td>
<td>A3: Mid-size</td>
<td>C</td>
</tr>
<tr>
<td>Hyundai Motor Company Ltd.</td>
<td>Accent</td>
<td>A3: Mid-size</td>
<td>C</td>
</tr>
<tr>
<td></td>
<td>Santro</td>
<td>A2: Compact</td>
<td>B</td>
</tr>
<tr>
<td></td>
<td>Sonata</td>
<td>A5: Premium</td>
<td>D</td>
</tr>
<tr>
<td>Maruti Udyog Ltd.</td>
<td>Maruti 1000</td>
<td>A3: Mid-size</td>
<td>C</td>
</tr>
<tr>
<td></td>
<td>Maruti 800</td>
<td>A1: Mini</td>
<td>A</td>
</tr>
<tr>
<td></td>
<td>Alto</td>
<td>A2: Compact</td>
<td>B</td>
</tr>
<tr>
<td></td>
<td>Baleno</td>
<td>A3: Mid-size</td>
<td>C</td>
</tr>
<tr>
<td></td>
<td>Esteem</td>
<td>A3: Mid-size</td>
<td>C</td>
</tr>
<tr>
<td></td>
<td>WagonR</td>
<td>A2: Compact</td>
<td>B</td>
</tr>
<tr>
<td></td>
<td>Zen</td>
<td>A2: Compact</td>
<td>B</td>
</tr>
<tr>
<td></td>
<td>Versa</td>
<td>Utility vehicles</td>
<td>C</td>
</tr>
<tr>
<td></td>
<td>Omni</td>
<td>Utility vehicles</td>
<td>A</td>
</tr>
<tr>
<td>PAL-Peugeot Ltd.</td>
<td>118NE Peugeot 309</td>
<td>A3: Mid-size</td>
<td>B</td>
</tr>
<tr>
<td>Premier Automobiles Ltd.</td>
<td>Premier Padmini</td>
<td>A2: Compact</td>
<td>A</td>
</tr>
<tr>
<td>Skoda Auto India Pvt. Ltd.</td>
<td>Octavia</td>
<td>A5: Premium</td>
<td>D</td>
</tr>
<tr>
<td>Tata Engineering &amp; Locomotive Co.</td>
<td>Indica</td>
<td>A2: Compact</td>
<td>B</td>
</tr>
</tbody>
</table>

Source: Red Herring Prospectus, 2003
Figure 12: Development of the Indian passenger market, 1995-96 to 2003-04

![Graph showing the development of the Indian passenger market, 1995-96 to 2003-04.](image)

Source: SIAM 2002:9; SIAM 2006

Figure 13: Development of the market volume by segment

![Graph showing the development of the market volume by segment.](image)

While India’s pre-liberalization production capacities were not able to satisfy market demand, India’s post-liberalization production capacities soon surpassed actual market demand. At the time of research, the Indian automobile industry was suffering from a severe production overcapacity. Although market demand has steadily grown (see figure 12), it remained below expectation for many international automobile entrants. What is more, market growth is still mainly restricted to the lower segments A and B (see figure 13). The segments A and B are essentially the only segments that offer real market volume in India.

**SUPPLY MARKET CONDITIONS IN INDIA’S AUTOMOBILE INDUSTRY: SUPPLIERS AND HUMAN RESOURCES**

**SUPPLIERS**

As the Indian automobile industry had been for decades very small, isolated, and monopolized sellers market, the less than a handful of producers in the market provided little volume for the development of a strong supplier industry. In addition to low volumes, supply uncertainties and the tax regime provided little incentive for car manufacturers to outsource parts and components and reduce their high vertical integration (D’Costa, 2003). In the absence of market growth and competition, existing suppliers, had little capital and incentive to update manufacturing technology and facilities (Bhargava, 2002). Moreover, the dispersal of supplier over different states in India and the absence of Value Added Tax (VAT) discouraged concentration processes in the Indian supplier industry (ACMA and SIAM Interviews). As a result Indian automobile suppliers remained small players, featuring low production capacities, low technological know how and low quality levels (D’Costa, 2003; Bhargava, 2002). In summary, before SMC entered the Indian market, supplier relations were weak, fragmented and not tiered or meaningfully concentrated at all. What is more, contractual relations in the industry were low trust based and arms length in nature. Supply logistics were shaped by supply uncertainties, the geographical dispersion of supplier all over India and poor transportation infrastructure. Against this background, high inventories were and still are to a large extent a necessity. All in all, supply market conditions for automotive parts and components were unable to serve international market standards, especially not in terms of quality, quantity and price.

This changed, however, with SMC’s entry to the Indian market (see further detail in chapter 6). It is probably fair to say that like not other international entrant, SMC has shaped the Indian supplier market in the pre-liberalization era. In the wake of market reforms other international automobile suppliers also entered the Indian market and asked their suppliers to follow (Bhaktavatsala, 1993; D’Costa, 2003; Sutton, 2004; Schwerdt, 2004). This ‘follow sourcing strategy’ implied that big international suppliers, such as Bosch, Delphi, Denso, Valeo, or Visteon, followed their buyers and either established wholly-owned subsidiaries
or engaged in local tie-ups and JV (Humphrey, 1999; Humphrey, 2000; Bhavani, 2002; Humphrey, 2003). For Indian suppliers the entry of the international supplier giants implied, in turn, a huge challenge. They were under great pressure to catch up with international quality and technology standards which has often only been possible by international cooperation. According to Humphrey (2003), “there has been a clear marginalization of locally owned companies because of the development of global sourcing arrangements between leading assemblers and first-tier suppliers (Humphrey, 2003: 136)”. Overall, the modest (widely overestimated) automobile market demand in India has led to an overcapacity in the Indian supplier industry. Suppliers have tried and still try to buffer these problems by serving different masters.

**HUMAN RESOURCES**

Finally, we shall only briefly discuss the supply market conditions for human resources. India’s education efforts have a legacy of focusing on higher education (Becker-Ritterspach, 2000). While the number of scientists and engineers is among the highest in the world, India as a whole faces still high levels of illiteracy and low learning achievement. However, these conditions have generally not harmed the human resource availability for MNEs in India. The Indian labor market offers a huge supply of highly educated human resources. For international auto manufactures this has generally implied an abundance of highly qualified managers and engineers at comparatively low cost. At the same time, there is an abundant supply of qualified – ITI trained – workers at comparatively low cost. In comparison to other emerging markets such as China and Indonesia, India’s large number of educated workers is also seen as its ‘trump card’ (Geissbauer and Siemsen, 1996). As far as average wage levels are concerned, Geissbauer and Siemsen mapped the scenario across different employee levels in 1995 as follows: in 1995 the average wage levels in India were for factory workers and apprentices between 115 to 175 Euro, for foremen and engineers between 225 and 325 Euro and for upper management (e.g. department heads) between 700 and 1800 Euro (Geissbauer and Siemsen, 1996). Compared to other emerging market conditions, India is taking in wage level terms a middle position (Geissbauer and Siemsen, 1996). However, a common complaint about India’s human resources is a general lack of practical skills. This problem is rooted in the structure of India’s higher technical education system, a socio-religiously founded prejudice towards physical/manual work, a poor funding of educational facilities and outdated curricula (Heitmann, 1995).
CHAPTER 6: FOUR CASE STUDIES

In this chapter the focus is on the four empirical cases selected for this study: Maruti Udyog Limited (MUL), Fiat India Private Limited (FIPL), DaimlerChrysler India Private Limited (DCIPL) and Skoda Auto India Private Limited (SAIPL). The main goal of this chapter is to look at each case individually and to identify the respective case’s hybridization profile as well as the causalities that have brought about a case specific hybridization profile. Each case starts with a more general discussion of the strategic choices at the corporate and subsidiary level. The main part of the case discussion consists of identifying the transfer scenarios, the institutional/strategic (mis)fits/recontextualization pressures and the dominant recontextualization modes of the cases’ different production system dimensions. The identification of transfer scenarios, (mis)fits/recontextualization pressures and modes serve to determine the hybridization outcomes of the four cases under research. The empirical findings of the different cases’ hybridization profiles and the underlying causalities that have brought about these profiles are the basis for a systematic cross case comparison and analysis in chapter 7.

6.1 MARUTI UDYOG LIMITED (MUL).

GLOBAL PRODUCT STRATEGY OF THE FOREIGN PARENT, STRATEGIC ROLE OF THE SITE AND STRATEGIC DISTANCE TO OTHER SITES

“Small Cars for a Big Future”

SMC’s Motto expressed by Osamu Suzuki (Datamonitor, 2003)

Suzuki Motor Company’s (SMC) generic product strategy in the passenger car segment can be understood with Porter (1980) as a combination of a focus and a cost leadership strategy. SMC focuses mainly on light, sub-compact and small car market segments (Kasahara, 1994). SMC has been mainly focusing on “low-cost mini cars for the less wealthy but more populated areas of the world, such as India, China and Eastern Europe” (Reference for Business, 2003).

Four billion people live where cars are not used much yet. That is the market we are after (Osamu Suzuki, cited in Eisenstodt, 1993)
Suzuki had a vision – instead of battling the industry giants, he focused on capturing buyers in the world’s developing markets, such as India, China, and Hungary. (Reference for Business, 2003)

As a logical concomitant, this strategy SMC has not only emphasized efficiency through high volumes but simultaneously a constant cost reduction. Eisenstodt (1993) quotes Osamu Suzuki, the company’s long-time chairman as saying: “We make small cars, so we worry about cutting costs by even one yen”. While SMC had at the time of research an overall product range of 14 models, MUL offered in the Indian market about nine of them (MUL 4). All of these models were essentially developed in Japan and the level of responsiveness to the Indian environment was rated low (MUL 2). In the past, SMC was hesitant to offer the latest models in its developing country markets. Columnists’ as well as various interviewees’ comments suggested that in the past MUL’s profit strategy – at least in India – rested on the introduction of models and product-technologies which were not the latest in the company (MUL 1; MUL 2; MUL 3). However, this model/technology gap narrowed a little after the turn of the millennium.

Apart from SMC’s internationalization of motorbike production in 1960s and 1970s and its first automobile assembly site in Indonesia (starting in 1976) SMC’s internationalization in automobile production did not take off before the 1980s (Kasahara, 1994). In 1981 SMC signed business tie-ups with the General Motors Corporation. In 1982 SMC started an assembly operation in Pakistan and in the same year a JV agreement was signed with MUL for the set-up of an integrated production site in India. Besides its venturing into the Indian market, the most important steps of internationalization were in the 1980s a JV with Santana Motors in Spain (1985), an agreement with General Motors Corporation of Canada to establish a JV company – better know as CAMI (1986) – and the establishment of assembly sites in New Zealand (1984), Columbia (1987) and Egypt (1989). These internationalization efforts continued throughout the 1990s and included in Asia the establishment of wholly-owned operations, ties ups, or JVs for the production of passenger cars in Korea, China, Vietnam, and Myanmar as well as in Europe the establishment of an integrated production plant in Hungary (Suzuki, 2004). After the strong international expansion in the 1980s and 1990s, the turn of the millennium brought a shift in SMC’s internationalization pattern. Instead of unrelenting expansion, the focus became more one of consolidation and strategic reorientation of its international operations. MUL, for example, no longer exclusively served its domestic and neighboring markets but received the mandate to produce the new Suzuki Alto for European markets (The Financial Express, 2002). At the time of research, plans were under way to make MUL SMC’s most important R&D hub in Asia outside Japan. Moreover, SMC entered a number of collaboration and strategic alliances the most important of which the one with General Motors in the year 2000.
SMC’s dominant mode of establishing foreign production sites has been setting up “satellite assembly plants” (Reference for Business, 2003). Only some of SMC’s sites are fully integrated production sites. With an installed capacity of 350,000 units and needs for further expansion, SMC’s Indian JV was strategically the biggest and most important among its foreign operations. With regard to production volumes and product variety, SMC’s Indian operation is strategically the closest to SMC’s main passenger car manufacturing site in Kosai, Japan.

**INTRODUCTION: FOUNDATION, ENTRY MODE AND EQUITY DEVELOPMENT OF THE SUBSIDIARY**

**Market entry/establishment mode:** SMC entered the Indian passenger car market in the early 1980s in the format of a JV with MUL, a Government of India Company at the time. Although MUL was established before SMC’s involvement, the JV was basically a Greenfield start-up. MUL which was founded by Sanjay Gandhi before it was taken over by the Indian Government had been incapable of manufacturing a single marketable car (MUL 4). The failure of the Indian automobile industry in general and MUL’s failure in particular, made the Indian Government rethink its protectionist industrial policies in the 1980s and look for foreign collaborators in the transport sector.

For SMC, despite the risks involved (i.e. minority shareholding cum massive technology transfer, dealing with a state owned company), a market entry into India provided an opportunity to advance its lagging internationalization. Above all, it allowed getting a foothold in a market: which still remained closed to other international auto companies, which lacked any serious domestic competition, and which had a huge unsatisfied demand in those lower market segments SMC was strategically focusing on (Venkataramani, 1990).

The Indian Government selected SMC, in turn, because the company convinced with its small car product portfolio, its pricing, and its flexible approach in the negotiations. Moreover, as a Japanese company SMC promised to provide at the time the much sought after Japanese manufacturing culture. More importantly, SMC’s equity participation offer was higher than that of the other contenders (Venkataramani, 1990).

**Equity mode and development:** All these considerations led the Indian Government to accept SMC’s offer and a JV and licensing agreement was signed between MUL and SMC in 1982. The equity participation between the Indian Government and SMC was set at 74% and 26%. The JV agreement included a provision that allowed SMC to raise its equity to 40%. In 1989 SMC exercised this right and raised its stake to 40%. When the ten-year agreement between the JV partners ended in 1992 a new JV agreement was signed that allowed SMC to raise its share to 50%. Around the same time India embarked on a massive liberalization program, which fundamentally changed FDI conditions in India. In 1993 the licensing for the automobile Industry was abolished and potential competitors were invited
into the country. Feeling the heat of the emerging competition, SMC asked in January 1997 the Indian Government for a majority stake in MUL. However, the Indian Government declined the request and period of conflict between the JV partners followed. It was not until 2002, following a new disinvestment policy by the newly elected BJP, that SMC was finally able to increase its stake to 54.2%. The remaining 45.8% were held by the Government of India, institutional investors and others.

LOCATION, PRODUCTION PROGRAM AND MARKET SHARE

Location: MUL’s production facilities are located in Gourgaon in the outskirts of New Delhi. The JV agreement between the two parties stipulated that SMC was responsible for technology transfer, setting up production facilities and getting production up and running (MUL 4; c.f. Mohanty et al., 1994).

Production Program: In line with SMC’s core competence in the small car segment and the Indian Government’s wish to mass-produce a ‘people’s car’ (i.e. a small, energy efficient and affordable car) production commenced in 1983 with the A-segment Maruti 800. As an affordable car for India’s growing middle class, the Maruti 800 proved to be a run-away success. Although the company introduced new and also higher segment models over time – offering in total nine basic models in over 50 variants – the models catering to the market segments A and B remained MUL’s bread and butter. In 2003 the Maruti 800 still accounted for 43.4% of its domestic sales (Chavan, 2003). With an annual production capacity of 500000 cars and around 4500 employees, MUL was the biggest automobile manufacturer in India.

Market share: Enjoying an enormous Government support (preferential duty concessions, liberal permission to raise prices) (Chatterjee, 1990: 39) and a first mover advantage, thanks to a restrictive licensing policy until 1993, MUL developed into the undisputed market leader. MUL’s market share peaked at around 83% in 1998. Although foreign competition (mainly Hyundai) made inroads into MUL’s market share, the company remained the market leader. In 2002/2003 MUL still had an overall market share of around 53%. MUL was dominating the small car market with a share of 100% in the A segment and a share 36% in the B segment (Red Herring Prospectus, 2003). Like no other company, the Indo-Japanese JV has established, dominated and institutionalized the Indian automobile industry and market.

THE GLOBAL TRANSFER SCENARIO

A Template? The set-up of the MUL’s production system followed from the beginning until the time of research a comprehensively defined template. This template was SMC’s main plant in Kosai, Japan. The available literature (e.g. Mohanty et al., 1994) and interviewees...
In no other research case, interviewees used a similarly clear language – such as ‘replica’ or ‘duplicate’ etc. – to mark the copycat character of the Indian plant (MUL 1; MUL 2; MUL 3; MUL 4; MUL 5). What is more, the literature (Chatterjee, 1990; Venkataramani, 1990) on the Indo-Japanese JV underlined repeatedly that even more than SMC’s Japanese management; it was the Indian top management who was seeking the replication of SMC’s Japanese management system. They were doing it apparently with such rigor that they were frequently labeled ‘converts’, ‘ardent evangelist’, ‘disciples’ or with similar allusions to religion. 

Transfer content – the comprehensiveness and main focus areas of template or transfer intent/effort: According to Mohanty et al. (1994) the comprehensive transfer intent was already fixed in the initial technology transfer agreement between the JV partners. The transfer intent essentially targeted or touched all major dimensions of the production system (c.f. Venkataramani 1990) ranging from structural attributes to core aspects of the process organization.

The organizational structure of MUL is devised on exactly the similar pattern of its Japanese partner i.e. Suzuki Motor Company. The staffing of people, factory layout, installation of plant and machinery, etc. are inherited in toto form Suzuki Motor Company, Japan. The basic reasoning of such a structure is to realise the industrial success based on Japanese Business Management Systems in India. (Mohanty et al. 1994: 133)

While the transfer targeted all dimension of MUL’s production system the main thrust of the transfer effort was on human resources and aimed at replicating behavioral patterns and attitudes of a Japanese work culture (Mohanty et al., 1994; Kasahara, 1994: 78). Thus, the transfer intent and effort strongly aimed at the establishment of Japanese/SMC practices in the Indian workforce. Again, the language use in interviews (MUL 1; MUL 2; MUL 5) and publications was quite telling. Frequently used terminologies revolved around terms such as: imbibe, infuse, inculcate, instill, in combination with the terms of culture, ethics, and attitudes. It was stressed that such a transfer goal could not be achieved by means of documents but relied instead on intensive human interaction as transfer mechanisms (Venkataramani, 1990; Kasahara, 1994: 78).
THE ORGANIZATION STRUCTURE

FUNCTIONAL DIFFERENTIATION

TRANSFER SCENARIO

From the beginning SMC’s plant in Kosai was the main template on which the Indian site was to be modeled (Mohanty et al., 1994). Despite being the junior JV partner the production set-up, including the functional differentiation was in the hands of SMC. It was SMC’s responsibility as part of the JV agreement. After all, SMC introduced the products and was chosen as a JV partner because the local JV partner lacked the capabilities (Venkataramani, 1990). Although no detailed information was available, interviewees’ comments suggested that MUL’s functional differentiation regarding different divisions, departments, sections and work groups largely followed the example of the Kosai plant in Japan (MUL 5; MUL 1). Another indication for a transfer and replication intent of the functional differentiation is implied by the fact that the MUL’s production system followed exactly Kosai’s low level of vertical integration (UNIDO, 2003). In summary, based on SMC’s entry strategy, mainly its equity mode, one would have expected that MUL would draw to a substantial degree on a local JV partner’s template. However, there was no existing functional template at the Greenfield site and the local JV partner lacked the capability to develop a product and establish a production system on its own. Thus, even though SMC was the minority partner, the capability gap between SMC and its local partner as well as its product ownership and the absence of major strategic and institutional misfits allowed the transfer of SMC functional differentiation.

STRATEGIC AND INSTITUTIONAL (MIS)FIT/RECONTEXTUALIZATION PRESSURE

Contextual distance and transfer intent: There were no indications that any local/host strategic misfit or institutional misfits hampered SMC’s transfer of the Kosai functional set-up. As the MUL operation aimed at the establishment of an integrated plant with a similar task profile as SMC’s Kosai’s plant, the functional differentiation required, was about the same. As the demand market condition in the host strategic context – high demand for small/low end cars – was similar to home operations, the replication of Kosai functional differentiation became a viable option. Moreover, MUL was a Greenfield operation and was lacking capabilities to establish a functioning production set-up on its own (MUL 4). The Greenfield nature of the site also implied that there was no existing local template. Template transfer/use, demands and conditions; strategic/institutional (mis)fit; and recontextualization pressure: There were no reports of major institutional or strategic misfits concerning the implementation of the functional layout of the Kosai template. As stated before, there was no existing functional configuration at MUL. This implied, on the one hand, that a new
establishment for the functional set-up in line with the template was sought. It implied on the other hand, that there were also few existing local institutional conditions resisting the foreign template (MUL 1; MUL 2). Some strategic misfit: There was, however, some misfit/recontextualization pressure related to absent supply market conditions in the host context. The Kosai functional differentiation is based on an extremely low vertical integration (Bhargava, 2002). This required, in turn, that a developed supplier base was present in the local/host context.

**MODE OF RECONTEXTUALIZATION**

*Adaptation of foreign parent templates and/or demands and conditions?* The strategic fit, the lacking local capabilities and the related task sharing in the JV, made the functional differentiation’s establishment by the Japanese partner a requirement and the replication of Kosai’s configuration a possibility. Once transferred, there was only little contextual (mis)fit/recontextualization pressure working against the implementation of Kosai’s functional differentiation. Given an Indian top management supporting the transfer and the Greenfield nature of the site, there was a high local context resilience to establish the SMC’s functional differentiation. It was only the lack of a developed supplier base and some other infrastructural shortcomings that did call for some functional extensions rather than fundamental changes in the functional set-up. Due to the strategic misfit in supply market conditions MUL had to add or extend some functions to its functional differentiation that were not needed in the Japanese operation. A case in point was the ‘Vendor Upgradation Division’, which was initiated because the Indian supplier sector was unable to meet MUL’s supply demands in terms of delivery times, quality and quantity (Mohanty et al., 1994; UNIDO, 2003). MUL even established an electricity unit, to secure energy supply (Gulyani, 1999). Thus, there was some minor adaptation of the foreign parent template through extension or internalization (Westney, 1993).

*Adaptation of local/host context, templates and/or demands and conditions?* Adaptation of local/host context through local/host creation: While there were no adverse local/host strategic or institutional demands or conditions calling for a substantial change of the functional set-up in line with the template, there was also no existing structure at the site to draw on. Therefore, the functional differentiation had to be created all new. This was mainly achieved through the massive transfer of Japanese expatriates who had the mandate to establish the functional differentiation. Moreover, the establishment was facilitated by young newly recruited workforce with few preconceived notions (i.e. high local institutional context resilience) (MUL 1; MUL 2). The strategic misfit with regard to host context supply conditions led to a massive host context creation as we will discuss in more depth in the supplier relations section. To compensate for the absent host strategic context required SMC helped establishing a supplier
base. While some local supplier mistrust (Bhargava, 2002) had to be overcome, the host context resilience was rather high due to low existing levels of institutionalization.

OUTCOME

MUL’s functional differentiation reflected the mother plant template Kosai. This replication approach was possible because the two sites shared very similar task profiles. Moreover, starting from scratch and having defined Kosai as a template to emulate and leaving the functional/technical set-up of the production system in the hands of Japanese expatriates made the transfer possible. Those strategic/institutional misfits that did surface were mainly related to host context supply market conditions, i.e. low development levels in India’s automobile supplier sector as well as in other supply infrastructure. This institutional/strategic misfit – in the form of absent suppliers/absent quality, quantity, price of supply inputs – called for recontextualization in the form for functional extensions. These extended or added functions produced some deviation from the original function set-up of Kosai (change/extension of foreign parent template). At the same time, they aimed at creating a host country strategic/institutional context (change/creation of host context) to allow the transfer of Kosai’s low vertical integration. However, given the Greenfield character and the planned production program of the site, there was no major host/local institutional or strategic misfit between SMC’s Kosai template and MUL’s operational requirements, working against a transfer or calling for a major recontextualization of the functional differentiation. Based on the information available, we can conclude that MUL’s production system’s functional differentiation (divisions, departments, sections etc.) is largely an imitation of SMC’s Kosai operation.

HIERARCHICAL DIFFERENTIATION

TRANSFER SCENARIO

Despite the comprehensive transplant approach which was proclaimed to include Kosai’s full organizational set-up (Mohanty et al., 1994), there were no indications that SMC also transferred its hierarchical differentiation. Instead, the hierarchical differentiation of MUL showed strong signs of using a local template similar to other PSUs (MUL 4; MUL 5). The fact that despite an overall template transfer approach this aspect was left out, can be attributed to the entry mode. SMC entered a JV with a Government of India company as a minority partner. While SMC was mandated to shape the production organization, the shaping of certain structural elements had to follow Public Sector Undertaking (PSU) regulations. As a Government of India enterprise, public sector rules and regulation applied to MUL. This was, particularly the case with regard to policies of recruitment, staffing, remuneration and promotion, which had structuring implications for MUL organizational hierarchy. This also
comes out in the following interview paragraph, which was conducted by Chatterjee (1990) with MUL’s Chairman and managing director (MD) Bhargava:

Yes, we have made some ‘adaptations’ of Japanese practices. We could not blindly copy everything. I do not know whether you should call it dilution or not there have been modifications in some of the management practices we follow. For example, in our manpower planning and in our manpower policies we have to take note of the fact that we work in a system where the kind of freedom which is available to the Japanese in rewarding employees, and granting pay scales, these things are not available (to us); so we have to follow a different thing in the system of assessment of people, the promotion policies and in all of these we have to follow something which is different from the Japanese. In our system, on the financial side we have to take note of the fact that we are a Government company and there are certain rules and regulations prescribed by the Government to be followed, whereas in Japan there is much less of that kind of thing. (Chatterjee, 1990: 134)

There is evidence to suggest that it was due to the ownership background that the hierarchical differentiation of the site rested on a local template. Apart from the Government of India ownership or majority in early years, there were also indications that human resource matters in the JV – particularly those related ‘manpower planning and in our manpower policies’ were handled by Indian managers. This was probably the case because these matters required an intimate knowledge about rules and regulations to be followed in a Government of India company.

**STRATEGIC AND INSTITUTIONAL (MIS)FIT/RECONTEXTUALIZATION PRESSURE**

*Contextual distance and transfer intent? Institutional misfit/distance:* The transfer of SMC’s hierarchical differentiation was ruled out by the institutional distance and misfit between SMC’s hierarchical differentiation and the hierarchical differentiation typical in Government of India companies and the additional fact that SMC was the minority JV partner. Looking at it from SMC’s side, there was a substantial institutional distance between the local template and what SMC probably would have preferred for the hierarchical differentiation. At least a number of Japanese researchers who also had the opportunity to research MUL underlined the institutional distance between typical hierarchical differentiation in Japanese automobile companies and the 19 level hierarchy found in MUL. Okada commented, for example, that MUL’s:

> Occupational structure between unskilled workers and department managers is divided into 15 levels. This is far fewer than the 90 job classifications in the U.S.
Similarly, Kasahara (1994) concludes referring to MUL: “[t]he fact that along with the occupational categories, a hierarchy is also clearly defined, is a characteristic of firms run by the Indian government” (Kasahara, 1994: 76). Kasahara also identifies in MUL in comparison to Japanese conditions a much higher level of positional demarcation and rigidity based on fixed qualification entry points into the organization. For example, although there were many designations for operators within which they could advance without any meaningful change of job profile, it was generally difficult for operators to cross the line into supervisory levels. Kasahara (1994) stresses that in SMC/Japan professional duties are only few and vaguely defined. He underlined that, in contrast to the situation at MUL, changes to professional duties in SMC were readily accepted based on management needs, personal training requirement and a strong in-house and qualification system (Kasahara, 1994: 76). Kasahara attributes the difference to the facts that staffing of different organizational levels in MUL was tightly coupled with specific educational qualifications and that hierarchical occupational demarcations played a central role for the Indian employees’ work identity (Kasahara, 1994: 78).

Template transfer/use, demands and conditions; strategic/institutional (mis)fit; and recontextualization pressure? To say that the site was largely based on an Indian hierarchical organizational template is not to say that there were no countervailing institutional demands from the parent SMC. A human resource manager interviewed argued that MUL had a flat hierarchy in terms of ‘responsibility levels’ and ‘salary levels’ comparable to those of SMC (MUL 5). According to the manager, MUL had only three ‘responsibility levels’ – as publicly purported by MUL’s website. However, the human resource manager (MUL 5) and other interviewees at MUL (MUL 1; MUL 2) admitted that there were many more hierarchical levels than reporting levels. Doubts were raised (MUL 4) as to whether there was a meaningful difference between responsibility levels and hierarchical designations in MUL. There was little evidence that SMC was able to demand a substantial reduction of formal hierarchical levels. After all, SMC was for a long time a junior partner in the JV and any serious effort to reduce hierarchical designations or levels would be up against resistance from a local/host institutional context where hierarchical

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3 Price who has researched SMC’s production system in Japan points in the same direction and states “the absence of job descriptions for workers meant that SMC employees had no specific job assignment or classification and could be rotated or transferred relatively easily” (Price, 1997: 165).

4 MUL prides itself on the website having implemented “a flat organisational structure” with “only three levels of responsibilities ranging from the Board of Directors, Division Heads to Department Heads” (Maruti, 2003).
demarcation are deeply rooted. Finally, there was no indication that strategic distance affected MUL’s hierarchical differentiation.

**MODE OF RECONTEXTUALIZATION**

*Adaptation of foreign parent templates and/or demands and conditions?* Related to the entry mode SMC was not able to transfer the hierarchical differentiation of the Kosai template. Interviews remained inconclusive with regard to the question if SMC had pushed for a change of the local hierarchical template. However, even if it had pushed for such a change, these demands were not easy to realize. SMC was until 2003 a junior partner in the JV. While SMC delegates had the mandate to shape the production organization, the ultimate control was in the hands of Indian managers. So based on the equity mode, SMC’s configuration related power was limited. Furthermore, in the Indian institutional context, hierarchical differentiation and regular promotions to ever better designations are expected and play a very important role. Against this background, it is doubtful whether SMC could or would like to put through its demands for a less hierarchical designations and levels after the takeover. After all, MUL had a differently configured hierarchy for two decades. Thus, both the equity mode and entrenched local institutional demands made it very likely that demands for a flatter hierarchical set-up from SMC would be rejected.

*Adaptation of local/host context, templates and/or demands and conditions?* Little (cosmetic) adaptation of local template: There were strong indications that the hierarchical differentiation of MUL was created in line with Government of India rules and regulations for PSUs. As such it reflected a typical local template with regard to the hierarchical differentiation. Even more recently, when MUL seized being a public sector company, and when MUL’s majority was acquired by SMC, no major reductions of hierarchical designations were reported. However, at the time of research it was too early to tell if the shifts in equity would translate into new foreign parent demands for a changed hierarchical differentiation. The only identifiable adaptation of the local template seemed to have been cosmetic in nature. As stated earlier, MUL claimed to have no more than three ‘levels of responsibility’. This possible decoupling of hierarchical designations and actual reporting levels could mirror a response to demands from the Japanese parent. At the same time, such ‘decoupling’ of reporting levels and hierarchical designations are also not uncommon in purely domestic companies. In any case, there was little indication that MUL’s publicly purported flat structure was more than ‘ceremonial adoption’. Despite its overall transplant approach, MUL’s organizational hierarchy showed clear signs of being based on a local template. The dominant (re)contextualization mode was, therefore, an adaptation/response of the local site context to local/host contextual demands. The pattern that MUL featured as a result was a steep structure of 19 hierarchical designations (MUL 5). Chatterjee (1990) who had the opportunity to investigate intensively MUL explicates these levels as follows:
Employees are divided into levels beginning at one going up to 19. Initial recruitment has been generally made from amongst candidates with an ITI qualification for levels 3-7. Level 8 employees are normally diploma holders and the group 8-10 work as supervisors. Level 11 recruits are drawn from Engineering graduates on the technical side. Levels 11-13 are in the grade of Section Managers. Above this layer is the level 13-17 group having department managers. Finally there are Divisional Managers who vary between levels 15-19. (Chatterjee, 1990: 47)

The interview with a MUL HR manager unveiled that these 19 designations include: several Operator designations, Supervisor, Executive, Manager, Senior manager, Deputy General Manager, General Manager, Deputy Departmental Manager, Departmental Manager, Divisional Manager, Joint Managing Director, Managing Director (MD), Chairmen. Thus, MUL’s hierarchical organization reflects a structure that is quite common in India, particularly in PSUs.

OUTCOME

The hierarchical differentiation of MUL was the result of the adoption of a local template and either absent or ineffective foreign parent template transfer and demands. There were no signs that designations were reduced as equity shifted in favor of the Japanese JV partner. While there is strong evidence to suggest that MUL’s local hierarchical template and SMC’s organizational hierarchy are institutionally very distant, there were little signs that SMC pushed for a change of the formal hierarchy of designations in MUL. The only sign for such a push was a possible decoupling responsibility levels and hierarchical designations which is also not uncommon in Indian companies. However, it remained unclear to what extent hierarchical designation or levels of responsibility actually governed the hierarchical relations in the company. While the hierarchical designations were reflective of the Indian institutional scenario, the publicly purported flat hierarchy was certainly more akin to the Japanese parent. Overall the formal hierarchical structuring of MUL as expressed in 19 levels is clearly reflective of a local template, even if there was some amount divergence between responsibility levels and hierarchical designations. We can, therefore, best label the hierarchical set-up a local solution. In summary: A host context organizational template was used that is quite institutionally distant from SMC’s ideal set-up. However, this distance did not amount to effective misfit/recontextualization pressure on the local template because of the site’s longstanding equity mode and history as a Government of India company. There were no overt signs that foreign parent contextual demands triggered any fundamental change in local template. This leads us to label the hierarchical differentiation of the site – even if there was some amount of decoupling – a local solution.
THE PROCESS ORGANIZATION

TECHNICAL CONFIGURATION

OVERVIEW

MUL’s production site comprised three integrated plants with flexible assembly lines. Most of the lines were able to handle different variants in frequently changing sequences (Muthukumar, 2004; Mohapatra and Dittakavi, 2003). The site produced nine base models in over 50 variants, which were mainly catering to the A and B segment. At the time of research the installed capacity of all three plants was at 350,000 cars per annum (Red Herring Prospectus, 2003). Plant 1 manufactured the models Maruti 800-cc, OMNI, Gypsy, Versa and Esteem; plant 2 the models Zen, Alto, WagonR, Baleno; and plant 3 the models Baleno, Alto and Maruti 800 (Muthukumar, 2004; Mohapatra and Dittakavi, 2003). The plants performed all major automobile production steps, including engine manufacturing in the three machine and engine assembly shops; blanking and forming in the balking line and press shop; welding and painting in the three weld and paint shops; and assembly in trim, chassis and final line, followed by final vehicle inspection (MUL 3).

TRANSFER SCENARIO

From the very beginning and as part of the overall transfer approach the Kosai plant was used as a basic template for the set-up of the Indian site’s production processes. In fact, MUL’s lacking capability for developing suitable car prototypes and corresponding production processes was a key reason why the Indian Government invited a foreign collaborator. Thus, despite being the junior JV partner, it was SMC’s task to establish the site’s technical configuration. This comprised the organization of basic factory layout/process design and installing the technical hardware. The Greenfield nature of the operation, the lacking capabilities of the local JV partner combined with the fact that the cars to be produced were SMC models, explain why no local template was used to set up the technical configuration of the site. However, while SMC delegates were in charge of establishing the technical configuration of the MUL site, there was no all out transfer or replication effort of the Kosai template. Although Kosai’s basic factory layout/process design and levels vertical integration were used as a template for MUL, this was only partly the case with regard to MUL’s technical hardware configuration. What is more, while SMC’s effort to bring the Indian operation’s vertical integration and basic factory layout/process design in line with Kosai increased over time, the transfer of technical hardware decreased. Even though SMC refrained from a full template transfer concerning MUL’s technical hardware configuration, there were still specific foreign parent and local/host context demands and conditions the site had to responded to.
To understand how institutional and strategic (mis)fits impacted the transfer propensity and adaptation requirements of the technical configuration, it is important to distinguish between MUL’s basic factory layout/process design and technical hardware configuration. Contextual distance and transfer intent? With regard to using the Kosai template for MUL’s basic factory layout and process design there were no local/host strategic or institutional misfits, standing in a way for such a transfer. Transfer was a clear option here because the local strategic context conditions (the local demand conditions) in India matched SMC’s global product strategy which focused on low segment small cars. The Indian demand conditions – mass demand for a small low-segment car – implied a task profile for MUL similar to SMC’s Kosai plant. Similar to Kosai and in line with SMC’s global product strategy, the focus was on producing a low segment range of models in large volumes for a developing country market demanding most of all low cost vehicles. In addition, there were no obstacles to such a template transfer approach in the local and host institutional context. In fact, the local institutional environment, the local JV partner and the Indian Government strongly pushed for such a transfer approach. Thus, SMC was able to follow a basic imitation strategy with respect to basic factory layout/process design because MUL’s strategic context was not very distant from the Kosai operation. What is more, there were no adverse local institutional demands because the local JV partner suggested and invited such an approach and because the operation was a Greenfield site. The lack of local production infrastructure and the lacking local capability made a transfer a requirement (MUL 4).

Things were quite different as far as the transfer of Kosai’s technical hardware configuration was concerned. In this respect, strategic as well as institutional misfits led to a rather selective transfer effort. With regard to MUL’s use of manufacturing equipment, SMC refrained from an all out template replication approach. On the one hand, there was some substantial strategic misfit between what the Kosai template was strategic-contextually designed for and what the local/host strategic context offered. Operating in a developing country and catering to the lowest market segments implies a highly price sensitive demand-side and potentially thin profit margins (MUL 4). Moreover, operating in a developing country implies on the supply side that the input factor labor is much cheaper than in high-wage economies as SMC’s country of origin. Low labor costs (supply conditions) and highly price sensitive customers (demand conditions) in the segments MUL catered to, ruled out a comprehensive transfer of Kosai’s capital intensive technical hardware configuration, marked by high levels of mechanization and automation. In addition to this strategic misfit, there also was an institutional misfit that worked against a transfer of Kosai’s technical hardware configuration. Especially in the early years, the local JV partner pushed hard for a labor-intensive manufacturing set-up. As MUL was a Government of India company, the Indian Government and union representatives demanded a labor-intensive production
concept. Template transfer/use, demands and conditions; strategic/institutional (mis)fit; and recontextualization pressure? Misfit between foreign parent and host context conditions and demands: Indications were that SMC always felt that there was a substantial degree of overstaffing at MUL. In other words, there was an institutional/strategic misfit between MUL’s staffing levels and the foreign parent’s demands for optimal levels of staffing in production. Only recently, when MUL stopped being a Government of India company and SMC took the majority, has SMC been able to step up its demands for productivity increases by means of layoffs and combined with indigenous automation technology (Muthukumar, 2004; c.f. Maruti Udyog, 2004).

MODE OF RECONTEXTUALIZATION

In line with the strategic and institutional misfits described above there were different implications for the recontextualization of different aspects of the technical configuration. Adaptation of foreign parent templates and/or demands and conditions? As far as the basic factory layout/process design of the Kosai template was concerned, there was little recontextualization requirement, i.e. adaptation need for the template. The factory layout/process design aspects of the template fitted well with the local/host institutional and more importantly host strategic context conditions. This was different with regard to the configuration of the technical hardware. In this respect, there was only a selective transfer of the Kosai template. While mainly up-stream process steps – such as pressing and stamping – did see a transfer of the Kosai template, down-stream process steps – such as body welding and final assembly – saw much less of a transfer (MUL 3). In the latter areas, MUL’s technical hardware set-up was not built on the Kosai template but rather created or tailored to respond to foreign parent as well as local/host strategic conditions and institutional demands. Adaptation of local/host context, templates and/or demands and conditions? To implement the vertical integration and the factory layout/process design in line with the Kosai template such a local context had to be created at the MUL site. The strong presence of Japanese expatriates (ethnocentric staffing policy), massive transfers of personnel across all levels and from Indian to Japan and vice versa, the Greenfield nature of the Indian site as well as the local management support, played their part in replicating the Kosai set-up (MUL 5; MUL 1; MUL 2). An Indian engineer who had been to Kosai stated that MUL largely followed Kosai’s basic factory layout and process design and that it had grown closer to the Kosai set-up over the years (MUL 1). What is more, MUL’s material flow system was based on SMC’s Kanban concept and said to have moved very close to Kosai’s practices (MUL 4). Mohanty et al. (1994) and Gulyani (2001) also indicate that MUL’s in-house logistics increasingly approached Kosai’s levels of work-in-progress-inventories. MUL’s Maruti Production System which ‘focuses on elimination of wasteful activities’ was said to be largely based on the SMC production system (Red Herring Prospectus, 2003). In 2001
SMC initiated yet another initiative, called ‘Challenge 50’, to bring MUL’s processes and productivity performance further in line with those of Kosai.

To start with, MUL has benchmarked itself against the best-in-class in SMC - the Kosai plant in Japan. When Challenge 50 was launched, MUL was roughly 20 per cent behind Kosai in terms of productivity and efficiency. Today, the gap has narrowed enough for Khattar to claim that the company is “on track”. The engine of this transformation lies principally on the shopfloor where production systems and processes are constantly being tweaked and re-engineered though kaizen, the Japanese term for continuous improvement. The focus is to reduce wastage and deliver more and better quality at lower cost. (Business Standard 2005)

Also regarding basic process parameters – such as faults per vehicle – MUL has increasingly been able to narrow the gap to Kosai. In short, with regard to basic factory layout/process design MUL was said to have successfully imitated the Kosai template.

Things were different with regard to the establishment of MUL’s technical hardware configuration. In those areas, where SMC refrained from transferring Kosai’s hardware configuration to MUL, a different configuration – local context adaptation through creation – was required. After all, MUL was a Greenfield project where no manufacturing had taken place earlier. Thus, in addition to some transfer, MUL’s technical hardware set-up was largely based on a customized solution to satisfy SMC as well as local/host context conditions and demands. Specifically, on the one hand, the technical hardware configuration had to satisfy SMC strategic contextual demands related to the manufacturing of a range of SMC models at specific volumes and quality. On the other hand, the set-up had to meet local strategic conditions of low labor cost and price sensitive customers as well as local institutional demands for labor intensive manufacturing and local content. When SMC took control of MUL, it pushed for higher productivity and increasingly rejected local institutional demands for high staffing levels or what SMC saw as rampant overstaffing. This implied for the site’s hardware configuration higher automation levels and lower labor intensity. However, instead of seeking to replicate Kosai’s hardware configuration, MUL met SMC’s demands, among other measures, with a combination of layoffs and inexpensive locally developed automation solutions. But let us take a close look: As stated above, a part of Kosai’s technical hardware configuration was transferred. This was mainly the case in upstream process steps such as blanking and pressing as well as with respect to specialized equipment for some areas such as CNC-machines, special tooling, jigs and a limited number of robots (MUL 1, Red Herring Prospectus, 2003). In other word, imitation of Kosai manufacturing equipment was mainly sought in areas where it either was a technical necessity (and not easily substitutable by labor-intensive manufacturing) or where it offered scale economies in highly standardized production steps. In other areas where the hardware trans-
fer was not a technical necessity, SMC refrained from transfer and created local hardware solutions that responded to foreign parent demands as well as local/host conditions and demands. Areas where such customizations were most pronounced were the weld shops and the final assembly. In these the Indian site contrasted sharply with the mother plant Kosai. An Indian Assistant General Manager Production commented in this context:

> Factory layout would be pretty much similar, yea. Certain portions, because I have visited certain plants with SMC and of course they are heavily robotized and the weld shop and the weld shop here is very man-intensive, a lot of people here.

(MUL 1)

This contrast can be made even more explicit by comparing productivity ratios. In 2001 MUL and SMC (Kosai) produced an annual per employee output of 100 cars and 140 cars respectively. While MUL achieved this output with around 100 robots, SMC’s Kosai operation relied on some 1400 robots:

> The Japanese parent is a global leader in making small cars and its flagship facility is the Kosai plant — which regularly features as one of the most productive manufacturing plants in the world. The yardstick often cited is the awesome 142 cars produced per employee in Kosai. MUL of course lags behind but is fast catching up with a level of 97 cars per employee. True, the gap is partly because Kosai uses 1,400 robots while MUL has 108 robots. But the big story is that MUL is rapidly gearing up to reach Kosai’s productivity level by 2005. That is a many-sided advance besides improving the number of cars per employee: It encompasses quality (reducing defects per employee, warranty claims) and production. The strategy includes better productivity (manpower reduction, improving equipment utilisation) and cost savings (reducing in-house cost per vehicle and material handling).

(Mohan, 2002)

In contrast to MUL, Kosai’s welding and machine shop was practically completely automated. Production in India particularly the welding activities were far more labor intensive throughout MUL’s existence. While technical necessities, the absence of capabilities and existing facilities in MUL as well as lacking supply of such technology in pre-liberalized India of the early 1980s made selected hardware transfers necessary in the first years, this necessity changed as the local site and the Indian economy as a whole accumulated know how and capabilities. Along with this local/host rise in capabilities, MUL increasingly developed in a number of areas customized technical solutions. It particularly had to do so, as equity shifts in favor of SMC gave foreign parent demands for higher productivity more weight. In response to these demands, while at the same time observing specific strategic context conditions (price sensitive demand and low labor cost supply), MUL developed its
own low cost automation solution. These solutions either were realized in-house or procured in India.

We have a lot of robots compared to what we would have three or five years ago and many of them are designed within MUL and made within MUL probably because, we were adapting them to certain different conditions. But still there would be many more people in the factory here than you would find in a SMC plant. (MUL 1)

Basically, the McKinsey Global Institute’s study argues that, rather than just replicating jobs/processes from high-wage countries to low-wage ones, it makes more sense to actually use local talent to develop new processes. The study cites the example of MUL developing its own robots for its assembly lines at a fraction of the cost of the ones used by SMC in Japan. (Jain, 2003)

In 2003, MUL had 122 six-axis and 25 in-house produced two-to-four axis robots (Red Herring Prospectus, 2003). Thus, with regard to technical hardware solutions we observed an interesting trend. In the beginning, SMC selectively transferred technical hardware in some critical areas without, however, imitating Kosai on a full scale. While SMC probably never entirely stopped the transfer of certain technical hardware, MUL has very much increased the development of customized solutions for its specific strategic context. MUL has come to make use of a wide range of locally developed, yet customized solutions, including: dies, two-to-four axis robots, multi-spot welders, welding jigs, automated trolleys, machine shop equipment, etc. (Red Herring Prospectus, 2003). Such solutions were far cheaper than technology imports from the Japanese parent. SMC’s selective transfer involving template imitation of technical hardware in some areas combined with customized production hardware solutions in other areas suggests that MUL’s configuration of manufacturing equipment was never a clear case of imitation. Instead, it was in the first year’s imitation cum customization. In the subsequent years, the substantial strategic distance remained and still ruled out a comprehensive transfer of Kosai’s technical hardware configuration. For as long as labor cost differentials and high price sensitivity remained, a boost in MUL’s productivity levels was unlikely to be achieved by an import of expensive automation technology from SMC or by similar levels of automation as in SMC. An interviewee also confirms this:

If you go to MUL they will obviously show how close they are but it is less than Japan in any way. The fact of the matter remains that the cost, the labor cost, the value addition of labor cost, as a total cost of the vehicle, in India is much lower than Japan. Because the cost is much lower. And that, I think, that is more important and maybe that is a trade-off. So I don’t think it is important for SMC to bring productiv-
ity up to the Japanese level. Because if you do that you have to invest a lot in capital intensive equipment like robots or whatever. (MUL 4)

However, as MUL accumulated knowhow and capability, it responded to new foreign parent demands and host strategic context conditions with customized technical hardware solutions. MUL responded to SMC’s demands for higher productivity with customized solutions that observed, on the supply side, specific local/host strategic conditions of low labor costs and increasing technical competence and, on the demand side, highly price-sensitive customers.

**OUTCOME**

The hybridization outcome of MUL’s production system’s technical configuration has to be described in a differentiated manner. While MUL’s vertical integration, basic factory layout and process design can probably be best captured as imitation, based on template transfer and adaptation of the local site context, the configuration of MUL’s technical hardware configuration can probably best be described as being between imitation and customization. Major aspects of the process design and some technical equipment could be transferred in an unaltered way and simply required the adaptation of the local site context, i.e. a local creation in line with the template. As there was no meaningful opposition or adverse pressure to these transfers, no adaptation of the foreign parent transfer template was required. However, some aspects, mainly with regard to the Kosai template’s technical hardware, were not transferred at all. In these areas the local site was created in line with foreign parent strategic demands and local/host context strategic conditions and institutional demands.

To summarize: An institutional and strategic fit allowed the replication or imitation of Kosai’s vertical integration and basic factory layout/process design at the MUL site. This imitation outcome contrasted with MUL’s technical hardware configuration. In this respect, strategic distance led to a selective transfer/imitation combined with customized solutions. The overall technical layout was at no point in time a pure imitation. It rather was an imitation cum customization. It was customized in the sense that the technical hardware configuration was tailored to specific foreign parent and host context demands and conditions. Even though these customized solutions were locally developed, they were not typical local solutions. They were always more mechanized and automated than comparable sites in India (owing to some selective transfer and imitation) but also much less automated than the foreign parent’s home site Kosai (owing to a more labor-intensive local approach). The overall outcome of MUL’s technical configuration can be best described as combining imitation and customization with and increasing emphasis on the latter.
WORK ORGANIZATION AND HUMAN RESOURCE PROFILE

TRANSFER SCENARIO

From the beginning the transfer or a ‘Japanese work culture’ was the expressed goal of the Indo-Japanese JV. This transfer goal had even guided the search for a foreign JV partner and influenced the choice of a Japanese partner (Venkataramani, 1990). MUL’s first MD, Krishnamurthy, was quoted as saying:

We selected SMC as our collaborator, not because of technological or financial considerations, but because we strongly felt that, at MUL, what we needed most was not the technological know how but the attitudinal know how - the SMC work-ethics.

(Parekh, 1984)

The transfer of SMC’s work concepts, corresponding skills and more general work dispositions were at the heart of the whole template transfer (Chatterjee, 1990). According to Mohanty et al. (1994) the transfer of such ‘soft’ aspects was part of the JV’s technology transfer agreement:

The technology transfer agreement lays considerable emphasis on human resource i.e. the people who are ultimately responsible for the fulfillment of organizational goals. Their attitudes and approach to work need proper orientation. Methods for creating awareness about quality, productivity, and cost control are also ingrained in the collaboration agreement. Moreover, the agreement underlines the need to inculcate new work culture and work ethos in the organization for greater performance by undermining hierarchical rigidity. (Mohanty et al., 1994: 135)

Although being the minority partner in the JV, SMC had the mandate to set up the work organization and develop a human resource profile in line with its Japanese home operations (MUL 1). After all, SMC introduced the product and had developed work concepts for their manufacturing readily available. What is more, the Greenfield nature of the MUL site and the adverse institutional conditions at the time of market entry were the main reasons why the Indian JV partner asked for the transfer of a Japanese work organization and a matching human resource profile. A lack of local capabilities and adverse institutional conditions in India, which the local partner wished to avoid, played their part in not using a local/host practices and inviting SMC to apply its practices. SMC, in turn, took that invitation seriously and engaged in a comprehensive transfer effort of its home plant’s work organization and human resource profile. As far as the work concepts were concerned the transfer not only comprised concepts related to direct manufacturing. In addition, many concepts also targeted a whole range of indirect activities and practices that were geared at continuous improvement in products and manufacturing processes. These activities mainly
focused on permanent cost reduction, productivity increases as well as accident and waste reductions. (MUL 1; MUL 2). MUL’s human resources, in turn, had to match the basic skills and work dispositions of their Japanese colleagues to allow the implementation of high involvement work concepts and to assure that the products lived up to the quality standards of SMC.

**STRATEGIC AND INSTITUTIONAL (MIS)FIT/RECONTEXTUALIZATION PRESSURE**

*Contextual distance and transfer intent? Institutional misfit and transfer:* The main reason why the SMC work organization and human resource profile was transferred was the huge institutional distance between SMC’s home operations and institutional conditions in the host context. While strategic context conditions – demand and supply market conditions – were not in the way for such a transfer, the institutional conditions in the Indian context were about the opposite of what SMC’s work concepts required. The institutional distance between the celebrated Japanese productions system and the prevalent conditions in Indian Industry was a central, if not the most important reason, for the transfer effort. The perceived Japanese superiority with regard to work concepts and related human resource practices (Mohanty et al. 1994) was seen as a solution to overcome, at least in MUL, the problematic institutional conditions that paralyzed many industrial organizations in India at the time. These conditions were characterized by mutually enforcing complex of hostile labor-management relations, extreme hierarchical-demarcations, labor-inefficiency, low labor involvement, frequent labor-unrest and low identification with the company (Venkataramani, 1990). There was substantial evidence stressing that work concepts and the human resource practices introduced by SMC were very much in contrast and directly pitted against what was otherwise common in Indian industry (see figure 14).
When MUL started operating in 1983, it adopted a series of new work organization practices, with an emphasis on team work. These were revolutionary to Indian managers and workers, in an environment traditionally characterized by hostile relations between management and labor, centralized decision-making mechanisms within firms, and hierarchical occupational structures and social relations within firms. (Okada, 1998: 42)

Such a course would add momentum to MUL’s progress towards objectives that Chairman Krishnamurthy had often spoken about – bridging the physical and psychological gaps between employees at different levels, inculcating among all employees the feeling of belonging to one family, and promoting among all employees the desire to work with others towards common goals. (Venkataramani, 1990: 122)

Unlike most Western and Indian enterprises, the SMC Motor Company strives hard to build self-esteem of supervisors (foremen), and to depict them as friends and guides of shop floor workers. (Venkataramani, 1990: 111)

Unlike in many Indian plants, MUL has sought to follow the Japanese pattern where plant managers actually spend considerable time on the Shop floor itself and remain available to supervisors the rest of the time. “Management by walking around” is viewed by Japanese managers as a regular part of their daily routine. Supervisors at MUL are expected to be with their workers throughout the day. The MUL practice is a far cry from that of many Indian enterprises where plant managers prefer to direct activities on the shop floor from offices in a different part of the factory complex. A sense of alienation that such a situation may create among workers and the erosion of such commitment as they may have for the company’s goal’s is sought to be mitigated considerably under the Japanese practice that MUL has begun to emulate. Perhaps MUL managers can go even further and thereby win credit for being pioneers in transforming Indian traditional attitudes. (Venkataramani, 1990: 120)

MUL, by introducing many of the elements of Japanese work practices, has fostered an environment of trust, egalitarianism, and teamwork. Four apparently innocuous innovations — common uniforms, canteens, toilets and open office spaces for all levels of employees — have significantly boosted worker morale. The second and third are significant developments from traditional Indian practices. By convention both commensal rules and the use of toilets have kept upper castes distanced from lower ranks. These factory amenities eroded such traditional values at the work-
place. It is, of course, possible that a good share of the workforce, being from the immediate region, are likely to share similar social backgrounds and hence common facilities may have little social consequence. However, the fact that well-paid, mostly upper-caste executives and managers also used them is likely to reduce the perceived social distance between them. This narrowing of the perceived social gap was reinforced by avoiding formal (Western) wear, separate offices, dining rooms, and toilets for executives. This is in complete contrast to the typical modern Indian corporate practices of business executives distancing themselves physically and socially from their workers by their class position and formal ranking within the organization. There are other ways by which a sense of group solidarity as well as loyalty to the firm have been generated. Free uniforms, aside from reducing expenses on personal clothing, have levelled some of the outward forms of social differentiation. By emphasizing the collective significance of all workers and their managers in the production enterprise, MUL has legitimised and nurtured a cooperative ethos. (D’Costa, 2003: 78)

Apart from the Indian side’s interest in overcoming adverse institutional conditions by making an ‘experiment’ (Venkataramani, 1990: 124, MUL 1) and seeking a fresh new start with MUL, it was also the Japanese JV partner that supported the emphasis on such a human resource centered transfer approach (Kasahara, 1994). Given that MUL was a Greenfield site, given that SMC had made a commitment to the Indian Government and given that SMC had a brand image to lose, it was clear from the start that SMC would have to engage in substantial transfers of work concepts, skills and work practices. As the Indian site operated with much less automation technology, the role of human resources assumed even higher importance. Thus, as far as know how and practical skills were concerned the transfer was needed because the MUL’s set-up was largely based on a Green workforce and there was little existing capability. However, it should be added that there were also certain areas where the institutional distance deterred a transfer. A case in point was the Ringi-System which is based on consensual decision making practices. This system was not transferred at all due to a pronounced hierarchical distance in the Indian work contexts (Chatterjee, 1990; Kasahara, 1994).

Template transfer/use, demands and conditions; strategic/institutional (mis)fit; and recontextualization pressure? The fact that SMC’s work concepts and matching human resource profile were transferred because of the institutional distance implied that they would either be not readily compatible with extant institutional conditions or would meet adverse local institutional demands. Institutional misfits: The work concepts transferred neither met a warm welcome nor were the skills and basic work dispositions required for their implementation readily available in the local/host context. Before we take a look at the misfits, let us
look at the transfer goals in more detail. Regarding the direct manufacturing organization on
the shopfloor, much stress was put on transferring SMC’s teamwork concepts (down-stream
customer concepts) as well as a central role for supervisors. SMC work concepts underlined
the crucial role of supervisors and generally called upon the entire production management
to take a hands-on-approach and to be close to the shopfloor. (Venkataramani, 1990). The
teamwork on the shopfloor involved a wide scope of job enrichment and job-rotation. A
substantial range of responsibilities were integrated into the production line, such as quality
assurance (self-certification, quality checks). Like in Japan, workers could even autono-
mously decide line-stoppages. Job rotation not only involved the transferability of worker
across different work stations but also across different departments. SMC’s work concepts
were not only related to direct manufacturing activities, however. They crucially focused on
a range of concepts that were not directly related to the manufacturing operations. These
concepts revolved around the maintenance and continuous improvement of products and
manufacturing processes and were based on individual as well as small group activities. The
most prominent concepts followed in this regard, included: 5S, Kaizen, Quality Circles and
Suggestion Schemes. To realize these concepts the Indian workforce would have to have
similar knowledge, skills, work dispositions and basic work behaviors as their Japanese
counterparts. This implied that the transfer effort was not restricted to formal work concepts
but crucially involved the transfer of a corresponding human resources profile. The human
resources profile replication focused on two major areas. The first area involved knowledge
and skills directly relevant for the manufacturing operation. The second area aimed at trans-
ferring basic work dispositions. Interviews (MUL 1; MUL 2) and the literature study re-
vealed that the transfer of basic work dispositions concerned, in turn, three focus-areas:
Work commitment and discipline (stressing the taking of responsibility, punctuality and
attendance), cleanliness and quality awareness, cooperation and communication (D’Costa,
2003: 76)5.

The implementation of these work concepts, matching skills and work dispositions was not
without difficulty. There were indications that the transfer of a teamwork concept, the cen-
tral role of the supervisor, the taking of responsibility and the practice of job-rotation was
not readily implemented. For example, in the early days of SMC’s involvement the follow-
ing joke suggested much difficulty in transferring teamwork to MUL – a problem in India
which has been discusses by a number of authors (e.g. Khare, 1999; Pitroda, 2001).

When the Japanese came to work in India to develop the Maruti-Suzuki car, a joke
went around that one Indian was equal to 10 Japanese: Indians were very smart,

5 Probably, the last three work dispositional transfer goals can already be read as problem
areas that required particular focus.
capable and dedicated individuals. But 10 Indians were equal to 1 Japanese: Indians lacked team spirit and co-operation. (Pitroda, 2001)

These difficulties were related to socio-professional demarcations produced by India’s social stratification and education system (see chapter 5). Similarly, there were indications that the central role of the supervisor was not readily accepted in the Indian work context. The following paragraph from a MUL manual allows such an interpretation:

SUPERVISORS ARE MANAGEMENT MEN WHO MAKE THEIR WORKSHOPS SUPERIOR TO THOSE OF OTHER COMPANIES. Supervisors are in reality “front line managers” and should therefore, be “viewed with importance.” The Supervisor is “the pivot in the workshop operation” and holds the “important responsibility” for improving the workshop’s performance in safety, orderliness, productivity, loss avoidance and cost reduction. On him too rests responsibility for ensuring high morale of workers. (Venkataramani, 1990: 111)

Apart from the supervisors, production managers in general, did not identify themselves with manufacturing operations on the shopfloor. It appeared that there was socio-professional reluctance on the part of production management and engineers to be close to or get involved on the shopfloor.

A senior SMC deputationist said in an interview that some young Indian engineers coming to work straight from a university and with no hands-on experience, tended to be impatient listeners. While all around them in the plant there were problems to be tackled and improvements to be made, they were ready to engage in discussions on other matters, especially on far out technologies calling for materials and equipment that could possibly be made available. Many of them had a theoretical bias rather than a practical orientation. They loved to sit at their desks and discharge their duties from the desk. “I try to push them on the shop-floor. This is a car company’, I tell them. ‘Go out on the floor and at least see what a car looks like’.” (Venkataramani, 1990: 171)

Related to socio-professional demarcations, the implementation of job-rotation was also said to have been difficult. Kasahara (1994) reported a stark contrast between the ease to rotate personnel in Japanese companies and in MUL. He attributed the difficulties to ‘a strong prejudice based on the type of occupation’ in the Indian society (Kasahara, 1994). There were indications that the implementation of indirect high involvement work concepts were not passionately embraced, either (c.f. Khare, 1999). In a case study on MUL, Som (2004) reported in this context that it was difficult to implement quality circles, as Indian employees would disperse immediately after work.
At the same time, there were also complaints from Japanese expatriates about lacking practical skills and basic work dispositions (Venkataramani, 1990). Apart from skill related training needs, the larger number of training workshops on issues such as ‘quality and discipline’ (level 0 to 7), ‘quality and leadership’ (level 8 to 10), and ‘quality and cost reduction’ (level 11 and above) bare proof that initial work dispositions with regard to discipline and quality awareness were far from satisfactory (Chatterjee, 1990: 103). Work commitment and the taking of responsibility was another aspect that was reported by Japanese expatriates to have caused problems in the beginning (Venkataramani, 1990:131). Sinohara, a Japanese expatriate who served as the Director Production and representative of SMC at MUL, bemoaned lacking responsibility, discipline and perseverance among Indian employees:

Sinohara had empathic views on both “responsibility” and “keeping promises”. “Responsibility means that all the consequences arising out of an activity are to be born by the person concerned.” Nobody claimed responsibility when a job was not performed properly whereas alibis were promptly offered. Putting the finger on one all-too-familiar Indian practice [...]. (Venkataramani, 1990: 131)

However, the biggest implementation difficulties were related to those work concepts and work dispositions that clashed with the existing socio-professional demarcations. The communication and cooperation across socio-professional divides was a big issue at MUL and so were a number of egalitarian concepts that were meant to bridge those gaps. Most of the concepts that promoted openly visible egalitarianism, such as a shared canteen, company uniforms, shared toilets and open offices, met stiff resistance from many managerial employees in the beginning (c.f. Som, 2004). My own interviews indicated, for instance, that the concept of common uniforms met strong resistance at the outset (MUL 3). These finding find further confirmation in comments made by MUL’s former Managing Director Bhargava:

Behind MUL’s success is another significant aspect of Japanese work culture -- par-ity among the employees. In Indian conditions, we initially did face problems introducing the Japanese management ethos in MUL. There was, especially among managers, a certain amount of reluctance and hesitation about wearing a uniform and eating in the same canteen, sitting in the open offices, and all that. It required the top management to spend time with these managers and convince them that this was the only way to do things. It worked after some time. And as we went along, our managers realized that the concept not only produced results but also that it was not a bad thing to wear a uniform and eat in a common canteen with the workers. Similarly, when we introduced the open office concept, initially there were some parti-
Similarly, while all employees were asked to eat in the same canteen, there was, at least in the beginning, not “as much fraternization in MUL’s dining room among executives, supervisors, and workers as in Japan” (Venkataramani, 1990: 225; c.f. Som, 2004). Indications were that middle to lower management showed the strongest signs of resistance. Kasahara (1994) underlined that white-collar workers, engineers and junior management levels had the biggest difficulties in accepting equality-based practices and also stressed their lacking willingness to share knowledge. The initial management resistance towards egalitarian practices was probably also compounded by the fact that management, compared to workers, was badly paid by Indian industry standards. This led, in turn, to turnover problems among these employees (Okada, 1998: 30). Thus, middle management was the group whose identity was most strongly encroached by measures aiming at leveling hierarchy (Kasahara, 1994: 80). Finally, while the transfer of institutionally distant concepts and practices was not received without resistance, the fact that the MUL was basically a Greenfield operation with a young workforce implied that local institutional conditions were probably as conducive as they could possibly be at the time (MUL 1; MUL 2; MUL 5).

MODE OF RECONTEXTUALIZATION

Adaptation of foreign parent templates and/or demands and conditions? From the very beginning it was the goal to transfer and imitate SMC’s home plant work concepts and corresponding human resource profile as far reaching as possible. While these host strategic context conditions were no major obstacle to such a transfer, the adverse local/host institutional conditions were both a major reason and obstacle for transfer. To some extent, these institutional misfits led to a transfer restraint. Moreover, some of the work concepts and corresponding work disposition were adapted to the local/host institutional context and demands. However, although there was some adaptation of the transfer template and not all work practices were implemented from the start, no other company in the researched sample featured such a high degree of imitation of their work organization and human resource profile as MUL. The dominant recontextualization mode was clearly: selection, change and creation of the local context to meet the transferred template’s institutional contextual requirements. Having said that MUL, like no other company in the researched sample, engaged in institutionalization efforts of its work organization and human resources profile neither is to say that all transferred concepts and practices were an exact replication nor that everything was transferred. There were, for example, strong indications that MUL’s work practices and their employees’ work dispositions were marked by stronger social-professional demarcations than were envisioned by the Japanese work concepts or how they were actually practiced by the Japanese counterparts in the home plants. What is more, due
to India’s excessive socio-professional demarcations, some practices were not transferred at all. A case in point was the aforementioned Ringi-System, which is based on consensual decision making (Chatterjee, 1990; Kasahara, 1994). Interviews suggested that decision-making practices in MUL and particularly in the factory were quite hierarchical (MUL 2). Decision-making processes were depicted as top-down rather than consensual or participative (c.f. Som, 2004).

**Adaptation of local/host context, templates and/or demands and conditions?** However, the transfer restraints and adaptations of the SMC templates were only a small part of the transfer story. MUL and SMC invested tremendous energies and resources to bring work concepts and basic work dispositions of the Indian work-force in line of those of the Japanese parent. Against the background of generally adverse institutional conditions and demands in India, the only way to transfer SMC’s work concepts, skills and basic work disposition with as little departures as possible was to select, change and create a different local institutional context at MUL. In fact, there was in no other company researched in this study such a systematic, comprehensive and resource intensive effort to re-institutionalize the local context to allow the transfer of SMC’s concepts and practices despite an adverse institutional context. The interviews conducted and the literature available on MUL both underlined a far-reaching transfer success (MUL 1; MUL 2). This success was mainly attributed to the interplay of the following factors: Top management commitment, massive training, personnel transfer and socialization efforts, a young workforce, monetary and normative incentives and the cultivation of a culture of equality.

**Top management commitment:** From the start MUL’s Indian top management was not only committed but actively seeking the transfer (Kasahara, 1994; MUL 1). Indian top managers were even repeatedly depicted as religious followers of the Japanese work concepts and practices. Venkataramani (1990) points out for example that:

> Even before the start of the vehicle production at MUL Udyog Limited, its Chairman, V. Krishnamurthy, repeatedly stated that he would introduce Japanese techniques in building his infant organization and would endeavour to promote “a work culture” similar to that prevalent in Japanese industry. It was probably the first case in India of the chief executive of a major corporation publicly committing himself and his organization to the emulation of the Japanese style. Krishnamurthy and his top management associates at MUL were to become ardent evangelists for the cause. (Venkataramani, 1990)

> The Chairman made it very clear at the outset that he would expect all employees of MUL, worker and managers alike, to learn from their associates of the SMC Motor Company “their highly effective production system which have resulted in the remarkably efficient utilization of both men and machines.” Workers and manager he
emphasized should “imbibe the distinctive culture and work ethic which is the root of Japanese success in international markets.” (Venkataramani, 1990)

Interviewees stressed that the Indian top management was commitment to SMC work concepts and practices beyond lip service (MUL 1; MUL 2). Top management was not exempt from practices such as using a common toilet or working in an open office. There were no double standards. According to an interviewee the Indian top management led by example:

No, the point I am making is, you know, the leadership was very clear. Whether Indian or Japanese, the leadership was very clear on the fact that these practices had to be a part of MUL. I mean if you start from the fourth point that people are always looking whether the MD is also wearing the jacket or not. And so traditionally the MDs will wear a jacket, not just to wear it at work but also to the occasional party and to the TV-appearance and, you know, when he is gonna collect an award or so, he will wear his jacket…. And this is the corporate office, this is not even the shop floor. But I mean there is no way that the MD is gonna come here without wearing the uniform. So people are seeing this and if you are going to insist on a certain time - you know, you need to punch your card by nine o’clock - so people are seeing whether the General Manager is doing it as well. And you know the General Manager is doing it at 20 to nine and doing it consistently. …. He is got to do it every day. And he does it and people are watching whether you have lunch with them in the canteen every day and you do that. (MUL 1)

Massive personnel transfer, training, and socialization efforts: The second aspect that was said to have enabled a far-reaching imitation was a comprehensive personnel transfer for training and socialization purposes. First of all, SMC engaged in massive personal transfer from Japan. All major production departments either were headed or co-headed in a tandem-like fashion by Japanese expatriates. In terms of skill and attitudinal development, there was both on-the-job training and continuous in-house training workshops.

As mentioned earlier, production workers are ITI graduates, and thus have basic knowledge about the trade. However, as the technological level at MUL is much higher than what is taught at ITI, on-the-job training is essential for production workers. They are mainly trained by those who have already been trained on the job at SMC in Japan. The assistant supervisors are all promoted from production workers. (Okada, 1998: 46).

Moreover, MUL has well-organized internal training programs. In addition to orientation training for all new workers, training is provided for the existing workforce, based on their annual training plan for the individual, identified by each
Training workshops for the levels L0 – L7 mainly focused on ‘Quality & Discipline’ and for the levels above on ‘Quality, Leadership and Cost Reduction’ as well as more specialized programs (Chatterjee, 1990: 106). However, the biggest training effort was probably facilitated by the omnipresence of Japanese expatriates in all major areas who provided guidance in the implementation of Japanese work concepts, corresponding skills and work dispositions (Okada, 1998). However, the transfer of Japanese expatriates to India as well as elaborate on-site and off-site training programs in India were only one part of the training effort. On top of that, MUL had a comprehensive overseas training program which involved all employee categories (see figure 15 and 16).

Figure 15: Overseas training in MUL

Research on MUL by Okada (1998), confirmed that publicly purported claims were actually met by realities on the ground. For example, as of March 2003, 1,900 employees, out 4,590, had been trained, one way or another, in Japan. What is more, after a recent round of volun-

worker, Supervisor, and department managers. Such training covers management skills, quality awareness, technical skills, health and safety, and corporate philosophy and targets. Production workers are also trained in their respective special areas, such as mechanics, electrical engineering, and machining. They are sometimes sent to other firms related to their specialties, such as an electrical manufacturer. Unlike other firms, even unskilled workers (called "attendants" at MUL) are trained. Also, managerial staff undergoes separate training in managerial skills. (Okada, 1998: 46)
tary retirements, the ratio of the workforce who had been trained in Japan was probably even more than half of MUL’s total employee population.

**Figure 16: Detailed evidence on successful imitation**

Okada details MUL’s overseas training as follows:

As MUL’s CEO claims, its focus on skills development and training for its workers was a key factor contributing to the firm’s remarkable success as the leading car-manufacturer in India. As of 1996, a total of 1,200 MUL employees have been sent to Japan and over 700 Japanese engineers came from SMC to MUL to provide guidance. Unlike other companies, MUL sends not only managerial workers and engineers but also production workers to Japan for training. While managers undergo management training for a few weeks in Japan, engineers and shop floor supervisors are trained for six weeks in Japan. In addition, each year, as many as 120 production workers undergo six-month on-the-job training at SMC. The costs of training are shared among MUL, SMC, and an intermediary training organization, AOTS, a quasi-governmental agency under the Ministry of International Trade and Industry (MITI) of the Japanese government. The training program in Japan not only builds workers’ skills but also enhances their motivation: workers receive their MUL salaries during the training period as well as allowances from SMC. They live in a factory dorm with Japanese co-workers during their training and some stay with local families; they also have weekends free to explore a foreign life. For SMC, it is cheaper to pay allowances to these MUL workers than to employ Japanese temporary workers. At the same time, it makes it easier for MUL to upgrade technologies. This is a win-win arrangement for MUL, SMC, and MUL’s workers. After the training in Japan, workers are required to make at least two suggestions based on their experience in Japan. As mentioned earlier, such suggestions also enhance workers’ motivation through a cash reward for good suggestions, and at the same time lead to substantial cost savings, which in turn improve productivity. In addition, each year, five to seven workers in some specialized areas, such as painting and die making, undergo nine-month training at a technical institute in Japan. (Okada, 1998: 46)

A highly qualified and Green workforce: A third aspect that was seen as crucial for the transfer success was the fact that most workers not only had high formal industrial qualification but had no prior work experience (MUL 2). They came straight from ITIs (c.f. Chatterjee, 1990: 41). In fact, Okada found that MUL preferred “fresh ITI graduates to workers
who have work experience in other industries” (Okada, 1998: 30). One of my interviewees even pointed out that MUL was amongst the first companies who had started the industry wide trend of hiring ITI graduates for worker positions (MUL 4). In any event, interviewees at MUL stressed that the young workforce was a major factor that enabled a far-reaching transfer of Japanese work concepts and work dispositions.

And you would appreciate that many of them just passed out of college and this was their first job and they have been with the company for 17/18 years, right. We have a lot of people who joined the company in 1983/84 and are still with us and they joined as college graduates and now they are middle or senior management. So Japan was the first country they visited, Japanese was the first foreign language they came across, Japanese management practices were all they ever heard of. Nothing else! (MUL 1)

I think it is also to do with, when you talk about Indian mentality not being suitable, I think what also happened was that in the initial stages, when those concepts were brought in, the work force was very young. It was a very young workforce, you know, and that helps because, I suppose, it is more adaptable, more open to... . But I think as far as the production set-up is concerned, the factory set-up is concerned, I don’t think that there were too many issues. Because, I think, the young workforce thing really played a big role. So you don’t inherit this workforce from somewhere else. So they don’t have any preconceived notions about what should be right and what is not right, I don’t know, to that extent. Of course people who come in new, at middle management level, they have a bit of a problem. (MUL 2)

In contrast to the workers, the managers recruited did have a prior work experience. However, an advantage was that even they had no prior experience of working together.

MUL was a new organization that started its operations from scratch. Its senior executives had been recruited from various organizations and had no previous record of working together. Thus no factional networks were in place that could have sought to obstruct the innovations that the Chairman and Managing director sought to introduce. (Venkataramaini, 1990: 134)

Monetary and normative incentives: Two of interviewees independently underlined that a great deal of transfer success – particularly with regard to different high involvement or continuous improvement concepts and practices – was related to MUL’s monetary and normative incentives structures.

And I think the first element was that the incentives, monetary, monetary incentives, were very clearly linked to performance and to, you know, aspects of Japanese cul-
ture. And they continue to be done that way. Apart from the monetary, there is what I call the normative incentives; I would speak on each of these for a minute, Ok?
(MUL 1)

MUL has come to put great stress on productivity-linked payment schemes (see figure 17 for details). For example, the worker level incentive based pay (levels 0-7) makes up a much higher proportion than the base salary. Moreover, there was deliberately no difference made between blue- and white-collar workers to enhance cooperation between these traditionally distant groups.

The production incentives in MUL are more than the salary. And unlike in other companies, it's not just the workers who get production incentives; our white-collar workers also share in the benefits of the production. Our whole system of payments/incentives is based on what happens in terms of profits and productivity. And that's shared by the white-collar people. Therefore, the white-collar workers also have an interest in working as a team with the blue-collar workers. We really don't separate blue-collar and white-collar workers in that sense. (Bhargava and Behl, 1997)

A bonus of 5–6 months of salary and productivity-linked incentive schemes suggests co-operation among workers to exceed the daily production target. Employees are also given MUL stocks, thus reducing the strict demarcation between production and non-production workers and between workers and management. (D’Costa, 2003: 78)

However, pay was not only liked to overall productivity and performance of the company. In addition to overall productivity-linked pay, compensation was also linked to individual attendance levels, group and individual suggestions as well as their implementation and related cost savings (Chatterjee, 1990: 124). Replying to the question how successful the transfer of quality activities and suggestion schemes was an interviewee explained:

It is also some amount of incentive system and rewards, I think. The suggestion schemes, if you actually put your mind into it, you can make a fair amount of money on it, you know. That kind of thing, it all helps. (MUL 2)

The payment of high salaries to workers and salaries directly linked to company, group and individual performance were seen to have had a positive effect on the implementation of the Japanese high involvement practices. High salary levels also contributed low level of industrial conflicts and a highly motivated labor force (Okada, 1998). Overall, the intricate system of incentives also had direct effects on MUL’s work discipline, attendance-levels and on the successful implementation Kaizen activities, quality circles and suggestion schemes.
which were also confirmed as exemplary by a number or independent sources (c.f. MUL’s industry awards). In short, while failure to perform in line with Japanese work practices/concepts led to quick financial punishment, above average performance not only paid off financially but came with ‘normative recognition’ in the company (MUL 1).

**Figure 17: Structure of incentive pay in MUL**

The Incentive Scheme of our Company, which is effective from April 1, 1999 till April 1, 2003 is based on productivity, performance and profitability of our Company. Our Company has defined certain parameters for the payment of incentive to the regular employees.

The parameters on which the Company gives incentive to the Employees are as follows:

1. Payment for achieving base level performance;
2. Payment for achieving higher than base level performance;
3. Payment for improvement in quality; and
4. Payment for improvement in productive time.
5. Payment linked to performance of individual employee.
6. Payment linked to performance of the Company.

Source: Red Herring Prospectus, 2003

*Cultivation of a culture of equality*: The fifth and final aspect that MUL engaged in was a cultivation of a culture of equality by introducing a number of highly visible practices that aimed at reducing hierarchical demarcation. Among these were a common canteen, uniform, toilets and transportation for everybody, open offices etc. (Afsar, 2003). The introduction of these visual manifestations of equality provoked as much initial resistance as they were said to have helped to bridging professional and social demarcation in the company (D’Costa, 2003). It is probably fair to conclude that while there were some transfer restraints and adaptations to SMC’s work organization and human resource profile templates, MUL has come a long way to imitate Japanese practices through adapting – selecting, changing and creating – the local institutional context.

**OUTCOME**

The huge local context adaptation effort suggested that an imitation of SMC’s work concepts and human resource profiles were successful in many areas. There were a number of different observers from inside and outside the company who unanimously suggested that SMC was relatively successful in transferring basic work concepts and human resource profiles in line with home plant standards (MUL 1; MUL 2; D’Costa, 2003; Okada, 1998). Undoubtedly, enormous efforts had been made to institutionalize Japanese work practices in MUL. A number of interviews and literature sources were suggesting that imitation was largely achieved through the above measures. To what extent Japanese attitudes were internalized was not the question of this research. However, with regard to the implementation
of work concepts and with regard to key behavioral patterns there was evidence that MUL increasingly succeeded to imitate SMC’s practices. Interviewees also stressed that that MUL employees generally found it hard to work in a ‘normal Indian work environment’ after having worked for MUL for some time (MUL 5; MUL 3). Comprehensive training and socialization efforts brought MUL’s human resource profile relatively close to their Japanese counterparts with respect to basic work dispositions. The above findings are not to deny that there were also aspects of work organization and basic work dispositions where transfer and imitation proved more difficult. These areas were predominantly those related to institutionally founded socio-professional demarcation between different employee categories. Many concepts and practices promoting egalitarianism were at least initially difficult to replicate. The introduction of egalitarian practices triggered the strongest resistance from middle management and the lowest resistance from workers. The fact that certain equality-based practices such as consensual decision-making were not even attempted to be transferred was a strong indication that hierarchical socio-professional demarcations were more pronounced at MUL than at SMC’s home plants in Japan. However, even if hierarchical and occupational demarcations remained more pronounced in MUL than in SMC, there was probably more co-operation across socio-professional divides than in most Indian companies. This was not least the case because it literally ‘paid off’, based on elaborate incentive systems. Against these findings, one may justifiably classify the outcome between imitation and hybridization. We can, therefore, conclude that MUL’s work organization and human resource profile varies between imitation and hybridization.

**Organizational Relations**

**Industrial Relations**

**Transfer Scenario**

The interview in the human resource-department and the literature review revealed that it was from the very beginning a goal to replicate a Japanese/SMC company union concept (MUL 4; MUL 5). In contrast to all other companies researched, MUL was the only company with a clear intent to transfer a template of company industrial relations. In fact, transferring Japanese labor relations – as opposed to obstructive local labor relations – was a crucial cornerstone of the whole transfer effort. The goal was to transfer the Japanese company union concept with its emphasis on harmonious labor relations. To ensure harmonious relations, different discussion forums-concepts were established to solve problems at an early stage. This approach was seen as strongly reflecting a Japanese approach of harmonious relations (MUL 1). Problems should not even have the chance to come up but should be tackled as they arose. Although SMC was in the minority position and the local JV partner
was in charge of human resource management, the adoption of SMC’s company industrial relations was an expressed transfer goal. Given the adverse host context industrial relations of the time, it was again the local Indian top management that was in strong support of Japanese company industrial relations (Venataramani, 1990; Chatterjee, 1990; D’Costa 2003). However, also for SMC, the transfer of its industrial relation practices was probably a *sine qua non* for the implementation of its high involvement work concepts.

**STRATEGIC AND INSTITUTIONAL (MIS)FIT/RECONTEXTUALIZATION PRESSURE**

*Contextual distance and transfer intent?* The institutional distance between Indian conditions and the idealized company industrial relations in Japan was a major reason why the transfer of a parent foreign template of a company union was sought in the first place. For hostile industrial relations in India were seen as a major obstacle for industrial progress by the Indian JV partner. The transfer of Japanese labor relations was deliberately sought as a means to break away from obstructive labor relations as they were common in Indian enterprises, particularly in PSUs. Moreover, it must have been clear for Indian and Japanese managers that only if typical Indian labor relations were avoided, could a non-antagonistic work climate be achieved needed for the implementation of SMC’s high involvement work practices. Cordial labor relations were, therefore, not only a goal in its own right but a contextual prerequisite to implement SMC’s work concepts. Thus, a crucial part of the transfer effort was to establish a new mode of cooperative industrial relations that would radically depart from what was otherwise so dominant in Indian industry. D’Costa (2003) outlines the radical departure of MUL’s industrial relations to what was otherwise common as follows:

*Enterprise familialism, as practiced in Japan, has been introduced in MUL by first establishing a company union and seeking its cooperation in making various shop-floor decisions. Initially the management insisted that only one union be formed, and that it be barred from any political party affiliation. This is a radical departure from the political party-based multiple unions common in India. Union membership is about 80% per cent. In settling labor disputes MUL relied on consultation and cooperation rather than strikes and agitation (Mathur, 1991: 113). Workers, be they blue- or white-collar, have a stake in the company. Company unions lack political power, but their members have not been completely excluded from decision-making. A paternalistic relationship has ensured job security, high wages, and some decision-making authority in exchange for industrial peace. (D’Costa, 2003: 78)*

The main point of departure, from what was common at the time, was having only one company union, as opposed to many, and having the union not externally-affiliated, as opposed to being established by company external union leaders or affiliated with political
parties. Template transfer/use, demands and conditions; strategic/institutional (mis)fit; and recontextualization pressure? As the template transfer was sought because of the very adverse host institutional conditions, it met an adverse host institutional context. The establishment of a single company union that was independent of outside unions and political parties was no simple task, given their high levels of institutionalization in PSUs. And indeed, over the years, MUL’s foreign parent template faced increasing institutional recontextualization pressure pushing MUL’s company industrial relations towards what was more common in India. These pushes rested on an institutional complex of stringent labor laws strongly protecting labor in formal sectors, long standing radical-unions movements, many of which an arm of the political parties and multiple unions competing and fighting each other in companies. It should also be noted that union creation in India was for many external union leaders more a personal economic than an idealistic endeavor. For unionists could earn a good amount of money based on membership fees, especially when the companies approached were very big. In MUL the company union, the Maruti Udyog Employees Union (MUEU), repeatedly threatened to align with external politicians and depart from MUL’s consensual approach. In 1998, for example, amid the Government of India’s new openness for SMC’s take over bid, MUL’s company union threatened to call off its non-affiliation agreement.

Suppressed anger was writ large on every face at MUL’s labour union office in Gurgaon the morning after the patch-up between government and SMC. “The government’s surrender has humiliated us deeply,” remarked a bleary eyed Matthew Abraham, general secretary of the MUL Udyog Employees Union. The union is upset as it perceives the agreement as a precursor to SMC taking ownership control of the company. “We will fight to the end to resist a sell-out by the government, we can even strike work”, Abraham said. The union has been taken by surprise by the peace accord and is in the process of formulating a strategy to counter SMC’s moves for greater control of the company. The MUL union has been unique as it has resisted the temptation to align with a political party so far. “We had an agreement with the government that we will not affiliate with any political party but now we have no choice,” Abraham said. Ever since inception MUL has had only one union, with affiliation the gates will open for various political parties to carve out a piece of the union cake. “The industrial relations here too will deteriorate like it has in PSUs,” he said. The workmen in MUL are mostly people who live in that area. According to Abraham, in the last general elections all workmen voted for the BJP. Having been loyal supporters of the ruling party, the union is feeling betrayed by the government. The union is shell-shocked by the secrecy with which the govt has concluded the agreement. (Indian Express, 1998)
In 2000/2001 during the MUL’s first labor conflict a new and thereby second union, the Maruti Udyog Kamgar Union (MUKU) was formed, which stalled the company’s one union policy. Moreover, MUL’s first labor conflict displayed many features of a typical Indian labor conflict including: tool-downs, indefinite strikes, lockouts, political affiliation and a dharna (a hunger strike). In October 2000 MUL’s union called out a strike that finally ended in January 2001. In reaction to the strike, MUL’s management not only pushed through a new incentive scheme that was the major cause of disagreement but also asked its workmen to sign ‘a good conduct undertaking’. During the conflict MUL also dismissed some workers and trainees due to their strike related activities. The signing of the ‘good conduct undertaking’ was made a precondition for workers to re-enter the plant. Among other things, the workers had to sign that they would not go on strike in future. In 2002, MUL was finally able to revert to a one union policy. Following financial irregularities, MUL de-recognized the MUEU – MUL’s first union – and recognized the MUKU instead.

**MODE OF RECONTEXTUALIZATION**

Adaptation of foreign parent templates and/or demands and conditions? From the inception till my research in 2003, MUL and its top management had made an enormous effort not to adapt its Japanese/SMC template for company industrial relations to the local/host institutional demands and conditions. Rather a number of measures were taken to adapt the local institutional context to the template transferred. However, the template could hardly withstand the host context institutional pressure into which it was societally embedded. Even though MUL was able to revert formally to its one-company-union policy, behaviors on the ground reflected local/host institutional patterns that clearly departed from those in SMC’s home plants.

Adaptation of local/host context, templates and/or demands and conditions? To transfer the institutionally distant industrial concept, MUL sought an adaptation of its local institutional context. To establish the single un-affiliated company union concept and harmonious labor relations, SMC/MUL took a number of measures to create an enabling local institutional context. Among the most important factors was the commitment of the Indian Government and the ruling party at the time to discourage any party involvement in MUL’s union (MUL 4; Indian Interviewee Friedrich Ebert Stiftung, 2003). An agreement was even struck between the Government of India and the MUEU not to affiliate politically. What is more, a more appreciative approach towards labor, a young and Green work-force, excellent pay and compensations above Indian industry standards for workers, all played their role in keeping MUL’s labor relations peaceful throughout most of the company existence. This also comes out in the following interview:

Q: Let me ask you one of the last questions and maybe you can confirm it or not? By the time MUL was set up in the 1980s, it had a long history. But when really this thing with SMC started, I was told there was no union. Whereas it was quite com-
mon in India in general to have strong unions in companies. These unions were deliberately left out and the government ensured that there would be no union formation in the company?

A: Yes the government did, I wouldn’t say assured because they couldn’t do it officially. Any company with more than 20 employees is allowed to have a union and MUL did have a union from the start. But the union was not affiliated to any political party. That was the difference. There was one single union. Then normally what would happen in a fairly large company there would be more than one, at least two unions right, and obviously these unions would have affiliation with some political parties. So what the government assured was, not officially, unofficially that there was only one union and that the one union was not influenced by any – neither ruling party for that matter. That didn’t happen for very long. It was just a couple of years ago that MUL had its first issue and problems and the unions started splitting up and finally there were two unions. And later on they had political affiliations.

Q: So do they have a strong history of industrial conflict or do they rather?
A: No, they don’t. I mean MUL is one of the best paying companies today in this region. And I guess that has done a lot to keep them away from... I mean they had some industrial conflict but I don’t think it has been anywhere near as bad as in many other organizations. (MUL 4)

While MUL’s industrial relations have been very peaceful by Indian standards and have probably even set an example for a new typical mode of industrial relations in modern Indian enterprises, the Japanese template of one-company unaffiliated union-concept got corrupted over time. MUL’s efforts clearly ensured for a long time industrial peace. However, they could not avert that the company’s industrial relations moved closer to more typical Indian patterns.

**OUTCOME**

MUL received a Japanese template for company industrial relations, which was described as an internal company union. This transfer was a deliberate departure from local/host institutional conditions. However, because of such an institutional distance, it did not fit well into the local/host institutional context. Being aware of that, a number of measures were taken to ensure that this alternative concept of company industrial relations could survive. Efforts were made to adapt the local institutional context. These measures ensured that MUL’s company industrial relation record has been very harmonious by Indian standards. MUL’s company industrial relations departed particularly initially from traditional Indian industrial relations with regard to the level of industrial peace, with regard to providing forums and processes to address grievances and with regard to the level of cooperation between labor and management. However, what had begun as a showcase of industrial
peace modeled on Japanese/SMC company industrial relation practices increasingly moved towards ‘normal’ Indian industry patterns. This is also the tenor of the following very insightful journalist comment:

When this correspondent first visited the Gurgaon plant of Maruti Udyog Ltd. (MUL), back in 1985, the Japanese HR practices followed there were proudly pointed out to him and the claim was made that this company would be a trailblazer in harmonious industrial relations in the country. The current confrontation between the union and the management is an ironic refutation of that claim. The Managing Director, Mr. Jagdish Khattar, claims, “We continue to have cordial relations with the union.” How “cordial” the industrial relations are can be judged from the fact that the management has had to resort to the court last week to ensure that every employee signs a “good conduct” affirmation before being allowed to enter the factory. As for the union, its claims to be “unaffiliated” and non-politicised are now suspect by the fact that it has taken recourse to the support of Opposition politicians (Mr. Gurudas Dasgupta, Mr. V. P. Singh and even Mrs. Sonia Gandhi) in the current battle. And what is all the din about? Not bread and butter - the MUL employee is pretty well fed on that account. It is not even about jam. There is already an incentive scheme in vogue. It is about an extra layer of jam. Already, MUL’s average cost per worker at Rs. 23,000 a month is the highest in the industry. According to Mr. Khattar, if the union’s demands for new incentives are met, the cost will balloon to Rs. 42,600 a month. And this comes at a time when the company is facing intense competition, the car market growth is sluggish and margins are thinning. They say that in the Japanese industrial culture, employees are ready for sacrifices when the company is not doing well. Well, it is evident that, as far as industrial relations go, the Indian cultural component in this Indo-Japanese joint venture has prevailed. Welcome to the fold, Maruti Udyog. (Sachitanand, 2000)

MUL’s industrial relations began and were modeled on the Japanese company union and harmonious labor relations concept. Clearly, the legal right of having an involvement of multiple, politically and externally affiliated unions as well as a tradition of labor unrest in India posed a constant threat to MUL’s company industrial relations. While it is fair to say that MUL company industrial relations hung in a delicate balance, they never turned as nasty as in many other industrial enterprises in India (MUL 4). Despite the fact that there were institutional pulls to turn MUL’s company industrial relations in the direction of traditional Indian patterns and even a first strike occurred in 2000/2001, MUL had a rather peaceful industrial relations record by Indian standards. Although MUL had at some point two unions and was threatened by external political involvement, MUL management remained determined to restore its one unaffiliated union policy and has been successful in
doing so. MUL’s industrial relations started as an imitated solution. Over time this solution turned into a hybrid (reflecting Japanese origins as well as host context elements), if not increasingly into a typical local solution, in the face of host context institutional pressure (MUL 1). At the time of research, the company industrial relations could probably be best described as somewhere between hybrid and local.

**SUPPLIER RELATIONS**

**TRANSFER SCENARIO**

The set-up of MUL’s supplier relations was strongly guided by SMC, which made a great effort to replicate home country/plant conditions. This transfer effort focussed on three crucial respects: on contractual, structural and process-related aspects of the supplier relations. In contractual terms, MUL/SMC sought to establish close ties with its suppliers comparable to those SMC’s home operations. In structural terms, SMC increasingly sought to implement the tierisation of MUL’s supplier relations. Even in supply flow/process terms, SMC pushed for just in time (JIT) supply logistics. Such transfer efforts were mainly related to a fit strategic and an institutional misfit. While there were some local suppliers to build on, there was basically no existing supplier infrastructure in the host context that could serve MUL. There was no existing local/host template for supplier relations to draw on because the local JV partner lacked any capability in automobile manufacturing and because of the developmental level of the local ancillary sector at the time. Thus, although being the junior JV partner, it was SMC’s task to help establishing the supplier infrastructure for a product that was introduced by SMC. A product that differed markedly in technology and quality terms from what was common in the Indian automobile industry and a product that was to be truly mass-produced.

**STRATEGIC AND INSTITUTIONAL (MIS)FIT/RECONTEXTUALIZATION PRESSURE**

**Contextual distance and transfer intent?** A key reason why SMC was able to consider a transfer of home country supplier relations was the strategic fit in volume/demand market terms. This allowed transferring an integrated plant in the first place. Host strategic conditions – more precisely demand conditions – were conducive for the transfer of a high volume plant. SMC’s transplant approach, in turn, implied that SMC was determined to stick to the same low levels of vertical integration as achieved at home. A study conducted by UNIDO (2003) also revealed that it was from the outset a very deliberate effort: “To observe SMC’s policy of outsourcing all but the most critical components. Specifically, in house value addition was planned to be about 26%” (UNIDO, 2003). A substantial proportion of the value addition, therefore, had to come from outside MUL. Theoretically, SMC could have just imported parts and components from Japan but there were again host insti-
tutional and strategic conditions that ruled out such a choice. A simple import of compo-
nents from Japanese suppliers would have caused an institutional and strategic misfit in two
ways. First, high import tariffs set by the Indian Government would make the vehicle too
expensive for price-sensitive entry-level market segments. Second, and more importantly,
as part of the JV agreement and Indian Government policy, MUL had to observe high local
content requirements. It was agreed that out of the 70% of the non-company value addition,
\[\text{at least 60% would have to be locally procured (Mohanty et al., 1994).}
Moreover, even

The government’s phased manufacturing program (PMP) mandated foreign firms to
localize their products up to 80% within the first five years; this policy forced MUL
to promote the indigenisation of its component supplies. In addition, the apprecia-
tion of the yen in the early 1980s made imported components from Japan extremely
expensive, leading MUL to fear that using CKD imports, it would not be able to
compete with other domestic producers. MUL’s decision to promote the localization
of components rather than CKD imports was also justified by another factor. Ini-
tially, MUL focused on the domestic market and not on exports, allowing it to com-
promise on the quality of the components produced by local suppliers; this would
not have been acceptable if it were exporting its products. (Okada 1998: 19)

Yes, there were several factors for this [localisation]. Initially in 1983 when the first
MUL rolled out, in fact it rolled out on the 14th of December, so when it happened
one of the things was that the Indian market was doing about 40–30,000 units a year
and what MUL said was that in three years we will be doing a 100,000, so obviously
the Indian market was not prepared for this sort of a thing because it was doing 30–
40,000 and it hadn’t been growing for about ten years. So that was the first point
where the transfer had to happen quickly. And you had to have a component base in
India to do something like 100,000. That was the first element. The second element
was that foreign exchange, meaning the Dollar-reserves of India, were not very
good. So there was that mission, so to speak, to save on foreign exchange and to lo-
calize as quickly as you actually can. And the third element was, again in keeping
with those times, the customs duties were very high, across the board. So if you
wanted to make a car, at a competitive price for the people, you had to localise very
quickly. And the fourth thing and final thing was that when MUL was set up, there
was a very strong emotional thing about the whole thing. It was not only a car, it
was also about driving Indian industry and changing lifestyle and you know a peo-

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ples car and so on. So in those times it had to be driving the growth of the rest of the Indian industry. So for these four reasons: High volumes, foreign exchange problems, high customs duties and driving the rest of the growth of the Industry, for these reasons it was very important to localize. (MUL 1)

Thus, not only local content requirements but also cost advantages led MUL to develop inter-firm linkages with local suppliers. At the same time, as mentioned earlier, MUL actively helped arrange a joint venture between local suppliers and SMC’s suppliers in Japan. MUL itself holds equity in about a dozen such joint venture suppliers. (Okada, 1998)

Given the parent’s rigorous low vertical integration/high outsourcing policy, given the high Yen in the mid 1980s, given the Indian government’s FDI policy and last but not least the price sensitivity of a product for a developing country entry market, MUL had to draw on suppliers producing in India. Institutional/(strategic?) misfit and transfer: Once it was clear that the supply inputs had to come from India, one could have imagined that MUL would simply draw on the existing local/host context supplier infrastructure. However, this supplier infrastructure hardly existed, and where it existed, local/host institutional conditions were institutionally too weak and strategically to distant from SMC’s/MUL’s product and volume requirements. The Indian automobile supplier Industry, in the early 1980s was overall small and structurally fragmented. It was dominated by small and technologically weak players (Khare, 1997; Bhargava, 2002). Tierization and JIT supply logistics were unheard of. On top of that contractual relations in the market were arms-length and low trust in nature (D’Costa, 2003). The Indian automobile industry had been for decades shaped by a very small, isolated and monopolized sellers market. The handful of automobile companies who had industrial licences faced little competition, had small outputs and were highly vertically integrated. D’Costa (2003) pictures this as follows.

In the highly regulated Indian environment, near monopoly control of production neither fostered competitiveness nor encouraged cooperation among firms. Vertical integration was very high among Indian firms, given the small size of the market and the vulnerability associated with distant suppliers (Narayana, 1989). […]. In an institutional sense, this was a significant development, given that subcontracting in the Indian automotive industry has been quite weak because of supply uncertainties. Also, greater profits were expected to be foregone without in-house production. (D’Costa, 2003: 76)

Low volumes, high vertical integration and a protection from any competition were bad conditions for a supplier industry to flourish. For the few existing suppliers there was little capital and incentive to upgrade manufacturing technology and facilities. Moreover, the
the dispersal of supplier over different states in India and the absence of VAT discouraged concentration processes in the Indian supplier industry. As a result Indian automobile suppliers were small players, featuring low production capacities, low technological know how and low quality levels. As such, Indian suppliers could not cope with the upsurge in volumes and lacked the competence to supply MUL with parts and components in the right quality and quantity.

Before MUL came into existence, the production of passenger car in India was low and remained steady at around only 40,000 vehicles for almost two decades. As a result many component manufacturers in automobile ancillary sector of the country were operating at rather low levels of technology and production base. They were not been able to modernise and upgrade their technologies for the requirement of passenger car industry. But within a short period, after the small car (Maruti 800) was introduced in the market, MUL attained production level of 60,000 vehicles per annum. Such a steep rise in production volume, obviously called for a quantum jump in the operations of component manufacturers. However, most of the component manufacturers could not bale to respond to this growing need in the short period within which MUL built up its production volume. Most of the bought-outs from the existing ancillary units were of poor quality.... The process of indigenisation has advanced progressively in 1987-88. However, MUL has continued to face certain difficulties in the task of indigenisation since a number of component manufacturers failed to maintain adequate supplies of components with required consistency in quality products on account of foreign exchange crisis during 1988-89 and 1989-90. (Mohanty et al. 1994: 136)

The pace of indigenization was much slower than anticipated because ancillary manufacturers did not gear up production to meet the large demands required by MUL. Besides, the indigenization programme was delayed with the introduction of the new model of the Maruti 800 in May 1986. (Joseph, 1990)

In the early 1980s, neither Indian suppliers nor the prevailing institutional modes of supplier relations were fit to provide and develop the inputs MUL’s production system demanded. The absent institutional or absent strategic supply conditions – depending on how we look at it – were the ultimate reason why SMC embarked on a massive transfer effort of supplier relations. Template transfer/use, demands and conditions; strategic/institutional (mis)fit; and recontextualization pressure? The institutional/strategic misfit motivated transfer intent implied that what was going to be transferred would face absent or adverse institutional/strategic conditions. Some host institutional conditions were so pervasive and adverse that it took a long-term effort to transfer certain aspects of SMC’s supplier relations. For
example, in the beginning, tierisation on of suppliers and JIT logistics were not even introduced (Humphrey and Salerno, 1999).

In India, tiering of suppliers is a new phenomenon, unheard of until a couple of years ago. It was one of the “Japanese” practices, which Maruti did not introduce into India. (Humphrey and Salerno, 1999)

Tierisation of suppliers was only gradually implemented for reasons of institutional and strategic misfits in India. First, the Indian supplier market had not seen major concentration processes. The financial and technological capabilities of Indian suppliers ruled out the development and production of complex components. Also the lacking reliability of subcontractors put a break on tierisation efforts. Second, the absence of VAT meant that tierisation of suppliers would drive up the cost for supplies (ACMA Interview 2002, SIAM Interview 2002). The third reason why tierization remained slow was related to market volumes as Okada points out:

Car assemblers like MUL and Telco are now increasingly trying to consolidate and streamline their first-tier suppliers to make the production processes leaner. The large scale first-tier suppliers are increasingly required to semi-assemble modules such as steering systems and rear axle systems, which are put directly on the final assembly line at the car assemblers. [...] However, this pyramidal structure is shallower than those in Japan and the U.S., partly due to a much smaller volume of production in the Indian automobile industry as a whole. My own interviews with 50 first-tier suppliers revealed that many have only second-tier suppliers and none in lower tiers. Even these second-tier suppliers are often tiny-scale subcontractors doing some “job work” (i.e., processing material provided by their clients, the first-tier suppliers). Of course, the situation is different for large-scale first-tier suppliers like Denso India, whose suppliers are comparable in size to the smaller-scale first-tier suppliers of vehicle assemblers. In these cases, third-tier suppliers do exist, performing “job work,” as do many second-tier suppliers. Some of Denso India’s suppliers (i.e., in tier 2) are also first-tier suppliers for MUL. [...] The literature predicts that globalization, by bringing about more flexible production processes, increases the practices of outsourcing and subcontracting work to such lower-wage firms. My study found, however, that at least one third of sample firms did not increase such practices. When I asked 47 first-tier suppliers of MUL and Telco whether they had taken on more subcontractors over the last five years, 17 said they hesitated to increase subcontracting, citing the lack of reliability and the low level of quality as their main reasons. (Okada 1998: 24)
A somewhat similar situation was found with regard to JIT supplies. Given the geographical spread of MUL suppliers, poor road conditions, unreliable suppliers, frequent strikes and seasonal rainfalls, it was extremely difficult for MUL to implement JIT. Finally, it was not easy to win the trust of existing Indian suppliers in the beginning. Institutional patterns, in contractual terms, were about the opposite what SMC was trying to introduce (Bhargava, 2002; D’Costa, 2003).

**MODE OF RECONTEXTUALIZATION**

*Adaptation of foreign parent templates and/or demands and conditions?* From the beginning SMC was determined to see its outsourcing/low vertical integration policy implemented. At the same time, large scale imports of parts and components were ruled out by exchange rates, price sensitive demand and host/local institutional demands. As there was no existing local supplier infrastructure, SMC helped to establish supplier relations. These were to a large extent modeled on SMC’s patterns. However, given adverse conditions in the local/host context not all aspects of SMC’s supplier relations template were transferred over night. There were undoubtedly strong indications that a number of adaptations to the SMC supplier relations template were needed, particularly in the beginning. A part of the recontextualization effort rested on the adaptation of the template, a de-selection of certain supplier related concept, such as tierisation and JIT, that were initially impossible to implement.

*Adaptation of local/host context, templates and/or demands and conditions?* The dominant recontextualization mode with regard to the supplier relations was, however, an adaptation of the local/host institutional/strategic context. In order to tackle MUL’s supply problem, SMC/MUL embarked on a massive ‘supplier development program’. The program essentially centred on an immense institutionalization effort. Specifically, the creation and change of local/host institutional/strategic context conditions, in line with SMC’s home supplier relations. The UNIDO 2003 stated, for example, in this context:

*The VENDOR development programme of MUL was formulated to meet the following main objectives: To implement the government policy of 95% indigenization in 5 years in a phased manner; To observe SMC’s policy of outsourcing all but the most critical components; In house value addition was planned to be about 26%; To be totally transparent in all vendor dealings; To ensure quality standards were maintained and cost targets fulfilled. (UNIDO, 2003)*

The institutionalization effort of SMC supplier relations focused in the initial phase on realizing outsourcing through the development of suitable suppliers in India. This involved fostering cooperative and long-term relationships based on trust. Particularly, the first aspect was hardly possible without the second. To achieve these core goals, a multi-pronged
approach was taken. First, MUL tried to develop with existing host context suppliers trustful relations by assisting them through a range of incentives and trust-building measures (Khare, 1997; Bhargava, 2002). One of SMC’s/MUL’s main activities was supporting the existing suppliers, ranging from financial to technical assistance.

Most vendors in India are small or medium sized industries. They cannot easily access technology, or implement modern lean management practices. Their ability to introduce information technology is virtually zero. They cannot engage consultants for introducing quality systems, and their balance sheets do not usually make it possible for them to access bank finance. The “mother industry” needs to recognise the gaps in the supplying companies management, and help to fill these in its own interest. This is what MUL did. (UNIDO, 2003)

MUL and SMC personnel were even assigned to suppliers for prolonged periods of time. Getting Indian suppliers to invest and cooperate was no easy task in the beginning (Bhargava, 2002). Suppliers were suspicious that their investments for a lofty Indian Government project would pay off. One of the first challenges was, therefore, to build trust with suppliers and convince that state owned MUL was determined to realize the volumes targeted. Supplier related problems of mistrust were ultimately overcome by measures such as doing away with the annual tender system and replacing it by long term contracts, assurance for volumes, guaranteed prices and fixed dates of payment (Bhargava, 2002). The UNIDO report (2003) comes to a similar conclusion:

The operation is not denominated subcontracting but partnership to signal the close cooperation and transfer of know how. This transfer reaches the second tier of vendors in some cases. There are no calls for tenders made for procurement of components, contrary to the established Indian practice. The partnership includes not only transfer of know how but also guarantees for loans, equipments leasing financing and provision or financing of tools. Payments for supplies are done weekly, contrary to the normal 2-3 months practice in India. (UNIDO, 1999)

However, simply supporting existing local suppliers was not enough. In a second step, MUL got involved in suppliers and founded JVs with local suppliers. MUL not only helped in bringing together foreign and Indian suppliers to form JVs but also entered into twelve JVs with suppliers. Although MUL only held a minority equity positions in these companies, it was strongly involved in quality and productivity assurance.

With the entry of MUL, industrial governance shifted in favor of outsourcing for both policy and strategic reasons. MUL became the industry leader by introducing new products, itself a new development in India, and expanding capacity to world
standards. It accomplished this by developing subcontractors, thus embracing an important aspect of Japanese cooperative practice (see D’Costa, 1998).

In fact, a dozen MUL suppliers set up a joint venture with SMC’s suppliers, through a matchmaking initiative by Maruti-Suzuki. Several firms that are MUL’s key suppliers with a joint venture with SMC’s suppliers are located within the same complex as MUL’s main plant in Gurgaon. MUL also participates in equity holding of some of these key suppliers. (Okada 1998)

SMC not only succeeded in establishing the needed supplier base. Additionally, it developed supplier relations that were in contractual and structural terms quite similar to its home operations but very much contrast to the traditional low-trust/arms-length supplier relations in India.

In India, large companies do not, in general, try and build long-term relationships with suppliers. They do not provide the kind of support that MUL provided. Relations with vendors are no different than those between any buyer and seller. The importance of improving the vendor’s quality, productivity and cost levels, as a means of improving one’s own competitiveness, is not generally recognized. MUL’s policies were developed on the basis of Japanese experience, where car companies have financial stakes in many vendors and vendors are treated as being part of their family. Of course, vendors also realize that they have to constantly work to make their principal competitive and profitable. (UNIDO, 2003)

Like in MUL’s supplier development program, SMC in Japan had been from the 1950s onward actively involved in the establishment of its supplier network through special developmental activities and direct support (e.g. SMC Supplier Cooperative Union). Like in MUL, SMC in Japan had provided financial support and training to its suppliers. Similar, to the MUL set-up, SMC had supported its suppliers in Japan in the early 1960s to move to a nearby supplier park and also directly influenced the management of these enterprises (c.f. Price, 1997). And, like in the MUL set-up, SMC had the policy in Japan to have at least two suppliers for all major parts. Additional support for a replication strategy of supplier relations comes from an UNIDO (2003) report. The report suggests that MUL supplier relations were strongly modelled on Japanese examples. The overall result was that, in contrast to old Indian practices, substantial outsourcing and Japanese-type high trust and cooperative supplier relations developed. After all, MUL’s approach to transfer long-term supplier-relations was not a reflection of a blind imitation drive but a necessity under the institutional and strategic conditions. However, SMC did not stop at the contractual level with the transfer effort of supplier relations. While initially ‘tierisation’ and ‘JIT logistics’ were not seriously pursued, there were increasing efforts to transfer these aspects as well. In the late 1990s,
MUL started to reduce its suppliers. This development received additional impetus when the Indian Government introduced a VAT-system 2003. In the meantime, MUL has managed to reduce the number of its suppliers substantially. While in 1998 MUL had about 406 suppliers it had almost halved the number to 220 in 2004.

When MUL started its operations in India, auto-component suppliers were almost non-existent. Thus, one of the immediate goals was to develop and establish a competent vendor base. This involved providing capital, transplanting technology, and developing production processes for suppliers. Today, this situation has changed. The Indian auto-component industry is increasingly finding global recognition for its production capabilities and low costs. This has considerably eased pressure on the vendor development front. Nevertheless, given the severe competitive pressures over the last few years, vendor management has become critical to the business. Some of the operational issues in this regard are discussed below. MUL is in the process of rationalising its vendor base. It has reduced its vendor base from over 350 two years ago, to approximately 220 at the end of 2003-04. This has helped us enhance supply chain efficiencies by lowering the time and costs involved in dealing with more vendors. It has also provided our vendors with the requisite volumes to realise economies of scale. Going forward, we plan to have technically and financially capable set of vendors, whose standards match up to those of MUL. Improving quality and productivity of the vendors is a priority area for MUL. While the average standards have improved significantly over the years, there is still high variability. Hence, improvement in this area is of considerable importance to MUL. Your company has been encouraging vendors to develop their own technology and R&D capability. In the long run, MUL expects its vendors to initiate and develop specialised components on their own, while it focuses energies on its core competency of making better cars. (Maruti Udyog, 2004)

Also with regard to transferring JIT, MUL has been able to change the situation through a host of unconventional or even innovative measures. An article in Business India in 2002 stated for example:

Many superior manufacturing practices were, of course, drawn from the experience of SMC Motor Corporation. Practices like ‘just in time inventory’ yielded rich results during the year...Besides it is little known that MUL has 12 joint ventures for component supply, of which six are located within its Gurgaon campus. (Shelley, 2002)

MUL has undertaken a couple of measures to come closer to the ideal of JIT. A couple of MUL’s suppliers have set-up production facilities on the MUL compound. MUL’s JVs for...
the most important supplies are located near its plant (Halasyam, 2001, former Director Finance in MUL). Suppliers who are within a radius of 100 km (Red Herring Prospectus, 2003) deliver the majority of MUL’s components. MUL is also developing a supplier park and has tried to lure in far away suppliers with incentives. These incentives comprised: offering subsidised, well located and industrially developed land, sales tax concessions and reliable power supply generated by MUL itself (Gulyani, 2001).

To bring about this change, MUL encouraged Japanese technical collaborations with supplier firms and established joint-ventures with a few of them. It helped them locate within or near the MUL plant complex, thereby contributing to the development of an industrial agglomeration. MUL has about 400 first-tier suppliers, 53 of which depend on MUL for at least 90 per cent of their sales, and 100 of which are small and located within an hour’s drive from the plant (Okada, 2000), which was an agricultural area prior to setting up MUL. Today about a quarter of MUL’s supplies are sourced from 26 firms located around MUL (Gulyani, 2001: 119). One strategy MUL used to lure its suppliers was to make available its surplus power. Given the inadequate power supply, MUL invested in a gas-based captive power plant (Gulyani, 2001). It skilfully negotiated with the government to obtain gas and construct a dedicated gas line. By overcoming the power bottleneck, it also averted component delivery problems due to distance and erratic power supply. It could avail of JIT deliveries from several of its suppliers. (D’Costa 2003: 75-76)

MUL also asked those far away suppliers not willing to relocate, to build or at least make use of warehouses near its plant. In these cases, MUL was willing to bear the expenses incurred for maintaining the warehouse (Venkatachari, 2000). To better co-ordinate and facilitate JIT, MUL has developed a low budget IT-solutions for its suppliers that helped to schedule JIT deliveries.

MUL has implemented an in-house designed supply chain application, the extended ERP on the 'Extranet' that links both dealers and vendors. The Extranet architecture is based on the public Internet but is fully secured with encryption, says Uppal, adding that the dealers do not need to invest in the infrastructure because the Extranet is totally Web-based. They only have to bear the dial-up charges. (Kulkarni, 2002)

Although MUL tried to implement JIT, there were a couple of factors that worked against its full realisation. For one thing, the inefficiency and unreliability of poorly maintained transportation systems still affected the company’s supply chain (c.f. Gulyani, 2001). This was especially problematic in the case of JIT-supply systems, which are very fragile and lead to a complete production halt, if interruptions occur. A combination of problems made
the implementation of JIT difficult, if not impossible. Okada, as well as interviewees confirmed that MUL was not able to fully implement JIT. Okada states in this context:

*MUL played a particularly significant role in pushing local component suppliers to improve quality, price, and delivery, and in forcing some of them to adopt just-in-time (JIT) principles (Eurotech International 1993: 23). However, this does not mean that MUL and its suppliers have fully adopted the JIT production system. Japanese managers think that the Indian automobile industry, including MUL, is still far from operating under the JIT principle. (My interviews with senior managers of MUL and Denso). Also, the CEO of Toyota India Corp., which plans to start production in 1998, commented that "the current Indian condition is still one step before JIT." (Okada 1998: 42)*

Although MUL was still away from full JIT-deliveries, it had come closer to the ideal over time. An indication for such an improvement were MUL’s falling inventory times. While in 1992 MUL’s total inventory was 57 days of stock, it had come down to 19 days of stock in 2003-2004 (c.f. Gulyani, 2001; Maruti Udyog, 2004).

OUTCOME

SMC embarked on a huge transfer effort with regard to supplier relations. It could do so because of the strategic fit (demand fit). It had to do so because of the combined effect of parent policy demands and host context conditions and demands. Put differently, SMC had to undertake a huge transfer effort because it wanted to observe its outsourcing policy but faced an institutional/strategic environment that did not allow the fulfilment of such a policy without major transfer of home practices. In the face of a weakly and adversely institutionalized supply market for parts and components, SMC chose to develop suppliers locally by founding JVs and assisting suppliers. In order to transfer its supplier relations, SMC embarked on a huge institutionalization effort that mainly involved change and creation of local/supplier relations. In contractual terms, MUL’s supplier relations may still not mirror exactly SMC’s home relations (Khare, 1997). However, indications were that they had come very close. The principle of extensive outsourcing and close high-trust relations with suppliers was the first to be reproduced. The high company involvement in setting up suppliers mirrored very much what SMC had done in its home country in the 1950s. While MUL’s initial focus was more on replication/establishing suppliers and having close relations with them to assure the quality and quantity of supplies, the focus widened over time. More recently, it started to replicate the structural and process-related features of the Japanese supplier set-up. At the time of research, the tierisation and supply logistics of MUL were not exactly those of SMC. The number of direct suppliers was still more compared to the Japanese parent and the supplier hierarchy was less tiered than in SMC. Similarly, the
level of JIT was still behind that of the Japanese parent. However, MUL was closing the gap. MUL has come very close to an imitation of its home supplier relations. While in the beginning, MUL supplier relations reflected selective imitation cum typical local patterns of some aspects and customized solutions of others, they moved over time more towards imitated patterns. Thus, MUL supplier relations have moved from a mix between hybrid (local plus imitation) and customized to increasingly imitated solutions.
Table 23: Summary of MUL’s hybridization profile

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<th>PS Dimension</th>
<th>MUL</th>
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| **Functional Differentiation** | Transfer: Transfer of foreign template (transfer requirement due to low level of local/host context capabilities)  
Fit/Misfit: Foreign template transfer because of strategic proximity; low misfit between template and local/host strategic (similar strategic context) and institutional context (Greenfield, open local management)  
Mode of Recontextualization: Low level template adaptation to local context (some extension/change of template); high adaptation – creation – of local/host context to foreign template  
Outcome: Mainly imitation |
| **Hierarchical Differentiation** | Transfer: No transfer of foreign template; instead, use of local template (related to entry time and entry mode) plus some parent demands  
Fit/Misfit: No transfer of foreign template because of institutional distance and equity related configuration mandate of the production system dimension; yet, some institutional misfit between local template and foreign parent demands  
Mode of Recontextualization: No local template adaptation and rejection of parent demands; adaptation of local context, i.e. creation of hierarchical differentiation in line with local/host demands or template  
Outcome: Mainly local solution (at the very most between local and hybrid) |
| **Technical Configuration** | Transfer: Transfer of foreign template with regard to factory layout and process design; only selective and increasingly less transfer with regard to technical hardware configuration  
Fit/Misfit: Both strategic and institutional distance as well as proximity lead to selective template transfer  
Mode of Recontextualization: No adaptation of those foreign template aspects transferred; some rejection of foreign parent demands in early years; for the most part adaptation of local context to foreign template plus creation of local/site context in response to foreign parent and host context strategic conditions and institutional demands  
Outcome: Between imitation and customization |
| **Work Organization / HR profile** | Transfer: Transfer of foreign template work organization and corresponding HR profile  
Fit/Misfit: Transfer because of: strategic proximity in demand conditions, host context institutional demands and conditions in stark contrast with template; institutional distance somewhat less because of Greenfield choice; misfit between template and local/host institutional conditions and demands; difficulty to uphold the template due to adverse local/host institutional conditions and demands  
Mode of Recontextualization: Some adaptation and change of the template (de-selection); mainly large scale adaptation (institutionalization) of local site context to template  
Outcome: Between hybrid and imitation |
| **Industrial Relations** | Transfer: Transfer of foreign parent company industrial relations template  
Fit/Misfit: Transfer because of institutional distance; local/host country institutional demands and conditions in stark contrast with template; institutional distance somewhat less because of Greenfield choice  
Mode of Recontextualization: Adaptation of local context as well as adaptation of the foreign template over time  
Outcome: From imitation to between hybrid and local |
| **Supplier Relations** | Transfer: Transfer of foreign parent supplier relations template  
Fit/Misfit: Transfer because of: strategic proximity in demand conditions, host context institutional demands, and at the same time strategic/institutional distance in suppliers/supply market conditions; foreign parent template faces adverse local/host institutional/strategic supply market conditions and institutional demands (e.g. VAT)  
Mode of Recontextualization: Initially adaptation of foreign template to host context; over time major adaptation of local/host supplier context to template (massive creation & change effort)  
Outcome: From between hybrid/customized to increasingly imitated? |
6.2 Fiat India Private Limited (FIPL)

GLOBAL PRODUCT STRATEGY OF THE FOREIGN PARENT, STRATEGIC ROLE OF THE SITE AND STRATEGIC DISTANCE TO OTHER SITES

Because of Fiat’s particular nature as “large enterprise” with a “small domestic market”, the problem of internationalization had been taken into consideration even prior its establishment. This process has been developed through different quality stages and strategies, which may not be discussed in this occasion, but evidently have a tight connection with the present globalization policy here considered as started in 1993. That year Project “178” took shape with Fiat carrying out a new decisive step in its internationalization process towards reaching a global asset. The reasons behind this project are the same as those theorised by the other automobile companies: a) the most part of the future motorization processes will involve developing countries located outside the “Triad”: Western Europe, North America and Japan; b) motorization growth will not be given by exports as this can create insurmountable problems for the balance of trade and become increasingly necessary to plan and produce vehicles specifically designed for these countries’ end-user tastes and usage conditions in which vehicle will be operated; c) most part of future competitiveness of automobile makers will derive from the ability to build a “matrix-type” manufacturing organization on a world-wide basis, able to match the advantages of better developed countries (high added value activities) with those of developing areas (high labor intensive activities). (Volpato 2000/2001)

Drawing on Porter’s (1980) generic strategies, Fiat’s global product strategy could be best described as combining a differentiation and a cost leadership strategy. Boyer who has particularly focused on automobile industry profit strategies labels it a ‘diversity and volume’ strategy, following the Sloanist model developed first by General Motors (Freyssenet, 1998; Boyer and Freyssenet, 2003). Already in the 1960s Fiat started to broaden its brand portfolio. The major road post of becoming a multi-brand company were the take over of Autobianchi in 1958, Lancia in 1969, Ferrari in 1966, Alfa Romeo in 1986 and Maserati in 1993. It should also be mentioned that the Fiat group was not from the outset a lower market segment focussed company. This ‘forced specialization’ as Volpato calls it (Volpato, 2000/2001) was rather the result of tax regimes (i.e. heavy tax progression with engine size) and gasoline prices in Italy, dating from the fascist period and continued after the Second World War.

Fiat’s global product strategy has been regionally diversified for some time. It involved offering state-of-the-art products in developed markets (production of which mainly located in Italy) and offering ‘mature’ or outdated products in second and third world economies.
(production of which mainly located in emerging markets). In the 1990s, this pattern changed and continued at the same time. With the World Car project Fiat introduced a range of models that were based on one platform and specifically developed for emerging markets. This implied a continuation of strong regional diversification, however, with models that were specifically designed for emerging markets. Camuffo and Volpato (2000/2001) describe the main goals of the World Car project also code-named ‘178’ as follows:

1. Define a family of new models, based on the same platform, to be produced and sold with basically no significant change, in a number of countries.
2. Create a worldwide supply chain to manufacture, in different places of the world, a family of new models suited to the motorization needs of BEMs [big emerging market].
3. Take advantage of cost differentials, namely labor cost differentials, available in PLEMAs [peripheral of large existing market areas].
4. Guarantee absolute standardization of each version of the models produced, even if they are targeted to different markets.
5. Establish an organizational learning process capable of conciliating the design of a centralized product with the needs of various final markets.
6. Diffuse, by replication and adaptation to foreign plants, the lesson learned in the setting up and operation of the highly successful green-field plant in Melfi (Italy).
7. Develop a global supply chain, flexibly and efficiently using the production capacity and the supplier base available in different countries. (Camuffo and Volpato, 2000/2001)

Fiat’s internationalization started early and was triggered by a limited domestic market (Volpato, 2000/2001). Fiat already started an export-led internationalization before the First World War. After the Second World War the market growth in Italy and the forced specialization translated into a restrained internationalisation (Volpato, 2000/2001: 2). The economic conditions in Italy “progressively reduced the possibilities for Fiat to compete in foreign markets on higher segments of automobile production” (Volpato, 2000/2001: 2). The forced specialization in lower market segments created a path-dependency for Fiat’s internationalization pattern. It explains to a large extent why Fiat started early to focus on emerging markets, which culminated in the company’s World Car strategy in the 1990s. But let us take a closer look at Fiat’s production related FDI.

Apart from some licence-production agreements with Premier Automobiles Limited in 1951 and with Zavodi Crvena Zastava in 1954 as well as the establishment of engines and transmissions plants in Brazil/Sao Jose dos Campos in 1958, Fiat’s internationalization mainly took off in the 1970s. In 1971 Fiat started the Tofas-Bursa plant in Turkey (JV with the Koc Group). In 1973 the Betim plant was founded in Brazil and a year later the Tychy plant in Poland. While Fiat’s internationalization saw some disinvestment and slow down in the 1980s, caused by the oil crisis and domestic conflicts (Balcet and Enrietti, 2002a/b/c), it
received a new push in the 1990s. This new push was driven by Fiat’s World Car project. Focussing on emerging markets, Fiat transformed existing plants (Brazil/Betim 1996, Poland/Bielsko-Biala 1997, Turkey/Bursa 1998), entered into JVs (Morocco/Casblanca 1997, Egypt/Cairo 2002, India/Kurla 1997, China/Nanjing 1999) and licensing agreements (South Africa/Johannesburg 1998 and Vietnam/HoChiMinh City 2000) or established new operations (Argentina/Cordoba 1996, Venezuela/LaGuaira 1997) for the production of the World Car range (c.f. Camuffo and Volpato, 2002; Fiat, n.d.). With the World Car project Fiat’s internationalization became what Balcet and Enrietti (2002b) call a ‘focussed globalization’.

The project of a world car, specially oriented to the needs of emerging countries, represents the transition from multi-domestic and multi-regional configurations towards what we can define as a “focused globalisation” strategy. […] Given the difficulty of penetrating the slowing and difficult North American (and even more Japanese) markets, the strategic choice of internationalisation has been to concentrate efforts on emerging markets. The innovative idea was to produce a world car especially oriented to the needs of emerging countries, in Eastern Europe, Latin America, Africa ad Asia. Italy was the location of the platform of the 178 project, where the models of this family have been developed, and the source of component exports, while production involved several main integrated poles and a number of assembly units in emerging or developing countries. (Balcet and Enrietti 2002b: 12)

In contrast to this ‘focussed globalization’ oriented towards emerging economies, Fiat’s production internationalization in the triad markets – even in Europe – was rather moderate. This had do with the failed involvement in Citroen in the early 1970s (owing to French Government intervention), the failed merger with Ford Europe in mid 1980s (related to disagreement over corporate control) and the failed expansion into the USSR in the early 1990s (following the economic and political transformation in the Soviet Union) (Volpato, 2000/2001). Fiat’s European production internationalization that did take place, was largely related to the Fiat’s cooperation with GM, namely the Fiat-GM powertrain JV that involved the set-up/use of engine and transmission plants in Germany (Bochum, Kaiserlautern, and Rüsselsheim), Austria (Wien-Aspern), Great Britain (Ellesmere Port), Hungary (Szentgotthard) and Poland (Bielsko-Biala).

Now, producing the World Car range of vehicles, Fiat’s Indian operation had an important position in Fiat’s internationalization strategy. In fact, despite disappointing sales, FIPL’s strategic role and importance within the World Car project has increased over time. FIPL was considered an important strategic pole in Asia. While FIPL is strategically very distant from Fiat’s home plants in Italy in terms of production volumes and product mix, it is strategically relatively close other world car sites.
Market entry/establishment mode: In 1959 Fiat entered into a license agreement with the India automobile company Premier Automobiles Limited (PAL). The agreement involved the license production of the Fiat 500 and later the Fiat 1100. In 1972 this agreement expired. However, the model continued to be built in India under the name Premier Padmini (Mohanty et al., 1994). In 1981 a second technology agreement was signed with PAL (Mohanty et al., 1994). In the 1990s with India’s market liberalization, Fiat’s involvement in India saw a new revival. Like other international auto manufacturers, Fiat identified a huge potential in the Indian car market. What is more, in the 1990s Fiat focused on the developing world as the major future markets for its products. In line with this strategic focus, Fiat announced in 1995 its ‘World Car project’ which was specifically designed for emerging markets and included India as a production pole (Alzona and Prakash, 2001). Against the background of its longstanding connection with PAL and its World Car project, Fiat opted for a two-pronged entry to the Indian car market (Goldstein, 2002). In 1996 Fiat entered into a technical-collaboration with PAL for the import and assembly of the Fiat Uno from CKD-kits. The Uno assembly was conferred to PAL and established at PAL’s Brownfield site in Kurla in the outskirts of Mumbai (Subhadra, 2002). Simultaneously, Fiat was planning to set-up of a wholly-owned Greenfield plant for the production its World Car model range. To realize this project, Fiat founded a new subsidiary, Fiat India Auto Ltd. (FIAL), and bought a factory site in Ranjangaon near Pune. In 1997 Fiat even signed a MoU with the State Government of Maharashtra for a Greenfield project, involving an annual production capacity of 100000 cars. The project’s plan was to start production by the end of 1999. However, things did not quite work out for Fiat as planned. PAL who had taken care of the Fiat-Uno project proved to be a problematic partner. Fiat became very unhappy with the way PAL management handled the Fiat-Uno project and PAL’s unwillingness to step up investment in the JV (Goldstein, 2002; Subhadra, 2002; FIPL 2; FIPL 3). In addition, a strike broke out followed by a lockout, which led to delivery delays and vast cancellations of car bookings (Subhadra, 2002). Overall, the PAL-led Fiat-Uno project contributed to a huge image loss for Fiat in India.

Equity mode and development: In reaction to these problems, Fiat took over the Uno project in 1997. To realize the take-over, Fiat assumed a majority (51%) in the newly founded JV – Ind Auto Ltd. – with PAL and raised its stake continuously (Subhadra, 2002; FIPL 4). Parallel to these developments, the Indian automobile market moved into recession and saw increasing competition at the end of the 1990s. Initial sales projections of 100,000 vehicles per year were scaled down to a mere 25,000 vehicles per year. The changed demand scenario led Fiat to reconsider its Greenfield project. The problems with PAL and doubts whether the Greenfield investment would pay off, led Fiat to put its Greenfield project on hold and turn to the jointly owned Brownfield facility as an alternative for its World Car
production. Instead of building a new production site, Fiat increased its stake in the JV IAL and concentrated on revamping the Kurla Brownfield facility. At the end of 1998 Fiat increased its stakes in IAL and finally announced the freeze of Rangjangaon Greenfield project. In 2000 Fiat increased its share in IAL again from 76% to 95% and in 2004 to 99% (Alzona and Prakash, 2001). At the time of research, IAL was renamed to Fiat India Private Ltd. (FIPL) and had practically become a wholly-owned subsidiary of Fiat Auto Italy.

LOCATION, PRODUCTION PROGRAM AND MARKET SHARE

Location: FIPL’s factory is located in Kurla in the agglomerations of Mumbai (State of Maharashtra) surrounded by slums. The factory site and the factory halls are inherited from former JV partner PAL. Fiat invested substantially to upgrade the Brownfield facilities that were in a poor condition when Fiat took over (Atzeni, 2001; Subhadra, 2002).

Production Program: At the time of research, Fiat manufactured three models: the Uno, the Sienna/Sienna Weekend and the Palio in about twelve variants. In terms of market segments, the models ranged from the lower B to the lower C segment (Red Herring Prospectus, 2003). Having had difficulties to sell the C-segment Sienna, the company planned to focus more on the B segment to realize higher sales and production volumes. While all models share the same platform, it was specifically the Sienna, Sienna Weekend, Palio that belonged to the World Car range for emerging markets. The installed capacity of the site was 60,000 vehicles per annum. At the time of research FIPL had around 2000 employees.

Market share and sales: While especially the Palio (launched in 2001) gave Fiat's sales in India a boost, the introduction of the World Car family did not live up to expectations. However, although FIPL continued to run up losses and although the Fiat group faced severe problems, resulting in a number of plant closures world-wide, Fiat held on to its Indian operation. In terms of sales volume, FIPL sold in the B segment 17,067 cars in 2001-2002 (out of a total of 293,131 sold in the B segment) and 16,366 cars in 2002-2003 (out of a total of 158,291 sold in the B segment). This was a market share of 5.8% and 10.3% in the B segment respectively. In the C segment the tendency was similar. In 2001-02 Fiat sold 898 vehicles (out of a total of 72,610 sold in the C segment) and in 2002-2003, 1850 vehicles (out of a total 37,957 sold in the C segment). These were market shares between 1.7% and 4.9% (data provided by Red Herring Prospectus, 2003).

THE GLOBAL TRANSFER SCENARIO

Template? The transfer intent and effort of Fiat in India was closely related to Fiat’s World Car project code-named ‘178’. Apart from a standard range of cars based on a single platform, the project comprised of a production-system template. This template was equally adapted to emerging market conditions. It was basically a derivative of the Fabbrica Inte-
grata concept, which Fiat implemented most successfully at its Italian Greenfield site in Melfi (Camuffo and Volpato, 2000/2001). According to Volpato (2000/2001: 9), the Melfi plant served as a ‘paradigm’ to be applied “to the various new plants made under ‘Project 178’ in a flexible and adaptive way”. Now, while the Fabbrica Integrata/Melfi experience was the paradigmatic starting point for the World Car production-systems, changes were made to adapt it to developing country conditions. Conditions such as lower wages, local content requirements, lower volumes. At the same time, the need for economies of scale was factored into the development of production-template and the global supply-chain. In contrast to Melfi, the standard production volumes for the World Car product-systems were lower, as were the levels of automation. The focus on human resources was defined a key component of the World Car template. With regard to supplier relations, also some key concepts were taken on board from Melfi. These included a nearby supplier park and high levels of outsourcing (c.f. Camuffo, 2000/2001). To develop the World Car and its production system template, Fiat even established a pilot plant in Turin and delegated technicians mainly from South American to it, for a better understanding of developing country requirements. The pilot plant in Turin became the permanent testing and developing ground for the product and the production template of the World Car project (FIPL 2). According to Volpato, the pilot plant serves as a “conservatory of weights and lengths” which “dictates the product and manufacturing specifications to which all Fiat and supplier plants must conform to” (Volpato, 2000/2001: 14). In 1996 Fiat started with the implementation of its World Car project in Brazil. In the same year Fiat built a whole new Greenfield site in Cordoba, Argentina where the World Car production template was most faithfully realized (Volpato, 2000/2001). It was also this plant that initially served as a model for the planned Greenfield site in India (Autojunction, 2003).

Transfer content – the comprehensiveness and main focus areas of template or transfer intent/effort: Fiat’s World Car production template is very comprehensive. The template defines major organizational structural parameters such as hierarchical levels, functional differentiation and a standard concept of work organization all the way down to the shop-floor level. It also includes a standard production layout for 400 vehicles per day (which can

6 Camuffo describes the corner stones of the Fabbrica Integrata concept as follows: “This model, named Fabbrica Integrata, is an Italian, adapted version of lean manufacturing developed in the early ‘90s and fully implemented in the highly successful greenfield plant in Melfi, South Italy. Following “lean” principles, the main features (Camuffo and Volpato, 1995) of Fabbrica Integrata are: advanced and flexible production technology, the adoption of lean manufacturing concepts (just in time, synchronous kanban, kaizen, job rotation, management by sight, quality tracking, etc.), key partner suppliers located close to the assembly plant, a “flat” organizational structure, organizational units based on process logic and linked to client-supplier logic, decentralisation of responsibilities and functions, focus on skills and human resources as performance drivers.” (Camuffo, 2000/2001)
be downgraded to 200). The template’s technical configuration is based on low levels of automation. The template also defines ideal supplier relations as well as a range of concepts and policies targeting supplier relations (c.f. Camuffo, 2000/2001). However, when Fiat canceled its Greenfield project in India and decided to start producing its World Car range at PAL’s old Brownfield site, it had to give up the transfer of certain aspects of the World Car production template. While the goal of building the World Car range and its corresponding production template was largely held on to, Fiat decided not to transfer the more advanced manufacturing technology and the nearby supplier park (FIPL 1; FIPL 2). However, despite the low-tech approach, the interviewed managers insisted that core aspects of the World Car template had been transferred. In summary: The transfer intent touched all dimensions of the production system. This included standards for the organization structure, the configuration of work organization on the shopfloor, major aspects of process organization. There were also a number of global Fiat-group policies that defined foreign parent demands with regard to FIPL’s supplier relations and industrial relations. However, as regards the latter two aspects, there were substantial degrees of freedom for the subsidiary to respond to specific local/host context conditions.

THE ORGANIZATION STRUCTURE

FUNCTIONAL DIFFERENTIATION

TRANSFER SCENARIO

As a part of its World Car project, Fiat transferred to its Indian operation the functional configuration of the World Car production template. Resting on the Fabbrica Integrata the UTE (Unita Tecnologica Elementare) concept was a corner stone of the functional differentiation of the Indian site (FIPL2; FIPL 3; FIPL 4). Although the UTE system mainly defined shopfloor-level work organization, its organizational scope included middle management levels. By design, UTEs were functionally integrated units responsible for certain production process steps, such as final assembly. One UTE generally integrated the functions: production, technology, material and maintenance of specific process step (FIPL 2). UTEs were process based organizational units. The Italian interviewee pictured them as a ‘little factory’ comprising about 50 people each (FIPL 2). While it was not entirely clear from interviews how the UTEs fitted into the overall functional differentiation of the organization and whether other functional templates had been transferred to the Indian site, findings from Fiat’s other World Car sites suggested that Fiat applied a very standardized functional configuration to all its World Car sites (Cardoso, 1998). Finally, related to its entry mode Fiat could have drawn on the existing functional template of the local Brownfield site. However, given Fiat’s control over the site, its product ownership, its strategic
intent to implement the World Car template and the capability gap between Fiat and its local partner PAL, a continued use of the local template was out of the question.

**STRATEGIC AND INSTITUTIONAL (MIS)FIT/RECONTEXTUALIZATION PRESSURE**

*Contextual distance and transfer intent?* There were no reports that host context institutional or strategic demands and conditions triggered any changes in transfer intent of the Fiat template’s functional differentiation. Neither the strategic nor the institutional distance was substantial enough to deter Fiat’s transfer intent with regard to the World Car’s functional differentiation template. *Template transfer/use, demands and conditions; strategic/institutional (mis)fit; and recontextualization pressure?* At the same time, given that the site was a Brownfield/acquisition, it was clear that the World Car template would meet an existing local template of functional differentiation. *Little institutional misfit:* However, there was no indication that the implementation of the new functional differentiation, which required a change of the existing template, caused much adverse reaction on the part of the local workforce (FIPL 1; FIPL 2; FIPL 3; FIPL 4). The fact that Fiat had practically from the beginning a majority in the JV, the fact that Fiat had introduced the vehicle, plus the fact that Fiat had essentially the mandate to establish the production of its World Car site, gave Fiat the right and the means to change the local template. While some Human Resource and shopfloor related practices of the UTE concept proved hard to implement, due to the sites institutional heritage, the formal structural aspects and functional differentiation of the UTE system met little institutional misfit. *Some strategic misfit:* The circumstance that the host strategic context featured poorer demand market conditions than the ideal World Car template was laid out for, did not cause a strategic misfit/recontextualization pressure for the UTE concept’s transfer to FIPL (FIPL 2). It appeared that the inbuilt possibility to scale down the template (Camuffo, 2000/2001) gave it some robustness with regard to varying volumes.

**MODE OF RECONTEXTUALIZATION**

*Adaptation of foreign parent templates and/or demands and conditions?* There were no indications that Fiat’s World Car template underwent major adaptations with regard to the functional differentiation. Neither was there any report that the existing template obstructed the implementation of the World Car template’s functional differentiation nor that local/host context strategic and institutional conditions and demands induced any major adaptation of the foreign parent template (FIPL 1). Although there were no reports in this regard, some adaptations of the template to local/host context demands and conditions were likely. *Adaptation of local/host context, templates and/or demands and conditions?* The template transfer and the relative absence of adverse host/local strategic and institutional demands and conditions, allowed a successful adaptation – change – of the existing local template of
PAL. Although there was no comprehensive information on the whole functional differentiation of FIPL, the information that was available pointed towards an imitation of the functional differentiation of the World Car production system template. This replication success was mainly achieved through the transfer of Italian expatriates to the Indian site as well as the transfer of Indian employees to the Italian pilot plant in Turin. The Italian side was able to restructure the functional set-up because its own car models were produced and because the steady increase in equity of the JV gave it control over the site. On the one hand, the adaptation of the local context was based on Fiat’s firm willingness to implement its World Car template supported by substantial expatriate transfer. On the other had, there was a relatively high local context resilience with regard to functional differentiation change. This was most likely the case because the change of the local site’s functional differentiation did not conflict much with the existing status order or interest structures at the site.

**Outcome**

Despite some strategic distance between the Indian and other World Car sites, the Indian site was strategically close enough to implement the basic functional configuration. There was also no indication that specific local/host contextual conditions, be it the existing local template or the wider host institutional context, called for a major modification of the functional differentiation transferred. This was probably based on the fact that the UTE concept (and other functional differentiation templates transferred) was already pre-adapted to emerging market conditions. While the UTE concept seemed to have been formally implemented, there was no information available, if the organizational differentiation above the UTE level was also replicated. However, given Fiat’s highly standardized transfer approach to its World Car sites, it was highly likely that this had taken place. Thus, a clear transfer-intent, low recontextualization pressure due to a moderate strategic and institutional misfit and an adaptation of the local context as the dominant recontextualization mode, led to an imitation of the World Car template’s functional differentiation.

**Hierarchical Differentiation**

**Transfer Scenario**

From the outset Fiat planned to transfer the hierarchical differentiation as an integral part of its World Car template. Derived from its *Fabbrica Integrata* concept, Fiat’s World Car production template included a standard hierarchy of five hierarchical levels (c.f. Camuffo, 2000/2001; Camuffo and Volpato, 1994). However, as market demand fell below expectations, Fiat dropped its Greenfield project and decided to move its World Car project to an existing Brownfield site where it had started earlier to build the Fiat Uno. While this shift to the Brownfield site did not cause Fiat to change its plan to transfer the World Car template’s
hierarchical differentiation, the shift did imply that the template’s ideal hierarchical structure would face the hierarchical differentiation of an existing site. That is of the production site, Fiat had taken over from its Indian JV partner PAL. As Fiat was in control of the site, it also had the mandate to configure FIPL’s hierarchical differentiation in line with its own template.

**STRATEGIC AND INSTITUTIONAL (MIS)FIT/RECONTEXTUALIZATION PRESSURE**

*Contextual distance and transfer intent?* Indications were that neither a strategic and nor an institutional misfit caused Fiat to revise its intent to transfer the World Car template’s hierarchical differentiation. The local/host strategic context conditions were either not distant or relevant enough to cause a strategic misfit with the template’s hierarchical differentiation. The host institutional context conditions and the existing local template, in contrast, were quite distant and did not fit with the World Car template’s requirements. However, because or despite this distance and misfit, Fiat was determined to transfer its template’s hierarchical differentiation. *Template transfer/use, demands and conditions; strategic/institutional (mis)fit; and recontextualization pressure?* Misfit between foreign template and existing template and institutional demands on site: Now, while there was no strategic misfit putting a recontextualization pressure on the foreign parent template, there was a misfit between the foreign parent template’s hierarchical differentiation and the existing local template, i.e., the local institutional conditions and demands at the Brownfield site. The existing local hierarchical differentiation mirrored the wider host institutional context conditions in India, marked by extensive socio-professional demarcation and hierarchical differentiations. Without giving further details, an Indian Human Resource manager indicated that there was substantial resistance to the changes that followed from the implementation of the World Car template’s hierarchical differentiation (FIPL 4). After all, the new hierarchical differentiation meant a reduction from about twelve to five hierarchical levels (FIPL 4). This dehierarchization very likely caused resentment among those who felt that their seniority- or experience-based status was disregarded. Depending on how we look at it, there was a strong recontextualization pressure on either the existing local template or on the foreign parent template.

**MODE OF RECONTEXTUALIZATION**

*Adaptation of foreign parent templates and/or demands and conditions?* Little or no adaptation of foreign template: FIPL showed little signs of having adapted the hierarchical differentiation of the World Car template to the existing local template, local demands or the wider host institutional context. With one more hierarchical level than the ideal foreign parent template asks for, FIPL India had come fairly close to imitating its template. The only remaining trait of FIPL’s/PAL’s former hierarchical structure were the titles of the six
remaining hierarchical designations. Adaptation of local/host context, templates and/or demands and conditions? Fiat carried through the reduction of hierarchical levels against local resistance. In line with its World Car template, the hierarchical levels of the existing Brownfield template were reduced, from previously more than ten or twelve (and these are probably only counting managerial levels) to six levels. According to the Indian Human Resource managers (FIPL 4) there was still one more level to go:

A: When we were having in Fiat earlier Premier Automobile, there were many hierarchical levels. I don’t remember exactly how many but it was more than ten or twelve hierarchical levels. Now presently we are working comparatively with a very flat structure. We are having six layers in officers. That is: Vice President, General Manager, Assistant General Manager, Manager, Assistant Manager and Executive, so these are the levels.

Q: And operators?
A: Yes and operators, that is, the workmen level. That is a bargainable category. Those who are governed with the settlements which is signed by the Union.

Q: Ok, do you have different designations, more designation than the six?
A: Officers, only six.

Q: Ok so you don’t have like senior, junior executive, this kind of thing.
A: No we are having only six, that is, Vice Presidents who are the heads of the departments and maybe General Managers are the head of a department. But we have Assistant General Manager, Manager and Assistant Manager. That is six grades.

...as per Italian standard we need to have as far as officer grades, white collar grades are concerned, we need to have five levels. For that we have a tool, which has been developed by Italy,... . That is a competency assessment tool. On that base we have evaluated all the people in India vis-à-vis global standards, where our people are. (FIPL 4)

Fiat was in the position to change the local context or rather the existing local template’s hierarchical differentiation because Fiat very soon acquired, after FIPL’s foundation, a majority in the JV. As the Italian side was in control and the site’s top management staffed with Italian expatriates, there was no local top management left that could oppose the changes in a meaningful way.

OUTCOME

With around 2,000 employees and six levels of hierarchy, FIPL had the flattest organizational hierarchy in the sample of the four research cases. Unlike the other cases, FIPL did not feature a decoupling between formal hierarchical levels and hierarchical designations. Being a Brownfield site, FIPL had an existing local organizational template. At the same
time, Fiat had a clearly defined template for the site’s hierarchical differentiation. Even though the institutional distance between the local template and Fiat’s World Car template was substantial and caused resistance, the company was able to push through, at least formally, the hierarchical differentiation of its World Car template. The fast equity shift allowed Fiat to replace the old hierarchy with Fiat’s template without facing the intervening power of the local JV partner. Despite employee resistance, FIPL had quite rigorously implemented its foreign parent template. As far as the formal hierarchical structure of FIPL was concerned, there was a shift from a local solution, as was prevalent in PAL, to an imitation of Fiat’s World Car standard. In summary: FIPL initially had a local organizational template that did not fit with the foreign parent company template. There was a substantial institutional distance and misfit between the local template/local institutional demands and the foreign parent template requirements. The misfit was overcome by adapting the local template to the template and rejecting local institutional demands. The result was a relatively complete imitation of the hierarchical differentiation of Fiat’s World Car template.

THE PROCESS ORGANIZATION

TECHNICAL CONFIGURATION

OVERVIEW

Fiat’s Indian Kurla factory was inherited from the JV partner PAL. To allow the production of its vehicles, Fiat invested in buildings, the paint- and weld-shop to upgrade the facilities (Atzeni, 2001; Subhadra, 2002). At the time of research, the company manufactured three base models: the Uno, the Sienna, and the Palio in twelve variants. FIPL served the lower C to the lower B segment in the Indian market (Red Herring Prospectus, 2003). While all models shared the same platform, it was specifically the Sienna and Palio that belonged to the World Car model range (FIPL 1). Until 2002, the site produced the Uno and the World Cars in two separate lines. From 2003 onwards, they were all integrated into one flexible manufacturing line. The installed capacity of the site was at 60000 vehicles per annum. Daily output was at 150-200 vehicles manufactured in two shifts. FIPL’s on site production comprised of the following process steps: body shop, paint shop, assembly line and finishing line. In addition to the major production steps mentioned, there was an on-site engine assembly facility. The factory layout of FIPL was mainly U-shaped (FIPL 2). The bottleneck of the FIPL’s manufacturing set-up was its paint shop. As the paint-shop was only capable of painting one car at a time, which lasted about four minutes, the whole process organization was adapted to the paint shop’s cycle time (FIPL 2).
TRANSFER SCENARIO

In line with the World Car project the structuring of FIPL’s basic factory layout/process design, vertical integration and technical hardware configuration was originally planned to rest on the World Car production template. Specifically, the Indian World Car site was planned as a Greenfield project that should follow the Argentinean site in Cordoba. Thus, as an integral part of its World Car strategy, Fiat aimed at transferring similar technical configurations to all its World Car sites, including India.

*Coming to modularity in organization, with regard to intra-firm organizational design, the roll out of Palio in foreign plants followed a common technological and organizational template, exported and replicated in the different countries. As already mentioned before, each Technological/organizational “module” was characterized by certain equipment and degree of automation (with possible variants and potential adaptation), and was organized to meet a given production capacity, which is 400 vehicles per two-shift day.* (Camuffo 2000/2001: 22)

However, this comprehensive transfer intent of the standard ‘technological/organizational module’ was partly dropped in the Indian case as the strategic context proved too distant to allow the set-up of a completely new Greenfield site. As the Greenfield project was put on hold, Fiat decided to start the World Car production at the Brownfield site Kurla. While this shift of the World Car production to a Brownfield site had only some effect on Fiat’s transfer intent with regard to the site’s level of vertical integration and basic factory layout/process design, the strategic misfit had a strong impact the transfer intent of the World Car template’s ideal technical hardware configuration (FIPL 1). However, using of the local template’s existing local technical configuration was not an option, either. For one thing, because Fiat was quick to control the site and had the undisputed mandate to configure the site, for another, because Fiat introduced its own product which implied that the existing manufacturing infrastructure was unfit to produce the World Car range of vehicles, at the quality, quantity and cost required.

STRATEGIC AND INSTITUTIONAL (MIS)FIT/RECONTEXTUALIZATION PRESSURE

*Contextual distance and transfer intent? Let us take a closer look at the fit or misfit between the technical configuration of Fiat’s World Car template and the local/host strategic and institutional context conditions and demands. Strategic misfit: The World Car template was optimized for 400 vehicles per day (Camuffo, 2000/2001). The Indian market demand conditions allowed a production of hardly more than 200 vehicles a day. This strategic misfit made it impossible for Fiat to set up an all-new World Car template as it had originally planned.*
NEW DELHI (UNI): Fiat S.P.A. of Italy has, for the time being, decided to freeze investments into its Ranjangaon plant near Pune, which was to produce the ‘Siena’ and ‘Palio’ under the world car project. The decision to this effect was taken in view of the contracted demand in the automobile industry, Mr Marius D’Lima, spokesman of Ind Auto Limited, a joint venture between Fiat and Premier Automobiles Limited, told UNI here. Fiat had earlier planned to set up the Ranjangaon unit to produce its range of world cars in India. But with the ongoing massive demand recession in the country, the company has decided not to put in more money into the unit for the time being and produce the Siena and the Palio from Premier Auto’s Kurla unit in Maharashtra, Mr D’Lima said. (The Tribune, 1999)

The demand problems in the Indian context and the shift of operations to a Brownfield site implied a task profile and spatial/physical conditions that differed from the strategic context conditions the template was optimized for. Not only would the site have to cope with lower volumes than the World Car template was designed for but there were also spatial restrictions or misfit related to the factory’s location in the agglomerations of Mumbai (FIPL2; FIPL3). The existing layout of the paint shop posed throughput limitations. This, in turn, posed limitations for the realization of the World Car template’s ideal cycle times. The lower volumes and the Kurla location also ruled out the implementation of the World Car template’s nearby supplier park for JIT supplies. This contributed to difficulties for realizing the internal Kanban system. FIPL faced a strategic and spatial misfit that stood in the way of transferring certain aspects of its template’s factory layout/process design. Nevertheless, despite the move to the Brownfield site, there was still a good amount of strategic fit that allowed the transfer of major factory layout/process design aspects in line with the World Car template. After all, the Indian Brownfield site still had to produce the World Car range of models, which implied a very similar task profile for the site, despite somewhat lower production volumes.

While the strategic misfit between the local/host context and the template was not severe enough to deter the transfer of the template’s vertical integration as well as core features of factory layout/process design, the situation was different with regard to the technical hardware configuration. Despite the fact that the template was already optimized (on the demand side) for low volumes and cost sensitive customers and (on the supply side) labor intensive production in low labor cost countries, there still was too high a strategic misfit to transfer the template’s technical hardware configuration. Highly price sensitive customers – probably even more than in other emerging economies – and modest demand conditions were mainly responsible for the misfit. In contrast, to the misfit with regard to the local host strategic context, there was no indication that the local/host institutional context conditions had led to any transfer restraint.
Template transfer/use, demands and conditions; strategic/institutional (mis)fit; and recontextualization pressure? While there was some transfer restraint of the World Car template, mainly due to a strategic misfit, there was also a recontextualization pressure on the existing local template. FIPL’s existing technical configuration was, very strategically distant from the World Car task profile in volume, quality and product specification terms. It did not fit the requirements of the World Car models and was, therefore, under recontextualization pressure to fit the foreign parent template requirements or, where transfer was refrained from, to fit foreign demands for producing the World Car under specific strategic host context conditions. Or looked at from the other site: Those aspects of the World Car template’s technical configuration that were transferred differed from the existing local set-up. There was, thus, a strategic misfit between the local and the foreign parent template that either required a recontextualization of the local or foreign template. It should be noted that this strategic misfit was not accompanied by an institutional misfit. There were no indications that the foreign parent technical configuration template was perceived in any way as a threat to local institutional conditions. Thus, with regard to institutional conditions, there was no substantial misfit between the World Car template’s requirements and local/host context institutional demands. In fact, as far as host institutional demands were concerned, the World Car template was designed to respond to common emerging economy demands, such as high local content requirements and high import tariffs.

**MODE OF RECONTEXTUALIZATION?**

Adaptation of foreign parent templates and/or demands and conditions? In a way, the World Car template was already a recontextualization. It was the adaptation of Fiat’s *Fabbrica Integrata* to developing country conditions. However, as far as the application of the World Car template’s technical configuration was concerned this recontextualization was not enough for the Indian host context. As a combined result of strategic and spatial misfit, Fiat was only selectively able to transfer its ideal World Car vertical integration, factory layout/process design. With regard to its technical hardware configuration the strategic misfit ruled out the template transfer entirely. Those aspects that were transferred did not meet further recontextualization pressure and were implemented in line with the template. Despite strategic and physical/spatial misfits, FIPL’s managers insisted that it had been possible to reproduce major aspects of the factory layout/process design of the World Car template, such as the U-shaped process layout.

Q: OK. I have taken very much of your time. But now a final question. If you look at the layout of the factory, the way the assembly lines flow, the stations you have, is this like in Argentina, South Africa, Brazil, is it the same?
A: Yes, it is the same. The difference is that the project in this factory is for 200 cars per day. You can do 200 cars per day with big investment or 200 cars per day with...
Thus, the basic factory layout/process design was said to be very much in line with the template, as the strategic context/task profile of the Indian site was still very similar to other World Car sites. Moreover, in line with the Cordoba plant and other World Car plants, the Indian plant achieved similar levels of low vertical integration and outsourced core process steps including welding (although performed on site) and forging. FIPL still applied its World Car template with regard to vertical integration and basic factory layout/process design because its task profile was still relatively similar to other World Car operations. While some minor adaptation of the foreign template was reported with regard to the template’s factory layout/process design, there was a more substantial adaptation of the template’s technical hardware configuration (FIPL2; FIPL3). In fact, the strategic misfit made Fiat refrain almost completely from transferring the technical hardware configuration. Yet, in areas where no template transfer was possible, still foreign parent demands had to be met. 

Adaptation of local/host context, templates and/or demands and conditions? Adaptation of local context (existing template) and rejection of local demands: To achieve a factory layout/process design in line with its World Car template, Fiat initiated a major renovation and revamping of the Kurla site. According to Atzeni (2001; see also Subhadra, 2002), Fiat upgraded manufacturing technology, machinery and renewed buildings and other facilities (Atzeni, 2001). Thus, regarding the site’s vertical integration and factory layout/process design the local template or context was adapted to the World Car template’s requirements. However, as far as the set-up of the technical hardware configuration of the site was concerned, the foreign parent did not transfer technical hardware to the extent that it matched the profile of other World Car sites. In this respect, the local context was not adapted to the foreign parent template. Instead, the local context was adapted – changed and creation – to meet foreign parent demands for the production of the World Car under specific local/host context strategic conditions. Thus, the adaptation of the local Brownfield context was a customized solution and did not aim at replicating the typical World Car technical hardware configuration. The Italian interviewee spoke in this context even of the use of old technology:

A: So this factory is old. But the project is for a new car, the Palio. If you compare, this project is realized with old technology. ..Lo project est possibile projectare et realisiare with old technology.

Q: This is possible?
A: Yes it is possible because the robot activity is here a manual activity. Here all is
manual and it is old. I think Fiat didn’t want to invest in Kurla because it is a little factory, there is not enough space to put the cars, and the magazine park is little. (FIPL2)

But let us take a closer look at the technical hardware configuration of FIPL. While there were few automated manufacturing aggregates, the factory tour revealed, a substantial level of mechanization. This mainly involved numerous welding gun stations as well as a few semiautomatic welding units for bigger body panels. Other upstream activities, such as blanking and pressing of body panels, were not performed on site but supplied from elsewhere. However, except for a few narrowly circumscribed manufacturing activities, the technical hardware configuration was characterized by very low levels or almost absent automation. It appeared that transfer of advanced automation technology was only restricted to those areas where it was a technical necessity, like in the paint-shop.

The Indian market is very price sensitive, so if I am bringing technology then it is adding to the cost. As and when there is a requirement we put in technology. We have put in a robot in our paint-shop now because it was a requirement. If I am saving some money, maybe on labor or any other parameter maybe my delivery time or total time is decreasing, yes, then we are putting that money into the system. (FIPL 4)

Overall, however, FIPL’s technical hardware configuration was mainly a customized response to low and price sensitive demand and low labor costs. As the Kurla site was a run down, it required some upgrading of the existing technical hardware configuration. But this upgrading led nowhere near other World Car site’s automation levels, let alone Fiat’s state-of-the-art technical hardware configurations in Italy. The fact that FIPL not even tried to replicate the technical hardware configuration of other World Car sites can be readily understood when comparing volumes. In Brazil, for example, Fiat had an annual output of about 500,000 cars. In India, the total annual production output of the entire Indian automobile industry was around 600,000 cars. While the Brazilian output was at roughly 1500 cars per day, FIPL barely realized 200.

A: This is the process. And this process is like the automatic process in the other sites, if you compare to the other factories, here it is manual and in other factories it is automatic. We assemble the engine manual – in pilota it is also manual – but if you have high production volumes, you imagine in Brazil we have 1500 cars per days you cannot do this with manual assembly it has to be automatic. (FIPL 2)
OUTCOME

The hybridization outcome of Fiat production system’s technical configuration has to be described in a differentiated manner. While Fiat’s vertical integration and basic factory layout/process design can probably be best described as a mix between imitation and customization, the configuration of FIPL’s technical hardware rather reflected a pure customized solution. According to the managers interviewed, the Indian site successfully imitated the basic factory layout/process design of the World Car template. In these areas only some customizations were required, which were related to the lower volumes and the spatial restrictions of the Brownfield site in Mumbai. FIPL’s outcome with respect to its technical hardware configuration was for the most part a customized solution. In this latter respect, few if any technical hardware configuration of World Car template was reproduced. This is in line with Camuffo’s study which showed that the Indian site’s automation level was among the lowest across the World Car sites and did not reflect the World Car template’s typical technical standard:

An optimal “module” of four hundred vehicles was replicated for every Operating Unit in each of the Palio project foreign plants, with the exception of India (brownfield plant in Kurla, Mumbai, in the Maharashtra state of Southwest India). Here, demand expectations and labor costs suggested a module adaptation and downsizing (characterized by partly different machinery and a lower level of automation) leading to a “degraded” module with a capacity of two hundred vehicles. (Camuffo, 2000/2001: 23)

While the technical hardware configuration of the site relied on some transfers of technical hardware from Italy, this was not a replication effort of any template or existing site. Thus, although the technology of Fiat’s technical hardware configuration – e.g. welding guns, semiautomatic welding-units, testing equipment – were brought from Italy – the site neither reflected Fiat’s state-of-the-art technology configuration of home plants nor any of the other World Car sites. For the most part the technical configuration rested on technical solutions, customized to meet foreign parent demands under specific host strategic context conditions that differed markedly from the template’s ideal context conditions. FIPL’s technical hardware configuration of was mainly customized to low volumes and comparatively low labor costs in the host context – a finding also confirmed by Goldstein (2001). We can, therefore, best describe the technical hardware configuration as a customized solution. While World Car sites and their technical hardware configurations were designed for emerging market conditions, FIPL was even at the low end of the low-tech World Car production sites.
WORK ORGANIZATION AND HUMAN RESOURCE PROFILE

TRANSFER SCENARIO

As part of the World Car template, FIPL had, with the UTE concept, a clearly defined template for the site’s work organization and corresponding human resource profile (FIPL 2; FIPL 4). The UTE concept was first introduced in Italy and was subsequently made an integral part of the World Car production template. It was, for example, transferred earlier to Fiat’s World Car site in Brazil (Cardoso, 1998). The World Car template’s work organization is ideally composed of different UTEs, which are organized along the production process and are linked in supplier-customer relationship to one-another (see figure 18).

Figure 18: The UTE concept in the production process

![UTE Concept Diagram]

The idea of the UTE is to integrate vertically all responsibilities to the lowest possible level and horizontally all activities and functions that are required for a particular process segment. The UTE is, therefore, designed as a highly autonomous and integrated unit that comprises: operational planning, smooth production/variance absorption, quality assurance, problem solving, continuous process improvement, learning and training of its human resources (Camuffo and Volpato, 1994, 1998). Structurally a UTE chief heads an UTE or ‘a team’ comprising on average of about 50 people. As part of the UTE, technologists and technicians take on different functional tasks (Camuffo and Volpato, 1998) to support the UTE chief.

In order to understand what roles teams play in this organizational model, it must be pointed out that, within the production engineering unit (staff of the operational unit) other new jobs and skill profiles emerge with the integrated factory: the line technologist, whose task is that of supporting the ETU chief in training and respecting time and cost targets, the technology specialist, whose task is that of continuous improvement, process reliability, and product quality, as well as participation in new or modified product engineering. At the shopfloor level, a team is made-up of the three technologists, the ETU chief, a procurement manager, and a maintenance and quality manager. (Camuffo and Volpato, 1994: 57)

As far as the direct work organization in production is concerned, a group leader – a Conduttori di Processi Integrati (CPI) – reports to the UTE-chief and heads a group of workers.
Thus, the CPI is positioned between the UTE chief and the operators/workers who are performing the direct production operations. One UTE can consist of varying number of work groups – depending on the kind of production line segment (see figure 19).

**Figure 19: Organization of an UTE**

![Diagram showing the organization of an UTE]

Source: Adapted and adopted from Cardoso, 1998

The key element of the integrated factory is the Elementary Technological Unit (ETU), defined as a unit which governs a segment of the process (a technological subsystem), in which such activities as prevention, variance absorption, self control, and continuous improvement are carried on, in order to achieve the firm’s goals in terms of quality, productivity, cost and service. The main thrust of ETU are appointing the solution of problems at the lowest level (resources and skills are placed so that problems may be as and where they occur) and facilitating product and process quality improvement by systematically incorporating organizational learning developed in the workplace. (Camuffo and Volpato, 1994: 56)
As a deliberate alternative to Taylorist work concepts, the UTE concept builds on delegating responsibilities to the lowest possible levels and emphasizes the role of workers. Cardoso (1998) points out that generally the UTE chief, the CPI as well as the supporting technicians and the technologist are recruited from the ranks of the workers. They are usually highly skilled and experienced workers. Moreover, the role of workers on the line is emphasized. They are asked to perform a wide range of activities which are not directly related to production such as self-certification and quality control, continuous improvement and housekeeping etc. (FIPL 2; FIPL 4). The UTE concept is designed as a deliberate departure from Taylorist work concepts and builds on a human resource profile that stresses skill polyvalence and high involvement of workers. Similar to other World Car sites, it was also the goal to transfer the UTE work concept and the corresponding human resource profile to FIPL. Now, given that Fiat was quick to take control of the JV with PAL and introduced its own vehicles – which required FIPL to meet Fiat’s global quality standards – it was out of the question to use the existing local work organization template. Although the existing human resources had to be worked with, not least because of host country labor laws, there was over time an effort to transform the existing human resource profile.

**STRATEGIC AND INSTITUTIONAL (MIS)FIT/RECONTEXTUALIZATION PRESSURE?**

*Contextual distance and transfer intent?* As far as the transfer of the basic formal concept of the UTE system was concerned, no major institutional or strategic misfit was reported that caused a transfer restraint up front. The strategic context regarding the demand and supply conditions as well as the corresponding task profile were similar enough to allow a transfer of the World Car template’s work organization and human resource profile. After all, the UTE system had been specified for the strategic conditions of a World Car range, including a strong focus on low labor costs and low volumes. However, due to the adverse local institutional Brownfield context of the site, there was initially a transfer restraint with regard to high involvement work practices (Atzeni, 2001; Goldstein, 2001).

*Template transfer/use, demands and conditions; strategic/institutional (mis)fit; and recontextualization pressure?* When the transfer began, it became clear that institutional conditions at the Fiat Brownfield site were not conducive to apply all aspects of the work organization and human resource profile of the foreign parent template. However, some differentiation in terms of institutional fit and misfit is again required here. **Institutional fits:** The local institutional conditions did not seem to stand in the way of transferring and implementing the formal structure of the UTE system, which formed a central part of the World Car work organization. For example, the Italian management interviewed did not report any demarcation problems between CPIs (supervisors) and operators (workers). Part of the institutional fit in supervisor-operator relations was probably related to the fact that Fiat’s UTE concept – at least in the way applied in India – was not interfering with managerial
work identities. As part of the UTE concept, supervisors – the CPI – were recruited from the ranks of the workers. This implied that Fiat did not ask employees with a managerial work identity to work as supervisors close to the shopfloor. Thus, with regard to worker-supervisor relations, the UTE concept did not call into question local socio-professional demarcations. What is more, even though UTEs were integrated units, they were internally differentiated units based on tasks/functions and hierarchal level (c.f. Camuffo and Micelli, 1997). Without much difficulty, the UTE could be interpreted as hierarchically and functionally differentiated structure. This, in turn, fitted well with the Indian work context where the social stratification and the educational system produces strong socio-professional demarcations. Institutional misfits: While the structural aspects of the UTE work organization did not cause any major local/host institutional and strategic misfit, this was an entirely different matter with regard to work dispositions and high involvement practices required by the template. The local human resource profile, a brown workforce of an old Brownfield site, was institutionally about the opposite of what was needed for practices such as continuous improvement, allocation of more responsibilities in the line, quality circles, self-certification etc.. Particularly in the beginning, Fiat faced an obstructive workforce, which it had taken over from the JV partner PAL. The workforce reflected traditional Indian patterns of low efficiency, low involvement and high labor conflict propensity. In fact, Fiat’s Kurla facility was renowned for its hostile labor relations. Atzeni (2001) who researched the Indian site in late 1990s reported a lot of initial frustration on the part of Italian expatriates. These frustrations with the local workforce had not entirely faded when I visited the site in 2003 (FIPL 2). The biggest misfits between the work organization template and/or expatriate demands revolved around the issues of quality awareness and cleanliness, the taking of responsibility and most of all work commitment and involvement. With regard to quality problems, Atzeni (2001) provides us with the following evidence from FIPL:

> When, three year ago, we, myself and the colleagues responsible for quality, came here, the plant was really inefficient. Once we did a quality check on the paint of a white uno. Circling in green all the defects at the end we obtained a nice looking white/green spotted uno, but not the one ordered by our customer. Observing us, workers were disappointed because for them the car was perfect. This tells you how the quality level was and, of course was for them a good car. (Atzeni, 2001)

Apart from this quality-related work disposition, the Italian expatriate interviewed complained about the initial reluctance of the Indian employees to take responsibility and to work in a self-directed manner (FIPL 2). Similarly, Atzeni (2001) and also Goldstein (2001) reported that it had been very difficult to transfer a range of high involvement-related activities due to the local institutional conditions of a Brownfield site. Goldstein – who also had the opportunity to research FIPL – found in this context:
Despite introducing in Kurla one of the basic organisational features of the integrated factory model – the so-called elementary technological units (UTE) – fully implementing lean manufacturing has been very difficult. Because of labour market regulations, Fiat has been unable to substitute PAL workers with a younger workforce and found it hard if not impossible to adopt concepts such as continuous improvement, total employment involvement, and quality control circles and change the value system. (Goldstein 2001).

Such findings of institutional misfits with regard to high involvement activities were also confirmed by my own interviews. For example, under the UTE concept workers were ideally responsible for quality assurance based on self-certification. In FIPL, however, this concept had not been implemented. Lacking language skills on the part of the Indian workforce were given as the main reason for this transfer restraint.

A: Yes, self-certification…. In India this is a little different because the Indian men in this factory, a part of these people don’t read English and a part of these people also don’t read Maharathi. Others, on the other hand, don’t speak Hindi. So we have here a very big lingual mix.

I: It is complex.

A: And the paper for the cars, the history of the car, is in English. So as the people can’t read the English and don’t understand it, we cannot do self certification with a stamp. This is an adaptation in India. So it is a small difference but when the process is finished, the end-result is the same. You don’t see it but we know. (FIPL 2)

Moreover, Fiat had faced resistance when it began to introduce housekeeping activities to the work profile of operators. This resistance, which was rooted in socio-professional demarcations in India’s institutional context, met strong disapproval from the Italian expatriate (FIPL 2). Finally, Italian expatriates and Indian managers complained about unsatisfactory skill levels of newly recruited workers. This misfit had its institutional roots in the weak practical training component of the Indian industrial training system (see chapter 5).

**Mode of Recontextualization**

The mode of recontextualization in this case involved both: some adaptation of the template to the local institutional context of the site and a slow but steady adaptation of the local context to the foreign parent template over time. *Adaptation of foreign parent templates and/or demands and conditions?* The interviews underlined that the formal structure of the UTE concept was transferred and imitated. There was, thus, no template adaptation in this regard.
A: What we are having, we are having an Italian system implemented more or less implemented here in India. If you look at the typical production area, where we are having a, that is, each assembly line we have divided into a system called UTE. So UTE is basically a common group of working where one particular similar kind of activity is being manufactured. Than total, or let’s say for example, 178-Siena, which has been broadly divided into broadly three categories: so UTE one, UTE two and UTE three. Each UTE is headed by an UTE-chief. He is basically the officer responsible for the workmen. Between workmen and that officer we have a group leader. He is called Capo UTE [also called CPI]

Q: Are these Japanese names?
A: No Italian names. So Capo UTE is a workmen but he is slightly, because of his skill and his experience, he comes up, so he is basically getting work done from the people. So that is the concept we are having. Any problem, anything we want to communicate, we communicate by this officers along with that group leader to all the work men.

Q: So basically I understand there are global systems in Fiat, like this UTE system and than these systems come to India and than you have to customize them.
A: You have to customize them in terms of how you implement them. The way maybe it has been implemented in Brazil, China or Italy may not be there. But the overall objective will still remain the same. (FIPL 4)

While the core formal aspects of the World Car template’s work organization had been transferred, notably the UTE concept, there were indications that corresponding human resource profile deviated from the ideal staffing pattern. In contrast to other World Car sites, for example in Brazil (Cardoso, 1998), the UTE chiefs in India were not recruited from the ranks of workers. In India, it seemed that this position was staffed with officers – polytechnic diploma holders – and not with workers. It may well be that Fiat, in order to offer at least some hierarchical differentiation to its managers, pulled down the managerial hierarchy into the UTE concept. This, however, may have caused some deviation from the UTE’s usual human relations profile – i.e. in terms of qualification-related staffing patterns. Thus, there were indications that the staffing of the UTE in India involved higher formal qualifications than were originally envisioned. What is more, given the Indian strategic context, involving low labor costs conditions, such an approach did not cause a problem.

More importantly, it seemed that Fiat either had dropped and/or had been very slow to implement many of the UTE template’s integrated activities. Cases in point were indirect, high involvement activities, such as continuous improvement, total employment involvement, and quality control circles, self-inspection. These practices either were dropped altogether or performed in an adapted manner. In this regard FIPL adapted its template and was relying on a line-external quality control (FIPL 2). Thus, indications were that FIPL did not
fully succeed in implementing the high involvement concepts of World Car template’s work organization and either had dropped or adapted them to the work dispositions of the extant Brownfield human resource profile, mirroring a rather local pattern.

Adaptation of local/host context, templates and/or demands and conditions? Having said that Fiat did not succeed in transferring certain aspect of its UTE concept is not to say that there were no efforts to adapt the local institutional context conditions or the locally existing template of the site. In fact, FIPL took a whole range of measures to change or re-institutionalize the local human resource profile. These measures included: a re-composition of the work-force, socialization efforts through personnel transfers and on-site training and schooling. Let us look at these measures in more detail.

A re-composition of the local work-force: One measure to change the local human resource profile was based on filtering and laying-off a substantial amount of the workforce and replacing it with a new one:

Q: Now, let me ask another question. When Fiat was starting its activity in 1996 here in India they had already a factory, there was an old factory. I guess it is very difficult to come to an old site and you want to bring in your production system, your own ideas of systems and processes. I mean: if Fiat comes to India and it comes into an old site, was it difficult to put in Italian systems, processes, was that a problem?
A: No, see, when Fiat came into this site instead of a Greenfield which was having old technology due to a lack of investment and the manpower with an old culture, you know, to overcome this, we were thinking to invest and gradually to joining together. There was a scanning and people were filtered. A good amount of those filtered received all sorts of training and were given to the human resources. (FIPL 3)

Based on overstaffing, a problematic old work culture and a lacking economic success, FIPL saw the need to reduce its old workforce through voluntary retirement schemes (VRSs). In 1998 FIPL laid off about 1500 workers, which implied getting rid of about half of its old workforce. When the introduction of the Palio led to a rise in demand, Fiat recruited about 600 new ITI graduates. As FIPL was under pressure to meet the upsurge in volumes, it introduced a brief initial training program (FIPL 2). An Indian manager commented on the qualification and training needs of these new recruits:

A: Yes ITI, they are specialized and trained but not skilled and experienced. They are very new with their brains, like in the Greenfield and they were new, all fresh from the outside institute.
Q: You have to train them a lot?
A: They were trained on the line, there was a program. (FIPL 3)
(Re-)socialization efforts through personnel transfers, on site training and schooling: At the time of research, eleven Italian expatriates were heading various top management positions in FIPL. With FIPL’s decision to take over the majority in PAL and to set up the World Car production in Kurla, Italian expatriates took over the control of the site’s development. Italian expatriates had the task and the positional power to socialize, train, or enforce a work organization and corresponding human resource profile, in line with the World Car production-template. That the latter was only gradually possible was discussed earlier. However, despite adverse local conditions, the Italian manager interviewed underlined his commitment implement UTE’s high involvement practices. He also pointed out that open information policies, reducing hierarchical distance and behavioral consistency were crucial ingredients in bringing about the desired work dispositions.

A: It is important to respect, to listen, and to inform. We inform the people. I go down to the finishing line, I speak with the workmen and ask them, why are you rejecting this car, why do you accept this car, what is your concept, give them confidence, speak with the people and see the people and don’t look down on them. Like on the same level because another problem in India are the castes. (FIPL 2)

A: This is very important. Ask human resource people. I speak for me; the men are the most important resources in one system. No matter it is small or very big. In my view the Taylor system is finished

Q: The Taylor system is finished?

A: Yes, finished. It is important to give responsibility because the men have the brain. Even without school and university, they have the brain and if we compare the brain with a bank account we don’t use this money …. I think here, but this here is my personal opinion because I compare Mr. XY one year ago and now, he is improving. But why is he improving? Because we believe in the system because we do what we say, this is important. But if you say something and after one minute you take it back what you said, the other one doesn’t believe, you know. So, the coherence is there. That is the same thing, in Italy, in India and in the world. When I give the responsibility, ok, you take the responsibility. If you say to an Indian man ‘you understand nothing because your brain is zero is closed’, one, two, three, ten-times. Because of this mentality the Indian man waits and I don’t want to do another mistake. (FIPL 2)

With regard to creating quality awareness within the Indian work-force, personnel transfers also played a crucial role. Expatriates served as trainers to institutionalize higher quality awareness and as enforcers of housekeeping at the worker level. When the new World Car models were introduced, special teams were delegated from the pilot plant in Italy to train the required quality standards in India (FIPL 2). Conversely, an Indian quality specialist
from the quality department was regularly transferred to Italy for quality training. Fiat even transferred around 100 workers to the World Car pilot plant in Turin for training.

I: Than there were one, two, three, four batches of workmen were sent to Italy. Around 50 – 100 were sent to Italy, many sent there for two months, three months, six months to understand the work culture of the European Auto Fiat. How they maintained the shopfloor, how they work, what is the dress code there, how they behave, how the testing is done, technically and also all other things. Three months, four months the people were sent there. So the people are sent there and then they are brought here…. The line was set up by the Italians along with the Indians, so it was making a Fiat Auto in India in this factory. Everybody was, the local man, were very proud that I am part of the team which is making Fiat Auto. So mentally, psychologically everything was starting to change. It was not only the technical, the instruments which was changing. Also the minds of people were changing. Also the technique was made available it was seeing and believing. So people were sent, this is not a magic what Europeans are doing but you really go and see. It is not a magic, it is a practical problem, so hundreds of workmen were sent to Fiat factory to see physically and believe and start changing their own. Those 100 people have already changed the other people. (FIPL 2)

Q: A little factory [referring to the pilot plant in Turin].
A: Yes, a little factory, which works the same like a normal factory and there the training starts.
Q: So people from India go there
A: Yes from Brazil, from India and they
Q: And is it also the other way round that Italians come here?
A: Yes, yes, also listen,
Q: Ok, ok
A: The Indian people go in the Pilota to understand and acquire the know how, to understand the process and to learn, to get the skill and to manufacture one, two, ten cars with the Italian men. This car two, three, four go for the drive test,… everything. The other, I speak when it is complete this process, they come back to India because the other people need to see the product and to understand the layout, to understand what is this and restart again and train the others: for the body in white, for the assembly line, for everything. (FIPL 2)

Upon return, the workers transferred to Italy assumed positions as CPI in the UTEs and were asked to transfer their know how into the work groups:
Q: It is like in Italy, the same thing world-over?
A: Yes, yes. Inside this 50 people we have the CPI. They are workmen who are
group-leaders because those are the ones who have the know how from the Pilota.
More or less, I don’t think everybody but you take in Italy this
I: Yes, all of them
A: Always?
I: Yes, it’s a standard
A: You imagine they learn and after this they give their know how. He is the supervi-
sor. (FIPL 2; FIPL 3)

While there were no indications that FIPL used an incentive or compensation systems to
institutionalize different work dispositions, its effort to promote industrial peace through
pay rises did probably serve that cause. Moreover, by appointing an Italian manager experi-
enced in radical union action as the head of human resources and by changing the human
resource approach to more transparency, the company had succeeded in bringing about
industrial peace. Such an industrial peace, in what used to be a conflict-prone company, also
suggested that work dispositional changes had been achieved (c.f. Atzeni, 2001). However,
the Italian expatriate interviewed, still displayed a great deal of frustration, despite the vari-
ous measures mentioned to bring the local workforce in line with the human resource pro-
file required by the word car template.

OUTCOME

Indications were that Fiat succeeded in transferring and imitating the formal or structural
aspect of its UTE concept at its Indian site. However, Fiat faced severe problems in trans-
ferring concepts of high involvement activities that were an integral part of the ideal UTE
concept. Especially in the beginning, the site’s human resource profile reflected work disposi-
tions that were traditional Indian industrial work relations and not conducive to implement-
ing the post-Taylorist work concepts of the World Car template. Due to the site’s
Brownfield heritage, it was very difficult, if not impossible, to change work dispositions to
fully implement the World Car template’s work organization and shopfloor practices. Only
slowly, through the gradual adaptation of the local institutional context, a selection and
change of the local human resource profile, had FIPL been able to move closer to the im-
plementing of its World Car work concepts and the work dispositions these concepts re-
quired. In summary: Fiat’s work organization and human resource profile featured elements
of typical local institutional patterns and elements mirroring the foreign parent template.
Particularly in the beginning, there was probably a strong decoupling between the imitation
of formal structural elements of the World Car template and work disposition reflecting
local/host institutional patterns. Over time, Fiat seemed to have achieved changes bringing
it closer to its foreign parent template. All in all, adaptations of the transferred work organi-
zation to the local context and adaptations of the local human resource profile to the template suggested that the resulting work organization and corresponding human resource profile can be best captured as a hybrid solution, reflecting both the foreign parent template and the old local template to some extent.

**Organizational Relations**

**Industrial Relations**

**Transfer Scenario**

Concerning the structuring of FIPL’s company industrial relations the foreign parent did not demand the implementation of a defined template. While it was part of the Fiat group’s defined policy to handle industrial relations ‘in compliance with the law and practice of the individual countries’, there was, at the same time, a broader formulated demand for developing cordial and participative labor relations (Cantarella, 1997). Fiat’s guidelines were a reflection of the company’s overall reorientation towards emphasizing the importance of human relations in the 1990s that had went hand in hand with the introduction of the Fabbrica Integrata. Within this new production paradigm, human resources were given a central role. It was stressed that such a constructive role could only be realized, if hostile industrial relations were overcome. As Fiat’s World Car production template was an offspring of the Fabbrica Integrata, it too rested on a concept of non-adverse labor relations. After all, the human-factor, that is, a high involvement and commitment on the part of the workforce was very much emphasized in the World Car template. Thus, while there was no template to structure industrial relations in India, there were broader demands from the foreign parent calling for constructive and peaceful labor relations. The Indian site, in turn, was a Brownfield site and had an existing template of typical local labor relations. In fact, FIPL’s company industrial relations profile had a record of hefty labor unrest. As the existing template was not conducive for the implementation of the World Car template’s ideal work organization and work dispositions and also stood against Fiat’s corporation wide policies of cordial labor relations, FIPL’s management was not willing to accept the local situation. What is more, as FIPL was in control of the JV, Fiat managers had the mandate and the task to alter the situation.

**Strategic and Institutional (MIS) Fit/Recontextualization Pressure**

**Contextual distance and transfer intent?** Recognizing that industrial relations tend to be different from country to country, the Fiat group formulated only broad guidelines, rather than defining a specific mode of company industrial relations to be transferred as an integral
part of the World Car template. This approach to industrial relations was also reflected in comments by an Indian interviewee:

Globally, you can run globally in terms of systems maybe human resource developmental systems. Like what I have just shared with you competence assessment system, than performance management system, than people satisfaction survey. All this can run globally. But when we talk about local environment workers settlement, agreements with the workmen, wage negotiations, that has to be localized, what we are having. Ok we take a guideline from Italy but it has to be handled, it has to be taken care in the local way. (FIPL 4)

Template transfer/use, demands and conditions; strategic/institutional (mis)fit; and recontextualization pressure? Misfit between parent and host context conditions and demands: However, recognizing the fact that industrial relations vary by country did not mean that Italian managers were satisfied with the company industrial relations they found in FIPL. In fact, when Fiat took over the Kurla site from PAL, industrial relations conditions were about the opposite of what Fiat policies ideally envisioned and required for its high involvement work concepts. The local situation was a far cry from the broadly demanded cordial industrial relations. This was not surprising as PAL had a history of hostile company industrial relations. The company had different rivaling unions, at least one of them was externally linked and the company faced prolonged periods of strike and labor unrest. Thus, when Fiat took over the Brownfield operation, FIPL’s industrial relations had all the characteristics of traditional Indian adversarial labor relations (Atzeni, 2001). Atzeni who researched the site in the late 1990s reported that company industrial relations were so adverse – and compounded by cultural differences between Italian and Indians – that Italian managers saw little scope for the implementation of constructive and participatory labor relations as suggested by the Fabbrica Integrata approach and its related company policies.

Questioned if they had promoted or had planned to introduce a different model of IR, the Italian managers answered that there was no room for any type of discussion around the argument. The Indian reality was so different and contrasting to that of Italy that any attempts or ideas to move forward were considered risky and fruitless from the start. They also argued that a union such as the one existing, with their members and their “original” way to behave was a sufficient reason to keep labour relations as they were conflictive, chaotic and not stable, but at least they knew with whom they were dealing…. Later on, further attempts to see labour relations in the plant from a different perspective were specifically rejected. “We are in India, a place where industrial relations are like the times of Valletta. There is no room for dialogue. Concertation, participation are very far from this reality. You are a romantic of the industrial relations”. (Atzeni, 2001: 9)
There are profound differences between Italian managers, unionists and workers. Different cultures, different languages and mutual mistrust are factors that do not contribute to change the climate of labour relations from conflict to cooperation. To this we should add the heritage of anarchy that dominated the plant during the last decades. The research has shown, at least for what concern Fiat’s plant in India, that lean production is not always coupled with a more co-operative labour/management approach. (Atzeni, 2001: 15)

Put differently, there was a great-perceived misfit on the part of Italian management between the existing local reality or template and alternative modes of industrial relations as envisioned by Fiat’s global policy.

**MODE OF RECONTEXTUALIZATION**

*Adaptation of foreign parent templates and/or demands and conditions?* In the first years of operation, the local institutional conditions were seen as so insurmountable that Italian management dropped the intention to bring industrial relations in line with Fiat’s industrial relations policies. It essentially implied an adaptation (surrender) of foreign parent demands. However, at the time of research in 2003, indications were that the company had come a substantial step closer to fulfilling Fiat’s global policy demands with regard to company industrial relations. After all, these demands were not very specific but simply asked for cordial labor relations in compliance with local labor law. *Adaptation of local/host context, templates and/or demands and conditions?* While initially cooperation and participatory relations were out of reach, Italian and local management made an effort to turn the company industrial relations into a more peaceful local mode. A part of this effort expressed itself in the preferential treatment of an internal union that emerged during a prolonged strike. After a long strike and lockout in 1996, the external union the Engineering Workers Association (EWA) which had led the industrial action lost support. In the wake of EWA’s weakening a new internal union, the Kamgar Ekta Premier Sanghatana (KEPS), had formed. This union emerged from a fusion of the existent internal union, the PAEU (abbreviation origin unknown) and some members of the EWA. Thus, in the scenario of the weakening of the external union, Italian management ceased the opportunity to support the internal union. This was the best option, given the industrial relations conditions in India in general and at the FIPL’s site in particular. Atzeni (2001: 7) even stated that the “internal union exists just because management has preferred to deal with it rather than run the risk to bargaining with external powerful unions”. Atzeni (2001) further detailed in this context the Italian management’s rationale as follows:

"This is what is actually happening in Kurla where a puppet union, which survives just because it is legitimized by management, is completely committed in reducing
the conflict but certainly not in increasing the cooperation, in a context of adversity, acrimony and confusion of which external unions would like to take advantage. (Atzeni 2001: 14)

In a new environment, with different interlocutors, with the pressures of violent external unions, and with a legislative system totally in favour of labour, the decision to cope with the internal union, with all the problems we already know this implies, it was probably the least dangerous option. (Atzeni 2001: 15)

Rather than trying to adopt a progressive mode of industrial relations in line with foreign parent demands, Atzeni (2001) reported that Italian managers reverted to more traditional modes of industrial relations, resembling Fiat’s home adversarial industrial relations prevalent in the 1950s.

Fiat’s management explicitly decided to deal with a puppet union because the situation was like at Valletta’s time. They have transferred a managerial anti-union style common in Italy during the 1950’s with modern technologies and labour process organisation. Management accepted a union without shop-floor representation at the same time not believing in forms of direct communication with its workers. As far as labour relations are concerned management transferred the “old”. (Atzeni 2001:15)

Atzeni’s (2001) work suggests that in the early years of Fiat’s involvement in India, Italian managers not only saw little scope to implement cooperative labor relations but even reverted to ‘old’ industrial relations solutions. However, although the Kurla site had a wild industrial relations record, with one of its peaks in 1996, culminating in a six months strike and lockout, things calmed down after Italian management took hold in the company. FIPL’s last strike was in 1998 and there was no new one since (FIPL 3). Although FIPL’s industrial relations probably did not change into a showcase of cooperative industrial relations, they had become very peaceful from the Indian and Italian management’s point of view. The Italian manager interviewed even described FIPL’s company industrial relations as ‘paradise’ compared to the situation in Italy (FIPL 2). In contrast to what Atzeni (2001) found, my interview partners talked of very smooth labor relations in 2003.

Q: But I have read that there has been some conflict also over the years
A: Ahhhh, when it was a Premier Automobile company, at that time there was a conflict. Now after that we have very peaceful, smooth relationship with the union.
Q: Why do you think you’ve got it so smoothly? What did you do differently?
A: It is basically, one you have to be transparent, what we are having. You have to take those people into confidence that is an important part. And continuous communication with the people, the union, as well as with the workmen. So these I would
say, are the key factors which are important for an industrial relations point of view.

Q: and the labor relations unions this is like in Italy?
A: No, no nooo it is completely different. If you compare Italy and India, it is 100 vs. 0.

Q: So in Italy a lot of problems and here no problems?
A: Yes, no problems.

I: This is only true for the last three to four years. Earlier we had very big problems.
A: Ok, I cannot speak about what was here before. In Italy, for example, it is a problem to send somebody from the body in white to the assembly line. We have a problem because the people don’t want, I have my friends here. It is important for you to understand, there are different rules, very different

I: The laws of the country
A: is completely different. Here it is important to have a contract. .... In Italy you always have a problem even after you signed the contract. Breaks, strikes, I don’t like this work, the paint shop is stinky, is warm, is hot, everything. It is different because we are different

Q: Has it to do with legislation?
A: No, no, our societies have advanced so much

Q: Ok, I understand what you mean
A: In India, in Pune Mercedes, in Delhi GM, and in all the other factories, the first problem for the workmen is to eat one time in the day

I: Basic needs
A: And to have the salary. It is important. You imagine to eat. In India what is important is to eat.

I: Basic amenities. The food, the place to stay and the basic transportation.

Q: But how did you change the labor relations when you had conflicts earlier and now you don’t have them any more?
I: Earlier union was controlled by outside people

Q: A political party?
I: Yes. Independent political party. Now four years back this has changed and an inside union was founded. The workers who are working inside they have founded it on their own. They know the problem, the earlier problems, ...which can be solved or cannot be solved and they are working here for so many years, so they know this company better than the outsiders and what will happen if you stretch it too much, what will happen to the workmen inside.

A: It is important to give information about the company plans. What will we do
I: Interaction with them. Tomorrow we are doing this. One month after that this
A: about the new model

Q: Transparency?
Indications were that the industrial relations at the Indian site have changed to a peaceful mode. This change was achieved through a mix of confidence building measures. Apart from a different communication approach, change had probably resulted from the re-composition of the local workforce as well as personnel transfers and training of Indians in Italy. The change was probably also related to the fact that Fiat had transferred human resource managers from Italy. According to Atzeni (2001), these were highly experienced and tested in dealing with industrial conflicts. What is more, although the internal union had initially little backing in the workforce (Atzeni, 2001), tangible achievements such as pay-rises and improvements in working conditions, helped the internal union to gain increasing acceptance or toleration within the workforce. Finally, a new generation of Italian managers came to the Indian site. At least the Italian manager interviewed, expressed his commitment to more cooperative and participatory modes of labor relations.

OUTCOME

Being aware of differences in industrial relations across countries, Fiat never made specific modes of industrial relation organization a part of its World Car template. However, the Fiat group did promote a company industrial relations policy that broadly aimed at achieving low conflict and high cooperation levels. Even in this broad sense, Italian managers saw initially little scope for policy implementation. The existing local industrial relations template encountered at the Brownfield site was so adverse and pervasive that an alternative approach as demanded by the foreign parent policy was put aside. However, over time the local industrial template became more peaceful. Efforts were made to choose and foster the least conflict-prone company industrial relations mode available in the host institutional environment. This implied a change of the existing company industrial relations scenario. FIPL’s labor relations were changed from a traditional adversarial mode to a more modern Indian mode. The first step of this shift occurred in the context of the 1996 strike, when the company management saw the external union’s power crumbling and took proactive steps in dealing with the newly founded internal union. As a result the company came to feature just one unaffiliated company union. At the time of research in 2003, the labor relations had stabilized into a mode of modern Indian industrial relations, characterized by one internal unaffiliated union. While no foreign template was transferred, there was an adaptation of the local template to foreign parent demands. This adaptation of the existing template, did not mean a shift toward a typical foreign parent pattern. In rather meant a shift to a different local/host institutional patterns, more in line with Fiat’s policy demands. We can, therefore, conclude that FIPL’s company industrial relations shifted from a typical local adversarial
mode to a more modern, much less adversarial mode. A mode that has become increasingly common in India.

SUPPLIER RELATIONS

TRANSFER SCENARIO

In line with the Fabbrica Integrata and the ideal World Car production template derived from it, Fiat had envisioned the transfer of a number of supplier relations concepts to its Indian operation. At the heart of this transfer intention was an extensive outsourcing in combination with a nearby supplier park from where key suppliers – module/first tier suppliers – were expected to supply with JIT-logistics. Such a supplier relations approach mainly aimed at keeping inventory and transportation costs to a minimum to assure the cost-effective production of a product for price sensitive customers.

To sum up, the international supply system for Project 178 models involves a group of first tier suppliers who tend to be uniform in the various production poles. Many of them, if not already present, follow Fiat Auto with FDIs in the relevant countries (in the form of new plants, acquisition of local plants, co-operation with local firms, etc.). For example, Fiat suppliers in Argentina and Brazil are prevalently European, Japanese or U.S. producers, directly present in the form of subsidiaries or partnerships with local component manufacturers. This approach allows to: 1. keep all the vehicles of the 178 family identical, wherever they are made; 2. meet the local content requirements and other foreign trade constraints existing in some countries; 3. By-pass the problems deriving from the possible lack of a dependable local supplier base. (Camuffo and Volpato, 2000/2001: 9-10)

However, regarding supplier relations, Fiat was not following a rigid template strategy that all World Car sites would have to follow meticulously. The main goal was rather to “[d]evelop a global supply chain, flexibly and efficiently using the production capacity and the supplier base available in different countries” (Camuffo and Volpato, 2000/2001: 4). Thus, more important than strictly following an ideal template was that supplier relations fitted into Fiat’s ‘world material flow’ and responded to purchasing policies, defined for the World Car program. Camuffo and Volpato (2000/2001) suggest that Fiat’s ‘world material flow’ can be understood as a ‘double network’: comprising an internal exchange of ‘makes’ between different World Car sites and an external supply of ‘buys’. The internal network was composed of global poles of Fiat companies producing parts and components for the World Car.
The first choice was to directly oversee, through its international operations, the final assembly of cars and the production of certain car parts (powertrain module), particularly relevant for the characterization of the product and for achieving economies of scale. This organization, which involves a number of plants and facilities all over the world, implies on the one hand a specialization of production sites and a mutual exchange of parts among them; on the other hand the creation of some large production poles where all the operations relating to the bodywork (stamping, welding, painting and assembly) and mechanical parts (engines, transmissions, gearboxes) are carried out. The other production plants are either focused on part of these activities or just devoted to the assembly of CKD (completely-knocked-down) kits or SKD (semi-knocked-down) kits. The natural result of this choice is an asymmetry in size and specialization of production plants. It means that while some of these plants are autonomous, some others depend on other plants for the supply of materials, components and modules. The materials and parts exchanged between Fiat Auto plants can be defined as “makes” since they are produced by plants belonging to Fiat Auto. (Camuffo and Volpato, 2000/2001: 5)

The external supply of ‘buys’, in turn, was composed of a network of first tier suppliers that were asked to follow or at least supply the World Car sites, wherever Fiat decided to establish them.

The second choice was to purchase modules, systems and components from an international network of suppliers. These can be “global” first tier suppliers, co-designers for the 178 project models, following Fiat Auto in co-location in different countries, other “global” suppliers servicing Fiat Auto from its domestic or foreign operations, local suppliers, etc. The location of the suppliers used by each plant varies. Some of them are located in the same country of Fiat Auto plants (sometimes in nearby, co-location), some are in other countries (both where Fiat Auto has a plant and where it has not), while others can be found in third party countries. The materials and parts exchanged between Fiat Auto plants can be defined as “buys” if purchased from independent suppliers (“captive” suppliers included). This second block of transactions can be indicated as the “external” supply chain of Fiat Auto “178” project. In Fiat Auto’s case, the term global sourcing refers to supplies of “buy” materials. (Camuffo and Volpato, 2000/2001: 5-6)

The kind of suppliers and their supply location was not a coincidence, either, but was defined by Fiat’s World Car purchasing policy. The choice of a particular supply mode depended on two variables: The first variable was the “technological characteristics of the part/component, i.e. the complexity of know how required to produce it”; the second vari-
able is the “incidence of logistic cost” (Camuffo and Volpato, 2000/2001: 11). Camuffo and Volpato specify these as follows:

a) The first variable corresponds to two strategic needs. The first is to globally reduce the transaction costs associated with quasi-relational rents (Asanuma, 1989). The second is to facilitate learning by controlling processes (MacDuffie, Helper and Sabel, 1999) for non-directly manageable technologies so as to maintain overall control of the supply chain. b) The second variable involves the need to increase the level of transparency by globally reducing the transaction costs associated with logistics (transport costs etc.) and its institutional elements (tariff scales, local content etc.). (Camuffo and Volpato, 2000/2001: 11)

Based on these two variables, know how complexity (high/low) and transportation costs (high/low), Fiat draws on different supply modes.

Supplies of components requiring a high level of know how but relatively low logistic cost compared to sales value (for example spark plugs) will tend to be concentrated in the hands of just a few large suppliers. The latter are given the chance to supply all the manufacturing poles to allow them to exploit their know how and to amortize the large investment required. The latter will be responsible for finding the best possible production locations, which do not need to be close to the OEM plant since logistic costs are not a critical factor. […] In the case of high know how and high logistic costs, however, there will still only be one or a few suppliers but these will need to be located near the OEM plant. For example, complex modules such as dashboards will have to be supplied from close to the assembly plants due to the high transport and packaging costs involved. Even in this case, suppliers will try to locate only in the main areas (e.g.: BEMs and PLEMs) where high volumes justify the high investment. […] Apart from the obvious quality considerations, price is the key choice factor for components requiring modest know how and logistic costs. The result is a worldwide search for the lowest supply prices available. […] The final scenario involves high logistic costs and low know how. Here, it is essential to choose the best local supplier in order to keep logistic costs down. (Camuffo and Volpato, 2000/2001: 12)

The above discussion of Fiat’s world material flow and material purchasing policies implied that there were specific concepts and policy demands, the Indian site had to respond to and correspond with. Now, while Fiat had a defined template and policies for the supplier relations of its Indian operation, there was also an existing local supplier relations template at its JV site with PAL. There was, thus, the option to draw on a local template as well. Finally, apart from the foreign parent concepts and supplier related policy demands, the sup-
plier relations would also have to respond to local/host strategic and institutional demands and conditions.

**STRATEGIC AND INSTITUTIONAL (MIS)FIT/RECONTEXTUALIZATION PRESSURE**

*Contextual distance and transfer intent? No transfer because of strategic misfit:* Part of the original transfer intent was the set-up of a new site in India. This Greenfield project was planned with an adjacent supplier park hosting key suppliers who supplied JIT. However, this transfer intent could not be realized, which was mainly related to strategic misfit. As the demand scenario in India was much below initial projections, Fiat had to put its Greenfield project on hold. This, in turn, had strong repercussions for FIPL’s supplier set-up. First, given the overcapacities of the Indian supplier industry and given FIPL’s low volumes, the company had difficulties to convince a larger number of its global suppliers to open new ventures in India. FIPL had already problems to give attractive orders to those suppliers who had already followed to India:

*The slowdown of the production plans by Fiat has caused some problems to its suppliers, both captive (e.g. Comau and Teksid) and independent ones, that have followed the group in investing in India. Suppliers have been induced to enlarge their range of customers in order to have a sufficient outlet for the production capacity of their plants. (Alzona and Prakash, 2001: 57)*

Second, even though a few suppliers had followed to India, FIPL relied for the most part on local suppliers or other international suppliers who had come to India earlier. Many of these suppliers were dispersed all over the country. This, together with FIPL’s removal of the World Car site to Kurla/Mumbai, made the realization of JIT-supplies from a nearby supplier park impracticable. The spatial constraints of the operation in Kurla essentially rendered the concept of a nearby supplier park with JIT deliveries impossible.

*Logistics posed further limits. Kurla is a dense urban area of Mumbai, with very high estate prices although slums surround it. As a result (and also because production volumes have remained rather modest) the scope for realizing JIT has proved limited. (Goldstein, 2002: 108)*

Thus, the supplier park project and JIT deliveries had to be given up which was ultimately caused to the low demand conditions in the host strategic context.

*Template transfer/use, demands and conditions; strategic/institutional (mis)fit; and recontextualization pressure? Strategic misfit:* While some of the core World Car template’s supplier relations concepts could not be transferred because of strategic misfit, there equally was a strategic misfit between the local template of the Kurla operation and the strategic context of Fiat. The existing supplier relations at PAL neither fitted with the structural and
contractual concepts of the World Car’s supplier relations template nor with Fiat’s supplier policies (above all quality demands). Therefore the existing supplier relations scenario came under substantial recontextualization pressure. At the same time, Fiat’s supplier policies and host institutional demands and conditions fitted quite well. India’s local content requirements did not stand in any contrast with Fiat’s World Car supplier policy. Given that Fiat produced a low to medium segment vehicle for price sensitive customers, production and transportation costs had to be kept at a minimum. It was, therefore, in Fiat’s own interest to localize substantial parts of its production in India. Thus, while Fiat met some strategic misfits that ruled out to transfer of some of its preferred supplier concepts, host strategic and institutional conditions and demands did not call into question the application of Fiat’s core supplier policies. After all, these policies were pre-adapted to meet host institutional demands of developing countries and were flexibly defined. Host institutional conditions such as the availability of a local supplier base, taking advantage of local labor costs differentials, observing the incidence of logistics costs, local content requirements, were all factored into the Fiat’s World Car purchasing policy and suggested situation specific responses. For example, in a scenario where a site was facing limited volumes, high local content requirements in a low wage environment, where other major World Car production poles were far away and where many other international auto supplier were already in the market, the policy suggested a strong localization of production, taking advantage of the existing suppliers infrastructure.

**MODE OF RECONTEXTUALIZATION**

The main (re)contextualization mode with regard to FIPL’s supplier relations was creation of the site’s local supplier context to meet foreign parent policy and host context institutional demands, under specific strategic conditions. *Adaptation of foreign parent templates and/or demands and conditions?* Originally, Fiat had planned to transfer a number of supplier concepts of its World Car template. In the face of strategic misfit, FIPL withdrew the transfer of major structural and logistical concepts. As a consequence, Fiat’s main first tier suppliers were not supplying FIPL locally. Indications were that FIPL had to draw much more on locally existing suppliers than any other World Car site. Fiat’s core World Car suppliers were either not able or willing to set up their own ventures in India under such suboptimal demand conditions. Comau and Teksid, for example, two of Fiat’s main ‘captive suppliers’ were not supplying or servicing FIPL. Fiat dropped the nearby supplier park concept entirely and with it the concept of JIT deliveries. Having to accept lower volumes meant that FIPL relied strongly on local suppliers or international suppliers already in India. These, in turn, were located all over India (see table 24). As a result, FIPL had to take into account longer transit times, transport related risks of long distance deliveries under poor
road conditions, which translated into higher inventories. The following interview source provides core reasons for template adaptations under host context conditions:

**Q:** Do you have just-in-time production here?

**A:** No, no it is impossible. Because of the logistics here. We have a supplier in Delhi, a supplier in Pune, we have a supplier in Maharashtra

**Q:** All over India?

**A:** Yes. So it is impossible to apply JIT. It is important and if you want to see the best organization of Fiat in the world go to Italy and see Sata di Melfi. You see what you want. Because inside one big area, there also are the suppliers. There this just-in-time concept is very easy because the factory has been built with this concept.

(FIPL 2)

### Table 24: Fiat's Indian suppliers

<table>
<thead>
<tr>
<th>Cluster</th>
<th>Distance from Kurla (kms)</th>
<th>Transit Time (days)</th>
<th>Number of Suppliers</th>
<th>Number of Items</th>
<th>Percentage of Total Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Delhi</td>
<td>1408</td>
<td>5</td>
<td>29</td>
<td>124</td>
<td>34</td>
</tr>
<tr>
<td>Chennai</td>
<td>1367</td>
<td>5</td>
<td>11</td>
<td>53</td>
<td>19</td>
</tr>
<tr>
<td>Bangalore</td>
<td>1033</td>
<td>4</td>
<td>7</td>
<td>22</td>
<td>3</td>
</tr>
<tr>
<td>Nagpur</td>
<td>861</td>
<td>3</td>
<td>2</td>
<td>6</td>
<td>0</td>
</tr>
<tr>
<td>Indore</td>
<td>600</td>
<td>3</td>
<td>1</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>Baroda</td>
<td>500</td>
<td>2</td>
<td>1</td>
<td>9</td>
<td>9</td>
</tr>
<tr>
<td>Aurangabad</td>
<td>400</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>Pune</td>
<td>200</td>
<td>1</td>
<td>25</td>
<td>146</td>
<td>20</td>
</tr>
<tr>
<td>Mumbai</td>
<td>100</td>
<td>1</td>
<td>43</td>
<td>386</td>
<td>10</td>
</tr>
</tbody>
</table>

Source: Goldstein, 2002: 108

Goldstein’s (2002) findings point to the same direction:

Table [24] shows the geographical distribution of Fiat's suppliers. While those located in the Mumbai area represent more than a third of the total and supply more than half of total items, they account for only 10 per cent of the car’s total value. The most important suppliers are located around other OEMs in the Delhi, Pune and Chennai auto clusters, although transport takes between one and five days. Because of poor logistics, the inventory is kept at three days. (Goldstein, 2002: 108)

While Fiat was unable to transfer core supplier relations aspects of its World Car template (excepting outsourcing) in the light of local realities, such a deviating approach neither was restricted to the Indian World Car operation as the following citation shows:
One of the main features of all the plants where the Palio is made, is the setting aside of an area close to the plant for the re-location of supplier-partners (supplier park). This area follows the standard set by the Melfi “mother” plant. It can be found in all the factories except Turkey. However, while Brazil and Argentina use synchronous kanban and just-in-time as modern supply systems, the Turkish and the Polish plants only use just-in-time for a few components. (Camuffo, 2000/2001: 19)

That Fiat had to drop core aspects of its World Car supplier concept did not mean that FIPL could not respond to Fiat’s supplier policies any more. The policies fitted quite well with the host context strategic and institutional conditions and demands. In line with its policies, FIPL was integrated in the ‘world material flow’. FIPL received from other World Car production poles (the internal network) a number of crucial components. Body-panels came, for example, from Brazil and engines from Italy.

Q: And the other components come from?
A: Various parts of the Fiat. We are having a basic facility like press shop. We have a huge press shop where all the sheet metal comes from. We have huge
Q: Here in India
A: No, in Brazil. So we get these components from there. Fiat works with a number of poles. We have various sourcing poles world-wide. And each pole is having its own specialty or particularity. So when we purchase material in bulk it is very economical, so your production cost is less.
Q: Economies of scale
A: Yes, economies of scale. So that way we manufacture.
Q: The major production hubs that Fiat has is Brazil, so the product you are getting here are from Brazil basically?
A: Brazil as well as Italy? (FIPL 4)

And the Italian interviewee details:

Q: You said 90% local content. So the 10%, where are they coming from, somewhere else?
I: It is still coming from Brazil because it needs a lot of investment.
Q: The press shop
I: No, press shop is also here but the engine, cylinder head, and the cylinder block
A: The engine, the engine is Alvaro Motore
I: Alvaro, the crankshaft, which requires a big investment.
A: So there you need big investments and production volumes. The production is not high enough here to justify the investment
Q: So you have no machine shop here?
A: Yes, it cost one billion dollar to build a factory for engines. The investment is very high you don’t find this for 200 cars per day. (Interview with FIPL 2 and FIPL 3)

FIPL’s external network of ‘buys’ was also in line with the companies purchasing policies. For instance, FIPL sought to substantially localize production claiming to have achieved a real local value addition between 80% and 90%. These efforts were a response to Fiat’s policy of controlling ‘the incidence of logistics costs’ by ‘reducing the transaction costs associated with logistics (transport costs etc.) and its institutional elements (tariff scales, local content etc.)’, i.e. ultimately to check the cost for a product that catered to price sensitive customers in developing countries.

A: No, no, no. One example. It is important to understand the globalization. It is a big example. Two years before we received the material from Italy, Brazil, South Africa, from Turkey, from Poland for all parts to make the UNO and Palio cars. Lets talk about the Palio cars. When we started with the Palio cars, we had more or less 20% localisation. To reduce the cost, the transport was very important.
Q: Of course, if you want to be in the market you have to check the price so people can buy. (FIPL 2)

Second part of the Interview:

A: It is very important what I say because with the localisation we have two objectives. One is the control inside we don’t have thereby big stocks. You can imagine to get the material from Italy, for example the dash board, we need to send the order 3 months in advance because Italy or Poland is not nearby.
Q: So then if the production goes up and it is not here
A: And if you make a mistake or if you forget the material and need it fast you have to pay the airplane. And one flight cost us 4000$ Dollars. This is very expensive. So this is the first objective of localisation. The other one is to improve this country because the technology – Indian men are very good at taking and improving a technology – because when we started the tolerance was very dramatic, but now the standard is normal, like in Italy more or less. (FIPL 2)

In line with Fiat’s the strong outsourcing policy FIPL had even outsourced major on-site production steps similar to what was being done at other sites.

Even more interestingly, outsourcing has touched also parts of the production process. In some paint shops, for example, suppliers are taking on a increasingly larger role, and such a new task partition between the OEM and its suppliers tend to affect also how knowledge is partitioned between them. PPG, that once only supplied the
raw material, now is responsible for the paint-mix center, and, in the future, will probably paint the car bodies itself, using its own staffs and paints. At that final stage (modular painting), the supplier will be fully responsible for designing and operating the process, and Fiat will pay it for each painted body (after it has passed the quality control checks), rather than for the amount of paint consumed. This is producing significant results, such as improved quality, the recouping of unused of paint and reduced overall volumes of paints used. In the Brownfield plant at Kurla-Mumbai (in the Maharashtra state of Southwest India), the body welding shop for Palio was completely restructured and it is currently run by Turin Auto ITCA, the technology supplier, employing FIPL people. On the whole, in the Palio project Fiat has outsourced a lot, partly in order to reduce cost, partly in order to minimize investment risk and partly to fulfil institutional constraints (local content). (Camuffo, 2000/2001: 21)

Thus, also FIPL’s outsourcing of core process activities reflected Fiat’s World Car production template. Overall, the policy fulfilment seemed to have led FIPL’s supplier relations to show some resemblance to those in Argentina and Brazil – in structural and contractual terms. In structural terms, like in Argentina and Brazil, FIPL had formed partnerships and cooperated with suppliers that either were international suppliers or had JVs with international suppliers. In accordance with its policy it had taken advantage of existing local capabilities and capacities. Cases in point were supplier relations with Mico-Bosch, Tata-Johnson Controls, Automotive Stampings and Assemblies LTD etc. Indications were that some of Fiat’s core suppliers had contracted out major components to other suppliers in India.

*Here also there was a provision when we started in this period there were three phases. Phase A was when the contract was done with the internal supplier and with the Indian supplier. Phase A was the Indian supplier will take the total component ready from the Italian supplier and supply under his name to this company and till that time he develops more and more. Phase B was instead of assembly he will get some parts, which are very critical and some he has already developed. He assembles them here and gives them to us. And phase C, the supply from Italy stops completely and he makes the whole on his own. (FIPL 3)*

To ensure the required standard quality for the World Car, Italian expatriates strongly cooperated and got involved with the Indian suppliers. Like in the other cases discussed, the cooperation was not only a policy requirement but a necessity to assure quality. In this context, the Italian expatriate underlined his strong personal involvement to achieve the desired qualities for the World Cars produced in India.
A: Yes, when we started, we had problems. When we started with the Indian suppliers because the know how and with defects they don’t see or don’t want to see

I: Quality was very important

A: But now, I think, this is my personal opinion, the quality of the Palio you can compare this quality and it has the same quality like in Italy and other models. Because the standard is now the same. But we worked seven days per week, for six months, from six o’clock to nine o’clock p.m, for six months with the supplier. We had to match the colors of the plastic … (FIPL 2)

In India Fiat relied probably less on its global group of core suppliers than elsewhere. Yet, it was still following, in contractual terms, its template’s approach of selecting new local suppliers as global suppliers to be tied into long-term relationships. In summary, Fiat had to deselect/adapt core aspect of its ideal World Car supplier set-up to local/host context conditions. At the same time, it did not adapt its global supplier policies because they were flexibly defined and fitted well with a developing country context. Adaptation of local/host context, templates and/or demands and conditions? While Fiat had to adapt and deselected parts of its World Car supplier relations template, the existing local/host supplier relations also were unfit to meets Fiat’s requirements. Given that FIPL was a World Car site, given that Fiat was quick to control the site and given the technological and task environmental distance between the PAL’s operations and the World Car requirements, it was out of the question to use the Brownfield site’s existing supplier relations as a template. Instead, FIPL’s supplier relations had to be tied into the world material flow, respond to Fiat’s World Car supplier policies and respond to the specific host context strategic conditions and institutional demands (such as local content requirements). Fiat, therefore, engaged in adapting – changing and creating – the local supplier relations. Regarding the latter, Fiat had no problem to fulfill the host context institutional demands for increasing local value addition because this was in its very own interest. How these local content requirements were realized, mainly followed from Fiat’s global purchasing policy. Thus, the dominant mode of recontextualization with regard to FIPL’s supplier relations was adaptation. Specifically, selection, creation and partly change of the local/host supplier context, in line with parents policy demands and host institutional demands under low demand/volume strategic context conditions. The existing suppliers in India offered FIPL a substantially developed pool from where it could chose and start. Still some involvement of Fiat delegates was required to bring these suppliers in line with Fiat’s quality standards. However, although some adaptation of these local suppliers was needed, the set-up of Fiat’s supplier relations did not involve any major institutionalization or (re-)institutionalization effort because the supplier context was quite developed when Fiat entered India.
**OUTCOME**

Fiat was not able to transfer a number of supplier relations concepts of its World Car template. This transfer restraint was mainly caused by a strategic distance and misfit. By the same token, there was also too much misfit between the strategic demands of the foreign parent and the existing local supplier template. However, Fiat never rigidly applied and imitated its ideal supplier relations template at all World Car sites. After all, different World Car sites had different roles in the internal supply network of the world material flow. This ruled out a similarity of supplier relations across all World Car sites in the first place. As FIPL was not able to transfer its foreign parent supplier template and was not willing to use the local template of its Brownfield operation, it customized its supplier relations. It customized them to specific local/host strategic context conditions, while observing foreign parent and host context demands which did not contradict each other. Specifically, the supplier relations reflected low demand host context market conditions, they observed host context institutional demands for the indigenization of production and they observed the foreign parent supplier policy demands regarding quality assurance, taking advantage of international cost differentials, transportation cost reduction and drawing on existing supplier industries in emerging economies. The low contradiction between Fiat’s World Car supplier policy and host institutional demands was largely related to the fact that Fiat had integrated these demands already into its policy. Thus, FIPL’s supplier solution neither contradicted parent policies demands nor host context demands. To build its supplier relations, FIPL largely drew on a locally existing supplier infrastructure. However, this did not mean that Fiat simply used its local JV partner’s supplier relations as a template. Among other things, this was ruled out by Fiat’s the equity mode, product ownership of the World Car and the related strategic distance with regard to the task profile and technology level between the World Car and PAL’s main model, the old Padmini. Instead, Fiat selected some local suppliers and developed intense contractual relations with them. Clearly, this required some adaptation of the local/host supplier relations to Fiat’s standards. As a result of selective template transfer and responses to Fiat’s supplier policy, FIPL came to structural and contractual solutions that resembled in certain respects the supplier relations of other World Car sites. In that sense, there was also some degree of imitation. However, for the most part FIPL’s supplier relations were customized solutions, responding to a foreign parent and host context demands under specific host context conditions. To conclude, Fiat’s supplier relations can probably be best described as somewhere between customization and imitation.
## Table 25: Summary of FIPL’s hybridization profile

<table>
<thead>
<tr>
<th>PS Dimension</th>
<th>Firm &gt; FIPL</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Functional Differentiation</strong></td>
<td>Transfer: Foreign template transfer (meets local existing template)</td>
</tr>
<tr>
<td><strong>Hierarchical Differentiation</strong></td>
<td>Transfer: Foreign template transfer (meets local existing template)</td>
</tr>
<tr>
<td><strong>Technical Configuration</strong></td>
<td>Transfer: Foreign template transfer of vertical integration, basic factory layout/process design; no transfer of technical hardware configuration</td>
</tr>
<tr>
<td><strong>Work Organization / HR profile</strong></td>
<td>Transfer: Transfer of foreign template and increasingly corresponding HR profile</td>
</tr>
<tr>
<td><strong>Industrial Relations</strong></td>
<td>Transfer: Company industrial relations not part of foreign parent template; yet some foreign parent industrial relations related demands pitted against locally existing template</td>
</tr>
<tr>
<td><strong>Supplier Relations</strong></td>
<td>Transfer: Some transfer intent of SR template, plus foreign parent policy and host institutional demands and strategic conditions to be met</td>
</tr>
</tbody>
</table>
6.3 DAIMLERCHRYSLER INDIA PRIVATE LIMITED (DCIPL)

GLOBAL PRODUCT STRATEGY OF THE FOREIGN PARENT, STRATEGIC ROLE OF THE SITE AND STRATEGIC DISTANCE TO OTHER SITES

DaimlerChrysler’s strategy rests on four pillars: global presence, superior products, leading brands, and innovation / technology leadership (DaimlerChrysler, 2004a).

Drawing on Porter’s (1980) concept of generic strategies DaimlerChrysler’s (DC) global product strategy can probably be best described as combining a market segmentation strategy with a product differentiation strategy. DaimlerChrysler and particularly its brand Mercedes-Benz are focusing in premium market segments with increasing product variation in these premium segments. Especially in the 1990s, Daimler-Benz’s (DB) and then DC’s product strategy shifted from a narrow premium-niche market strategy to a more differentiated premium-niche market strategy. Let us briefly look at the company’s internationalization. The internationalization of DB/DC, especially the internationalization of the passenger car manufacturing of the Mercedes-Benz brand, has started late compared to other auto manufacturers. It wasn’t until the 1990s that the manufacturing of Mercedes-Benz vehicles departed from the traditional “made in Germany strategy” (Pries, 2000: 673). At the beginning of the 1990s, DB had practically no internationalization experience in passenger car production (Pries, 2000). This changed, however, in the 1990s. The most noteworthy steps of internationalization were the set-up of an integrated plant for Sports Utility Vehicles (M-class) in Tuscaloosa/USA in 1997 and the merger with Chrysler in 1998. Moreover, in line with a strategy to expand into newly emerging markets, DB, later DC established a number of Semi Knocked Down (SKD)/Completely Knocked Down (CKD) assembly sites in the 1990s. Together with the South African operation, the Indian site was one of the first passenger car CKD sites. At the time of research, the India site (assembling the S, E and C-class) shared its basic task profile and strategic role as a SKD/CKD assembly site with similar sites in Indonesia (assembling the S, E and C-class), Malaysia (assembling the S, E and C-class), Thailand (assembling the E and C-class), Vietnam (assembling the E-class), the Philippines (assembling the E-class). Furthermore, in China a new SKD/CKD site was in the making for the assembly of the S-, E- and C-class (Petri, 2004). While DCIPL was strategically, i.e. in terms of production volume and variety very distant from the main home plant Sindelfingen in Germany, where mainly the E and S class were built, there was much less of a strategic distance with the other SKD/CKD operations.
INTRODUCTION: FOUNDATION, ENTRY MODE AND EQUITY DEVELOPMENT OF THE SUBSIDIARY

Market entry/establishment mode: In 1994 Daimler Benz (DB) established the Greenfield JV Mercedes Benz India Limited (MBIL) with Tata Engineering and Locomotive Company Limited (TELCO) for the CKD production of the Mercedes Benz E-class in Pune. DB’s selection of a local JV partner was based on two reasons. First, DB and later DaimlerChrysler (DC) had a long standing relationship with TELCO. Already in 1954 DB signed a technical collaboration for the production of trucks with TELCO. While this collaboration ended in 1969, DB continued to be shareholder (10%) in TELCO. When DB saw new opportunities in India’s passenger car market, following the 1991 market reforms, a JV with the old partner was an obvious starting point to enter the Indian market. Moreover, choosing a market entry within a JV framework was, at the time, not only an option but linked to incentives, namely a fast track approval process for all JVs where foreign equity was no more than 51%.

Equity development: Against this background, the JV MBIL featured an initial equity situation where a 51% share was held by DB and the remaining 49% by TELCO. Along with the sharing of equity, there was also a task sharing between the JV partners. The German partner was responsible for getting production up and running and the Indian partner had to handle administrative matters, including personnel administration. TELCO was asked to bring in its market knowledge and distribution network to sell the vehicle. In line with high market expectations – 10,000 vehicles domestic sales and 10,000 for export – a production capacity was installed for 20,000 vehicles. DB’s market entry mainly aimed at servicing the Indian market with the Mercedes Brand and getting a foothold in one of Asia’s largest countries. In this context India was considered as a strategic market for the future (MD, 1998). India’s potential for global sourcing of labor intensive material-groups was also part of DB’s entry consideration. However, things didn’t work out as expected for a number of reasons. The Indian market potential for luxury vehicles had been overestimated. The company also made the mistake to enter the market with an outdated model which caused resentment among potential Indian buyers who were well aware of MB’s latest models. Moreover, TELCO with its sellers- and truck-market background proved too inexperienced in marketing a high-segment luxury-brand. TELCO was also unwilling to keep pace with Daimler-Benz’s investments into the site (MD, 1998). The combination of these problems triggered not only a downsizing of the initial production set-up but also an equity and control shift in favor of the German partner. In 1997 equity shifted from 51:49% to 76:24%. In 2001 Mercedes-Benz India became finally a 100% subsidiary of DC. The same year the company was re-christened to DaimlerChrysler India Private Limited (DCIPL).
LOCATION, PRODUCTION PROGRAM AND MARKET SHARE

Location: DCIPL’s factory is located in Pune (State of Maharashtra) one of the core industrial locations for automobile production in India. DCIPL’s production started initially in a factory hall on the huge factory compound of the JV partner TELCO in Pune. Along with the final equity shift, DCIPL also shifted its operations outside the TELCO premises into a new building. In the new location the manufacturing activity took place in a newly built factory hall which was built by and was leased from former JV partner TELCO. The new factory was still very close to the TELCO factory compound and remained a CKD operation. The new factory featured, however, a lower installed capacity than the initial one.

Production program: DCIPL started production in March 1995 with the W124, an E-class model, which was at the time not the latest model in its class. When DCIPL was researched in 2002, it had advanced to producing a selected range of the DC’s latest models (C-class, E-class and S-class) in a limited number of variants (diesel/petrol, automatic/manual transmission, classic/elegance interior trim). Segment-wise, all DCIPL-models were categorized as belonging to the D and E-segment (i.e. premium- or luxury segment) in the Indian market (Red Herring Prospectus, 2003). While DCIPL’s plant capacity was at 9,000 vehicles per annum, its installed production capacity was 1,500 cars per annum which were realized with around 320 employees. DCIPL sales in India were modest (e.g. 810 vehicles in 2000 and 1,335 in 2001) (DaimlerChrysler 2004b) and remained clearly below initial expectations. From the inception in 1994 until the time of research sales figures grew only slowly to a little less than 2000 vehicles per annum. While DCIPL’s total market share in the Indian automobile market was negligible, it had a market share of about 80% in the premium and luxury segments it catered to.

DaimlerChrysler currently enjoys a market share of around 80 per cent in the S-class (large luxury cars), 95 per cent in E-class (full-size luxury cars) and around 80 per cent in C-class (mid-size luxury cars). Moreover, DaimlerChrysler has around 15 per cent presence in standard mid-size cars market, which has presence of other models like Accord, Mondeo, Vectra and Camry. (Das, 2004)

THE GLOBAL TRANSFER SCENARIO

Template? DCIPL’s production system neither was modeled on a specific home-plant blueprint nor was a CKD template available at the time of initial set-up (at the time of research DC was in the process of developing such a template). Besides, the transfer of an all-encompassing template would have been complicated by the fact that DCIPL started operations as a JV with divided responsibilities between the JV partners. This implied that a number of human resource related issues such as initial recruitment, staffing, basic organization building was deliberately left to the Indian side. The Indian delegates who had been
transferred from the local JV partner TELCO selectively drew on TELCO’s organizational set-up as a point of reference for MBIL. The German side, in turn, was responsible to get production up and running. However, while the German management did not draw on a defined template, there were selective transfer intents and demands regarding basic systems and procedures. After all, the product to be produced was the same – albeit in different volume and variety – which meant that German expatriates’ could draw, at least to some extent, on home plant standards and experiences.

Transfer content – the comprehensiveness and main focus areas of template or transfer intent/effort: As far as the German side was concerned, the site set-up mainly involved the planning and the provision of documentation of technical aspects of the production-system. This included documentation on vehicle assembly, production layout, the transfer of technical equipment and quality systems and procedures. The German head of the factory stated in this context that technical equipment and the technical process of building a car were clearly derived from home operations in Germany (DCIPL 1). Apart from this technical planning aspect of the site’s set-up, the German expatriates were mandated to transfer quality assurance systems and procedures. In turn, the set-up of the work organization and human resource profile were not defined or planned in any way. Instead, their realization was left to the experience of expatriate managers in cooperation with their Indian partners (initially from the TELCO JV).

To state that German managers had no officially defined template or mandate for the transfer of ‘soft’ contents, is not to say that there were no foreign parent demands or transfer effort with regard to work organization-, behavior- or human-resource-related matters. DCIPL had a strong expatriate presence in the early years of the operation and these expatriates had more or less explicit concepts in their mind of how things ought to work. Demands for change and transfer intentions emerged and became visible when and where German managers saw behavioral patterns of Indian employees as inappropriate or problematic, based on their own performance standards and goals. Finally, as far as the formally documented transfer efforts are concerned, DCIPL took in 2002 the initiative to introduce as the first CKD plant the Mercedes Benz Production System (MPS). However, as

\[\text{In contrast to MUL, the transfer and internalization of German attitudes and practices were no defined goal. There was no predefined goal like in MUL that soft aspects were crucial to getting production running in the desired way. What is more, the master-pupil relation which was clearly defined in the MUL case, was much less pronounced in DCIPL. German management seemed less ethnocentric than their Japanese counterparts and seemed more open to Indian ways of doing things, more akin to the Czech expatriate interviewed at Skoda India. (Part of the reason for this may also be the fact that DC was dealing with an Indian partner and managers who were experienced in auto manufacturing). The German head of production even stated that in the beginning, it was he who had to learn from his Indian colleagues.}\]
MPS was designed for large-scale production systems of integrated plants, it was in many respects completely unsuitable for DCIPL’s task environment. Being aware of these limitations, the local management took on the task of implementing MPS where it was possible and altering it, where it required adaptation to the task environment of the CKD plant. Overall, it seemed that MPS did not change the local production systems as much as the local production systems changed MPS. Interestingly, this was not an unintended consequence but the goal of the whole exercise. The reformulated MPS designed by DCIPL served henceforth as a blueprint for other CKD plants. Like in the case of the initial transfer of technical documentation, the head of production (DCIPL) stressed, however, that MPS was a system defining technical solutions and benchmarks (technical set-ups, technical equipment, tools and standards) rather than soft management practices.

THE ORGANIZATION STRUCTURE

FUNCTIONAL DIFFERENTIATION

TRANSFER SCENARIO

The functional differentiation of DCIPL’s Greenfield production system was not targeted by the transfer of a foreign parent template. There was also no mentioning that a local template had been used to configure the site’s functional differentiation. The use of a local JV partner’s template was ruled out by the fact that the German side introduced the vehicle and that it was the German side’s mandate to establish the main functional elements of production system. There was also a capability gap between the JV partners that ruled out the use of a local template for the site’s functional differentiation. While the DCIPL’s functional set-up was not reflective of a particular parent or local template, the site had to respond to foreign parent demands and host context institutional demands and strategic conditions.

STRATEGIC AND INSTITUTIONAL (MIS)FIT/RECONTEXTUALIZATION PRESSURE

Contextual distance and transfer intent? The strategic distance in the task profile and demand market conditions between the home strategic context and the local/host strategic context explained why there was no effort to replicate DC’s home functional differentiation at DCIPL. Moreover, at the time of DCIPL’s establishment no template was available for the set-up of SKD/CKD sites. Like the non-transfer of a home plant template, the non-use of a local template from the Indian JV partner was also explained in part by the strategic distance between the task profile and capabilities of an Indian large volume truck manufacturer and the task profile of DCIPL involving the production of a premium product. Moreover, the vehicle was introduced by the foreign parent. It was, therefore, the foreign parent’s
responsibility in the JV to set up the production related functional differentiation. Template transfer/use, demands and conditions; strategic/institutional (mis)fit; and recontextualization pressure? As neither foreign nor local parent templates were transferred/used there was also no recontextualization pressure. There was also no indication that local/host contextual demands and conditions and foreign parent contextual demands were contradictory. Yet, there were different contextual demands and conditions that called for an accommodation in the newly established functional differentiation. The high presence of German expatriates in the first years, their configuration mandate and their conviction that certain functions were a must, no matter if 300 or 300,000 vehicles are built, suggested a range of foreign parent context demands to create functions in line with foreign parent company standards (DCIPL 1; DCIPL 3). After all, the product was not strategically distant in terms of quality-requirements from the vehicles built at the German home sites. There were, therefore, clear demands to set up functions, such as quality audit. At the same time, the site had to respond to a host strategic context; characterized by low demand and a corresponding low volume task profile (DCIPL 3). Finally, the site had to respond local institutional demands, the most important of which the India’s local content requirements.

MODE OF RECONTEXTUALIZATION

The dominant (re)contextualization mode regarding DCIPL’s functional differentiation was a creation to meet different demands and conditions from the host and foreign parent context. Adaptation of foreign parent templates and/or demands and conditions? Since there was no transfer/use of any template, no adaptation of any foreign template was possible. There were, however, foreign parent demands to which the site responded. These demands were not adapted and found expression in the site’s functional differentiation. Adaptation of local/host context, templates and/or demands and conditions? Indications were that the local site’s functional set-up was mainly customized to meet foreign parent demands, host context strategic conditions and host context institutional demands. For example, the quality function comprised the departments ‘Vehicle in-house’, ‘Supplier parts & Quality audit’. This set-up reflected both foreign parent demands for comprehensive quality audits and the site specific situation involving system suppliers that needed to be closely monitored in quality matters. Moreover, DCIPL’s functional differentiation was tailored to the specific host country strategic context conditions in volume and product variety terms. The operation’s production system was mainly customized to a task environment that differed very much from parent operations with respect to vertical integration (low), supply logistics (long distance) as well as in terms of product variants (much less) and volumes (much lower) (DCIPL 3). The main production departments were tailored to the specific assembly activities performed by the Indian operation and comprised: ‘Body shop & Equipment maintenance’, ‘Trim & Mechanical Line’, ‘Finish Line & Paint Shop’. In addition, the small
operation had to take care of a range of functions that were not directly linked to production (e.g. ‘Marketing Services, Marketing & Sales’, and ‘After Sales’). In a home manufacturing operation these would not be part of the overall task profile. However, DCIPL’s functional differentiation not only reflected foreign parent demands and the market demand conditions in the host strategic context but also host context institutional demands (DCIPL 5). A close look at the organization chart unveiled a number of functions that were the result of host institutional context demands (i.e. for local value addition). Cases in point were departments such as ‘Customs affairs’, ‘Warehouse/Container station’, and ‘Local content/Direct purchases’ which were a reflection of the specific institutional demands and low volume strategic conditions in the host context (complicated and frequently changing tariff structures, local content requirements and great importance of long distance supplies of a lowly integrated low volume CKD site).

**OUTCOME**

DCIPL’s functional differentiation was customized to meet foreign parent’s functional demands as well as the specific strategic conditions and institutional demands in the host context. While German expatriates had home operations as a functional frame of reference and sought to implement company policies which required the establishment of certain functions there was no indication that any sort of full or deliberate template replication had been undertaken. The host strategic context conditions were simply too different from those at home. Moreover, there was no foreign parent template defined for DCIPL’s specific strategic and institutional conditions. At the same time, the increasing control of the JV by the German side, the vehicle introduction by the German side, the Greenfield nature of the operation and lastly the strategic distance between the local JV partner’s task profile and DCIPL’s task profile explain, why no local template was used. As no foreign parent template was used, the site’s functional differentiation was tailored to foreign parent demands under specific host strategic conditions and institutional demands. The overall outcome was the result of an absent local and parent template transfer/use, the specific foreign parent context demands in the form of policies and expatriate translations of home functional concepts as well as host strategic context condition and institutional demands that together translated into a functional differentiation that can be best described as customized or tailored.

**HIERARCHICAL DIFFERENTIATION**

**TRANSFER SCENARIO**

When DCIPL was founded in 1994 there was no defined template or transfer effort from the parent side targeting the hierarchical differentiation of the site. This basically had to do with
two factors: The entry mode and the overall absence of a foreign parent template. Resulting
from the division of responsibilities in the JV, the German side saw its mandate largely
restricted to the establishment of the technical and functional dimensions of the production
system, those that were directly related to the manufacturing of the product. Other matters,
such as personnel administration and human resource management, were left in the hands of
the Indian JV partner. The basic organization building was left to delegates from the Indian
JV partner and functionally allocated to ‘Corporate Affairs & Finance’. As many of the
Indian managers had worked for TELCO before, they drew on the TELCO’s existing hier-
archy as a template and derived a downscaled version for the new and smaller DCIPL site.
TELCO’s template counted 27 levels of hierarchy, including 18 managerial designations
and nine levels of blue and white collar worker designations. Thus, the initial hierarchical
set-up of DCIPL was based on a local template. That this was related to the entry mode,
comes out nicely in the following abstract from an interview with the Indian head of human
resources:

Q: Why are there so many levels of hierarchy when this is only a small company
also in terms of headcount?
A: This has to do with history. We started with a Joint Venture with TELCO and at
that time there were 18 levels [managerial] and the whole system was taken and
transferred to MB India because TELCO had the responsibility in administration
and HR. And having put people into 18 different levels, we had to collapse it into
less, without taking away the perceived work concept, if I could call it like that. So
somehow, we arrived at ten. And even within the ten, the reporting of all employees
from ten to five is to level four. So reporting levels there are only five, not even five,
level one we don’t have any more. Dr. XY was the last level one. Now it is level two:
Executive/MD, level three: General Manager, level four Divisional Manager and
level five is everybody else. Four levels only. (DCIPL 2)

STRATEGIC AND INSTITUTIONAL (MIS)FIT/RECONTEXTUALIZATION PRESSURE

Contextual distance and transfer intent? The absent transfer of a foreign parent template to
DCIPL was not related to any particular strategic or institutional misfit. Rather it was
caused by the equity situation that implied that the set-up of the hierarchical differentiation
was organized by the local parent and its delegates. Instead of a foreign parent template
transfer, a local parent template was used. Some strategic misfit of the local template trans-
ferred: While DCIPL’s hierarchical differentiation was derived from TELCO it was from
the outset clear that, no one-to-one transfer of the TELCO template was appropriate. Given
DCIPL’s size of operation, a transfer of the TELCO’s entire hierarchical differentiation was
not considered. Template transfer/use, demands and conditions; strategic/institutional
(mis)fit; and recontextualization pressure? Misfit between local template and parent institu-
tional/strategic context demands: The downscaled version of TELCO’s local template posed some misfit with foreign parent context demands (MD interviewed 1998; DCIPL 3). German expatriates on site still found the hierarchical differentiation much too steep for and operation of DCIPL’s size. However, it should also be mentioned that not all German managers found DCIPL’s hierarchical differentiation as inherited from TELCO problematic. Germany managers did not unanimously share the opinion that designations should be radically reduced. While some saw excessive designations rendering the organization inefficient (DCIPL 3), others, particularly the powerful head of production, saw no problem in having more hierarchical designations than actual reporting levels (DCIPL 1). Nevertheless, as the equity shifted, demands by German expatriates to bring the hierarchy more in line with foreign parent company standards increased and received more weight. In turn, the foreign parent pressure for recontextualization of the local template met resistance from host country managers.

**MODE OF RECONTEXTUALIZATION**

Adaptation of foreign parent templates and/or demands and conditions? Adaptation of parent context demands: While foreign parent demands for a reduced hierarchy increased over time with the shift in equity, the local template was never fully in line foreign parent or home country configurations. The reason why the site’s hierarchical differentiation never fully reflected foreign parent standards was that there was no clearly defined foreign parent template or transfer intent in this regard. At the same time, there were opposing demands from the local institutional context. While the reporting levels ultimately came close to foreign parent home company demands and standards, the many remaining hierarchical designations were still reminiscent of the original TELCO template and a tribute to local institutional pressures for hierarchical differentiation. Particularly, in those areas where some clubbing of designations had taken place the company witnessed opposition from Indian employees. They saw these measures as an offence to the seniority principle and a neglect of employee experience. There is strong evidence to suggest that the company could not and did not want to ignore the local institutional demands for status-giving designations entirely. After all, there were still many more hierarchical designations than reporting levels. An additional reason why these designations were kept was the company’s lacking growth. As no new job profiles could be offered to the largely young and ambitious employees, the very least the company could do, was to compensate for lacking career opportunities by offering symbolic promotions in the form of better designations (DCIPL 2). Finally, the human resource function was at all times in the hands of host country nationals. The human resource managers had a strong say in the company’s hierarchical differentiation and cushioned some foreign parent demands despite the shifting equity. Adaptation of local/host context, templates and/or demands and conditions? From the inception of DCIPL
till the time of research the local template had been substantially changed. Among the most important changes were a reduction of the hierarchical designations and a decoupling of the remaining hierarchical designation with reporting levels. When DCIPL was researched in 2002 it had, in the hierarchical order, the following designations: Managing Director, General Manager, Divisional Managers, Senior Managers, Managers, Supervisors/Executives, Assistants, and Operators. These hierarchical designations were not hierarchical levels in the sense of reporting levels. Reporting levels, there were only four. The first reporting level was the Executive Director (Vorstand/E2), the second General Managers (Abteilungsleiter/E3), the third Divisional Manager (E4 Leiter), the forth level reporting level included everybody from Supervisor/Executive to Senior Manager (see table 26 showing the change to local template).

The adaptations of the local template were made in response to foreign parent context demands. They were made possible by the shift in equity and the increased control of DCIPL by the German side. While DCIPL had succeeded in reducing the number of hierarchical designations, the company still had more hierarchical designations than reporting levels. It appeared that no effort was made to bring the Indian hierarchical differentiation fully in line with foreign parent institutional context conditions. Given the continued top management position of a host country national in human resource management and given the local opposition to a complete change as well as the economic situation of the site, the local resilience for change was limited.
Table 26: DCIPL’s hierarchical differentiation

<table>
<thead>
<tr>
<th>Telco designations 1994</th>
<th>MB India 1994/5</th>
<th>Oct 98</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive Director</td>
<td>Managing Director</td>
<td>L 1 Managing Director</td>
<td>-</td>
</tr>
<tr>
<td>EG1a Senior General Manager</td>
<td>Vice President</td>
<td>L 2 Vice President</td>
<td>L 2 Executive Directors &amp; Managing Director</td>
</tr>
<tr>
<td>EG1b General Manager</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EG1c Deputy General Manager</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EG2a Assistant General Manager</td>
<td>Executive Manager</td>
<td>L 3 General Manager</td>
<td>L 3 General Manager</td>
</tr>
<tr>
<td>EG2b Senior Divisional Manager</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EG3 Divisional Manager</td>
<td>Divisional Manager</td>
<td>L 4 Divisional Manager</td>
<td>L 4 Divisional Manager</td>
</tr>
<tr>
<td>EG4 Senior Manager</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TM6 Manager</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>TM5 Deputy Manager</td>
<td>Team Manager</td>
<td>L 5 Senior Manager</td>
<td>L 5, Senior Managers</td>
</tr>
<tr>
<td>TM4 Assistant Manager</td>
<td></td>
<td></td>
<td>L 6, L7, Managers</td>
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OUTCOME

DCIPL’s hierarchical differentiation started with a derivative of a local template. As equity shifted the misfit between the local template and foreign parent institutional/strategic context demand led to a reduction of hierarchical designations and a decoupling of reporting levels from hierarchical designations. Although the German side achieved some reduction of hierarchy by reducing reporting levels to four, pushing for an imitation of German standards, there remained much more hierarchical designations than reporting levels – reflecting the local template and local institutional demands. Similar to the MUL case, it remained
unclear, whether the hierarchical designations were without effect on the company’s hierar-
chical relations. At the very least, these decoupled structures coexisted side by side. While
the hierarchical designations were reflective of the Indian institutional scenario, the number
of reporting levels corresponded with the DC categorization of levels. The German head of
production underlined that while the reporting levels were deviating from the foreign parent
company, they were more or less in line with a mid-sized company in the home country
context (DCIPL 1). DCIPL’s hierarchical structure moved from a local solution, drawing on
a local template to a more hybrid solution by responding to the parent context demands
expressed through expatriates and by partly adopting the foreign parent classifications. In
summary: A local template was used that did not fit with the foreign parent institutional
demands and context. These contextual demands from the foreign parent were transported
by expatriates. The misfit was overcome by adapting the local template to the foreign parent
demands. However, the foreign parent demands remained half hearted due to local counter
pressures and an absence of a clearly defined template for the Indian site. The result was a
hybrid solution, where we found a side-by-side of foreign parent and home institutional
context elements (reporting structure) and local partner/host institutional context element
的设计).
TELCO they were handed over to final assembly and checking activities. (For the S-class, the process was different as no local welding and painting took place. High profit margin in the S-class and the low volumes made such low local value addition despite punishing import tariffs a viable option).

TRANSFER SCENARIO

When DCIPL’s production site was established in India there was no template that served as a model to structure the factory layout/process design and the technical hardware configuration of the site. Only later, efforts were made, initiated by the Indian site itself, to develop a template for other CKD sites. In this context, MPS was redefined for a possible use at CKD sites. Yet, when DCIPL’s was established neither its factory layout/process design nor its technical hardware configuration was based on an existing template. Even though there were already some other CKD sites with similar task profiles at the time of set-up, these were not used as templates. Conversely, despite having entered the Indian market within the format of a JV with an Indian partner, no effort was made to draw on a local template from the local JV partner. This was explained by the fact that the vehicles were introduced by the German partner who had the mandate to establish the site’s production process. While there was no specific template to be transferred, the main plants in Germany, where in principle the same car models were built, served as a point of reference for the German expatriates who were dispatched from these home country sites. Besides foreign parent demands specifying the production requirements of a specific high-segment vehicle, the factory layout/process design and technical hardware configuration had to respond to the specific strategic conditions and institutional demands in host context.

STRATEGIC AND INSTITUTIONAL (MIS)FIT/RECONTEXTUALIZATION PRESSURE

Contextual distance and transfer intent? Strategic misfit: Irrespective of the fact that no template was defined for transfer, the strategic distance between India and Germany in supply and demand market conditions ruled out the transfer of the vertical integration, factory layout/process design and technical hardware configuration of any existing integrated home plant in Germany. This becomes most evident if we consider that the demand scenario in the Indian market allowed little more than a production of 1,500 vehicles per an-

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8 This is reflective of a more recent development in DC, i.e. the definition of global templates for CKD sites. However, when DCI was set up no such template was available. It was DCIPL which developed into a role model for other CKD sites. Thus, the point of reference was shifting away from the strategically distant home sites, to other CKD sites that served as a direct point of reference for benchmarks or production templates. A case in point was the S-class line. The S-class line was following the Indonesian site’s set up which had found a better solution to what was initially installed in DCIPL.
num. Such a production volume was about the daily output of DC Sindelfingen’s home plant. In fact, strategic demand conditions were so modest that DCIPL would not even have started manufacturing in India if it had not been for DC’s definition of India as a strategic future market and local import restrictions.

The crucial point is actually: why are we producing here? We are producing here because we cannot import. If we could, we would do it. That is the reason why we are producing here and observe the local laws, like local content requirements etc. (MD, 1998)

Apart from the strategic distance in volumes, DCIPL’s task profile also contrasted with the home plant’s vehicle variety. With its choice of producing the C, E, and S class at DCIPL, the Indian site’s task profile featured a much higher base model variety in a much lower number of variants. Next to the strategic misfit in the demand conditions, a supply-side strategic misfit ruled out the transfer of the home plant technical hardware configurations. For DCIPL’s technical hardware configuration would not only have to put up with marginal volumes but would also have to take advantage of low labor costs in India.

We don’t use robots here because of the low number of units. The mechanization of a work place costs us including a robot roughly 200,000 German Marks [100,000 Euro]. Given our labor cost here – an employee earns here about 6,500 Rupees per Month – that just doesn’t pay off. (General Manager Production, 1998)

Template transfer/use, demands and conditions; strategic/institutional (mis)fit; and recon-textualization pressure? Misfit between parent and host context conditions and demands: While the strategic distance ruled out a home plant transfer, the site had to respond to foreign parent as well as local strategic and institutional demands and conditions. First, DCIPL’s vertical integration, factory layout/process and technical hardware configuration had to respond to parent strategic demands with regard to a specific product mix. Despite the strategic distance in terms production volume and variety, the models to be produced were still the same and required the same quality levels. Moreover, as the models were practically the same as those manufactured in different home plants, basic assembly requirements and sequences were principally the same. Second, DCIPL’s vertical integration, factory layout/process and technical hardware configuration had to respond to the specific local/host strategic conditions: specifically, to low volumes on the demand side and low labor cost on the supply side. Third, DCIPL’s vertical integration, factory layout/process and technical hardware configuration had to respond to local institutional demands, notably India’s FDI policies. DCIPL had to observe foreign exchange neutrality, import tariff structures and local content requirements. In contrast to other companies who had higher volumes and operated in price sensitive market segments, DCIPL had no intrinsic motivation
to localize production as its customers were not as price sensitive and volumes were much too low to shift major process steps to India. It was particularly the institutional demands for an increase in local content and value addition that proved very problematic for DCIPL. For low volumes rendered the set-up of capital intensive up-stream manufacturing steps very uneconomical. In other words, there was a misfit between the Indian institutional context’s demand for local content and the foreign parent’s strategic demand for profitable manufacturing under low volume/low demand strategic context conditions.

**MODE OF RECONTEXTUALIZATION**

*Adaptation of foreign parent templates and/or demands and conditions?* Given the strategic distance between home and host country conditions and given that there was no defined template for CKD sites, there was also no foreign transfer template that could be adapted to local/host context demands and conditions. There were, however, foreign parent context demands. Indications were that the technical configuration complied with these demands (DCIPL 1). *Adaptation of local/host context, templates and/or demands and conditions?* Conversely, given that the product was introduced by the German partner, given that the German side held a majority in the JV and given the Greenfield nature of the set-up, there was also no local template to be adapted to foreign parent demands. Instead, DCIPL’s vertical integration, factory layout/process design and technical hardware configuration was designed to meet both the strategic demands from the foreign parent and the strategic conditions and institutional demands of the host context. As the site was basically a Greenfield operation the vertical integration, factory layout/process design and the technical hardware configuration had to be created from scratch. Although DCIPL had a local JV partner with prior experience in automobile production, it was mainly the responsibility of the German expatriates to get the production process in place. Lacking a template transfer, this creation reflected foreign parent and local/host context demands and conditions. The vertical integration and factory layout/process design were, on the one hand, configured to meet the quality and assembly requirements of a selected range of models which were similar to those manufactured in the German parent plants. While basic quality processes and assembly steps were in principle the same, they had to be customized to low volume production (DCIPL 3). What is more, the low volumes and high local content requirements forced DCIPL to look for creative solutions with regard to fulfilling host institutional demands of local value addition (MD, 1998).

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9 The higher the segment of vehicles, the bigger the profit margins and the lower the price sensitivity of customers and the lower the volumes – making scale economies difficult – the more attractive it becomes, to import non-labor intensive parts and components despite penalizing import tariffs.
How did these customizations express themselves? First, DCIPL’s vertical integration was comparatively low because capital-intensive process steps (e.g. stamping, pressing) were performed in Germany. Therefore, capital intensive parts and components arrived in knocked-down kits. Low volumes, in a low labor cost context, suggested low levels of vertical integration and a localization of labor-intensive assembly activities. Second, although the remaining assembly activities were in principle the same as in the home plants, low volumes called for a revised allocation or clubbing of assembly task. For example, unlike in Germany, gluing activities were not performed at different stations but allocated to only one, where all gluing was performed in one step (DCIPL 10). Similarly, while the testing and programming equipment was the same as in Germany, it diverged in how it was applied. In Sindelfingen testing was done separately in various line-sections. In India by contrast, it was done only once at the end. In contrast to the German home plants, the factory layout/process design was characterized by much fewer stations performing much more operations which translated into much higher cycle times of around 60 to 70 minutes. This contrasted again sharply with German operations that featured cycle times of little more than a minute. Third, internal logistics were customized to low volumes and long distance supplies. For extensive storage requirements for bulk shipments of CKD-kits rendered the realization of home-plant Kanban supply-logistics meaningless. Fourth, DCIPL designed its operation to meet local content requirements. Apart from local sourcing of labor-intensive material groups (e.g. horns) for worldwide production, DCIPL outsourced the assembly of knocked-down components to local module suppliers. While these components were also delivered in kits from Germany, they were not – as in other CKD facilities – assembled on site. Instead, they were assembled by local suppliers, thereby counting as local content. This was in essence a circumvention or rejection of local institutional demands and implied an even lower vertical integration in DCIPL compared to other CKD sites. As a result, the local institutional demand for more local content did not lead to more local value addition but rather to some tactical outsourcing which did increased the formal but not the actual rate of local content.

Also with regard to the site’s technical hardware configuration there were such customized responses to the parent demands and local context conditions. Low volumes and low labor costs ruled out the transfer of capital-intensive process steps and technology such as: transfer presses, paint shop technology or automated welding technology. Though the technical hardware configuration received particularly initially technical equipment from Germany such as welding guns and certain jigs, fixtures and testing equipments, there was no replication of home plant mechanization and automation levels at all. What is more, some of the customized technical equipment was increasingly developed on site (DCIPL 8; DCIPL 9). Thus, DCIPL’s technical hardware configuration was based on a ‘low capital intensity strategy’ translating into low mechanization and automation levels. The most sophisticated equipment was located in the areas of final testing and software-upload. The highest level of
mechanization was in the weld-shop, consisting of a few stations equipped with manual welding-guns. All other assembly activities involve simple equipment such as hand tools, screwdrivers, jigs and fixtures. The site featured no automated manufacturing technology. The welding activities were manually performed. This contrasted with high automation levels in the home plants. Likewise, final assembly in Germany had higher levels of mechanization and automation (e.g. windscreen insertion) (DCIPL 10). Vehicle testing was more automated in Germany and more manually based in the Indian set-up.

**OUTCOME**

The outcome of DCIPL’s technical configuration can be best described as a customized solution. This customized solution was constituted by an absence of a template transfer/use and specific responses to foreign parent and local/host context strategic and institutional demands and conditions. The set-up of a site was institutionally triggered by India’s FDI policy, for without it, given the local volumes, an import strategy would have been preferred. Therefore, the local assembly was a function of India’s FDI policy and the internationalization strategy of DC. The latter involved defining Asia as a crucial future market. Once the decision for entry was made and a suitable set of models defined by the foreign parent, the level of vertical integration, basic factory layout/process design and technical hardware configuration largely followed from host context market conditions. The shaping of the vertical integration and factory layout/process design were the combined result of parent strategic demands related to particular models, low volumes and institutional demands in the host context. While German home plant technical configurations were not replicated at all, some of the technical hardware was transferred from Germany. What is more, every new model introduction or model facelift required the transfer of some new tooling and equipment. At the same time, the Indian site was increasingly replacing costly imports by local/in-house solutions. In summary: DCIPL’s vertical integration, factory layout/process layout and technical hardware configuration did not reflect any attempt of transferring a particular foreign parent template. The lacking transfer intent had to do with the fact that the Indian site was strategically very distant from the DC’s home sites and that no template was defined for CKD operations. However, there were foreign parent demands and local/host strategic and institutional demands and conditions to which the vertical integration, factory layout/process layout and technical hardware responded. The production process was, therefore, a customized solution to integrate foreign parent demands related to the production of particular range of models within the a particular host country strategic and institutional context which was defined by sluggish demand for luxury vehicles, low labor costs and Indian Government indigenization requirements.
WORK ORGANIZATION AND HUMAN RESOURCE PROFILE

TRANSFER SCENARIO

According to the German production management of the Indo-German JV there was no defined template to structure the work organization or the human-resource profile of the subsidiary’s production system. The establishment of work organization was largely left to the experience of expatriate managers in cooperation with their Indian partners (initially from the JV Partner). The German head of the factory stated in this context:

*The German or European Industry tends to plan and design – as I said I was for years in Yugoslavia – projects abroad on purely technical, economical and marketing grounds. Processes involving humans, their culture and behavior are generally not a part of the overall planning. I have seen that here and in Yugoslavia. Those back home are not capable of planning work organization and its prerequisites. This part is left to the expatriates who are sent abroad.* (DCIPL 1)

German managers had little sense of being on cultural mission and stressed the need for local learning and observing host context customs (DCIPL 1). However, to state that German managers had no comprehensively defined package of work concepts, skills and basic work dispositions for transfer neither is to say that they had no transfer intent at all nor that they had no demands vis-à-vis the work organization and human resource profile of the site. While German managers deliberately refrained from transferring a number of shopfloor related work concepts from the integrated home-plants and while they had at the time of initial establishment no defined CKD-template to draw on, it would be wrong to suggest that their home-plant background did not serve as a strong conceptual frame of expectation and reference with regard to the developing DCIPL’s work organization and human resources profile. Based on their background expatriates had more or less explicit concepts of how things ought to work. At the same time, using a local template from the JV partner TELCO was also not considered an option. The German partner had the majority in the JV, had introduced the vehicles and the mandate to set up the work organization as part of the whole production process. Above all, German managers had to assure that the final product lived up to the foreign parent’s global quality standards of a luxury brand. Instead of being the outcome of a grand transfer plan, transfer or rather local context change efforts surfaced in the day-to-day Indo-German interaction. Specifically, apart from a few quality and continuous improvement related formal concepts, German transfer intentions mainly emerged when and where German managers saw local behavioral patterns or demands as inappropriate requiring change.
**STRATEGIC AND INSTITUTIONAL (MIS)FIT/RECONTEXTUALIZATION PRESSURE**

**Contextual distance and transfer intent? Transfer restraint because of strategic distance:**
One major reason why German expatriates did not transfer a great deal of German home plant work concepts and related human resource profiles was related to the strategic distance of those concepts and profiles with the local strategic context. There was a misfit between what these home plant work concepts were optimized for in terms of supply and demand market conditions, mainly labor costs and demand conditions/production volumes, and what the India’s strategic context had to offer. For example, German management refrained from transferring home plant group-work concepts and corresponding human resource profiles. The most important reason for the transfer restraint was that the group-work as practiced at home was optimized for a strategic context of high volume and high labor cost conditions. In other words, for a task profile marked by short cycle times in mass production and a minimization of labor costs in a high wage strategic context. The work profile of groups in Germany involved highly repetitive work content, marginally ‘enriched’ by job-rotation and self-certification (DCIPL 3; DCIPL 10). These groups were conceptualized as semi-autonomous, self-directed working units. They featured, self-training responsibilities, self-directed rotation and self-directed group meetings, chaired by group-speakers. The human resource profile of those groups was increasingly based on a semi-skilled workforce. In this work context, the traditionally important role of *Meisters, i.e. highly skilled craftsmen* was changing to a more distanced monitoring and coaching role involving less direct involvement. Now, German management interviewed in India underlined that they had no intent to transfer this group concept based on a semi-skilled human resource profile (German General Manager Production 1998; DCIPL 3). They stressed that the ‘the American model’ – as they called it – was not applied to the Indian site because of the nature of local the production process (DCIPL 1; DCIPL 3). In their view, DCIPL’s task profile was more akin to workshop production and required a more qualified and skilled workforce compared to a strategic context marked by high volumes, extreme division of labor and short cycled times. At the same time, drawing on high qualifications did not cause a cost problem in India, given the labor supply conditions in the host strategic context. The Indian strategic context provided high industrial qualifications at comparatively low costs. The following citation underlines that the German expatriates did not seek the transfer of home group work concepts and corresponding human resource profiles because of the strategic distance between home and subsidiary site operations:

_A: In Germany the main goal of group work was, let’s say, to increase the average utilization of the workers on the line. That is, to reduce the cycle segment compensation (Taktausgleich) and to thereby reduce the costs for the company. You only have a very small work content, two to one and a half minutes, and if you have one more..._
worker rotating the cycle segment compensation (Taktausgleich) is less.

Q: Then the work also becomes more interesting?
A: That is how we have made it palatable to the employee. But in reality we have increased his average utilization through this enrichment and rotation from 94% to 98%. The cycle segment compensation could thereby be dropped. We could tact (eintakten) the employees differently and sold it as enrichment, sure. And this system doesn’t work here. I have here a work content of an hour and I cannot do group work here. I would have to put four men in a group and they would have four hours of work content and which would cause quality problems, in turn. No, the group is here rather a unit under the supervisor. (DCIPL 3)

Another manager interviewed in 1998 (German General Manager Production, 1998) also underlined that it made absolutely no sense to rotate workers at the Indian site. With a cycle time of more than an hour, operators had already a more complex work profiles than most of their counterparts in German plants. Job rotation under these circumstances would seriously compromise product quality. For a similar reason, German quality assurance/self certification concepts were not fully integrated into the lines as in Germany. In DCIPL, it relied heavily on line-external quality inspectors and a much higher frequency of product audits. This made one German interviewee to remark with some irony: ‘We are checking and auditing here until we have the right quality, hand-polished’ (German General Manager Materials, 1998). Although operators did have to certify their work, the company relied on external inspectors and a high frequency of product audits. Again, the strategic distance, lower volumes and lower labor cost, in India ruled out the transfer of German quality practices to the shopfloor.

Self-certification is generally being practiced in Germany but not in India to the same extent. It is important to see why a practice has been introduced in the first place. The first intention was to change the employees’ thinking and the second issue was cost reduction. More important, however, was the cost issue. But in this respect we haven’t got such a great pressure. Cost doesn’t play a role here because if you employ one or two workers it doesn’t play a role due to low labor cost. So self-certification here is more a question of awareness creation. (DCIPL 3)

While the strategic distance was a main reason for not transferring the German group concept, the institutional distance may also have played a critical role. The pronounced patriarchic-hierarchical orientations in India were said to render the implementation of egalitarian team-work concepts as practiced in DC’s home plants a highly difficult, if not impossible, endeavor.

Template transfer/use, demands and conditions; strategic/institutional (mis)fit; and recon-textualization pressure? Misfit between foreign parent and local/host institutional context
conditions and demands: Although hardly any formal concepts of work organization and human resource profiles were transferred from home plants and although there was no defined transfer template for CKD sites, there were still substantial demands on the part of German production management. These rather implicit transfer efforts or demands for re-contextualization of the local context emerged because the strategic context of the Indian site was still similar enough not to let go quality standards and because there were institutional misfits between the German expatriates’ expectations and the local realities experienced. Much of the more implicit German transfer effort was the result of an institutional misfit and aimed at overcoming certain local institutional conditions that were perceived as problematic for the production of a world-class luxury vehicle. It emerged from interviews that the biggest misfit between German work organization and human resource profile related expectations were shopfloor centered and concerned basic work dispositions. Specific areas of concern were: the work roles/identities of supervisors and workers, including their work relations; the taking of responsibility and communication practices; and the cleanliness and quality awareness. Let us take a closer look at each of them:

Work roles and relations of and between supervisors and workers: During the first research period, work relations between Indian supervisors and workers were seen by German production management as one of the most crucial aspects of institutional misfit. For German production managers, supervisor–operator relations and supervisor work roles were of utmost importance in organizing production and ultimately producing a quality product. Supervisors were expected to work cooperatively in a team with operators, to train and coach them hands-on, to be always close to the production line and able to step in and personally demonstrate whenever manufacturing problems emerge. Additionally, supervisors were seen as having a bridging function between management and workers. However, there was a substantial discrepancy between German expectations and Indian behavioral patterns. These were related to the strong socio-professional demarcations produced by India’s social stratification and higher education/vocational training system (Becker-Ritterspach 2005). In contrast to German work concepts and expectations, supervisors saw themselves as managerial superiors to operators, defining the work relation as a clear-cut superior-subordinate relationship rather than cooperative teamwork. Supervisors had a ‘white-collar’ work identity and showed reluctance to being close to the manufacturing process, let alone to be physically involved in it. Operators, in turn, exhibited low acceptance levels of their supervisors, as these were seen as lacking practical manufacturing competence and skills. As a result, the potential bridging function of supervisors was undermined from both the supervisors’ and the operators’ side. In contrast to the working relationship envisioned by German managers, there was a substantial hierarchical demarcation between supervisors and operators. The following shopfloor display (figure 20) — to be signed by supervisors — was an expression of both German expectations and their precarious fulfillment.
However, it was not only the supervisors who rejected certain task profiles envisioned by German production management. For German managers, building a world class quality product began with a clean workplace. The Indian operators, for their part, similarly based on strong socio-professional demarcation consciousness, rejected to get involved in cleaning activities of the work place. For cleaning of factory floors was perceived by operators as unacceptable, clearly not within the purview of their task profile.

Cleanliness and quality awareness: Especially in the beginning, lacking cleanliness and quality awareness of the Indian workforce was a big issue. German expatriates saw a misfit and need for change in this respect. Thus, there was a great mismatch between expatriate expectations and local behavioral realities. Again, supervisor and worker behaviors, which were seen as determining the product quality, were a matter of concern.

The taking of responsibility and communication practices: A third complex of misfit concerned expectations about taking of responsibility on the shopfloor and open feedback of the Indian employees. A central goal of German management was to define clear areas of responsibility, related work objectives and decision-making rights. A cornerstone of the German leadership- and management-concept was a comprehensive delegation of production-related decisions to where they emerged. On the shopfloor this implied that a team, with a supervisor and a maximum of 15 operators, was responsible for a certain line-section
and had to take all decisions directly related to the achievement of daily quality and quantity targets. However, these seemingly simple modes of organization and management were difficult to implement with Indian managers in general and supervisors as well as operators in particular. Instead of seeing a taking of responsibility for the assigned tasks, German management complained about delays in task accomplishment, widespread responsibility-diffusion and an inability to work in a self-directed manner. It was also criticized that Indians were not willing or able to speak up openly when and where problems occurred. Decisions tended to be permanently re-delegated upward with the effect that the simplest objects-of-decision ended up on the German production manager’s desk. Unlike the German concept of work relations between supervisors and operators, Indian employees were not opposed to taking more responsibility. In fact, those interviewed embraced it as an improvement to what they had experienced in previous work relations (DCIPL 8; DCIPL 9). At the same time, a number of Indian employees stressed that it was difficult to get used to taking of responsibility, as this style was in stark contrast to what they were used to.

It should also be noted that there were many areas where German expectation and local institutional conditions fitted each other quite well. For example, DC expatriates had no complaints about lacking skill-levels and discipline of Indian workers. Here the institutional misfit between German expectations was not very pronounced. This had to do with the very site-specific fact that DC had a long-standing relationship with TELCO. DC’s first involvement with TELCO dated back to the 1950s. Along with licenses for manufacturing of Daimler-Benz trucks, the German partner had also introduced an apprenticeship system at that time. Curiously, more that 30 year later, DCIPL could draw on this heritage. According to the German head of production DCIPL was too small to establish its own apprenticeship and training system. Instead, TELCO provided DCIPL with workers whose skill profile was largely in line with DCIPL’s expatriate expectation. In contrast to workers, German managers were rather unhappy about the skill profile of production managers and engineers. Reflecting the theory bias of Indian higher education, their professional training was seen as too remote from the realities of production (DCIPL 1; German General Manager Production, 1998).

Mode of recontextualization

The dominant recontextualization mode of DCIPL’s work organization and human resource profile can be described as a set-up to meet foreign parent demands, while respecting and drawing on local institutional demands and conditions. The recontextualization involved both the adaptation of some foreign parent concepts to suit local/host strategic and institutional demands as well as conditions and some adaptation of local institutional conditions and demands, to meet foreign parent demands.
Adaptation of foreign parent templates and/or demands and conditions? Expatriates dispatched from Germany’s home plants had no comprehensively and formally defined template of work concepts and basic work dispositions for transfer. Related to the strategic distance between the Indian and the home operations, German expatriates either refrained from transferring core home-plant work concepts or adapted them to the local strategic conditions. Cases of the former were the non-replication of home plant group-work concepts and qualification-levels. Examples of the latter were adapted work concepts in the areas of quality assurance and product auditing. Quality inspection in Germany was largely integrated into the production line through self-inspection and random-based external audits. This contrasted, with DCIPL, where almost every vehicle was externally inspected and went through a product audit. Local strategic conditions, low volumes combined with low labor costs, made DCIPL to adapt its quality assurance to ensure home-country quality-standards. Furthermore, while German expatriates were not very eager to transfer formal home plant concepts and were utterly open to draw on host context institutional templates, they were uncompromising where it touched the product quality. This was particularly the case with regard to basic work dispositions that were seen to have a strong impact on product quality. Namely: the supervisor and operator work roles and their work relations, the taking of responsibility as well as the cleanliness and quality awareness. Finally, a limited number of work concepts were transferred that were not directly concerning manufacturing. These were mostly small group or continuous improvement activities, such as quality circles. In this regard, there was no indication that these concepts had been adapted to the local context conditions.

Adaptation of local/host context, templates and/or demands and conditions? The establishment of DCIPL’s work organization and human resource profile did not simply reflect a transfer restraint and an adaptation of foreign parent concepts and demands to the local/host institutional and strategic context conditions. Instead, there was also an adaptation of the local site context to foreign parent demands. The implementation of these demands involved a substantial change and creation effort of DCIPL’s work organization and human resource profile. There were two core mechanisms for the realization of German demands. One the one hand, changes of the local institutional conditions and demands were achieved through training and socialization efforts by expatriate transfer and on site training. On the other hand, adaptation of local/site institutional context to parent demands was achieved through host context selection, i.e. by selecting a highly qualified and young workforce and by selectively drawing on host context institutional patterns.

Expatriate transfer, training, and socialization efforts: The corner stone of the establishment of DCIPL’s work organization and the human resource profile was the transfer of German expatriates in the beginning who were in charge of setting up the site. When DCIPL started 20 expatriates were delegated to the Indian site, taking all major positions in production. By the time of the second research visit, this number had come down to three.
expatriates. However, the MD and the heads of production were still German. DCIPL did not engage in a large-scale transfer of host context personnel to the German parent plants. There was just some limited transfer of a selected few Indian managers – high potentials – transferred to adopt the foreign parent or rather home country company standards. These Indian managers were systematically prepared to take over key tasks as German expatriates withdrew. They were expected to apply German standards with the same rigor. Massive expatriate transfer in the first years and their continued presence in core positions functioned as a major vehicle to bring basic work dispositions in line with foreign parent demands. After all, it was the German side that provided the product, was responsible for getting production up and running and had from the beginning the majority in the JV. German production management had the mandate, control and took the initiative to shape things. Expatriates clearly initiated training and socializations measures to create and change basic work dispositions of the Indian work-force and to bring it in line with their own concepts and expectations. For example, together with the human resource department a range of workshops on cleanliness and quality were organized. Young Indian engineers were first sent to work on the production line, to acquire practical experience (German General Manager, 1998). While some of these efforts clearly involved changes to bring basic work dispositions in line with the foreign parent institutional context standards, they were for the most part not aiming at replicating formal work concepts from the home plants. Instead, German managers sought the implementation of basic work dispositions and product-related standards, irrespective of the institutional origin of the conceptual means to achieve them. This implied flexibly in how to achieve the behavioral expectations and goals. There was a repeating pattern of achieving the desired work dispositions by observing local institutional conditions through selectively drawing on alternative host context institutional templates.

Cases in point were the family model and a number of measures that were linked to raising levels of cleanliness and quality awareness. For example, the ‘family model’ was a team-concept for the shopfloor. In every production line there were a number of teams, called families. Like in a typical Indian family, there was an ‘eldest son’ (selected by the ‘father’) who acted as the ‘deputy’ in the ‘father’s’ absence. The supervisor or the ‘father’ had far reaching administrative and operational responsibilities for his ‘children’. The core principles of the ‘family model’ were written down and put up on shopfloor billboards (see figure 21).
There was evidence to suggest that the ‘family concept’ mainly served to satisfy two basic work dispositional demands of the German expatriates. On the one hand, it aimed at ensuring high quality by instilling a sense of responsibility with those who were directly involved in production, most of all the supervisors. The following citations from an interview with two different German production managers suggest such an interpretation:

*The family concept comes from the Indian culture, no doubt about that, that’s from here. You know, the philosophy that someone has to be responsible for an area, you know. I mean a ‘self’-responsibility you know. I don’t see otherwise any other option to build such a high quality.* (German General Manager Production, 1998)

*We also have our family principles. There we tried to take the Indian mentality into account. I think that it is very important for us to say, that is, the father figure, especially the supervisor on the line; well, it was very important, that the supervisor really is the father of the family and that, when he is not there that there must be someone – the eldest son for example – who looks after things. Well, that is something they understand.* (German General Manager Quality Assurance, 1998)
The link between the ‘family concept’ and the taking of responsibility becomes even clearer when we bear in mind that the role of the father and the eldest son are those positions in the Indian society that are most intimately associated with the taking of responsibility. However, it emerged from interviews that the family concept served yet another core demand. The interview with the German head of production indicated that the family concept was equally a tool to achieve closer team-like cooperation and bridge the socio-professional distance between the supervisors and operators:

There is a management level in India which I see very critical and that is for me the Meister-level which doesn’t exist here. Here we have the supervisors and there is a clear divide between the ones beneath and the ones above. And back home in Germany we have the Meister who has a very, very high importance in managing things in that he is a link between workers and management. And he is a man who understands both. And the interface here is a very dangerous one. That is, those below know how it works, they are just meant to work, and the supervisor is already a studied man and walks around with a tie and a shirt, is another breed of human and also doesn’t want to dirty his hands. This is culturally a big topic and management has to pay a lot of attention here. Here is my closest attention. Therefore, I highlight especially the supervisors. This is also why he is the family father on the line and to lift him out and to call upon him to serve as a link and to make him personally demonstrate the work. In other words, that is very crucial and there is a huge gap in Indian management and some haven’t even recognized it but that’s the ways it is. (DCIPL 1 /German head of production, 1998)

In this context, the ‘family model’ – by means of allocating the ‘father role’ to the supervisor – aimed at creating the link that was commonly formed in Germany by the Meister. Thus, an effort was made to bridge the professional and social distance between supervisor and operators by drawing on an Indian institutional template, the father-son/child relationship. Interestingly, the ‘family concept’ was not the only example where the fulfillment of foreign parent demands was achieved by drawing on local institutional patterns. In the case of housekeeping a similar solution was sought. To circumvent operator-resistance particularly vis-à-vis cleaning the shopfloor, German management imported cleaning machines. Using cleaning machines was in line with the institutionally founded work-identities of operators. The following citation of the German General Manager Production underlines this as follows:

Half a year later I said: Well, now everyone cleans his work place! And I was well aware from colleagues that this was going to be a problem because it is really the lowest to clean the floor. And in order to forestall any discussion, I organized beau-
Although the ‘family model’ was the most prominent solution, there were other examples where German demands were realized by drawing on locally available templates. For example, a host of measures that aimed at raising cleanliness and quality standards departed from home company practices. DCIPL used, for example, a Q-graph to visualize the quality performance of each operator. This Q-graph had been adopted from a local Japanese supplier. It should be noted, again, that none of these measures replicated home country patterns. In fact, the use of Q-graphs would have been in breach of personal data protection law in Germany and would have triggered work council opposition. To conclude: DCIPL’s work organization and human resource profile were created to meet German expatriate demands. This implied an adaptation/change of local work concepts and disposition that were typical for the local institutional context. These adaptations did not mean imitations of foreign parent work concepts or human resource profiles, either. Instead, they were adaptations, drawing on or invoking alternative host institutional patterns.

A highly qualified young workforce at a Greenfield site: Another crucial enabling factor in creating DCIPL’s work organization and human resource profile in line with parent demands was that DCIPL was a Greenfield operation with a young work-force. Besides, DC’s local JV partner had prior experience and capabilities in automobile production. The old relationship with TELCO and the market liberalization of the 1990s allowed DC to choose a JV partner that was not entirely inexperienced in automobile manufacturing. At the same time, DCIPL managers did not have to fight an old conflict-ridden Brownfield culture because DCIPL was a Greenfield set-up. DCIPL’s establishment had been done afresh, in a new factory hall, with mainly young workers who had been either newly recruited or hand picked and trained in the JV partner’s apprenticeship program (DCIPL 1). This young workforce was quite responsive to demands posed by German expatriates. As many of the young operators were ITI-graduates who had received apprenticeship training at TELCO, DCIPL’s workforce not only featured high formal qualification-levels but also decent levels of skill. German expatriates, therefore, did not have to start from scratch as far as the human resource profile and matching skill levels were concerned. In fact, German managers praised the skill levels and discipline of the workers inherited from TELCO. A concern with inappropriate skill levels was only identified in the case of young engineers and production managers who were newly recruited. Here German managers tried to institutionalize a different behavior by training on-the-job and by acting as role models (German General Manager Production, 1998).
The hybridization outcome of DCIPL’s work organization and human resource profile is the combined result of an absent transfer of formally defined templates, institutional misfits between foreign parent demands and local institutional conditions and a recontextualization mode that mainly aimed at meeting parent demands by observing and drawing on institutional templates available in the host institutional context. While crucial aspects of DCIPL’s work organization and human resource profile were shaped to meet foreign parent demands, this did not imply an imitation of German home plant work concepts and human resource profiles. After all, this was also ruled out by a substantial strategic distance. Similarly, we may not talk about localization either because the organizational solutions sought were no clear reflections of typical local work arrangements and human resource profiles. The best way to describe DCIPL’s work organization and corresponding work profile is probably between hybrid and customized/novel. The emerging family model was a good demonstration of this. The family concept aimed at changing certain local work dispositions which the German management deemed problematic with regard to the Indian workforce. It was most of all a lack of co-operation between operators and supervisors, the initial unwillingness of supervisors to engage in ‘blue-collar-activities’ and the general problem of allocating responsibility to lower organizational-levels. For the German management the family-concept was a very powerful metaphor to get certain things done their way, while using a well-known host context institutional template. The idea of family and children allowed bridging the professional and social gap that existed between supervisors and operators and allowed fostering the idea of a team, a family with common goals. The father, like in a family was asked to be a role model. He had to be able to show the work with ‘his own hands’ which was, if achieved, also a departure from a typical work-identity of an Indian supervisor. Moreover, the family metaphor helped to allocate responsibility down onto the shopfloor by using the father figure – a role most strongly associated with responsibility taking in Indian society. However, the hierarchical emphasis of the family-model also meant a compromise from the German side. A more equality based group concept as promoted and introduced in DC’s home plants was not even considered for DCIPL. German managers admitted that the Indian teamwork concept was a departure from the group-work concept as followed at the time by DC in Germany. The Indian family-team was very much a hierarchical configuration, with the supervisor being the undisputed leader. Thus, DCIPL’s work organization was hybrid in the sense that it drew on a typical Indian patriarchal-hierarchical institutional pattern to further the implementation of German demands. The family model was, at the

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10 See the parallels between DCIPL’s family model and J.B.P Sinha’s (1990a) concept of a ‘nurturant task leader’, which D. Sinha (1999) has called a ‘blend of exogenous and indigenous’, i.e. a blend between foreign and Indian management practices.
same time, novel in the sense that it neither was a clear reflection of the shopfloor practice in the German parent company nor a reflection of what was typically found in India’s industrial work contexts. For on the German shopfloors no ‘family concept’ existed and the work organization had increasingly shifted towards autonomous group-work where hierarchies were less pronounced and Meisters took on more distanced advisory roles. In a typical Indian manufacturing company, in turn, the demarcation between supervisors and operators would have been taken-for-granted (c.f. Ramaswamy, 1996) and hardly an object of change through a de-contextualized ‘family model’. Not only was DCIPL’s central work concept a hybrid but its corresponding human resources profile was as well. Both skill-levels and more so basic work dispositions, departed from a typical Indian and foreign parent home plant set-up.

According to German management, quality awareness and responsibility taking had substantially improved and departed from typical local conditions. Factory discipline, in turn, was seen to even surpass German standards. Moreover, the average Indian worker working on DCIPL’s lines had a higher qualification than his counterpart on the home production lines. On the other hand, while attitudes of hierarchical demarcation were seen to have been reduced and quality awareness enhanced, German management was doubtful if the changes were so deeply internalized that they stayed without ongoing German presence. Taken together the human resource profile of DCIPL was a hybrid in the sense that some work dispositions and formal qualifications (related to organizational position) remained institutionally Indian, while others had moved closer to the German ones. Finally, while formal concepts are one-thing actual behavioral patterns are quite another. Formal concepts may be more often than not superimposed and actual informal practices may diverge from them. In DCIPL it appeared that the family concept was the result of certain local on-site dynamics, rather than an abstract concept designed and superimposed from anywhere else. This is not to suggest that there was always congruence between the concept’s behavioral underpinnings and actual behavior. However, according to German and Indian managers, the model achieved its core goals in work dispositional terms (DCIPL 1; DCIPL 3; DCIPL 5; DCIPL 6). Supervisors were said to visit their operators privately and their resistance to co-operate with operators and their unwillingness to go down to the ‘dirty line’ was said to have faded over time. On the other hand, the lingering presence of documents presented above could also be seen as an indication that certain behavioral issues required ongoing attention. All in all, the work organization and human resource profile was hybrid. They were hybrid in the sense that they reflected foreign parent and host context institutional elements. These elements from different contextual origins were pieced together in a highly idiosyncratic way. Some of the work organization configuration simply reflected a specific response to a complex set of different demands. As such the configuration also featured elements that were customized or novel.
ORGANIZATIONAL RELATIONS

INDUSTRIAL RELATIONS

TRANSFER SCENARIO

As far as company industrial relations were concerned, there neither was a template nor were there specific demands German expatriates wanted to see implemented in DCIPL. For example, there was no intention to transfer German style works councils. One of the main reasons for such a transfer absence had to do with the fact that company industrial relations were under the purview of the HR department which was staffed throughout DCIPL’s history by experienced Indian HR managers. In the early years of DCIPL Indian management handled the human resource department because it was the Indian JV partner’s responsibility. However, even after DC fully acquired DCIPL, it left the human resource department in the hands of its Indian managers. In fact, the HR department was the only function that remained exclusively in Indian hands throughout the company’s existence.

STRATEGIC AND INSTITUTIONAL (MIS)FIT/RECONTEXTUALIZATION PRESSURE

Contextual distance and transfer intent? There were indications that the HR management in DCIPL and as a part of that the organization of the company’s industrial relations remained in the hands of experienced Indian managers because of the jungle and pitfalls of India’s labor laws and industrial relations system. The institutional distance, lacking familiarity with regard to the HR management in India in general and industrial relations in particular, made German managers to rely on their Indian counterparts. So next to the fact that there was no defined template for transfer, the institutional distance between the home an host context probably deterred German management to seek any transfer effort. Besides, there were no indications that German managers had specific demands or problem with the way the Indian human resource managers handled company industrial relations. At least there were no signs that German managers found DCIPL’s labor relations problematic. In fact, the opposite was the case; German managers praised the local discipline of labor. While the institutional distance may have indirectly influenced German managers not to transfer their home company industrial relations, there was no misfit between local conditions/template and foreign/parent demands. German expatriates either had no demands or were happy with the status quo. There were, however, changing local institutional demands at DCIPL the Indian human resource managers had to respond to. In the early years, when DCIPL operated on TELCO’s compound the company was shielded-off from the direct impact of host context.
labor relations. This had to do with the circumstance that DCIPL was from outside not perceived as an independent unit and from inside as a unit in its own right. DCIPL adopted the wage settlements negotiated by the TELCO’s union. In this scenario, there was not much threat of the formation of a much feared external union. However, when DCIPL was taken over by DC and moved to a new location outside the premises of TELCO, union activist approached DCIPL employees and probed for possibilities of creating a union. The change in equity and the following shift to an outside location, changed local/host institutional demands and conditions for DCIPL with respect to its company industrial relations.

MODE OF RECONTEXTUALIZATION

Adaptation of foreign parent templates and/or demands and conditions? In the absence of a parent template and specific foreign parent demands vis-à-vis company industrial relations no such template or demands could be adapted. Adaptation of local/host context, templates and/or demands and conditions? Instead, host country managers who responded to local/host country institutional context conditions and demands created DCIPL’s industrial relations in line with modern host context patterns. In the first years, they installed a ‘coordination committee’ which had the function of an early warning system and addressed worker grievances (DCIPL 2). These efforts were mainly geared at assuring industrial peace at the site. As DCIPL was shielded in the first years from institutional pressures of the Indian industrial relation context, Indian managers were happy to keep out any sort of union activity. Up until 2000, the site’s industrial relations were mainly regulated through the ‘coordination committee’ which was made up by labor representatives and chaired by the head of human resources (DCIPL 2). However, when DCIPL moved to its new location outside the premises of TELCO in 2000 and outside activists approached DCIPL employees, the Indian human resource management took a proactive step and founded an internal company union. According to the Indian head of human resources, any organization in India would sooner or later have a union. However, to prevent that this union was linked with a company-external union and to prevent union radicalism from being carried into the company, DCIPL’s human resource managers suggested the foundation of an internal union. In doing so, they drew on local/host context template for industrial relations that had been increasingly pursued by modern companies in India. This option gave the company’s labor a stronger voice, a forum to raise grievances and wage demands. At the same time, it served to keep Indian union radicalism out of the company. The union’s foundation by Indian management was a deliberate, pro-active step to select the most preferred institutional mode for company industrial relations available within the framework of the Indian industrial relations system.
OUTCOME

Company industrial relations in this case, neither were impacted by a foreign parent template nor by foreign parent demands. Instead, industrial relations were mainly created by host country human resource managers in response and in tune with local/host institutional conditions and demands. They responded to these conditions by establishing a typical host context template – an internal unaffiliated union – that had become the preferred mode of industrial relations in modern companies in India. The interaction with this new union was rated good although not as smooth as in the early years. Although there was some minor tension with the union, at the time of my second visit, due to wage negotiations, there was no threat of strike or any radical industrial action. In fact, it was perceived as normal to have a bit of tension during wage negotiations. The head of human resource, however, also stressed that he had a watchful eye on the situation as the formation of a second union could never be ruled out altogether (DCIPL 4). Nevertheless, employee relations were by and large described as smooth and peaceful. Another indication of this was that the site had low levels of absenteeism and high levels of labor discipline. We can probably say that the industrial relations of DCIPL reflected a typical local mode of industrial relations.

SUPPLIER RELATIONS

TRANSFER SCENARIO

Interviews with Indian and German managers revealed that there neither was a transfer of home plant supplier relations nor a replication effort of any existing CKD plant or template. Although there was some loose reference to some supplier related concepts as practiced in Germany these were ex-post labeling rather true copies. Similarly, there was no intention to use the local JV partner’s supplier relations as a template. This option was ruled out by DC’s control of the site, by DC’s introduction of a premium product that had different quality and technology requirements compared to TELCO’s products and by DC’s global supplier policies. However, having said that neither local nor foreign parent templates were used is not to say that there were no foreign parent and local/host country demands and conditions shaping DCIPL’s supplier relations. Among the most important demands from the host institutional context were the local content requirements. Host strategic conditions, the market supply conditions and demand conditions translated into specific demands vis-à-vis the site’s supplier relations. At the same time, there were foreign parent demands affecting DCIPL’s supplier relations. Like other international automobile companies, DC had formulated global policies and concepts with regard supplier relations. Among the most important guidelines were the ‘tandem’ and the ‘follow sourcing’ concept/policy as well as global quality systems and processes (DCIPL 5). The ‘tandem concept’ aimed at establishing close cooperative relations with key/first tier suppliers. The ‘follow sourcing’ concept,
in turn, required the first tier suppliers to follow, wherever DC manufactured on the globe. Apart from these policies that mainly concerned the contractual relations with suppliers, there were worldwide quality polices DC suppliers had to adhere to. DC’s suppliers had to live up to specific quality standards, standardized audit processes and certification systems (DCIPL 6).

**Strategic and Institutional (Mis)fit/Recontextualization Pressure**

*Contextual distance and transfer intent? No home plant supplier relations transfer because of strategic misfit:* The main factor ruling out a transfer of home plant supplier relations – most notably the tiered supplier structure and JIT supply logistics – were strategic misfits and the absence of foreign parent template. Given the host strategic situation of low demand, it made no sense to build an integrated manufacturing unit. Instead of an integrated plant, a low volume CKD set-up was chosen. This, in turn, meant that it was for local suppliers very uneconomical to set up or invests in capital-intensive manufacturing facilities. Put differently, it was the very nature of a CKD set-up to receive most parts and components in a knocked down fashion from home operations. As volumes were low and most parts were supplied from far away home sites, there was hardly any scope to transfer a typical home supplier relations scenario. There neither was scope to transfer a tiered supplier structure nor JIT supply logistics. JIT concepts were meaningless for DCIPL as the most important costs to be minimized were transportation costs. Inventory costs and time were comparatively less important cost variables. In DCIPL cost minimization was mainly achieved through bulk container shipments which came at the cost of higher inventories (DCIPL 3). Thus, by their very nature of mainly performing assembly activities and relying on long distance supplies for CKD-kits, a number of supplier-related concepts that applied for integrated plants were entirely irrelevant for DCIPL.

While it was self-evident why there was no intention to replicate home-plant supplier structures and supply logistics one could have imagined that DCIPL would adopt similar supplier relations as other CKD sites. This was, however, only partly the case. Like other CKD sites, DCIPL received its CKD kits from central shipment poles in Germany (DCIPL 5). Unlike other CKD sites, DCIPL did not perform a complete on-site assembly of these CKD-kits. Instead, in order to meet local content requirements, some of the CKD components were separated out and shipped directly to ‘module or system suppliers’ in India. These suppliers assembled the components (such as seats, axles and cockpits etc.) at nearby sites in Pune supplied them to DCIPL. In short, the institutional demands in India, namely the local content requirements, led DCIPL to adopt supplier relations that differed from other CKD sites. It should be noted, however, that DC had no defined template for CKD supplier relations in the first place.
Template transfer/use, demands and conditions; strategic/institutional (mis)fit; and recontextualization pressure? Misfit between parent and host context conditions and demands: Although there was no defined local or foreign transfer template serving as a blueprint, there were different demands and conditions from the foreign parent and the local/host environment impacting the supplier relations. As far as the host context was concerned, there were a number of Indian Government institutional demands that followed the goal to develop India into a supplier base. Apart from demands for foreign exchange neutrality/export requirements and import tariffs, local content requirements were the principle tool to force foreign companies to increase local value addition (see chapter 5). Now, for companies with high volume demand scenarios and price sensitive customers, high local value addition demands posed no problem and had to be done anyhow to reduce costs. However, for manufacturers facing low demand scenarios for high-segment vehicles, local value addition, beyond a localization of labor intensive production steps was not economically sustainable. Given the low demand, these companies could not invest in capital-intensive production steps requiring high volumes to amortize. By the same token, it was very difficult to convince international and local suppliers to set up manufacturing units and accept orders for low volume jobs. There was, thus, a huge misfit between the local content demands posed by the host institutional context, the volumes offered by the host strategic context and the volumes required by any local supplier to operate profitably. It was this principle dilemma that DCIPL faced and affected the shape of its supplier relations. Without the pressure of local content requirements, DCIPL would probably not even have considered to work with any suppliers in India. However, given local content requirements, DC chose to work with local suppliers. Once the decision was made to work with suppliers in India certain supplier related policies applied. These concepts/policies were mainly the ‘tandem’, the ‘follow sourcing’ and quality policies. Given the strategic and institutional conditions in India – low volumes and lower quality standards of suppliers – the application of the concepts was not an easy task and translated into recontextualization pressures on local suppliers.

Mode of recontextualization

DCIPL’s supplier relations were mainly created to integrate and respond to foreign parent as well as host context strategic and institutional demands and conditions. The supplier structure was mainly created to meet host context institutional demands, the host strategic context conditions as well as the foreign parent global supplier policies. Adaptation of foreign parent templates and/or demands and conditions? As there was no template transfer there was also no possible adaptations to such a template. However, there were foreign parent demands to be met. As suppliers were required and had to be worked with, some of DC’s global supplier policies applied. Among the most important were the ‘follow sourc-
ing’, the ‘tandem’ and quality policies. The follow sourcing concept envisioned that key global suppliers provided their products and services wherever DC manufactured globally. Interestingly, despite low volumes, this policy was followed in India. Four out of DCIPL’s six system suppliers were long-standing DC suppliers serving the company already in other parts of the world. In India these suppliers had formed local JVs and took charge of DCIPL’s subcomponent assembly. Thus, DCIPL essentially implemented a ‘follow sourcing’ policy as the following citation underlines:

Initially we got our existing German vendors to India, set-up JVs for them or in few cases utilized existing tie-ups for JVs. (DCIPL 5)

Similarly, the ‘tandem’ policy envisioning cooperative and long-standing relations with suppliers was applied. Suppliers were not simply considered suppliers but closely integrated business partners, ‘extended Arms’ of the corporation (DCIPL 5). In line with this policy, DCIPL fostered intensive relationships with its local suppliers in India. Particularly, in the case of the newly developed local supplier the company provided support. In some cases, DCIPL delegated employees and even expatriates to the sites of system suppliers. DCIPL also actively assisted suppliers to adopt quality standards and polices. Without such close cooperation and the involvement of global suppliers DCIPL would not have achieved the required quality-levels. Such assistance was not simply a formal requirement in line with the ‘tandem policy’ but a necessity in the face of adverse institutional/strategic conditions in a developing country automobile sector. Thus, especially in contractual terms, foreign parent demands to institutionalize close and high trust relations between DC and its suppliers were met. With its ‘follow sourcing’ and ‘tandem approach’, supplier relations of DCIPL responded to parent policy demands without deviating from them in a substantial way. As far as DC’s global supplier policies were concerned there were no indications that these parent demands were rejected or modified by the local/host context. Adaptation of local/host context, templates and/or demands and conditions? Conversely, there was also no local/host template used as a blueprint for establishing DCIPL’s supplier relation. This is not say that DCIPL did not work with Indian suppliers. But the way in which it worked with these suppliers were not a traditional host context pattern of arms-length relations (c.f. D’Costa, 2003). Instead, in contractual terms, the establishment of supplier relations in India was based on an adaptation of the local/host institutional context to meet foreign parent policy demands. However, the supplier relations also reflected host institutional context demands. For without host context institutional demands, DCIPL probably would not even have asked any supplier to supply locally. DCIPL established supplier relations with six ‘module’ or ‘system suppliers’ to meet its local content requirements (DCIPL 5). For components and systems supplied by suppliers in India were counted as local content, no matter how much of their value was created abroad. In this way, DCIPL was able to achieve a
‘deemed local content’ of about 60% (MD, 1998). Thus, in supplier structure terms, to fulfill India’s FDI policy, DCIPL developed a small supplier base in India. This solution was a partial rejection and adaptation of local demands because the ‘real local content’ remained under 20% and the Indian Government accepted this solution. It should be noted that this supplier structure neither bore resemblance with the tierized supplier structure at home nor to other CKD sites.

Apart from observing foreign parent and host context institutional demands, DCIPL’s supplier relations were mainly created to fit the host strategic context of low demand and the corresponding task profile of a low volume site. For example, low demand translated into low volumes and a strong reliance on long distance supplies for CKD kits from Germany. What is more, even with the suppliers in India no JIT was implemented. Again, this was caused by small volumes that rendered the transfer of JIT supplies meaningless. Nonetheless, interviewees suggested that some transfer of supply logistics concept had taken place. It was argued that instead of JIT, just in sequence (JIS) was transferred to shape supply logistics. However, despite the labeling there were strong indications that DCIPL’s JIS was not implemented as in the integrated plants at home. With component deliveries three days in advance – though in the right vehicle sequence – India’s supply flow was a far cry from time-critical pull-systems which both JIS and JIT essentially are. Naturally, the ‘real’ transfer of these practices was no option as supply logistics in CKD set-ups followed a different logic compared to integrated plants. With regard to supply logistics also another comparison was made, namely the implementation of a supplier park concept as practiced in the A-class production in Raststatt, Germany. This concept is based on the geographical proximity of key suppliers. However, this was more a matter of location choice, rather than a matter of deliberate site-design. While DCIPL’s systems suppliers were located nearby, there was no supplier park as such.

**OUTCOME**

DCIPL’s supplier relations were not based on any template transfer. The strategic distance between the local/host strategic context and the home strategic context ruled out the transfer of home plant supplier relations. In addition, no supplier relations template had been defined for CKD sites, at least not at the time when DCIPL’s supplier relations were established. Simply using the local JV partner’s existing supplier relations as a template was also ruled out by a number of factors including: strategic distance between the JV partner’s task profile, a technology gap, DC’s product introduction and majority as well as its global supplier policies. While neither a foreign parent nor a local/host template were used/transferred, there were foreign parent and host context institutional demands and host context strategic conditions that had to be factored into DCIPL’s supplier relations. Therefore, the site’s dominant (re)contextualization mode with regard to supplier relations was the creation of...
customized solutions to meet foreign parent demands as well as host context institutional demands and strategic conditions. Supplier relations were customized to meet the specific strategic conditions of a low volumes, long distance CKD supplies, and local content policies in India’s institutional context as well as foreign parent policy demands with regard to supplier relations. Therefore, the result can be best captured as a customized solution specific to DCIPL.

Table 27: Summary of DCIPL’s hybridization profile

<table>
<thead>
<tr>
<th>Firm &gt; PS Dimension</th>
<th>DCIPL</th>
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<tr>
<td><strong>Functional Differentiation</strong></td>
<td>Transfer: Neither foreign template transfer nor local template use; instead, foreign parent strategic demands and host context strategic demands and institutional conditions to be met. Fit/Misfit: No misfit between different demands and conditions, just a need for their accommodation. Mode of Recontextualization: Adaptation of local context (i.e. creation of functional set-up) to meet different demands and conditions. Outcome: Customized.</td>
</tr>
<tr>
<td>Hierarchical Differentiation</td>
<td>Transfer: No transfer of foreign template; use of local template (related to entry time and entry mode). Fit/Misfit: No Transfer of foreign template because of: entry time/mode (local responsibility) and institutional distance; as equity shifts increasing institutional misfit between local template and parent foreign demands. Mode of Recontextualization: Some local template adaptation; some foreign parent demand adaptation (rejection/limitation). Outcome: Hybrid (coexistence).</td>
</tr>
<tr>
<td>Technical Configuration</td>
<td>Transfer: Neither local nor foreign template for process or technical configuration; only very selective and increasingly less transfer of technical configuration; mainly foreign parent demands plus the pressure to meet host strategic and institutional conditions and demands. Fit/Misfit: Strategic distance rules out transfer of home plant technical configuration; host institutional demands and foreign parent demands partly misfitting. Mode of Recontextualization: Adaptation (i.e. creation) of local context to meet foreign parent demands and the host strategic context and institutional demands. Outcome: Mainly customized.</td>
</tr>
<tr>
<td>Work Organization / HR profile</td>
<td>Transfer: No foreign parent template transfer; yet, foreign parent demands and local context conditions and demands to be met; home plant background limited frame of reference for basic work roles and work dispositions. Fit/Misfit: No transfer of home work organization and HR-profile due to strategic and institutional distance; institutional misfit between foreign parent demands and local demands and conditions. Mode of Recontextualization: Adaptation (i.e. creation) of local context to integrate foreign parent demands and local demands; no strong adaptation of foreign parent demands; adaptation change of local context by rejecting local demands and drawing on a de-contextualized host-context template. Outcome: Between hybrid – customized.</td>
</tr>
</tbody>
</table>
| Industrial Relations | Transfer: No foreign template transfer because entry mode, HR staffing and institutional distance; initially also no local/host template in use; increasingly local/host institutional demands to respond to  
Fit/Misfit: No home template transfer because local institutional distance judged beneficial; increasing misfit between local no-union situation and potential host inst. context conditions and demands  
Mode of Recontextualization: Adaptation of local context – creation of company industrial relations in response to local/host context institutional demands; adaptation of local site context by drawing on favorable host context template  
Outcome: Local | |
| Supplier Relations | Transfer: No foreign template transfer; no local template use; instead, foreign parent demands and host context demands and conditions to be observed  
Fit/Misfit: No transfer of a number of home or CKD concepts due to strategic and institutional distance; misfits between the host strategic context conditions, host institutional context demands and foreign parent demands  
Mode of Recontextualization: Only little adaptation of foreign parent supplier relations related demands; some rejection of host context institutional demands for local content; for the most part adaptation creation/customization of DCIPL’s local context supplier relations to integrated foreign parent and institutional demands and strategic conditions  
Outcome: Customized |
6.4 SKODA AUTO INDIA PRIVATE LIMITED (SAIPL)

Globally Product Strategy of the Foreign Parent, Strategic Role of the Site and Strategic Distance to Other Sites

The Volkswagen brand group - comprising the Volkswagen Passenger Cars, Skoda, Bentley and Bugatti brands - offers products ranging from the small sub-compact cars to luxury saloons. The aim of the brand is to set class-beating standards in all its products from the sub-compact Lupo through to the Phaeton luxury saloon. Skoda, with its Fabia, Octavia and Superb models, offers a range of products extending up to the mid-class segment which above all deliver outstanding value for money. (Volkswagen AG, 2005)

Drawing on Porter’s (1980) generic strategies VW’s global product strategy can probably be best described as combining a differentiation and a cost leadership strategy. Along similar lines, Boyer labeled VW’s profit strategy a ‘diversity and volume’ strategy (Boyer and Freyssenet, 2003; Freyssenet, 2000). In the 1990s this product strategy has changed, however. The change was marked by the ‘upward opening’ of VW’s product portfolio including new luxury brands and the upward extension to luxury segments within the VW brand itself (Pries, 1999). VW followed from relatively early on different product strategies for different regional markets. This mainly involved introducing older, specifically customized or even outdated models to peripheral markets in Latin America, Africa or China and state-of-the-art models to the developed triad markets. While this disparity was narrowed in the 1990s, VW still differentiates its product offerings according to different markets or world regions. For example, the Skoda brand’s prime target markets are Central/Eastern Europe and Asia. In 2005 Winfried Vahland, Vice Chairman of Board of Management Commercial Affairs of Skoda Auto, defined “[e]stablishing of a CKD-Strategy to conquer other markets in Eastern Europe and Asia, incl. China” as a corner stone of Skoda’s future strategy (Vahland, 2005). In fact Skoda’s market success in Western Europe was originally not intended and had cannibalizing effects for the VW brand. Despite different regional product strategies, VW increasingly integrated its product strategy by developing shared platforms for its four main passenger car brands: VW, Audi, Seat and Skoda. This even allowed establishing production sites that are capable of producing a mix of the different car brands (Eckardt et al., 2000).

VW’s internationalization in the passenger car segment started early compared to other German auto manufacturers. In the 1950s VW opened its first CKD-operations in Brazil (1953), Mexico (1954) and South Africa (1956). Responding to stringent protectionism in
the respective countries, these plants soon developed into fully integrated production sites (Eckardt et al., 2000). The internationalization pattern of setting up production sites for ‘mature products’ in peripheral markets continued throughout the 1970s and 1980s and involved the establishment of new sites in Nigeria (1975), Argentina (1980), Egypt (1981) and China (starting in 1983). This development was paralleled by VW’s Europe-centered internationalization (Eckardt et al., 2000).

In 1982 VW started cooperation with Seat which led to Seat’s takeover in 1986. According to Eckardt et al. (2000), the 1980s heralded a qualitative change in VW’s internationalization strategy towards a ‘transnationalization’. The international division of labor became more integrated, involving more exchange of parts and components between different international production sites. In addition, the center-periphery imbalance with regard to strategic roles and product mandates began to crumble. A number of foreign plants were no longer mandated to mainly building outdated models for peripheral markets but were assuming product mandates for new, core market-models. A case in point was the New Beetle built at VW’s Mexican Puebla plant. In addition to this qualitative shift, the 1990s brought a quantitative boost in VW’s internationalization. Among the most important developments were probably: the establishment of the JV with China’s First Automobile Works, the takeover of Skoda and the foundation/renewal of a number of production site in Eastern Europe and Latin America.

Now, the establishment of Skoda Auto India Private Limited (SAIPL) has to be seen within the context of VW’s product strategy: that is, using the Skoda brand to cater to Central/Eastern European and Asian markets. Yet, it remained unclear whether the establishment of Skoda India was a strategy-driven and coordinated effort by the Volkswagen group, or rather a subsidiary initiative that grew out of Skoda itself. In any case, while the involvement of Skoda in India may have been the result of a central decision by VW, SAIPL’s establishment, at least at the time of research, was very much left to Skoda. It appeared at least at the time of research and based on interview evidence (SAIPL 1) as an internationalization effort driven by the Skoda subsidiary, rather than by the VW group. With regard to ownership, Skoda Auto India was a wholly-owned subsidiary of the VW subsidiary Skoda. Skoda Auto India’s strategic role was not quite clear. The site certainly served as bridgehead for the VW-group to venture into India. As such the site had an important strategic role for the future. Moreover, Skoda’s cars had met a comparatively good initial reception in the Indian market. With regard the strategic distance, the Indian site was in production volume and product variety strategically very distant from Skoda’s home plants in the Czech Republic, Mlada Boleslav (2001/350,000 cars), Vrchlabí (2001/70,000 cars) and Kvasiny (2001/12,000 cars). At the same time, the strategic distance to home operations was in the Skoda India case less drastic in comparison with the DCIPL case. After all, Skoda’s home operations are also based on a ‘high-labor and low-investment approach’ and rely heavily on suppliers (Kochan, 2001). Strategically, the Indian operation
was probably closest to Skoda Auto’s Eastern European CKD-assembly operations, namely in Sarajevo (Bosnia & Herzegovina), Solomonovo (the Ukraine), and Poznan (Poland) where the Fabia, Octavia and Felicia vehicles are assembled (Skoda, 2005).

**INTRODUCTION: FOUNDATION AND EQUITY DEVELOPMENT OF THE SUBSIDIARY**

*Market entry/establishment mode:* Skoda Auto India Private Limited was founded as a wholly-owned Greenfield subsidiary in the year 2000. A press interview with Skoda India MD Imran Hassen suggests that Skoda/VW chose a wholly-owned Greenfield as entry mode because it wanted to build up the site in line with VW/Skoda operational standards.

**Q:** Coming to your manufacturing plans, it seems strange that in this market, which has excess capacity, you are adding to it. Wouldn’t it have made sense to use some of the existing capacity, especially since you will be starting with an assembly operation?

**A:** That’s right. But existing capacity doesn’t mean that it is really suitable capacity for us. New capacity at the same time does not attribute to over-capacity. It’s the question whether the capacity that has been invested for is being accepted finally by the customer. What we want to do is have our own little thing which we can build up from scratch with our way of doing things of manufacturing and of quality management. That’s the most important part for us. We have decided to locate in Maharashtra because the quality labour and the infrastructure is there. Also, Mumbai port is on the right side of India for our shipments from Europe. (Autocar India, 2001)

In contrast to other international automobile companies, the VW-group was a late comer in the Indian market. Unlike in China, the VW-group had been undecided for some time about whether, when and how to enter the Indian market. Already in 1996, the VW-group was considering to enter the Indian market. In 1997 Posth, the President of VW Asia-Pacific Limited was asked in a press interview about the size of investment in India. He stated that VW was considering $130 million to $190 million operation. Production volumes were not decided but were intended to be at least 20,000 units per year. Concerning the brand-choice, Skoda was mentioned among others brands (Mukherjee, 1997). The principle dilemma that the VW-group faced in India was that the volume segments A and B were in the firm grip of first movers, mainly MUL and Hyundai. At the same time, VW had seen DaimlerChrysler’s difficulties in offering premium-segment cars in India. Therefore, VW refrained from introducing a high-segment brand such as Audi. However, offering a low-segment car was also risky. Like many other foreign car manufactures that had entered earlier, VW/Skoda came to realize that the Indian market demand was weaker than originally projected. Instead of the bigger investment plans the company had earlier, a careful look-and-see approach was
taken (SAIPL, 2; Mukerji, 2002). Thus, as a latecomer in a slow market growth scenario VW or Skoda scaled down its initial project. Ultimately, the choice was made to enter the Indian market within the format of a small SKD-operation and with the Skoda brand. The brand was seen to cater to a specific market-niche between the C and D segment which had been identified as vacant.

**Equity development:** In 2000 Skoda Auto signed the MoU and founded SAIPL. SAIPL was set up as a wholly-owned subsidiary. This equity situation was still unchanged at the time of research. The choice of entry was structured by the following conditions: First, Skoda had stated that it wanted to build its ‘own little thing’. The easiest way to do this was a wholly-owned Greenfield site. Probably Skoda had also observed that most auto JVs in India were beset with JV partner problems which generally triggered a continuous equity shifts in favor of the foreign partner; second, neither VW nor Skoda had a long-standing history in the Indian market. Therefore, no specific Indian partner suggested himself; third, when Skoda entered in 2000, India’s FDI regime had substantially changed which rendered a market entry in the format of a wholly-owned subsidiary much easier.

**Location, Production Program and Market Share**

**Location:** Skoda’s assembly facility was located in an industrial area near the city of Aurangabad (State of Maharashtra). The facility commenced as a low-investment project in the format of a SKD-facility. At the time of research, SAIPL was in the process of shifting production to CKD-assembly at a different site.

**Production Program:** Skoda entered the Indian market with the lower-D-segment Octavia which was produced in two basic variants (1.9 liter turbo diesel/ 2.0 liter petrol available in six colors). Given the Octavia’s positioning in the Indian market between the upper C and lower D segment the car was well received and considered a luxury vehicle at a good price. Following the positive market response and a new import duty structure, SAIPL planned in 2003 to move to a new site, shifting operations from SKD to CKD assembly. However, when SAIPL was researched, its operation was still a SKD facility, assembling one car model only. The site had an installed capacity of 10000 units/SKD-kits p.a. and employed about 230 people.

**Market share and sales:** Skoda realized in 2002, in its first year of full operation, sales of around 4400 units. In 2003 Skoda had a sales target of 8,500 cars but had to lower it to 4,500 units. The downscaling of the sales targets was not explained by sluggish demand but by a slowdown in production related to shifting operations from a SKD- to a CKD-assembly set-up. Whether Skoda can be called a success was too early to say. However, by Indian standards, the market entry was a success. Compared to MB/DC, Skoda’s market entry was a run away success. After a little more than one year of full operation, Skoda
achieved in 2003 a sales volume of 4,656 units (The Hindu, 2005). This sales volume was more than the double of DCIPL’s which operated already ten years in the Indian market.

THE GLOBAL TRANSFER SCENARIO

Template? Interviews at SAIPL revealed that the company did not draw on any comprehensively defined production template (SAIPL 1; SAIPL 2). While the parent plants, where the Octavia was manufactured, did serve as a competence pool particularly in matters of product specifications and assembly expertise, there neither was a specific home country plant nor any other SKD/CKD site that served as a defined blueprint for the Indian site’s set-up.

Transfer content – the comprehensiveness and main focus areas of template or transfer intent/effort: Similar to DCIPL, the officially planned transfer effort was very much restricted to documentation and planning of the technical side of the organization of the production process: documentation of assembly sequences, systems and procedures for manufacturing and quality assurance. While there was no comprehensively defined template for the Indian operation, there was a selective transfer-intent. This mainly involved the implementation of VW’s global quality and auditing system as well as the Skoda Production System (SPS). The latter defined circumscribed aspects of shopfloor work organization, including a number of tools and parameters to control quality and work-force performance. The Czech interviewee summarized the aspects to be implemented in the Indian subsidiary as follows:

The product, the systems, the parameters for regulation have to be the same. The methods have to be the same. We have to audit with the same scores which is direct pass ratios.... (SAIPL 1)

Similarly, the Indian head of production stated:

So I would say it is basically an Indian culture with the support of broad Czech guidelines as to how certain things have to happen. We have the Skoda Production System, Quality Systems these are technical systems or the way how to produce which these guidelines tell. But incorporating and developing a culture, it has to be a local culture, it cannot be a foreign culture at al. (SAIPL 2)

The transfer intent centered on the implementation of two parent company systems defining a limited range of the shopfloor work organization. These were, for the most part, outcome monitoring systems, tracking performance by means of various numerical indicators. How these systems were implemented and embedded in day-to-day interaction was largely left to Indian managers who had received a brief training in the parent plants. Apart from the core-system implementation, the Indian and the Czech interviewee stated that there were no
intentions to imbibe any sort of foreign work culture (SAIPL 1; SAIPL 2). To the contrary, the Czech interviewee stressed that he had to learn from his Indian colleagues how things went and stated that he had no ambitions to change most things as they belonged to ‘their own habits’ (SAIPL 1). However, he repeated that the core-systems had to be implemented. This he considered his main task as an expatriate. Along similar lines, the Indian interviewee stressed that while certain technical systems were transferred, various cultural aspects had to be Indian. Interestingly, the limited or selected transfer intent was also reflected in an utterly polycentric staffing approach. There were only two expatriates at the site, a German MD (a Pakistan-born Non-Resident Indian) with a marketing background and a Czech expatriate with a quality background responsible for production. In fact, the Czech expatriate complained that more expatriates and more personnel exchange were actually required. Given the tight budget of the start-up this was not possible, however. He was sure that had the start-up been a VW project, it would have received more resources, including a higher rate of expatriate transfer.

**THE ORGANIZATION STRUCTURE**

**FUNCTIONAL DIFFERENTIATION**

**TRANSFER SCENARIO**

Regarding the functional differentiation of SAIPL, Skoda had defined no foreign parent template for transfer and implementation. There was also no local template from a local partner that suggested itself for use. The site was a wholly-owned Greenfield subsidiary of Skoda which ruled out using an existing template or a template from a local JV partner. While SAIPL had no defined template to draw on for its functional differentiation, the site had to respond to some degree to its foreign parent context as well as to the local/host strategic and institutional context conditions and demands.

**STRATEGIC AND INSTITUTIONAL (MIS)FIT/RECONTEXTUALIZATION PRESSURE**

*Contextual distance and transfer intent?* Apart from the fact that Skoda provided no template for SAIPL’s functional differentiation, the strategic distance in the task profile and demand market conditions between the home strategic context and the local/host strategic context explained why there was no effort to replicate Skoda’s home functional differentiation. While the transfer of Skoda’s home site’s functional set-up was ruled out by the strategic distance of the local/host strategic context, the replication of other – strategically closer – CKD/SKD site’s functional set-ups was ruled out by the absence of a defined transfer template. At the time of SAIPL’s establishment, no such template was available or defined
for the set-up of SKD/CKD sites (SAIPL 1). Template transfer/use, demands and conditions; strategic/institutional (mis)fit; and recontextualization pressure? As neither a foreign nor local parent template was transferred/used, there was no recontextualization pressure on any template. There was also no indication that local/host contextual demands and conditions and foreign parent contextual demands were outright contradictory. Yet, there were different contextual demands and conditions that called for an accommodation in the newly established functional differentiation of SAIPL. The foreign parent demands involved the implementation of certain global policies. For example, in line with VW’s global quality policy, SAIPL was obliged to have an independent quality auditing department. What is more, as the task environment was with regard to the product and its quality not entirely different from the vehicles built at the Czech home sites, there were demands to set up specific functions and processes in a similar way. However, given the weak presence of expatriates at the site, there were only few specific functional structural demands other than those global standards or policies related to product quality (SAIPL 1). Conversely, those few foreign parent demands that were defined with regard to the functional differentiation met only little if any local resistance. This was related to the condition that the site was a Greenfield site, that the workforce was young and that most of the Indian managers had worked for other international automobile companies in India before. Thus, there were few functional demands in the first place and those foreign demands present, were not in conflict with local/host strategic or institutional conditions and demands. SAIPL’s the functional differentiation had to respond to the requirements of producing a specific foreign parent car model under specific local/host strategic and institutional context conditions and demands. The latter were characterized by moderate demand levels for medium to high segment cars and local content demands from the host institutional context. Essentially, the site’s functional differentiation had to respond host demand market conditions involving a matching task profile marked by of low volume and variety.

**Mode of Recontextualization**

**Adaptation of foreign parent templates and/or demands and conditions?** Since no use was made of any template, no misfit/recontextualization pressure and template adaptation was possible, either. However, there were some parent demands with regard to the functional differentiation. These demands were met without deviation. **Adaptation of local/host context, templates and/or demands and conditions?** The dominant (re-)contextualization mode of this case was a creation to meet different demands and conditions from the parent and host strategic and institutional context. With regard to foreign parent context demands, the site had to establish a quality department in line with global quality policies. VW’s global quality system called for the function of a quality auditor who had to report to a global quality department of VW. By the same token, the product required some manufacturing opera-
tions and functions similar to those of the home plants. For the most part, however, the functional set-up was customized to the specific local/host strategic context of the site, which was quite distant from the parent sites where the same model was built. In other words, the operation’s functional set-up was mainly customized to a specific task environment that differed from the parent operations in terms of vertical integration (much less), supply logistics (long distance) and with respect to product variants (much less) and volumes (much lower). Moreover, the small operation had to take care of a whole range of functions that were not directly related to production (e.g. sales & marketing, service & spares) and were not part of the task profile of a home operation. Finally, the site had to respond functionally to demands from India’s institutional context. These demands were connected to SAIPL’s comprehensive import of parts and components.

**Outcome**

SAIPL’s functional differentiation was a customized solution resulting from the specific task profile of a SKD site and the parent company’s functional demands and policies. The functional differentiation was not based on any parent template. The reason for this was that the parent company had not defined a template matching the strategic context (and task profile) of SKD/CKD sites. As far as parent operations were concerned, a transfer was not an option due to the substantial strategic distance to the local/host strategic context. The customized solution was strongly reflective of the specific strategic role of the site ruling out a replication approach. Instead of transfer, the site responded to foreign parent demands and local/host strategic and institutional conditions and demands translating into a customized functional differentiation.

**Hierarchical Differentiation**

**Transfer Scenario**

With regard to SAIPL’s hierarchical differentiation there was no template defined for transfer and implementation. Similarly, there was also no existing template or a locally defined template by a local JV partner. Given that the site was a wholly-owned Greenfield start-up, there neither was an existing hierarchical differentiation nor a local JV partner that pressed for the implementation of a particular local template. However, Skoda’s polycentric staffing approach at SAIPL implied that set-up of the hierarchical differentiation was in the hands of Indian managers. Although the site was a wholly-owned subsidiary the expatriates on site displayed a hands-off attitude in many areas that were not directly related to their immediate task. The Czech expatriate propagated a non-intervention policy which was based on his minority status at the site and his conviction that many local habits were not for him to change, as long as basic performance parameters were met (SAIPL 1). While neither a for-
eign parent nor local template was planned, the shaping of the site’s hierarchical differentia-
tion saw substantial institutional demands from the local/host institutional context.

**STRATEGIC AND INSTITUTIONAL (MIS)FIT/RECONTEXTUALIZATION PRESSURE**

*Contextual distance and transfer intent? No transfer because of institutional misfit.* While there was no foreign parent CKD template available and to be transferred, the transfer of Skoda’s home plant hierarchical differentiation was not considered an option, either. Both the Czech expatriate and his Indian counterpart, shared the conviction that such a transfer was incompatible with the Indian institutional context. This can be seen in the following statement:

**Q:** The six (seven) levels you mentioned you have oriented yourself on the Czech hi-
erarchical levels?

**A:** No it was not. Not Czech hierarchical levels. It is Indian levels. In CR we don’t
have these levels. They are totally different and neither have we tried to adopt that.
The supervisor is at the top level there. In India supervisor is the lowest level of
management. So there is a big difference and we have never tried to adopt this.

**Q:** So they have only two levels. Operators and supervisors?

**A:** No they have different levels of course. But when I say supervisor he is of a
managerial level of the whole set-up and he is a very powerful person. Whereas in
the Indian culture, supervisor is the lowest level of management. So it is a totally
different scenario. In between they have, between operators and the supervisor lev-
els, they have again levels, which are different from what we have in India. In India
again the qualification, his experience, all comes into the picture. We have diplo-
mas, we have engineering graduates, and they begin with different levels, so it is a
different kind of structure here and there. (SAIPL 2)

From the Indian manager’s perspective the transfer was ruled out by the different profes-
sional-education structure and qualification-related entry-points to specific organizational
levels. He also stressed the status differentials of managerial positions in the home and the
host context.

**Template transfer/use, demands and conditions; strategic/institutional (mis)fit; and recon-
textualization pressure? Some institutional misfit between parent and local context demands
on site:** As there was no defined template for SAIPL’s hierarchical differentiation, there was
also no misfit between a parent template and the local strategic or institutional context.
However, despite the absence of concrete local or foreign transfer templates, there were
different foreign parent and local institutional context concepts about hierarchical differen-
tiation that were contradictory. For example while, the Czech expatriate did not understand
the need for as many hierarchical designations as demanded and implemented by the Indian
side, his Indian counterpart the Indian head of production, considered the structural set-up lean and flat, very much in line with other modern enterprises in India. Nevertheless, as a result of the polycentric staffing approach, there were practically no foreign parent context demands working against the local demands and their expression in the hierarchical differentiation of SAIPL. Although the Czech expatriate was not happy with the number of hierarchical designations established by his Indian counterparts, he did not formulate his skepticism into demands for an alternative hierarchical set-up (although he did question, whether this tendency of excessive levels of designations would be financially sustainable in the long run). Again, an absent misfit, despite contextual distance, was due to the polycentric staffing approach and the utter hands-off approach of the Czech expatriate. It should also be mentioned that hierarchically the Czech expatriate and his Indian managerial counterpart were more or less on the same level.

MODE OF RECONTEXTUALIZATION

Adaptation of foreign parent templates and/or demands and conditions? As there was no foreign parent template transfer and hardly any foreign parent context demand vis-à-vis SAIPL’s hierarchical differentiation, no adaptations to such templates or adaptations to such demands were possible. Adaptation of local/host context, templates and/or demands and conditions? As there was no parent template and no meaningful foreign parent demand with regard to SAIPL’s hierarchical differentiation, the site mainly responded to local/host institutional contextual demands. Put differently, without an existing template at the Greenfield site and no specific parent demands, the hierarchical differentiation was created in line with local/host institutional demands of the Indian management on site. Although the site was a 100% subsidiary of Skoda the companies lacking template definition and polycentric staffing policy implied that the hierarchical differentiation of SAIPL’s production system was left to host country nationals. Skoda India’s hierarchical differentiation responded very much to local institutional contextual demands without having to deal with intervening demands from the foreign parent. As a result of an absent foreign template transfer and the polycentric staffing approach, the (re-)contextualization mode was an adaptation – creation – of the local context, in line with local/host institutional demands and conditions. Specifically, there were between seven to eight hierarchical designations from top to bottom excluding operators. In the hierarchical order the designations at the Indian site were: MD, Director, General Manager, Senior Managers, Managers, Assistant Managers, Senior Officers, Officers, (probably also Junior Officers) and Operators. Given these many hierarchical designations for so small a company (i.e. 130 employees out of which 90 were operators), the question was whether real task profiles were linked to the many designations. While the functional heads (i.e. general managers) were responsible for the core functions of SAIPL: technical, sales & marketing, production, service & spares and finance, it was less clear to
what extent the other designations denoted real task profiles or levels of responsibility. The link between hierarchical designations and task profile or levels of responsibility remained inconclusive (SAIPL 1; SAIPL 2). Curiously, the Czech expatriate was also unsure about the meaning of the different designations. It appeared that in SAIPL, like in other companies in India, there was a decoupling between responsibility levels and designations.

**Outcome**

SAIPL’s hierarchical differentiation was the result of the absence of a parent transfer template and the absence of foreign parent context demands. The latter was mainly due to the polycentric staffing policy of the site. The hierarchical differentiation of the site was newly created in line with local/host institutional context demands, that is, in line with the institutional concepts of Indian managers who had the task to set up the organization’s hierarchical differentiation. In summary: The absence of a parent context template or demands with regard to SAIPL’s hierarchical differentiation, a polycentric staffing approach leaving the hierarchical set-up of a Greenfield site to host context managers, a perceived institutional distance between the parent company hierarchical set-up and the local/host institutional conditions and the low involvement of a technical-system focused expatriate, all worked towards a strong response to local/host institutional demands and the adoption of a typical host context solution with regard to SAIPL’s hierarchical differentiation.

**Process Organization**

**Technical Configuration**

**Overview**

Skoda’s assembly activity took place in a leased building on the compound of a Siemens Switchgear factory. SAIPL assembled only one model, the Octavia in two basic variants (1.9 liter turbo diesel/ 2.0 liter petrol available in six colors) (SAIPL 2). The site had an installed capacity of 10,000 SKD units per year. When the site was visited, the daily output was at 35-40 vehicles on a double shift basis. Manufacturing activities were characterized by pure assembly of SKD-kits. The company had already moved on from an initial SKD 00 status to an SKD 0 status, implying slightly more local assembly activity. Moreover, the site was preparing the commencement of CKD production. This meant that the car would arrive in a more disintegrated manner requiring more local assembly.
TRANSFER SCENARIO

Neither a home plant nor a CKD/SKD site or model served as a template for SAIPL’s factory layout/process design and the technical hardware configuration. This was remarkable because VW has a long experience in setting up international operations, including CKD/SKD sites. At the same time no local template was used, as the site was a wholly-owned Greenfield subsidiary. However, while no specific template was transferred, the main plant Mlada Boslav in the Czech Republic where in principle the same car model was built, served as a limited point of reference for the Czech-Indian team responsible for the initial establishment. Apart from foreign parent demands regarding the production requirements of a specific car model, the factory layout/process design and technical hardware configuration had to respond to specific strategic conditions and institutional demands in the host context.

STRATEGIC AND INSTITUTIONAL (MIS)FIT/RECONTEXTUALIZATION PRESSURE

Contextual distance and transfer intent? Strategic misfit: The strategic distance between the host and the home country context, was the main factor ruling out the transfer of a home plant set-up. While Skoda with its medium to high segment vehicle had a better market response than DCIPL, it faced a similar situation of contrasting demand conditions and task environments between the home and host context environment. The Indian task profile, laid out for around 40 vehicles per day, contrasted with Skoda’s home plants Mlada Boleslav and Vrchlabi where the same model was built at the volumes of around 500 and 150 units per day (Kimberley, 2001). In fact, fearing a low demand scenario in India was a main reason why the VW group was so hesitant to enter the market. If it had been possible, Skoda probably would have preferred an import strategy. SAIPL’s task profile not only contrasted from home operations in terms of production volumes but also in terms of model variety. The SAIPL operation produced only one base model in a very limited number of variants. Thus, in comparison to Skoda’s home operation its small facility in India featured a low base model variety in very limited variants. The difference in model variety added to the strategic distance that resulted from different production volumes. In addition to the strategic distance regarding market demand, there was a supply-side strategic distance that ruled out the transfer of the home plant’s technical hardware configurations. Difference in labor costs also had to be factored in to the set-up. This equally ruled out the replication of home plant technical hardware configurations which were already less automated than comparable VW plants in Germany. Template transfer/use, demands and conditions; strategic/institutional (mis)fit; and recontextualization pressure? Misfit between parent and host context demands: While the strategic distance ruled out a home plant transfer, the site had to respond to foreign parent and local/host strategic and institutional demands and conditions. First, SAIPL’s vertical integration, factory layout/process and technical hardware configura-
tion had to respond to parent strategic demands with respect to the production of a specific model. Despite the strategic distance in production volume and variety, the model to be produced was still the same as the one manufactured in the home plants. It required similar final assembly activities and the same quality levels. Second, SAIPL’s vertical integration, factory layout/process and technical hardware configuration had to respond to the specific host strategic conditions of low volumes on the demand side and low labor costs on the supply side. Third, SAIPL’s vertical integration, factory layout/process and technical hardware configuration would have to respond to host context institutional demands. Like all other foreign companies, SAIPL was asked to fulfill an indigenization schedule involving increasing local content rates. SAIPL also had to observe specific import tariffs for imported parts and components. It was particularly the institutional demand of increasing local content that proved very problematic for SAIPL, given the modest market demand and the corresponding production volumes. SAIPL’s low volumes rendered the set-up of capital intensive up-stream manufacturing steps, especially in the initial market entry phase, uneconomical. There was, therefore, a misfit between host institutional context demands for increasing local content and the foreign parent context demands for profitable production under low demand conditions.

**MODE OF RECONTEXTUALIZATION**

*Adaptation of foreign parent templates and/or demands and conditions?* Given the early market entry stage, given the strategic distance and given that there was no defined template for CKD sites, there was also no foreign parent template to be adapted to the local/host context demands and conditions. *Adaptation of local/host context, templates and/or demands and conditions?* Similarly, given that the same model was built at Skoda’s home plant and given that the site was a wholly-owned Greenfield subsidiary, there was also no basis to use a local template for the site’s vertical integration, factory layout/process design and technical hardware configuration. As a consequence SAIPL’s vertical integration, factory layout/process design and technical hardware configuration was created to meet both the strategic demands of the foreign parent context and the strategic conditions and institutional demands in the local/context context in India. Moreover, the site’s establishment mode implied that the vertical integration, factory layout/process design and the technical hardware configuration had to be newly established. A technical support team of expatriates from a foreign parent plant realized the initial site establishment. Specifically, the site was set up by a group of six expatriates who were transferred at beginning for a short period of time:

*We had expatriates and, as I said, the basic focus has been on setting up the shop, the production line. This is basically a technical support function. How to do it? How to produce this? How to incorporate systems and procedures? This is where*
their support came in. And once this is taken up and learnt by our people, than this team went away. We had a good number of people here, I think six people, it was in the initial phase, once it was stabilized and everything is OK, than they were off. (SAIPL 2)

Lacking a transfer template this creation expressed a customized response to foreign parent and local/host context demands and conditions. The vertical integration and factory layout/process design was designed to meet the quality and assembly requirements of the selected model that was similar to those in the parent plants in the Czech Republic. While basic quality processes and final assembly steps were principally the same, the set-up team had to customize the site to substantially lower volumes. Furthermore, with regard to the site’s technical hardware configuration, there were also customized responses to parent demands and host context conditions. Low volumes and low labor costs ruled out the transfer of capital-intensive process steps and technology such as transfer presses, paint shop technology or welding technology.

But let’s take a closer look: To qualify as a SKD site, SAIPL received SKD-kits which consisted of completed vehicles, apart from a few components separated out for local assembly (SAIPL 2). Accordingly, the site had a very low vertical integration that was not comparable to any of Škoda’s home sites. SAIPL’s factory-layout/process design was such that complete car-bodies (including interiors) were manually pushed into a garage-like hall. In the hall the transmission, the engine, the front- and rear-suspension were mounted onto the vehicle on a central lever (SAIPL 3). Apart from this main station, there were only two or three additional stations. These comprised of minor final assembly activities (e.g. door-sealing), paint check and repair in light-tunnels. The car finally came to life with a software upload, testing and fuelling. The product flow was fully discontinuous and had partially a workshop character. SAIPL’s low volumes and the high level of vehicle completion upon arrival implied a low vertical integration. Low volumes and a small number of remaining assembly tasks meant that SAIPL featured a fraction of the home plants assembly stations. The few assembly tasks were clubbed in a small number of stations translating into high cycle times of about 40 minutes. Internal logistics as practices at home sites had no relevance for SAIPL, either, as the cars arrived almost completed. Finally, SAIPL’s technical hardware configuration was a customized solution. It responded to foreign parent context manufacturing requirements and the local/host institutional demands and strategic context conditions, manifested in local content requirements, low demand and low labor cost conditions. The resulting technical hardware configuration comprised of little more than simple hand tools and some final testing equipment. Compared to the home plants, SAIPL’s technical hardware profile showed no automation and hardly any mechanization. Apart from one lever for under-body assembly, simple hand tools, some fixtures and testing-equipment, there was no technical equipment on site. What is more, the technical hardware used was
mainly sourced from vendors in India. There was only some critical equipment, such as fixtures, which were directly transferred from the parent. It should be emphasized, however, that SAIPL was at an early stage of entry. SAIPL’s vertical integration and factory layout/process design as well as technical hardware configuration were first and foremost specific responses to host context institutional demands. That is, responses to qualify as a SKD venture. For only if the site could prove a minimal amount of local value addition, would Skoda be allowed to import parts and components at substantially lower rates than for full vehicles imports. Essentially, the process design reflected the effort of importing a completed vehicle at the lowest possible import tariff. Moreover, given the early stage of entry, SAIPL had not yet shifted its site to CKD operations and did not procure from India. Against this background, internal logistics processes were entirely customized to long distance deliveries of SKD-kits from parent plants in the Czech Republic. Over all, the dominant (re)contextualization mode of SAIPL’s technical configuration was an adaptation – creation – to meet foreign parent and host context demands and conditions.

**OUTCOME**

SAIPL’s vertical integration, basic factory layout/process design and technical hardware configuration can be best described as customized solutions. These customized solutions were the result of an absent template transfer – neither foreign nor local – yet customized responses to foreign/parent and local/host context strategic as well as institutional demands and conditions. The set-up of the site was institutionally triggered by India’s FDI policy. For without the policy, the low volumes in the Indian market would probably have implied a preference for an import strategy. Skoda’s lacking transfer intent had largely to do with its careful market entry approach, with the fact that the Indian site was strategically very distant from the Skoda’s home sites (at least at this early stage) and the condition that no template had been defined for SKD operations. However, while there was no direct transfer, there were foreign parent demands as well as local/host strategic and institutional demands/conditions to which the vertical integration, factory layout/process layout and technical hardware responded. In summary: The production process was a customized solution to integrate foreign parent demands related to the production of a particular model within a particular host country strategic and institutional context, marked by low volumes, low labor costs and a specific FDI policy, pushing for local production.

**WORK ORGANIZATION AND HUMAN RESOURCE PROFILE**

**TRANSFER SCENARIO**

According to the Czech expatriate and his Indian counterpart, there was some selective transfer effort with regard to SAIPL’s work organization and human resource profile
(SAIPL 1; SAIPL 2). Referred to by the interviewees as ‘quality’ and ‘technical systems’, the Skoda Production System (SPS) and VW’s global quality systems were two defined templates that aimed at structuring circumscribed areas of work organization and human resources. Originally derived from a VW-group production system, SPS involved a work concept for the shopfloor level. It defined a shopfloor team concept including average team-size, team-responsibilities, training and development targets and a number of visual tools to monitor worker performance. These included charts for monitoring attendance, production, quality and safety targets as well as 5S. The following citations explain the concept:

To track quality, Skoda implemented what it calls the Skoda Production System, which tracks such things as cost, quality, team cooperation, and absenteeism, and displays the results on the shopfloor for all to see. Teams that perform particularly well are rewarded, such as one group that received a trip to Japan to study methods used by an auto plant there. (Mudd, 2000)

This talks mainly about, team working, more responsibilities for the operators, better organizing his work and his team members, training and developing his team members, ensuring better productivity and better quality, implement security. So it is more focused on first line operation. The who need …. So that is what it focuses on. Another major difference was a focus on absenteeism. This seems to be very good in this production system. Than control on quality this monitoring, tracing out the problems and getting direct reactions is very good. (SAIPL 2)

SPS mainly covered formal structural aspects of the work organization as well as tools to monitor performance outcomes on the shopfloor. With respect to the human resource profile, SPS rested on polyvalent workers, skilled enough to work at different stations. It relied to a certain degree on high involvement work dispositions. Workers were responsible for quality based on integrated self-certification and also some degree of maintenance based on housekeeping activities. In a way it implied a non-Taylorist concept of work organization combined, with strong work-force control. The second template transferred was VW’s global quality system. Unlike SPS, this system was a standard template implemented worldwide in the VW group. The system only marginally touched the work organization and was essentially a separate monitoring unit that reported directly to VW. Its main task was to randomly check the product quality. However, while VW’s global quality system and the SPS aimed at structuring certain aspects of the work organization with implications for the human resource profile and while SAIPL’s mother plant in Mlada Bosleslaw served as a point of reference – especially for personnel transfers from India – there was no holistic or comprehensive replication effort of any foreign parent plant’s work organization and human resource profile. Instead, the main focus of the transfer was to set up the two core work concepts, that is, putting their formal structure and monitoring tools in place to be able
to track performance levels. The Czech expatriate interviewed was quite open in stating that
his transfer ambitions and ability ended there. Not only were his ambitions limited but also
his resources to change basic work dispositions beyond the implementation of the SPS and
the VW-quality system. This came out nicely in a number of comments where the Czech
expatriate stated that production and quality systems had to be the same, human resources
profiles and the Indian ‘habits’, however, he could not and did not want to implement simi-
lar to those in the Czech Republic or in Germany (SAIPL 1). Comments by his Indian coun-
terpart also confirmed this limited transfer intent:

We have one production General Manager here, so basically he is here to support
guide and see everything is happening well. But ultimately the interaction on the
shopfloor, the culture, it has to be set by the Indians. (SAIPL 2)

An explanation of the transfer restraint was Skoda/VW’s polycentric staffing approach at
SAIPL. Given the very low presence of expatriates, the set-up of the site’s work organiza-
tion and human resource profile had to be left or was deliberately left to Indian manage-
ment. Having said that the Czech expatriate left the establishment of the work organization
and basic human resource profile in the hands of Indian managers, is not to say that he was
content with their approaches in all respects. Strangely, although SAIPL officially declared
that it had chosen a Greenfield site to build up its ‘own little thing’ and although SAIPL was
from the outset a wholly-owned subsidiary, SAIPL was the case that relied most extensively
on host country nationals for the establishment of the site’s work organization and human
resource profile.

**STRATEGIC AND INSTITUTIONAL (MIS)FIT/RECONTEXTUALIZATION PRESSURE**

*Contextual distance and transfer intent?* As far as VW’s global quality system and SPS
were concerned, there was no reported strategic or institutional misfit that had led to a priori
transfer restraint. However, SPS only covered a limited range of work organization on di-
rectly related to the shopfloor. Above this level, Skoda’s home plant’s work organization
was not considered for transfer because of the combined effect of strategic and institutional
distance. Apart from the fact that the polycentric staffing policy and low resource endow-
ment made a comprehensive transfer home plant work organization and human resource
profile difficult, the *institutional and strategic distance* seemed to have ruled out a compre-
hensive transfer effort. Both the Indian production manager and the Czech expatriate shared
the conviction that above all institutional incompatibilities ruled out a replication of the
work roles as found on the home plant’s shopfloors. The Czech expatriate saw a big gap or
mismatch with regard to the supervisor work roles. In the home plants, supervisors gov-
erned high respect and had about 50 to 60 people reporting to them. In India, a supervisor
was generally a young man, ‘a beginner who knew almost nothing’ (SAIPL 1).Apparently,
key work roles of the home plant’s work organization such as the supervisor role required a specific human resource profile in terms of qualifications and status expectations which were either unavailable or incompatible with the Indian institutional context. However, the transfer restraint not only followed from the sheer fact of institutional incompatibility between home and host country. In addition to the institutional distance, the host strategic context of the Indian site also ruled out investments to replicate the elaborate home-plant schooling and training standards Skoda was renowned for in the Czech Republic (Lyle, 2002). The modest volumes and the size of the operation, at least at the initial stage, did not justify the establishment of comprehensive three-year schooling and vocational training programs as Skoda practiced at home (SAIPL 1). Thus, the absence of a comprehensive transfer effort had to do with a combination of both institutional and strategic distance ruling out a comprehensive replication of foreign parent home country work organization and corresponding human resource profiles.

Template transfer/use, demands and conditions; strategic/institutional (mis)fit; and recontextualization pressure? Misfit between foreign parent and host context demands: It should be added that the Czech expatriate interviewed was highly critical about a number of local/Indian work dispositions. This, however, did not trigger any transfer or change ambitions. In the interview, he critically reflected the enormous hierarchical distance between managerial levels, particularly between supervisors and workers/operators (SAIPL 1) and attributed it to the caste system. He recounted that in the beginning when everything had to get started quickly he personally helped building cars and rectifying defects. On this occasion, his fellow Indian engineers were appalled by this involvement and found it unsuitable. He complained about the tendency of Indians to overstaff their operations, low productivity levels among the least educated and a missing identification with the company. He also stressed the narrow professional focuses and demarcation consciousness among different staff which made transfers across departments difficult and noted that technical knowledge back home was much broader (SAIPL 1). However, although he found a number of ‘local habits’ problematic, had no intention to change them for two reasons. On the one hand, he accepted them as ‘Indian habits’, habits that were local and not for him to interfere with. On the other hand, he had to run the whole production set-up on a very tight budget (SAIPL 1). This implied limited resources for personnel transfers for further training or expatriate involvement. After all, he was the only expatriate on site involved in production and was busy with getting basic systems implemented and monitored. As a sheer matter of necessity, he had to leave substantial aspects of organization building in the hands of his Indian counterparts.

Some misfit between the SPS template’s contextual requirements and local conditions: While the Czech expatriate made no effort to transfer a comprehensive home plant work organization and human resource profiles, he did have the mission to implement a basic shopfloor work concept and related performance monitoring mechanisms. While there was
no reported strategic distance hindering transfer and implementation of SPS, there were some perceived institutional misfits. First, the skill levels of the newly recruited ITI graduates were rated as insufficient. This was a deficiency shared by the Indian General Manager (SAIPL 2) and attributed to the weak components of practical training in the Indian vocational or industrial training system (see chapter 5). Moreover, as the operators were newly recruited, they had not worked for another company and were not familiar with the operation of systems such as SPS. At the same time, Skoda’s home vocational training program was also not available for training. However, apart from these skill deficiencies the operators work dispositions, mainly ‘attitudes and discipline’ were rated positive (SAIPL 1).

Second, in contrast to workers who mainly lacked practical training and skills, the managerial ranks and particularly the lower managerial levels were seen to lack motivation and proper adherence to the SPS. From the Czech expatriate’s point of view, ‘work attitudes’ of lower managerial levels, most notably ‘officers’ were poor. He saw officers more concerned with salary and status matters than with the work. He was also highly critical about their employment history marked by frequent ‘job-hopping’. Apart from motivational problems there was another problem related to the fact that many of the officers had worked for other auto companies before. According to the Czech expatriate the implementation of SPS was particularly difficult because officers were used to other systems which were ‘deeper under their skin’ (SAIPL 1).

However, these seeming misfits could also be read in a different light. No one of the newly recruited employees had come from a traditional obstructive industrial working culture. The recruited workers were newly recruited and the managers were familiar with systems typically practiced in automobile MNE. Working with experienced Indian managers implied a comparatively lower institutional distance with regard to work dispositions such as the taking of responsibility or quality assurance issues. This may explain why the Czech expatriate complained comparatively less about these latter problems.

**MODE OF RECONTEXTUALIZATION**

*Adaptation of foreign parent templates and/or demands and conditions?* SAIPL’s transfer effort with regard to the work organization and the human resource profile was limited. It was largely restricted to the implementation of the SPS and VW’s global quality systems. If we consider Skoda’s home plants as a template we can talk of some degree of template adaptation for SAIPL in the sense of deselecting crucial aspects of Skoda’s home work organization and the human resource profile. Apart from the implementation of SPS, Skoda’s polycentric staffing policy implied that there were not many foreign parent demands that could be adapted because there were hardly any expatriates to pose such demands. Although the expatriate in the area of production was critical about certain ‘Indian habits’ or work dispositions, he saw this misfit – based on his isolated role at the site – as a
matter of personal opinion, rather than a reason for change intervention. In addition, he was hierarchically more or less on an equal footing with his Indian managerial colleagues. So, again, there were very limited parent demands that could have been adapted. However, as far the implementation of the SPS work concept and the VW quality system was concerned the Czech expatriate was very determined to implement it without deviation. Adaptation of local/host context, templates and/or demands and conditions? In those limited areas where transfer was sought, it seemed to have resulted in system imitation based on an adaptation of the local context. This adaptation was achieved through a selection and creation of the local context to meet the contextual requirement of the transferred work concept. The selection involved the recruitment of specific human resources in the host context. The creation was based on limited personnel transfer in focus areas, using experienced Indian managers as trainers. But let us take a closer look.

**Selective recruitment from the host context – auto MNE experienced Indian managers and young workers:** As far as managerial levels were concerned, SAIPL made an effort to head-hunt and recruit Indian managers who had worked for other international auto manufacturers before. Although, the Czech expatriate complained about the recruited manager’s deep-seated familiarity with other international auto manufacturer’s systems, the Indian General Manager of production was convinced that the recruitment strategy had clearly facilitated the transfer of SPS (SAIPL 2). Similarly, although both the Czech expatriate and Indian manager identified skill deficits and training requirements regarding the newly recruited ITI-qualified workers, their general attitude and discipline were rated conducive to establishing SPS.

**Q:** You were talking earlier about the Skoda production system. What does the Skoda production system actually define, and do you feel – I guess it is a system that comes from the mother plant – do you feel that when you take such a system from one context to another, the Indian context – Skoda Auto India now – that you have to adapt this systems to the conditions here?

**A:** Ours being a new plant, we had no problems of adaptation because it was new. The operators were new, though we have the managing people, the engineers, managers, and assistant managers they also were exposed to such concepts. Like we have people from Daewoo, we have people from Ford, so they are also exposed to this type of production systems. Maybe there is some slight fine tuning required, which is not a major problem.

So the operators being totally new, so we began with these systems, so we not had any resistance. In my past experience I have seen this resistance coming through because I was in my 15 years, my old company, a 30 to 35 years old plant, there was tremendous resistance for these changes. I would say, there was a different work culture. Totally, Indian work culture, where there were no controls, no systems,
proper system set-ups. Now, when new concepts then come in there comes in a lot of resistance for change.

Q: Very often old Brownfield companies face these problems, when the change.

A: In our case nothing of this type because it was all-fresh. We began with this thing so there was nothing. (SAIPL 2)

**Limited personnel transfer in focus areas:** A second corner stone of implementing transferred systems was a limited transfer of personnel. The personnel transfer scenario comprised of two building blocs. Before the actual set-up of SAIPL, the personnel transfer started with the transfer of an Indian start-up team which was transferred to the home country for training at Skoda’s mother plant in Mlada Boleslav. This initial team comprised 20 Indians, including operators/workers and officers. When the site was set up in India, the Indian team returned to India together with a Czech team. This team’s responsibility was to kick off the production in cooperation with their Indian counterparts. The Czech teams involvement in India was restricted to a relatively short time-frame. After the Czech team had left, the further establishment of SPS was left to the Indian start-up team and the remaining Czech expatriate in production (SAIPL 2). Thus, after this initial transfer only one expatriate remained. His restricted, but focused role, was to monitor the implementation of core systems most important of which the SPS. A similar focused transfer had also taken place with regard to implementing VW’s global quality system. In this regard, an Indian quality specialist – whose job was to establish and conduct the global quality control – had been transferred to Germany for training on VW’s global quality system.

Yes we do have an audit which is like a global audit. This person is trained Germany. He is tuned or calibrated, I should say, to the same level of knowledge and ability to identify defects in line with the VW auditors and this person picks up a vehicle at random every day and audits it. And then he gives the feedback and that gives us a feeling of what exactly we are producing. (SAIPL 2)

While SAIPL had seen regular personnel transfers to establish the home plant’s production system SPS and to align the local human resource profile with its core requirements, there was some sense of frustration on the part of the Czech expatriate. He complained about too few personnel exchanges and blamed it on too tight a budget for SAIPL’s set-up. He even argued that if the site had been a VW venture, there would have been more resources available, more technical personnel exchange and more expatriates transferred. Referring to himself, he stated, ‘one man here is not enough’ (SAIPL 1).

**On the job training by using experienced Indian managers as trainers:** In the absence of more intensive expatriate transfer, SAIPL strongly relied on host country nationals who had been briefly trained at Skoda Mlada Boleslav and/or had worked before for another international auto company in India. Thus, in the absence of expatriates and home plant training
facilities, operators were mainly trained on-the-job and familiarized with SPS through Indian officers and managers. In addition to training on-the-job, there was also some on-site-classroom training on ‘professional habits’ with regard to safety, protection, technical aspects (SAIPL 1).

Adaptation to local (strategic and) institutional conditions and demands: While there was some limited foreign parent transfer effort targeting certain aspects of SAIPL’s work organization and human resource profile, most aspects of the work organization and human resource profile were largely created in line with local/host context institutional demands and conditions. After all, the establishment of the site was largely put into the hands of host country nationals. While the formal systemic aspects of the SPS were met as far as formal and measurable parameters were concerned, basic behavioral patterns and work dispositions remained host context specific. They were entirely in the hands of Indian managers, involving little expatriate interference. Such an assessment is also suggested by the interview with the Indian General Manager of production:

"Rules, discipline or the shopfloor procedures etc. are all decided by Indians and the day-to-day interaction is among Indian officers or engineers. So I would say it is basically an Indian culture with the support of broad guidelines from Czech as to how certain things have to happen. We have the Skoda Production System, quality systems these are technical systems or the way how to produce which these guidelines tell. But incorporating and developing a culture, it has to be a local culture; it cannot be a foreign culture at al. But there are certain good things, which have to be incorporated and they have been taken care of, all the good aspects have been incorporated. (SAIPL 2)"

Initial personnel transfers, training and some limited change effort by the expatriate in day-to-day interaction apart; there was no massive effort to bring local skill levels and basic work dispositions of the workforce in line with parent company standards. On the one hand this had to do with the fact that there were hardly any expatriates involved on a day-to-day basis, trying to reshape basic work dispositions of the Indian human resources. On the other hand, the selection of Indian managers who worked for other auto MNE before, implied less of an institutional distance and socialization need as compared to what the early movers into the Indian market had felt. Thus, the possibility to recruit Indian managers with prior work experience in international auto MNEs probably rendered personnel transfers and large scale training and socialization efforts a less pressing requirement.

**OUTCOME**

In the case of Skoda Auto India it makes sense to divide the ‘hybridization outcome’ of the work-organization and human resource profile. Indications were that SAIPL succeeded in
transferring the SPS and its global quality system without much deviation. According to the Czech expatriates and Indian manager, SPS as well as the global quality system were implemented.

Yes, our engineers have been trained there. They do understand the advantages of this and they like to adopt it without any alternation from there because this is the base system. And of course there is monitoring how it is going. (SAIPL 2)

Although the Czech interviewee stated that it was at times difficult to get the new systems established with managers and engineers who worked for other Auto MNE before, my workshop-visit allowed to confirm that SPS’s main structural features and the global auditing systems were implemented (SAIPL 3). For example, in line with the SPS, SAIPL followed a team concept on the shopfloor with seven to eight operators making up team. One of the team members was a team leader taking care of ‘moment-to-moment problems’. As far as the integration of indirect tasks was concerned, housekeeping (5S), self-certification and quality audits were implemented in line with the SPS and VW quality system template. Worker flexibility charts indicated efforts to achieve a polyvalent skill profiles. Thus, the limited transfer intent comprising a few of Skoda/VW systems, their moderate local misfit in the local institutional environment and some adaptation of the human resource profile made this imitation possible. Focusing mainly on quantitatively measurable practices and outcomes, their formal implementation was relatively easy to track and achieve. However, while the formal systemic features of the Skoda Production System was transferred and imitated other aspects of the work organization and human resource profile adhered to typical Indian patterns. For example, there were no indications that Skoda had transferred its home plant supervisor-worker relations. There were strong indications that basic behavioral patterns on the shopfloor followed typical Indian patterns characterized by strong professional and social distance. The only mediating factor was probably the fact that many of SAIPL’s managers and officers had worked for international companies before. It should also be emphasized that SPS covered only a limited area of work organization. The remaining aspects had to be defined and structured by the Indian managers that organized operation without major interference from foreign expatriates. For example, when the Indian General Manager Production was asked if he could imagine an operator to be promoted to being an officer he basically ruled out such an option.

Q: And would somebody who is an operator be able to graduate to being an officer at some point?
A: No, I don’t think so. Generally operators would not be that equipped with to move into an officers’ category. The management requirements are different. Seldom would you find an operator who can take up these responsibilities. I have seen officers who were taken and promoted to officer levels from operators. But you
would find a big difference in their approach. It is not so easy; I have seen this personally with these people managing the shopfloor. Their perspective of management is different.

Q: So you rather would not do that?
A: No, I don’t think so. (SAIPL 2)

Such an occupational inflexibility was in contrast with the parent plants in the Czech Republic. According to the Czech interviewee, workers at home had the opportunity to graduate into supervisor levels and beyond (SAIPL 1). In other words, it was convincing when the Indian manager stated that apart from broad structural-guidelines, the work organization and human resource profile was for the most part culturally Indian because day-to-day interaction took place among Indians with little foreign parent interference. By the same token, the Czech expatriate’s observations suggested the prevalence of Indian work dispositions in many respects. These were work dispositions with which he did not wish to interfere as long as the main systems were implemented and measurable results were satisfactory. In summary, the work organization and human resource profile at SAIPL reflected two origins: a foreign parent (imitation) and a host contextual one (localization). These two were not integrated. Related to the transfer of SPS some formal work organizational aspects on the shopfloor as well as some related work disposition reflected the narrowly circumscribed templates of the parent companies VW and Skoda without much deviation. All other work organizational and human resource related aspects reflected host context patterns. These were left to the host country management’s discretion. To say that many work organizational and human resource related issues followed a local pattern, calls for some differentiation. First, the Indian managers had worked for other auto MNE before. Their socialization was therefore not ‘typically Indian’. Second, to defined ‘typically Indian’ patterns of work organization and human resource profiles was not easy in the SAIPL case, as the Indian economy was marked at the time of Skoda’s market entry by substantial differences between ‘old’ and ‘modern’ companies (SAIPL 2).

**ORGANIZATIONAL RELATIONS**

**INDUSTRIAL RELATIONS**

**TRANSFER SCENARIO**

When the SAIPL site was visited, there neither was the intent to transfer a foreign parent company industrial relations template nor were there any foreign parent demands in this regard. Given the Greenfield nature of the site, there was also no existing configuration of company industrial relations. The early stage and small size of the set-up meant that there

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was not even a human resource department operational which could have handled such matters. The only Czech expatriate at the site was busy with getting basic manufacturing systems in place and was not concerned with the organization industrial relations of the young company. The Czech expatriate also stressed that he was not familiar with human resource matters in the Indian context (SAIPL 1). The polycentric staffing policy and the knowledge required about industrial relations implied that SAIPL’s human resource management and industrial relations matters were largely left to the Indian managers. They, in turn, since the site was rather new and small, had not felt the need to take the initiative of establishing company industrial relations.

**Strategic and Institutional (MIS)Fit/Recontextualization Pressure**

*Contextual distance and transfer intent?* There was no defined foreign parent template for company industrial relations waiting for transfer. There was also no indication that the Czech expatriate intended to transfer home country/plant industrial relations to the Indian site. At this early state of the site, company industrial relations were not an issue, neither for the Czech expatriate nor for the Indian managers. However, the Czech expatriate was well aware of a substantial institutional distance between India and his home country in labor and human resource related matters which made transfer intents or related demands even less likely. Given the size of SAIPL, labor relations and grievances were managed without formally defined procedures. *Template transfer/use, demands and conditions; strategic/institutional (mis)fit; and recontextualization pressure?* Without a foreign parent template for transfer and without demands, there was no possibility of strategic and institutional misfit between a transferred template and the local/host context. Conversely, without an existing local/host company industrial relations template and local demands, there was also no misfit between a local/host template and foreign parent demands. Labor relations were calm and there was no (re)contextualization pressure from any side. Although there was some institutional distance between Skoda’s home industrial relations and SAIPL’s company industrial relations, there was no perceived misfit on the part of the Czech expatriate triggering demands for change. After all, the local site had no labor representation and did not experience any industrial conflict. As the site was small, new and located on the premises of a Siemens factory, there were also no external institutional demands or needs to respond to pressures for any particular industrial relation formation. The location, the newness and the size of the operation, made it not particularly visible and attractive for external union activists to approach it. However, the Indian manager interviewed was well aware that eventually such host context institutional demands could arise from within or outside the company. Indian management was sure that at some point there could be some institutional misfit between the status quo of company industrial relations and local/host context institutional demands (SAIPL 2).
MODE OF RECONTEXTUALIZATION

Adaptation of foreign parent templates and/or demands and conditions? As neither foreign parent templates were transferred nor foreign parent demands posed a contextual misfit and adaptation of such templates and demands was also not possible. Adaptation of local/host context, templates and/or demands and conditions? Similarly the was also no mismatch between local/host templates/demands and foreign parent demands that called for an adaptation of the company industrial relations. There was, however, some awareness that the status quo of SAIPL’s company industrial relations would face at some point local/host institutional demands for change. While no pro-active steps were taken to meet prospective institutional demands – either by SAIPL’s own labor or outside union activist – there were indications that the company management would in the long run take an initiative to form an internal union. The Indian manager interviewed envisioned such a path common to modern Indian companies in formal sectors. Unsurprisingly, he favored the creation of an internal non-affiliated union. Such an internal union would not only help to avoid the intrusion of an external union and but would also serve to respond to labor grievances and as a tool for internal communication with the workforce.

Q: Do you have a union here?
A: No we don’t have a union as of now.
Q: This is a policy, you have a non-union policy?
A: No, this is a new company; we would not like to have a non-union policy because a union is necessary. A union is necessary from worker’s point of view because, because as a bargainable category of people they need to have some voice. But not only that, there would be certain things where operators would not feel free to come directly to management, so that’s where the union comes into the picture. We definitely,
Q: Sooner or later
A: Definitely, I think it will come into the picture.
Q: The only thing is, whether it will be a non-affiliated union?
A: Yes, yes, we hope so. A union has to be there and it has to be a good union.
That’s what one would expect because management also prefers a union.
Q: I mean some companies in India, they have taken the initiative as management and said we are starting a union for you and thereby they were able to control the whole thing?
A: Yes, yes it is essential. If you have people from outside, they would not understand the full objective of business. And they would have their own personal objectives, which will clash with the business objective and there are all sorts of prob-
To summarize: Given the polycentric staffing policy at SAIPL, the Czech expatriate’s lacking familiarity with industrial relations management in India and the expected emergence of local/host institutional demands as the site grew older, it was very likely that industrial relations would eventually follow a typical local pattern. The Indian manager interviewed indicated that the site would probably use a common Indian template of company industrial relations, namely a non-affiliated internal union.

**Outcome**

When SAIPL was researched, the company did not pay much attention to the establishment of company industrial relations. There neither was a foreign parent template to be transferred nor were there parent demands for change. The Czech expatriate also showed no ambition to change the local scenario or implement home company practices. However, no typical host context template was established, either. The site basically lacked a labor representation and had experienced no labor unrest so far. This status neither was a reflection of a non-union policy on the part of the parent Skoda nor a reflection of a local management strategy. It rather had to do with the fact that the site was at an infant stage, small in size and relatively hidden on the Siemens compound. Local/host institutional demands had not yet been voiced, demanding a particular solution. However, indications were that the formation of company industrial relations would be left to the Indian management and would sooner or later take on a typical host context form. Specifically, the form of a non-affiliated internal union as it had become common in modern industrial enterprises in India.

**Supplier Relations**

**Transfer Scenario**

Apart from the supply of some consumables, SAIPL had (i.e. fuel and other liquids) not established any supplier relations in India. The SKD site relied at the time of research entirely on the import of SKD-kits from Skoda’s parent plant, Mladá Boleslav. Because of its early stage, the site had not set up any local supplier relations (SAIPL 2). What is more, there neither was a local/host nor a foreign parent template defined for the site’s prospective supplier relations. However, there were host context and foreign parent demands and conditions that were likely to structure their set-up. Among the most important demands were those posed by the host institutional context, namely local content requirements, defined by the Indian Government. At the same time, Skoda/VW also had demands vis-à-vis prospective supplier relations. Particularly, the parent VW had formulated global policies with
regard supplier relations. These global policies involved among other things selection criteria for suppliers and the definition of contractual modes with suppliers. They also included quality policies and standards, prospective VW/Skoda-suppliers would have to adhere to. Thus, VW suppliers had to live up to specific quality standards as well as to specific audit and certification systems. Finally, next to host institutional and foreign parent context demands, SAIPL’s supplier relations would have to respond to host context strategic conditions which were affecting SAIPL’s task profile and accordingly the establishment of supplier relations.

**STRATEGIC AND INSTITUTIONAL (MIS)FIT/RECONTEXTUALIZATION PRESSURE**

*Contextual distance and transfer intent? No home plant supplier relations transfer because of strategic misfit:* Given SAIPL’s host strategic context – low demand and doubts about local quality-levels – Skoda probably would have preferred the continuation of importing most parts and components. However, as the host context institutional demands for local content forced any international automobile manufacturer indirectly to establish or draw on supplier relations in India, SAIPL was under pressure to establish a local supplier base. Now, the strategic misfit between what home supplier relations required in terms of production volumes and what the host strategic context had to offer in market demand terms ruled out any replication of home country supplier structures. These were characterized by modular manufacturing concepts involving: integrated suppliers, a tiered supplier structures, and JIT supply logistics. However, against the background of modest demand in India, SAIPL started carefully with a SKD set-up to be turned into a CKD facility later. As volumes were low such SKD/CKD sites received most parts and components in a knocked down fashion from home. This meant, in turn, that local/host suppliers played a marginal role. For as long as production volumes were low, the preference was on importing knocked-down-kits. Thus, from a pure economic point of view, it made no sense to develop an elaborate local/host supplier base for SKD/CKD sites. Above all, it was for potential suppliers, unless they were already in India, unattractive to set up local manufacturing facilities for such low volumes. And this was even more so the case for SAIPL. SAIPL was a late comer in the Indian market, many international auto MNEs had already brought their suppliers. Most of these international suppliers in India were eying orders from other auto MNEs, as they were suffering from low capacity utilization. Thus, given the strategic distance in market demand and production volume terms, it was very unlikely that SAIPL was to develop a tiered supplier structure in India. Similarly, SAIPL’s modest volumes and long distances supplies ruled out the implementation of home plant JIT supply logistics. SAIPL production volumes implied that the site was mainly performing assembly activities and relied on long distance supplies. This suggested that a number of supplier related concepts that applied for integrated plants were irrelevant for the Indian site. While the strategic distance ruled out the
transfer of home supplier relations, the lacking definition of a template for SKD/CKD sites also meant that SAIPL had no specific template for implementation.

**Template transfer/use, demands and conditions: strategic/institutional (mis)fit; and recontextualization pressure: Misfit between parent and host context conditions and demands?**

Although there was no defined transfer template for the site’s supplier relations, there were different supplier related demands from the local/host environment and the foreign parent. One of the most important demands from the host institutional context was the demand for increasing local value addition. Given the local content requirements and high import tariffs, the company came under increasing pressure to explore potential suppliers in India. However, this shift was difficult under host strategic demand conditions. For under conditions of low demand for middle to high-segment vehicles, an increased local value addition, beyond the localization of labor intensive assembly activities, was uneconomical. As long as SAIPL produced exclusively for the host market, it was very difficult to convince international and local suppliers to set up manufacturing units or accept orders for low volume jobs. It was this principle dilemma that SAIPL was facing and likely to impact the shape of its supplier relations. At the same time, the local content related requirement to work with suppliers in India meant that VW’s global supplier policies applied. Among the most important policy requirements was the demand that suppliers in India would either have to be existing ‘global suppliers’ or would have to qualify to become such suppliers. Both options were not easy to realize for SAIPL. Drawing VW’s global suppliers to India was not easy, unless these suppliers were already in India. For the low volumes offered by SAIPL made ‘follow sourcing’ very unattractive. Qualifying as a new VW global supplier was not easy, either, because of VW’s ‘one source policy’. This meant that any prospective global supplier would have to outperform existing global suppliers in price and quality. The realization of these VW policies and demands was difficult for SAIPL in the face of host strategic conditions. However, compared to other manufacturers, SAIPL had the advantage of an established local ancillary sector when it entered India. Many international suppliers who had followed other auto MNE were in principle capable of living up VW’s global quality standards and systems.

**MODE OF RECONTEXTUALIZATION**

SAIPL’s supplier relations were most likely to be created to integrate foreign parent and local/host strategic and institutional demands and conditions. Specifically in response to: the local content demands of the host institutional context, the local/host strategic conditions of low demand/volumes and the foreign parent’s global supplier policies.

**Adaptation of foreign parent templates and/or demands and conditions?** As no supplier relations template was defined for transfer, it couldn’t be adapted to local/host context conditions. However, as the establishment of local/host supplier relations was a must, due to
host institutional context demands, VW’s global supplier policies applied. The corner stones of this policy included: working with global suppliers, having only one global supplier for particular parts across different brands, and stringent quality standards and processes. Despite difficulties in establishing a local/host supplier structure, SAIPL showed little signs to move away from these stringent policies. Simply spoken, SAIPL had two options: Either it asked global supplies to establish operations in India to supply locally or it took advantage of other suppliers already in India – Indian or international suppliers. The first option was hardly realistic, unless these suppliers were already in India. This left the company to look more closely into the second option of developing some suppliers in India to become global suppliers. However, as far as this option was concerned, the company seemed to have faced difficulties due to VW’s one source policy and its stringent quality and price demands. MD Hassen stated, for example, in 2001:

> Skoda India intends to have a “real localization” level of about 18 per cent in the Octavia by end-2002. Mr Hassen maintained that indigenization continued to be a challenge, as for some reason Indian vendors even as they succeed in meeting quality norms lose out on the pricing front. (The Hindu Business Line, 2001)

When SAIPL was researched, the company had not achieved its localization goal because it was not willing to adapt its foreign parent demands to local/host context conditions. Although VW was, as a latecomer, in the comfortable position of coming into a market where many auto multinationals either had brought their suppliers or had local JVs, VW/Skoda appeared slow in taking advantage of them. However, of late, VW engaged in talks with potential suppliers in India, including international suppliers such as: Goodyear, Johnson Controls and MICO. As the following article-abstract suggests, there were efforts to work with suppliers in India who could qualify as global suppliers:

> While the list of vendors is not yet finalised, Skoda is in talks with Goodyear for supply of tyres, and with Johnson Controls for sourcing seating systems. Further, cockpit instrument panels and wheels are other components that are under consideration, company executives said. Sourcing of components from India will also ensure localisation of SkodaAuto’s offerings in India. Currently, all the parts of the Octavia that is sold in India are imported. Imran Hassen, managing director, SkodaAuto India said, “We are looking to localise components used in our cars. However, it does not make sense for us to source components just for the Indian operations in isolation. SkodaAuto is interested in sourcing components from vendors who meet its stringent quality and cost requirements. Indian vendors will have to compete with those in China and South America.” Globally, Skoda sources all components for a particular car from the same vendor as it creates economies of scale for its vendors, which in turn gives them a cost advantage. Further, it also ensures the
The press report could be seen as an indication that VW/Soda had given up its ‘one source policy’ at least in India and considered working with suppliers which did not qualify as global suppliers. Overall, there were few signs that VW/Skoda’s was willing to adapt its global supplier policy demands to host country demands and conditions. Adaptation of local/host context, templates and/or demands and conditions? There were also no indications that SAIPL could reject host context institutional demands for increased local content. To respond to these host institutional demands, SAIPL had started to establish supplier relations in India. While the exact mode of these supplier relations was still in the offing at the time of research, there were indications that SAIPL was in the process of meeting host context demands building up supplier relations in India. How these would ultimately look like was largely structured by the interplay of VW/Skoda’s global supplier policies, the existing conditions in India’s supplier sector and most importantly the host context demand market conditions. The contextual conditions suggested, however, that SAIPL’s local/host supplier base was most likely not to be a reflection of the home plant supplier structures. While Skoda could not reject host context demands for more local value addition, it was not unlikely that the company would, circumvent these demands by asking local suppliers to import component-kits and supply them to SAIPL, thereby counting as local content.

OUTCOME

The organization of supplier relations was a reflection of the early entry stage of the site. No local suppliers had been established and the supply logistics were largely customized to respond to host strategic conditions of low demand with a corresponding low volume task profile. Consequently, there was a strong reliance on long distance supplies of SKD/CKD kits from the Czech home plant. As long as SAIPL remained a SKD/CKD site the transfer of home plant supply-logistic concepts, such as JIT, remained meaningless. Rather than being based on a defined transfer template for SKD/CKD sites, SAIPL’s supplier relations were most likely to develop into a customized response to specific host and foreign parent context demands and conditions. Although supplier relations were not fully established, indications were that they would be a customized response to: the local content requirements demanded by the Indian institutional context, specific supply and demand market conditions in India, the requirements of a SKD/CKD set-up and the foreign parent’s supplier policies. The result of such complex responses to different contextual demands and conditions would most likely be customized or novel solutions rather than imitations. At the time of research, however, Skoda’s supplier relations were most of all a reflection of its start-up phase and its task profile as a SKD site.
Table 28: Summary of SAIPL’s hybridization profile

<table>
<thead>
<tr>
<th>Firm PS Dimension</th>
<th>SAIPL</th>
</tr>
</thead>
</table>
| **Functional Differentiation** | Transfer: Neither use of a foreign nor local template  
Fit/Misfit: Parent demand and context and local demands and context do not misfit each other  
Mode of Recontextualization: Set up of production system or parts thereof to meet foreign parent and host context demands and conditions contexts, i.e. adaptation (creation) of local site context  
Outcome: Customized |
| **Hierarchical Differentiation** | Transfer: No foreign template transfer  
Fit/Misfit: No foreign template transfer mainly due to polycentric staffing and institutional distance; minor misfit between foreign parent demands and local context demands  
Mode of Recontextualization: Adaptation/rejection of weak foreign parent demands; set-up of local site in line with local demands  
Outcome: Local |
| **Technical Configuration** | Transfer: Neither local nor foreign template for process design/factory layout and technical hardware configuration; only very selective transfer of technical devices; yet, foreign parent demands and local/host context strategic conditions and institutional demands (local content and import tariffs) to be met  
Fit/Misfit: Strategic distance rules out transfer of home plant; foreign parent demands for are contradicted by demands from the host institutional context  
Mode of Recontextualization: Adaptation of local context – creation – to meet foreign parent demands and the host strategic context and institutional demands  
Outcome: Mainly customized |
| **Work Organization / HR profile** | Transfer: Selective transfer of foreign template; little foreign parent demands otherwise  
Fit/Misfit: No full transfer of home template because of institutional and strategic distance; some misfit between foreign parent template and local institutional demands  
Mode of Recontextualization: Some adaptation of foreign parent template by selecting only certain aspects for transfer; however, no adaptation foreign parent template transferred; some adaptation – selection and creation - of local context in line with template; for the rest set-up responds to local/host institutional context and demands  
Outcome: Between local and hybrid decoupled (imitation coexists with local solutions) |
| **Industrial Relations** | Transfer: Neither foreign template transfer nor any indication of foreign parent demands in this regard; no use of local template and no strong local/host demands related to Green and early stage as well as size of SAIPL; use of host context template likely in future as local/host institutional demands arise  
Fit/Misfit: Despite potential institutional distance between foreign parent and local host company industrial relations there is no misfit due to: peaceful local conditions, absent foreign parent demands and templates and absent local/host demands for change  
Mode of Recontextualization: Informal handling of company industrial relations reflecting early stage, size and the green establishment mode and few local/host institutional demands; most likely development is adaptation – change/creation – of local site company industrial relations to meet local/host institutional demands as they arise  
Outcome: Most likely local |
| **Supplier Relations** | Transfer: No foreign template transfer; no local template use; however, foreign parent and host context demands and conditions to be followed  
Fit/Misfit: Misfits between the host strategic context, host context institutional demands and foreign parent demands  
Mode of Recontextualization: Not entirely clear; possible adaptation of foreign parent policy demands; possibly also some adaptation/rejection of host context institutional demands; most likely adaptation creation of local/host supplier that seek to observe different foreign parent demands as well as host institutional demands and host context strategic conditions.  
Outcome: Most likely customized |
CHAPTER 7: HYBRIDIZATION PROFILES COMPARED: SIMILARITIES AND DIFFERENCES EXPLAINED

The goal of this chapter is to systematically compare the four cases presented above and explain the similarities and differences found in their hybridization profiles. The analysis starts with a broad comparison of the four cases (in section 7.1). Addressing the how-question, this involves first a broad comparison of the hybridization outcomes between cases and then between different production system dimensions. After having identified broad differences and similarities, the why-question will be addressed. It will be shown that the different generic strategies, the related strategic distance between the sites and the internationalization experience of MNEs, on the one hand, and the strategic and institutional contextual conditions in the host context, on the other, are important building blocs for developing a broad understanding of the differences and similarities found. Starting from here, it is further argued that we need a more fine-grained comparison to better understand differences by case and dimension. Again addressing the how-question, this involves a detailed comparison of the similarities and differences by the cases and by the production system dimensions (in section 7.2). Addressing once more the why-question, there will be a systematic explanation effort, showing how template availability, template transfer or use, (mis)fits/recontextualization pressures and recontextualization modes and therefore hybridization outcomes, can only be understood as the combined result or interplay of a host of factors including MNE generic strategies, their internationalization experience, different kinds of contextual distances as well as subsidiary level strategic choices and conditions.

7.1 OVERALL COMPARISON

THE HOW-QUESTION: BY CASES AND BY DIMENSION

A first broad comparison of the four cases reveals the following pattern with regard to the hybridization outcomes. While MUL and FIPL show the highest incidence of imitation, DCIPL and SAIPL feature much less imitation outcomes and instead much more customized solutions. The biggest contrast can be identified between MUL and SAIPL. The MUL case has come closest to imitation. This contrasts with SAIPL which has come closest to local solutions as an overall outcome. As opposed to a case-based hybridization outcome view, a production system dimension-based outcome perspective reveals the following pattern. The production system dimensions: industrial relations and hierarchical differentiation have the strongest tendency for
local outcomes. In contrast, the dimensions of functional differentiation, technical configuration and supplier relations featured the least amount of local outcomes. Specifically, while the dimension of technical configuration and supplier relations had a high incidence of customized solutions, the dimension of functional differentiation had a more moderate incidence of customization. Compared to all other dimensions the dimension of work organization and HR-profile featured the highest degree of hybrid outcomes (see table 29).

Table 29: Hybridization outcomes of all four cases compared

<table>
<thead>
<tr>
<th>Dimension / case</th>
<th>MUL</th>
<th>FIPL</th>
<th>DCIPL</th>
<th>SAIPL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Functional Differentiation</td>
<td>Imitated</td>
<td>Imitated</td>
<td>Customized</td>
<td>Customized</td>
</tr>
<tr>
<td>Hierarchical Differentiation</td>
<td>Local</td>
<td>Imitated</td>
<td>Between local and hybrid</td>
<td>Local</td>
</tr>
<tr>
<td>Technical Configuration</td>
<td>Between imitated and customized</td>
<td>Between imitated and customized</td>
<td>Customized</td>
<td>Customized</td>
</tr>
<tr>
<td>Work Organization &amp; HR-profile</td>
<td>Between hybrid and imitated</td>
<td>Hybrid</td>
<td>Between hybrid and customized</td>
<td>Between hybrid and local</td>
</tr>
<tr>
<td>Industrial Relations</td>
<td>Between imitated and hybrid</td>
<td>Local</td>
<td>Local</td>
<td>Local</td>
</tr>
<tr>
<td>Supplier Relations</td>
<td>From between hybrid/customized to increasingly imitated</td>
<td>Between imitated and customized</td>
<td>Customized</td>
<td>Customized</td>
</tr>
</tbody>
</table>

**THE WHY-QUESTION: BY CASES**

The single most important explanation to understand the broad differences between MUL and FIPL, on the one hand, and DCIPL and SAIPL, on the other, is probably the availability and transfer of a comprehensive foreign parent template in the MUL and FIPL case and no such template availability and transfer in the DCIPL and SAIPL case. As we shall see next, this template availability can be explained by the interplay of the respective companies’ generic strategies, the related strategic distance between the MNEs’ sites and their internationalization experience.

**THE IMPACT OF GENERIC PRODUCT STRATEGY, STRATEGIC DISTANCE AND INTERNATIONALIZATION EXPERIENCES ON HYBRIDIZATION OUTCOMES**

There is evidence to suggest that there is an association between the global product or generic strategies, the related strategic distance and the internationalization experience of the parent companies and the hybridization outcomes observed. This relationship can probably be most strongly discerned in the firms’ different definition/development and transfer of a foreign parent production-system template and to some extent in the degree of recontextualization pressures they face as a result of strategic distance. The relationship is less clear.
with regard to the propensity of choosing a particular recontextualization mode. (In this latter respect there appear are a number of intervening factors, some of which clearly beyond the control of individual companies). Both SMC and Fiat featured generic strategies that were based on cost leadership and focus. The focus element of the strategy involved in both cases a strong concentration on low-segment vehicles, mainly for price sensitive customers in emerging or developing markets.

SMC’s global product or generic strategy mainly rested on the manufacturing of a limited range of small and subcompact cars, targeting low market segments, to be produced in volumes at constant cost reduction. This generic strategy and the related strategic proximity between a number of crucial sites – mainly in task profile and demand market terms – allowed SMC to define and transfer its integrated home plant Kosai as a template for the production set-ups in different world regions including countries as divergent as Canada and India. Compared to a company like DC, SMC’s strategic focus on affordable small cars in lower market segments implied a lower strategic distance in with respect to task profile and demand market conditions between its home markets and developing markets abroad. The low product differentiation and high importance of cost reductions allowed and suggested the definition and use of a home plant template in MUL’s case. The comparatively moderate strategic distance between SMC’s home site and its Indian operation, implied less recontextualization pressures on those transferred aspects of the production system (e.g. functional differentiation, technical configuration, supplier relations) that turned out to be strongly dependent on specific strategic context conditions (see section 7.2). Thus, the generic strategy explains to some degree, why SMC was able to define and transfer a template, why it experienced only a moderate to low strategic misfit and recontextualization pressure on certain dimensions and therefore a relatively high incidence of imitation.

The findings in MUL were mirrored by similar associations in FIPL. Although it is true that Fiat’s overall generic strategy can be regarded as combining a differentiation and a cost leadership strategy (similar to VW), its generic strategy for developing markets – including India – could be more aptly described as one of cost leadership and focus. Fiat’s focused World Car strategy, which based on a limited range of platform sharing models, targeting lower market segments, and relying on volume, suggested similar strategic context conditions of different World Car sites and allowed the development and definition of a standardized global production-system template for developing countries. The focus on a low segment product in a low variation for emerging markets suggested or forced the development of a production-system template. Import restrictions, corresponding production-localization requirements, supposedly similar supply and demand conditions in developing countries, and similar task-profiles across World Car sites, created a high incentive to develop and transfer similar production-systems the world over. Given similar strategic context across Fiat World Car sites, one would expect that FIILP faced only moderate recontextualization

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pressures when transferring its template, at least of those aspects of the template that turned out to be most dependent on strategic context conditions. However, while Fiat was able to transfer some of those aspects, the company had underestimated the strategic distance between different World Car locations. Nevertheless, the generic strategy explains to a substantial degree, why Fiat developed and transferred a template and did not meet so much strategic misfit and recontextualization pressure as to not transfer its template at all. After all, FILP still had a much higher incidence of imitation outcomes as compared to DCIPL and SAIPL.

Similarly, we may suggest that the differentiation element in the generic strategies of DC and VW/Skoda and the likely strategic distance between different sites, explains the absence of definition/development and transfer of foreign parent templates in these cases and therefore the high degrees of customization, especially of those aspects of their production systems (e.g. functional differentiation and technical configuration) that turned out to be most dependent on strategic context conditions. However, causalities were not as straightforward as that in the case of DC and VW/Skoda because the companies did not represent clear-cut cases of differentiation strategies.

DC’s generic or global strategy rested on a combination of a product differentiation and high market-segment focus strategy. Although the company increasingly broadened its product portfolio and differentiated in certain market niches, it always had a firm focus on higher market segments, which implied some possibility and incentive to develop templates for similar sites. At the same time, the company was not serving price-sensitive customers and not targeting developing economies (at least not in a meaningful way until the early 1990s). Therefore, there was no incentive to define/develop a template particularly suited for small developing country operations. Given the focus on higher market segments, there was a substantial strategic distance – in demand market terms – between home and developing host countries, ruling out a home plant transfer as in the case in of SMC. In fact, DC production-related FDI in developing countries was for the most part an export-substitution approach, triggered by host country import barriers. Again, the high segment focus and the related high strategic distance between the home and the host, a developing country site in India, ruled out using the integrated home plants as comprehensive production templates. Instead, the strategic distance suggested more customized solutions for those aspects of the production systems that tended to be dependent strategic context conditions. (It should also be noted that although the strategic distance was high, there were still some elements of strategic similarity. After all, the models to be manufactured were the same, which ruled out purely local solutions). The combination of differentiation and high segment focus did not create a strong incentive to define and develop foreign parent production system templates because different sites potentially differed in their product/task profile (differentiation effect) and because the focus on premium vehicles (premium focus effect) involved moderate production volumes that made a replication of similar production set-ups on a global base
uneconomical. The most important reason, however, that explains the absence of a foreign parent template definition and transfer in the DCIPL case, is linked to the fact that the product strategy and internationalization focus on high market segments for developed markets featuring comparatively little import restrictions, created for a long time no need to repeatedly localize production in different countries. This situation has at least been the case for DC until the 1990s. Only since then has DC refocused its internationalization strategy on Asia and with that from a mere export-oriented internationalization to a market-seeking internationalization of production (MD, interviewed in 1998). This strategic shift was caused by increasing saturation in the triad markets and a new focus on emerging economies, particularly in Asia. This shift implied that DC – based on import restrictions – would now also be forced to set up a greater number of production sites in different countries in Asia. Thus, in the wake of this strategic reorientation, DC has set up quite a number of production sites (see section 6.3) in similar strategic contexts and with similar product/task profiles that are still strategically distant from home operations but not very strategically distant from each other. Interestingly, this has led, at the turn of the millennium, to the development of a production-system template for SKD/CKD sites. However, when the Indian operation in the early/mid 1990s was set up, no such template existed. At that point in time, DC had only little internationalization experience in the set-up of CKD/SKD passenger car sites. Thus, a closer look at the generic strategy, changes in internationalization strategies as well as internationalization experience helps us to understand why DC lacked a defined foreign parent template for its Indian site and why the strategic distance between home plants and the Indian site was too large to transfer for home plants or home plant elements that tended to be dependent on strategic context conditions. The generic strategy, changes in internationalization strategies and the internationalization experience help us to explain, why DCIPL came to a host of customized solutions on production-system dimensions that are strongly dependent on strategic context conditions and demands.

Like DC’s generic strategy, VW/Skoda’s global product strategy was not a pure differentiation strategy. Instead, VW’s strategy can be described as a mix between differentiation and cost leadership. While in the VW case the element of differentiation potentially worked against the definition/development and transfer of foreign parent templates, the cost leadership and the long-standing internationalization experience of VW suggested that the company would have at least some incentive to develop and transfer foreign parent templates from a third country-site. After all, VW had historically different world-region-specific product-strategies, which also involved some focus on lower segment vehicles for developing markets. VW has been following from relatively early on a market-seeking internationalization of production (see section 6.4). Put differently, the cost element in VW’s generic strategy, its internationalization experience and potentially similar strategic contexts of its production sites in developing countries suggests a possible availability and transfer of foreign parent templates to a CKD/SKD site like SAIPL. What is more, if such templates
were developed for specific emerging market conditions, we would expect moderate degrees of recontextualization pressures on strategic context sensitive production-system dimensions and accordingly a fair amount of imitation. However, as the empirical case of SAIPL showed, practically no use was made of such a foreign parent template, which was even more surprising in the case of the Skoda-brand because Skoda has been assigned the task of establishing a “CKD-Strategy to conquer other markets in Eastern Europe and Asia, including China” (Vahland, 2005). Three factors can probably explain the absence of a comprehensive foreign parent template for transfer in the SAIPL case. First, there were strong indications that Skoda India was under the direct control of Skoda Auto, i.e. not under the direct control of VW. SAIPL was a wholly-owned subsidiary of Skoda and there was, at the time of research, little direct VW involvement in the set-up. Secondly, when SAIPL was established, Skoda had little internationalization experience, which could have fed into the development of a SKD/CKD template. At the same time, SAIPL was strategically distant from Skoda’s integrated home plants, which also ruled out a comprehensive replication of home operations. Thirdly, the SAIPL operation was at an early set-up stage and essentially an SKD facility. It may well be that the shift from a SKD to a CKD site involved the use of a more comprehensive foreign parent template. Thus, in the Skoda case the generic strategy serves only as a limited predictor for the hybridization outcome. As in the DCIPL case, little internationalization experience, a large strategic distances between the home sites and the Indian site explain why no foreign parent template was available and transferred and why there was a high incidence of customized solutions on those dimensions of the production system that are strongly dependent on strategic context conditions. While the generic strategy, strategic distance and internationalization experience provide us with a general explanation why MUL and FIPL have come to comparatively more imitation and why DCIPL and SAIPL have come comparatively to more customized solutions, it doesn’t help us to explain variations within the cases across different dimensions of the production system. For neither do MUL and FIPL feature pure imitation outcomes, nor do DCIPL and SAIPL feature pure customized or local outcomes across all dimensions of their production systems.
THE WHY-QUESTION: BY DIMENSION

In this section we try to give a first and broad explanation, why specific dimensions of the subsidiares’ production systems showed propensities for certain hybridization outcomes. Generally speaking, it appeared that some dimensions of the production systems were mainly affected by institutional context conditions and distance, and others more by strategic context conditions and distance, which is not to say that the other context was respectively irrelevant. For instance, it appeared that the high incidence of local outcomes on the dimensions hierarchical differentiation and labor relations could be related to entrenched institutional patterns in the host context that penetrated deeply into the companies, irrespective of generic or internationalization strategy and experience related template availability and transfer. Similarly, the high incidence of hybrid outcomes on the dimension of work organization and HR-profile was strongly related to the interplay of whatever was being transferred or demanded from the foreign parent and local/host institutional patterns. Regarding the latter, it was most notably the strong socio-professional demarcation produced by the Indian social stratification and education system that pulled transfers towards hybrid solutions. In fact, in no case in the research sample – no matter how strong the foreign parent’s transfer intent or demand for an alternative work pattern – was the foreign parent able to overcome this institutional or societal effect. (However, it should also be mentioned that particularly with regard to the work organization it was not only institutional misfits that mattered). In contrast, with regard to the functional differentiation, technical configuration and supplier relations host/local institutional demands or misfit – while not entirely irrelevant – were comparatively less relevant than local/host strategic conditions for the outcome. On these latter production system dimensions, the host country demand and supply market conditions and their strategic distance to home or third country operations, were causing a high incidence of customized outcomes. However, here again, the broad comparison of dimensions covers up that there were fine differences on these dimension from one case to another. Therefore, we need to proceed to a production system dimension based case comparison in the next section and analytical step.
7.2 SIMILARITIES AND DIFFERENCES BY CASE AND DIMENSION

To better understand the similarities and differences in hybridization outcomes, we need an approach that does not only consider broad differences between cases or between certain dimensions of production systems but an approach that explores *how* and *why* hybridization outcomes differ from case to case on specific dimensions. While this involves as a crucial explanatory starting point knowledge about generic strategies and related strategic misfits this is not sufficient to understand complex differences.

**ORGANIZATION STRUCTURE**

**FUNCTIONAL DIFFERENTIATION: HOW THE CASES DIFFER**

With regard to the hybridization outcome of the functional differentiation of the respective production systems the empirical material is probably the weakest compared to the other dimensions of the production systems. Nonetheless, a marked difference was discerned between the cases MUL and FIPL on the one hand, and DCIPL and SAIPL on the other. Indications were that while MUL and FIPL had come to imitation as an outcome, DCIPL and SAIPL had mainly come to customized solutions (see table 30).

**FUNCTIONAL DIFFERENTIATION: WHY THE CASES DIFFER**

**GENERIC STRATEGY, INTERNATIONALIZATION EXPERIENCE & TEMPLATE AVAILABILITY FOR TRANSFER**

As discussed above, the respective companies’ variance with regard to generic strategy, related strategic distance between sites and internationalization experience provides an important explanation why SMC and Fiat developed or defined templates for transfer and why DC and Skoda did not – at least not at the time when their sites were established.
Table 31: Generic strategy, internationalization experience and template availability for transfer

<table>
<thead>
<tr>
<th>Functional Differentiation</th>
<th>MUL</th>
<th>FIPL</th>
<th>DCIPL</th>
<th>SAIPL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Generic strategy</td>
<td>Focus &amp; Cost</td>
<td>Focus &amp; Cost</td>
<td>Focus &amp; Differentiation</td>
<td>Differentiation &amp; Cost</td>
</tr>
<tr>
<td>Strategic distance between units</td>
<td>Low between home and Indian operation and also a number of other integrated foreign operations</td>
<td>High between home and Indian operation; low between World Car operations</td>
<td>High between home and Indian operation; increasingly low between Asian operations</td>
<td>High between home and Indian operation; increasingly low between foreign operations</td>
</tr>
<tr>
<td>Internat. experience</td>
<td>High</td>
<td>High</td>
<td>Low</td>
<td>Low</td>
</tr>
<tr>
<td>Template availability</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
</tr>
</tbody>
</table>

ENTRY MODE AND LOCAL TEMPLATE AVAILABILITY

As a result of their variance in entry modes – mainly the establishment mode – the firms differed with regard to the availability of a local template. While the Greenfield sites MUL, DCIPL and SAIPL had no existing local template at their site, things were different for Fiat that had chosen or had to choose a Brownfield site/acquisition. What is more, related to their equity mode as JVs, MUL, Fiat and DCIPL had at least in theory the option to use on the local JV partners’ configurations as a template.

Table 32: Entry mode and local template availability

<table>
<thead>
<tr>
<th>Functional Differentiation</th>
<th>MUL</th>
<th>FIPL</th>
<th>DCIPL</th>
<th>SAIPL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Establishment mode</td>
<td>Green</td>
<td>Brown</td>
<td>Green</td>
<td>Green</td>
</tr>
<tr>
<td>Equity mode</td>
<td>Minority JV &gt; Majority JV</td>
<td>Majority JV &gt; Wholly-owned</td>
<td>Majority JV &gt; Wholly-owned</td>
<td>Wholly-owned</td>
</tr>
<tr>
<td>Local template availability (existing at site / from local partner)</td>
<td>No / Yes – in theory</td>
<td>Yes / Yes – in theory</td>
<td>No / Yes – in theory</td>
<td>No / No</td>
</tr>
</tbody>
</table>

CONFIGURATION MANDATE, (MIS)FIT AND TEMPLATE TRANSFER/USE

Both SMC and Fiat had a foreign template and were transferring it. Fiat was the only company that could have used an existing local template at its site but refused to use it. While SAIPL neither had an existing local template at its site nor the possibility of using one from a local JV partner, DCIPL and MUL in theory had such possibly but did not use it. How can we explain this?
Let us start with SMC/MUL. Although SMC was throughout most of the company’s existence a minority JV partner, it was SMC which essentially had the configuration mandate to establish the functional set-up. This was related to the interplay of a number of factors. First, the establishment mode of the MUL operation was a Greenfield and required substantial establishment work. Second, despite holding the majority in the JV, the local partner, the Government of India, was not able to perform this establishment work. The very absence of local capability in MUL with regard to automobile design and manufacturing was the very reason that had pushed the Indian Government to look for a foreign JV partner. Third, as a result of lacking local JV partner capability, the product to be built had to be introduced by the JV partner. This implied that the crucial dimensions of the production system including the functional set-up would have to be transferred by the foreign JV partner SMC. Thus, there neither was a locally existing functioning manufacturing facility to build on nor did the Indian JV partner have any prior experience in automobile manufacturing. Given the Greenfield nature of the set-up, given the asymmetry of capability between the JV partners and the absence of a comprehensive local template and given SMC’s product ownership, no local template was used. Instead SMC, as a minority JV partner, had the mandate to introduce the products and core aspects of the production system, including the functional organization. Now, SMC’s configuration mandate was a precondition but probably not the ultimate reason to use the Kosai plant as a template for the Indian site. The main reason to transfer Kosai’s functional differentiation was the generic strategy related strategic fit between the Kosai template and the task profile/host strategic context of the Indian operation. Moreover, there were no indications that institutional distance induced a transfer restraint with regard to the site’s functional differentiation. This is also related to the fact that the Greenfield establishment mode implied little existing institutional patterns acting as an ex-ante deterrent for transfer.

Fiat’s entry mode contrasted with SMC’s. Fiat had the option of either using the existing local template and/or transfer its World Car template. Fiat choose the latter option, why? From the beginning Fiat practically had the majority in the Indo-Italian JV FIPL, and assigned its subsidiary the task of producing its World Car range of models. Fiat was in control of the JV, introduced its own product and consequently had the configuration mandate for the whole site, including the functional differentiation. Theoretically, Fiat could have used the existing functional set-up or template of the Brownfield site. Fiats choose not to because Fiat was determined to implement its standardized World Car production template and because the existing local template was not in line with the template requirements. Although there was some strategic misfit between the World Car template’s ideal local/host strategic context conditions and the Indian site’s strategic context conditions (i.e. in local demand market/volume terms), this misfit was not severe or relevant enough to affect the company’s transfer intent with regard to the functional differentiation. Moreover, in spite of using a Brownfield site, there was no local/host context institutional misfit, which might
have called for an ex ante transfer restraint. Thus, the *equity mode* and the introduction of the World Car gave Fiat the configuration mandate to shape the operation. As the existing local template did not fit the World Car task profile and as there was no meaningful strategic or institutional misfit between the World Car template’s functional differentiation and the local/host context, Fiat engaged in transferring it.

DC essentially shared with Fiat that the company was from the beginning in control of the JV DCIPL, introduced the product and had basically the configuration mandate for the functional differentiation of the site. The DCIPL case contrasted with FIPL, in that the establishment mode was a Greenfield operation and in that DC had no defined foreign parent template available for the establishment of the site’s functional set-up. Given the *equity mode* and the *product ownership*, DC had the configuration mandate as far as the site’s functional differentiation set-up was concerned. What is more, DC had no defined template for CKD operations. At the same time, DC’s home operations – despite building in principle similar vehicles – were far too strategically distant with respect to production volume and product variety to be transferred. Thus, the absence of a specific template and the strategic distance between home and host country operation ruled out a transfer. However, given the establishment mode, the site’s functional differentiation had to be configured some way. Now, theoretically there was also the option of using the local JV partner’s configurations as a template. This was, however, ruled out by the Germany side’s configuration mandate – in basically all manufacturing related areas – and the lacking capabilities of the local JV partner in luxury-vehicle-production. After all, the local partner was a mass-producer of trucks and there was a substantial strategic distance between the local JV partner’s task profile and the task profile of DCIPL. While neither a foreign parent nor local template was being used, there were different demands/policies from the foreign parent side as well as demands and conditions in the host institutional and strategic context that called for accommodation in the functional differentiation of the site. Apart from general DC policies, the German side’s demands expressed themselves in an ethnocentric staffing policy in the early years of the operation. Most important of all, the site’s functional differentiation would have to be tailored to the specific task profile of a low-volume-production and a low-vertical integration site, given moderate demand market conditions in the host context.

In SAIPL the situation was somewhat similar to DCIPL. The main difference to DCIPL was that the company’s entry mode ruled out the use of an existing local/JV partner template. Another crucial difference between SAIPL and basically all other cases in the sample, was its polycentric staffing policy that implied relatively low levels of foreign parent demands mediated by expatriates. Given its establishment and equity mode, Skoda not only had the unrestrained configuration mandate but also the task to configure its Indian site’s functional differentiation on its own. After all, the site was a Greenfield operation and there was no local JV partner to turn to for a local template. At the same time, Skoda, like DC, had no template available for the functional differentiation of its Indian SKD operation. Similarly
its home operations, which were in principle building the same vehicles, were far too strategi-
cally distant (in production volume and product variety) to serve as a template for
SAIPL’s functional differentiation. The absence of a template and the strategic distance
between their home and host country operations, ruled out a template transfer. Although
there neither was a foreign nor a local template to be used, there were – like in the DCIPL
case – different demands/policies from the foreign parent side. In contrast to DCIPL, how-
ever, these demands were much less mediated through expatriates and based on general
policies. Like in DCIPL, demands and conditions in the host institutional and strategic con-
text called for accommodation in the functional differentiation of the site. Most important of
all, the site’s functional differentiation had to respond to the specific task profile of low-
volume-production and low vertical integration, in view of the demand market conditions in
the host context.

Table 33: Configuration mandate, (mis)fit and template transfer/use

<table>
<thead>
<tr>
<th>Functional Differentiation</th>
<th>MUL</th>
<th>FIPL</th>
<th>DCIPL</th>
<th>SAIPL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Template availability</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Local template availability (existing at site / from local partner)</td>
<td>No / Yes – in theory</td>
<td>Yes / Yes – in theory</td>
<td>No / Yes – in theory</td>
<td>No / No</td>
</tr>
<tr>
<td>Configuration mandate</td>
<td>Foreign parent nationals</td>
<td>Foreign parent nationals</td>
<td>Foreign parent nationals</td>
<td>Host country nationals</td>
</tr>
<tr>
<td>Foreign template transfer</td>
<td>Yes – complete</td>
<td>Yes – complete</td>
<td>No – but foreign parent function related demands</td>
<td>No – but foreign parent function related demands</td>
</tr>
<tr>
<td>Local/host template used</td>
<td>No</td>
<td>Yes/No – but had to be dealt with as it was</td>
<td>No – but host context related demands</td>
<td>No – but host context related demands</td>
</tr>
</tbody>
</table>

INSTITUTIONAL/STRATEGIC (MIS)FITS AND RECONTEXTUALIZATION PRESSURES

Both SMC and Fiat transferred a foreign parent template. SMC’s template met a favorable
host strategic (i.e. demand market condition) and a favorable local institutional context (i.e. Greenfield establishment mode) which contributed to low recontextualization pressures. In
the Fiat case the situation was slightly different. In FIPL the host strategic context (i.e. de-
mand market condition) and the local institutional context (i.e. Brownfield establishment
mode) were not ideal for the implementation of the World Car template. However, the stra-
tegic misfit was not as bad as to put a high recontextualization pressure on the functional
differentiation of the World Car template.

DC and Skoda neither had transferred a foreign parent template nor did they use a local
template that could cause a misfit with local/host strategic and institutional context condi-
tions or demands. Yet, their functional differentiation had to accommodate foreign parent
and host context demands and conditions. However, there were no indications that these
foreign parent and local/host context demands were contradictory. Moreover, the establishment mode of both sites implied a low existing level of local institutionalization and therefore little recontextualization pressure on the functional differentiation to be built. What is more, the different staffing policies in DCIPL and SAIPL, implied that the likelihood of contradictory demands and corresponding recontextualization pressure was lower in SAIPL than in DCIPL. For Skoda’s polycentric staffing approach meant that there were fewer demands that could cause misfit in the first place. Overall, DCIPL and SAIPL did not differ much with regard to recontextualization pressures on the functional differentiation dimension. Both companies faced similar contextualization pressures, which basically involved building a functional differentiation that accommodated foreign parent and host context strategic demands and conditions.

### Table 34: Institutional/strategic (mis)fits and recontextualization pressures

<table>
<thead>
<tr>
<th>Functional Differentiation</th>
<th>MUL</th>
<th>FIPL</th>
<th>DCIPL</th>
<th>SAIPL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreign template transfer</td>
<td>Yes – complete</td>
<td>Yes – complete</td>
<td>No – but foreign parent function related demands</td>
<td>No – but foreign parent function related demands</td>
</tr>
<tr>
<td>Local/host template used</td>
<td>No</td>
<td>Yes/No</td>
<td>No – but host context related demands</td>
<td>No – but host context related demands</td>
</tr>
<tr>
<td>Strategic/institutional (mis)fit</td>
<td>No / No</td>
<td>Yes / No</td>
<td>No / No</td>
<td>No / No</td>
</tr>
<tr>
<td>Recontextualization pressure</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
</tr>
</tbody>
</table>

**Contextual strength/resilience and recontextualization mode found**

Broadly speaking, MUL and Fiat arrived at an imitation outcome of their functional differentiation because the transferred templates fitted with the host/local strategic and institutional context. As a result, no major recontextualizations were required. In the case of MUL, the product strategy fitted well with the host context demands market conditions so that the home functional differentiation could largely be reproduced. Moreover, there was no host or local institutional context misfit for MUL. Despite being a junior partner in the JV, SMC delegates had the mandate to set up the functional structure of MUL’s production system. In fact, if SMC wanted to conduct business in India, it had to bring in its capabilities and resources because the local partner was lacking them. At the same time, given the site’s Greenfield nature, there were no existing local structures that stood against a functional set-up that followed the Kosai template (high local context resilience).

This was slightly different in the case of Fiat. Fiat had to deal with an existing functional set-up of the Brownfield site it had taken over from PAL. But even in this case, the changes in functional differentiation required by the World Car template did not meet any major resistance from the local institutional context (high local context resilience). There was
probably such a relatively high resilience of the local institutional context in this respect because the functional changes did not strongly challenge employees’ status positions in a meaningful way. Furthermore, the strategic distance – i.e. between the contextual requirements of the World Car template’s functional differentiation and the host context conditions – was not as big as to deter the transfer. Thus, in the case of MUL and Fiat there was only little adaptation of the foreign transfer template to fit the local/host strategic and institutional context. In both cases the foreign parent was able and willing to transfer a template and faced a local/host context that was conducive or resilient enough – related to entry mode and low levels of misfit – to achieve an adaptation of the local context in line with the template’s requirements.

In the case of DCIPL and SAIPL, the main (re)contextualization mode was the new establishment of the sites’ functional differentiation in response to foreign parent and host/local contextual demands and conditions. As neither a foreign parent nor a local template was used, no template adaptations were possible. However, while neither DCIPL nor SAIPL displayed a wholesale foreign parent template transfer effort, the functional differentiation had to respond to foreign parent and host context demands and conditions. For example, given that the manufactured models were practically the same as at home operations, certain quality policies had to be applied and accommodated in the functional organization in the form of audit or quality departments. Conversely, specialized functional units were needed to accommodate host context institutional demands related to India’s FDI policy. Most importantly, however, the functional differentiation would have to respond to the particular demand market conditions in the Indian host strategic context and the corresponding task profile of the local site. To accommodate these different parent and host context demands and market conditions both DCIPL and SAIPL created functional structures that resembled neither a foreign-context template nor typical local-context template. Instead, they came to customized solutions to accommodate different demands and conditions in the functional set-up. These adaptations of local context on site met little institutional resistance, which was probably related to their entry modes as controlled Greenfield operations as well as low or no levels of misfit. As there was little discernable misfit-induced recontextualization pressure, the question of resilient parent and host context demands and conditions was not very crucial. It was only relevant with regard to the question, if the local context of the site would be resilient enough to allow the set-up of the functional differentiation in line with the different demands. There was no indication that the local context of the site was not resilient enough. After all, both sites’ establishment modes were Greenfield operations.
Table 35: Explanatory dimensions of hybridization outcome

<table>
<thead>
<tr>
<th>Functional Differentiation</th>
<th>MUL</th>
<th>FIPL</th>
<th>DCIPL</th>
<th>SAIPL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreign template available</td>
<td>Yes – Kosai template</td>
<td>Yes – World Car template</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Foreign template transfer</td>
<td>Yes – complete</td>
<td>Yes – complete</td>
<td>No – but function related demands</td>
<td>No – but function related demands</td>
</tr>
<tr>
<td>Existing local template</td>
<td>No – Greenfield</td>
<td>Yes – Brownfield/Acquisition</td>
<td>No – Greenfield</td>
<td>No – Greenfield</td>
</tr>
<tr>
<td>Local/host template used</td>
<td>No</td>
<td>No</td>
<td>No – but host context demands</td>
<td>No – but host context demands</td>
</tr>
<tr>
<td>Misfit/recontext. need</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Mode of recontextualization</td>
<td>Adpt. of local context (creation) according to Kosai template</td>
<td>Adpt. of local context/template (change &amp; creation) according to World Car template</td>
<td>Adpt. of local context (creation) according parent &amp; host context demand</td>
<td>Adpt. of local context (creation) according parent &amp; host context demand</td>
</tr>
</tbody>
</table>

**HIERARCHICAL DIFFERENTIATION: HOW THE CASES DIFFER**

The variation of the hybridization outcome on the dimension of hierarchical differentiation of the respective production system can be put on a continuum. The extreme poles were taken by the cases FIPL and SAIPL. While FIPL was the case with the most far-reaching imitation the case SAIPL showed clear signs of a local solution. The cases MUL and DCIPL were in-between. That is, while MUL appeared to be between a local and hybrid solution, DCIPL showed the clearest signs of having come to a hybrid solution (see table 36).

Table 36: Hybridization outcome on the dimension of hierarchical differentiation

<table>
<thead>
<tr>
<th>Hierarchical Differentiation</th>
<th>MUL</th>
<th>FIPL</th>
<th>DCIPL</th>
<th>SAIPL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outcome</td>
<td>Local (or between local and hybrid)</td>
<td>Imitated</td>
<td>Hybrid</td>
<td>Local</td>
</tr>
</tbody>
</table>

**HIERARCHICAL DIFFERENTIATION: WHY THE CASES DIFFER**

**GENERIC STRATEGY, INTERNATIONALIZATION EXPERIENCE AND TEMPLATE AVAILABILITY FOR TRANSFER**

The respective companies’ variance in generic strategy and internationalization experience provides an important explanation why SMC and Fiat developed or defined templates for
transfer and why DC and Skoda did not – at least not at the time when their sites were established.

**Table 37: Generic strategy, internationalization experience and template availability for transfer**

<table>
<thead>
<tr>
<th>Hierarchical Differentiation</th>
<th>MUL</th>
<th>FIPL</th>
<th>DCIPL</th>
<th>SAIPL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Generic strategy</td>
<td>Focus &amp; Cost</td>
<td>Focus &amp; Cost</td>
<td>Focus &amp; Differentiation</td>
<td>Differentiation &amp; Cost</td>
</tr>
<tr>
<td>Strategic distance between units</td>
<td>Low between home and Indian operation and also a number of other integrated foreign operations</td>
<td>High between home and Indian operation; low between World Car operations</td>
<td>High between home and Indian operation; increasingly low between Asian operations</td>
<td>High between home and Indian operation; increasingly low between foreign operations</td>
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<tr>
<td>Internat. experience</td>
<td>High</td>
<td>High</td>
<td>Low</td>
<td>Low</td>
</tr>
<tr>
<td>Template availability</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
</tr>
</tbody>
</table>

**ENTRY MODE AND LOCAL TEMPLATE AVAILABILITY**

The different entry modes – mainly the establishment modes – implied that the firms differed with regard to their local template availability. While in the Greenfield cases MUL, DCIPL and SAIPL there was no existing local template available, things were different for Fiat that had chosen or had to choose a Brownfield site/acquisition. What is more, related to their equity mode as JVs, MUL, FIPL and DCIPL had the theoretical option to draw on the local JV partners’ configurations.

**Table 38: Entry mode and local template availability**

<table>
<thead>
<tr>
<th>Hierarchical Differentiation</th>
<th>MUL</th>
<th>FIPL</th>
<th>DCIPL</th>
<th>SAIPL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Establishment mode</td>
<td>Green</td>
<td>Brown</td>
<td>Green</td>
<td>Green</td>
</tr>
<tr>
<td>Equity mode</td>
<td>Minority JV &gt; Majority JV</td>
<td>Majority JV &gt; Wholly-owned</td>
<td>Majority JV &gt; Wholly-owned</td>
<td>Wholly-owned</td>
</tr>
<tr>
<td>Local template availability (existing at site / from local partner)</td>
<td>No / Yes – in theory</td>
<td>Yes / Yes – in theory</td>
<td>No / Yes – in theory</td>
<td>No / No</td>
</tr>
</tbody>
</table>

**CONFIGURATION MANDATE, (MIS)FIT AND TEMPLATE TRANSFER/USE**

Both MUL and Fiat had a comprehensively defined template for transfer, also involving an ideal hierarchical differentiation. However, while Fiat did transfer its template’s hierarchical differentiation to the Indian site, SMC did not. Instead, the MUL site used the local template from the Indian JV partner for its hierarchical differentiation. The difference in tem-
plate transfer with regard to the hierarchical differentiation between SMC and Fiat can be explained by the difference of entry mode, specifically the equity mode. Although both firms started off as JVs, Fiat, in contrast to SMC, was practically from the outset the senior partner in the JV and was quick to turn the JV into a wholly-owned subsidiary. It could do so because it entered the Indian market much after the 1991 market liberalizations. Such a swift shift in equity was more difficult for SMC for two reasons. SMC entered the Indian market in the early 1980s before the liberalization. This meant that in the early years SMC was not even allowed to acquire a majority. Secondly, and more importantly, unlike Fiat, SMC had entered a JV with a Government of India Company. Being involved in a Government of India company and being in a minority shareholder position meant that SMC could only configure the Indian site in line with the Kosai template where it was mandated to do so. In the area of hierarchical differentiation, it did not have the configuration mandate because certain rules and regulations of a public sector company applied. Thus, although SMC had a far reaching configuration mandate to establish the production operations, indications were that the hierarchical differentiation was not established in line with Kosai because public sector institutional rules and regulations had to be observed in the areas of compensation, personnel policies, promotions and the like. Instead a local template, a typical public sector pattern, was used to configure the hierarchical differentiation of MUL.

In contrast to SMC, Fiat’s equity mode and its swift move towards becoming a wholly-owned subsidiary meant that the company was not facing equity or control related obstacles to transferring its template’s hierarchical differentiation. In addition, the institutionally distant existing template at the Brownfield site did not deter Fiat from seeking the transfer of its World Car hierarchical set-up. Conversely, the intent to develop the site into a World Car location, the foreign parent template availability and the institutional misfit between the existing hierarchical differentiation at the Brownfield site and the much flatter one defined by the World Car template, ruled out using the existing local template of the site.

While SMC and DC differed substantially in the availability of a foreign parent template, they shared the starting point of using a local template from the JV partner for the site’s hierarchical differentiation. In MUL – as we saw – this was mainly related to the equity mode and the special circumstance of a JV with a Government company. In DCIPL it also had to do with the equity mode, i.e. having entered a JV with a host context partner. However, although DC was not a minority JV partner – DC had from the outset been the senior partner in the JV – the lack of a foreign parent template, lacking familiarity with the Indian industrial context as well as the initial tasks division between the JV partners, had resulted in giving the configuration mandate for the hierarchical differentiation to the Indian JV partner. This implied that the Indian partner and the host country management had the configuration mandate for “personnel administration”, i.e. issues of compensation, personnel policies and promotions. This configuration mandate for the local JV partner meant that
Telco’s hierarchical differentiation was applied to the Greenfield site DCIPL (somewhat scaled down to DCIPL’s operational size).

Finally, SAIPL neither transferred a foreign parent template nor did it use a local template from a JV partner. While SAIPL’s equity mode ruled out adopting a template from a local JV partner, its establishment mode implied that there was no existing template at the site. In fact, SAIPL’s MD indicated that Skoda had chosen a wholly-owned subsidiary as an entry mode because it wanted to create its “own little thing”. However, Skoda had no foreign parent template ready for the Indian site’s hierarchical differentiation. Paradoxically, the site’s polycentric staffing policy and the perceived misfit between Skoda’s home and host context institutional conditions, minimized parent demands vis-à-vis SAIPL’s hierarchical differentiation and deterred the transfer from the home plant. Not only had the parent not formulated any mission, policy or template for the Czech expatriate to shape the Indian site’s hierarchical differentiation but the expatriate and his Indian counterparts also shared the conviction that the institutional distance between the Czech home site and the India operation was much too pronounced to allow any transfer. Consequently, there were mostly local/host context institutional demands that were posed with regard to SAIPL’s hierarchical differentiation. Like DCIPL, SAIPL had no mission to apply a defined foreign parent template with respect to hierarchical differentiation. Its configuration was basically left to host country nationals. But while DCIPL had done so because of its equity mode – a JV with divided responsibilities – SAIPL had done so because of its polycentric staffing policy.

What is more, while DCIPL’s expatriates moved into all top management positions over time as the equity shifted and started to put pressure for change on the local template of hierarchical differentiation, SAIPL’s only Czech expatriates remained hierarchically on an equal footing with his Indian managerial counterparts.

Table 39: Configuration mandate, (mis)fit and template transfer/use

<table>
<thead>
<tr>
<th>Hierarchical Differentiation</th>
<th>MUL</th>
<th>FIPL</th>
<th>DCIPL</th>
<th>SAIPL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Template availability</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Local template availability (existing at site / from local partner)</td>
<td>No / Yes</td>
<td>Yes / Yes – in theory</td>
<td>No / Yes</td>
<td>No / No</td>
</tr>
<tr>
<td>Configuration mandate</td>
<td>Host country nationals</td>
<td>Foreign parent nationals</td>
<td>Host country nationals</td>
<td>Host country nationals</td>
</tr>
<tr>
<td>Foreign template transfer</td>
<td>No – partly if at all</td>
<td>Yes – complete</td>
<td>No – but increasing foreign parent hierarchy related demands</td>
<td>No</td>
</tr>
<tr>
<td>Local/host template used</td>
<td>Yes</td>
<td>Yes/No – but had to be dealt with as it was</td>
<td>Yes</td>
<td>No/Yes – realization of host context related demands due to polycentric staffing policy</td>
</tr>
</tbody>
</table>
Both MUL and DCIPL started off with a local template that was quite distant from foreign parent institutional context conditions and demands. In DCIPL, many German expatriates found the hierarchical differentiation based on the local template much too steep in relation to the operations size. Similarly, in MUL the extensive hierarchy contrasted sharply with SMC’s comparatively flat hierarchies in Japan, and it is very likely that SMC would have preferred a flatter hierarchy or at least a decoupling between hierarchical designations and reporting levels. Thus, in both cases there was an institutional misfit between the local template’s hierarchical differentiation and foreign parent institutional demands, putting a recontextualization pressure on the local template. In contrast to SMC and DC, Fiat transferred a foreign parent template that was institutionally distant from the local institutional conditions and demands. Fiat’s World Car template faced an established local template that was quite distant from the ideal hierarchical differentiation of the World Car template. For the hierarchical differentiation of the foreign parent template was much flatter than the locally existing one. There was, thus, a strong recontextualization pressure for either an adaptation of the foreign parent template or the existing local template. Finally, SAIPL saw the lowest level of recontextualization pressure regarding to the establishment of its hierarchical differentiation. SAIPL neither had a foreign parent template to transfer nor were there strong parent demands vis-à-vis the hierarchical differentiation of its site. Based on the polycentric staffing policy, the establishment of the Greenfield site’s hierarchical differentiation was put into the hands of host country nationals who largely configured the organizational hierarchy in line with host/local institutional context demands and conditions. The only Czech expatriate on site found this configuration bewildering but saw little ground for an alternative configuration.

Table 40: Institutional/strategic (mis)fits and recontextualization pressures

<table>
<thead>
<tr>
<th>Hierarchical Differentiation</th>
<th>MUL</th>
<th>FIPL</th>
<th>DCIPL</th>
<th>SAIPL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreign template transfer</td>
<td>No – partly if at all</td>
<td>Yes – complete</td>
<td>No – but increasing foreign parent hierarchy related demands</td>
<td>No</td>
</tr>
<tr>
<td>Local/host template used</td>
<td>Yes</td>
<td>Yes/No – but had to be dealt with as it was</td>
<td>Yes</td>
<td>No /Yes – realization of host context related demands due to polycentric staffing policy</td>
</tr>
<tr>
<td>Strategic/institutional (mis)fit</td>
<td>No / Yes</td>
<td>No / Yes</td>
<td>No / Yes</td>
<td>No / No</td>
</tr>
<tr>
<td>Recontextualization pressure</td>
<td>Yes - from foreign parent</td>
<td>Yes - from foreign parent</td>
<td>Yes - from foreign parent</td>
<td>No</td>
</tr>
</tbody>
</table>
Both MUL and DCIPL started off with a local template that didn’t fit particularly well the foreign parent context demands for a flatter hierarchical differentiation. However, while in the DCIPL case this led over time to an adaptation of the local template as well as some adaptation – change or rejection – of foreign parent demands and ultimately to a hybrid profile of hierarchical differentiation, this was much less the case in MUL. In MUL it seemed that there was much less of an adaptation – change – of the local template and more of a ceremonial or cosmetic response to foreign parent demands. Indications were that the publicly purported flat structure, was more of ceremonial nature – to display an image of a Japanese-cultured organization – rather than an empirical reality in response to foreign parent demands. While in DCIPL the hierarchical differentiation had been initially created at the Greenfield site in line with the local parent template, foreign parent demands pulled the organizational hierarchy towards a hybrid solution over time (some local context resilience). In MUL, the hierarchical differentiation was also created at the Greenfield site in line with the local parent template. However, here the foreign parent was less able to pull the organizational hierarchy towards its own home template (less local context resilience).

What lies behind this difference? Probably the main explanatory factor lies in the equity mode and the equity development of the two cases. SMC was throughout most of MUL’s existence a minority JV partner and had little choice but to accept local solutions. SMC was not able to put through its most likely preferred template because of the interplay of the high institutional misfit, the equity mode and low local context resilience. In MUL the major recontextualization mode was therefore a rejection of foreign parent demands. Later, when SMC finally had the majority and thereby a wider configuration mandate, there was some indication of an attempt to adapt the local hierarchical template. However, at the time of research, there were no indications that a change of the local template had seriously commenced. In contrast to SMC, DC and its expatriates on site could give their demands a much stronger voice and were able to affect a change of the local template. DCIPL had started as a majority JV and had shifted equity rather rapidly to becoming a wholly-owned subsidiary. This equity mode in combination with a strong German expatriate presence allowed DC to at least partly put through the foreign parent demands for less hierarchy. This implied that the local template was adapted, changed to some extent. It should also be noted, however, that local institutional demands were strongly up against this change. Moreover, by the time German managers pushed for an adaptation of the local hierarchical template, the site already had an institutionalized hierarchical differentiation which was not very resilient any more. What is more, German managers were not only not equipped with a clearly defined hierarchical template for the CKD-site but they were also not agreeing as to whether a reduction of the existing hierarchical differentiation made sense. A moderate to low foreign parent willingness and ability and a moderate-low resilient local context proba-
bly explain why the hierarchical differentiation was never brought fully in line with foreign-parent demands. The recontextualization mode involved in DCIPL both the adaptation of the local template as well as of the foreign-parent demands. In contrast to MUL, it was the entry mode and more concretely the equity development that allowed at least some putting through of foreign-parent demands against an existing template.

In contrast to DCIPL and MUL, FILP transferred a foreign template that sharply contrasted or conflicted with the existing local template of the Brownfield site. However, having shifted the equity very early in its favor, having delegated Italian expatriates into all top management positions and having the implementation of its World Car template as a strong mission, made Fiat very rigorously apply its world template’s hierarchical differentiation without much alteration. The main recontextualization mode was here the adaptation of the existing local template in line with the World Car template. Again, Fiat was able to do this against local institutional resistance because of a swift equity shift in favor of the Italian side, combined with the presence of Italian expatriates in top management positions who had a clear mission to implement the World Car template. This allowed installing the World Car template’s hierarchical differentiation against adverse local institutional demands.

DC and Fiat – in contrast to SMC – moved much more quickly from a JV to a wholly-owned subsidiary. This shift in equity gave both Fiat and DC the control and ability to put through their template or demands with regard to their sites’ hierarchical differentiation (even against heavy local institutional resistance). However, DC was not as rigorous in doing so as Fiat. After all, DC lacked a strong mission or will to implement a particular hierarchical template. While the foreign parent context pressure led in DCIPL case to a reduction in hierarchical designations and an adoption of a reporting structure similar to those of the home/parent institutional context, there was never an effort to bring DCIPL’s hierarchical levels fully in line with home country conditions. In comparison to FIPL, DCIPL not only had no clearly defined mission to implement a particular foreign parent template but the human resource function of the site was throughout DCIPL’s history – even when it became a wholly-owned subsidiary – in the hands of India managers who probably had a moderating effect on German demands. Finally, in SAIPL there was no particular misfit between demands and templates or different context demands. Related to the establishment mode and given that the organization building was left for the most part to host country nationals, the site’s hierarchical differentiation was established in line with local/host institutional context demands and conditions. The polycentric staffing policy meant that there were no foreign-parent demands that induced a recontextualization pressure on the hierarchical differentiation that had just emerged. The (re)contextualization mode was therefore adaptation – creation – of the local context in line with host/local context demands.
Table 41: Explanatory dimensions of hybridization outcome

<table>
<thead>
<tr>
<th>Hierarchical Differentiation</th>
<th>MUL</th>
<th>FIPL</th>
<th>DCIPL</th>
<th>SAIPL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreign template available</td>
<td>Yes – Kosai template</td>
<td>Yes – World Car template</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Foreign template transfer</td>
<td>No (- but hierarchy related demands)</td>
<td>Yes – complete</td>
<td>No – but hierarchy related demands</td>
<td>No (- but hierarchy related demands)</td>
</tr>
<tr>
<td>Existing local template</td>
<td>No – Greenfield</td>
<td>Yes – Brownfield/Acquisition</td>
<td>No – Greenfield</td>
<td>No – Greenfield</td>
</tr>
<tr>
<td>Local/host template used</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>No – but hierarchy related demands</td>
</tr>
<tr>
<td>Misfit/recontext. need</td>
<td>(Yes)</td>
<td>Yes</td>
<td>Yes</td>
<td>(Yes) No</td>
</tr>
<tr>
<td>Form of recontextualization</td>
<td>Adpt. of local context (creation) according to local template</td>
<td>Adpt. of local context/template (change &amp; creation) according to World Car template</td>
<td>Adpt. of both local template (change) and of parent demand (rejection)</td>
<td>Adpt. of local context (creation) according to host/local demand</td>
</tr>
</tbody>
</table>

**Organization of Process**

**Technical Configuration: How the Cases Differ**

With regard to the hybridization outcome of the technical configuration we have to distinguish between the levels of vertical integration and basic factory layout/process design on the one hand, and the sites’ technical hardware configuration on the other. Similar to the functional differentiation, we could observe here a marked difference between the cases MUL and FIPL on the one side and DCIPL and SAIPL on the other. While MUL and somewhat less FIPL featured some elements of imitation, DCIPL and SAIPL displayed practically pure customizations of their levels of vertical integration, basic factory layout/process design and technical hardware configuration. One could also describe these outcomes as a continuum. MUL’s vertical integration and basic factory layout/process design was featuring the most far-reaching imitation. MUL’s technical hardware configuration, in turn, was already no complete imitation any more. The result was here more between imitation and customization. FIPL for its part featured a mix of imitation and customization regarding its vertical integration and basic factory layout/process design. However, its technical hardware configuration was mainly characterized by customized solutions. Finally, DCIPL and SAIPL featured basically fully customized solutions in their vertical integration and basic factory layout/process design as well as their technical hardware configuration. The only difference in outcome between these cases was that DCIPL had received more technical equipment from its foreign parent (see table 42).
Table 42: Hybridization outcome on the dimension of technical configuration

<table>
<thead>
<tr>
<th>Technical Configuration</th>
<th>MUL</th>
<th>FIPL</th>
<th>DCIPL</th>
<th>SAIPL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outcome: vertical integration, factory layout/process design</td>
<td>Imitated</td>
<td>Between imitated and customized</td>
<td>Customized</td>
<td>Customized</td>
</tr>
<tr>
<td>Outcome: technical hardware configuration</td>
<td>Between imitated and customized</td>
<td>Customized</td>
<td>Customized</td>
<td>Customized</td>
</tr>
</tbody>
</table>

**TECHNICAL CONFIGURATION: WHY THE CASES DIFFER**

**GENERIC STRATEGY, INTERNATIONALIZATION EXPERIENCE AND TEMPLATE AVAILABILITY FOR TRANSFER**

The variance with regard to generic strategy, related strategic distance between sites and internationalization experience provides an important explanation why SMC and Fiat developed or defined templates for transfer and why DC and Skoda did not – at least not at the time when their sites were established.

Table 43: Generic strategy, internationalization experience and template availability for transfer

<table>
<thead>
<tr>
<th>Technical Configuration</th>
<th>MUL</th>
<th>FIPL</th>
<th>DCIPL</th>
<th>SAIPL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Generic strategy</td>
<td>Focus &amp; Cost</td>
<td>Focus &amp; Cost</td>
<td>Focus &amp; Differentiation</td>
<td>Differentiation &amp; Cost</td>
</tr>
<tr>
<td>Strategic distance between units</td>
<td>Low between home and Indian operation and also a number of other integrated foreign operations</td>
<td>High between home and Indian operation; low between World Car operations</td>
<td>High between home and Indian operation; increasingly low between Asian operations</td>
<td>High between home and Indian operation; increasingly low between foreign operations</td>
</tr>
<tr>
<td>Internat. experience</td>
<td>High</td>
<td>High</td>
<td>Low</td>
<td>Low</td>
</tr>
<tr>
<td>Template availability</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
</tr>
</tbody>
</table>

**ENTRY MODE AND LOCAL TEMPLATE AVAILABILITY**

Related to their variance in establishment mode, the firms differed with regard to the availability of a local template. While the Greenfield sites MUL, DCIPL and SAIPL had no existing local template available at their site, things were different for Fiat that had chosen or had to choose a Brownfield site/acquisition. What is more, in view of their equity mode as JVs, MUL, FIPL and DCIPL, at least in theory, had the option of adopting the local JV partner’s configurations.
Table 44: Entry mode and local template availability

<table>
<thead>
<tr>
<th>Technical Configuration</th>
<th>MUL</th>
<th>FIPL</th>
<th>DCIPL</th>
<th>SAIPL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Establishment mode</td>
<td>Green</td>
<td>Brown</td>
<td>Green</td>
<td>Green</td>
</tr>
<tr>
<td>Equity mode</td>
<td>Minority JV &gt; Majority JV</td>
<td>Majority JV &gt; Wholly-owned</td>
<td>Majority JV &gt; Wholly-owned</td>
<td>Wholly-owned</td>
</tr>
<tr>
<td>Local template availability (existing at site / from local partner)</td>
<td>No / Yes – in theory</td>
<td>Yes / Yes – in theory</td>
<td>No / Yes – in theory</td>
<td>No / No</td>
</tr>
</tbody>
</table>

**Configuration mandate, (mis)fit and template transfer/use**

The pattern of foreign template transfer or local template use with respect to the technical configuration can mainly be explained by the interplay of product-ownership- and entry-mode-related configuration-mandates and strategic/institutional misfits between foreign parent templates/demands and local/host contextual demands and conditions.

Although a minority JV partner, it was SMC’s leading home plant Kosai that was used as a template for MUL’s vertical integration and basic factory layout/process design. As MUL was a Greenfield site, as the local JV partner was lacking capabilities to develop and produce its own vehicle, it was SMC’s task to introduce the vehicle and the processes to build it. SMC – also as part of the JV agreement – and its expatriates were mandated to configure the technical configuration of the site. Now, given the strategic fit between the Kosai template and the Indian host context – i.e. mainly in the demand market conditions for small low segment cars – SMC was able to transfer selectively its foreign parent template to establish MUL’s vertical integration and basic factory layout/process design. However, there was also some strategic misfit between the Kosai template and the host strategic context with respect to supply and demand market conditions. This expressed itself in much lower labor costs and higher price sensitivity of customers in India. To keep down production costs, SMC transferred its Kosai template’s technical hardware configuration only selectively. At the same time, the local JV partner, the Government of India, pushed for labor intensive production.

In contrast to SMC’s involvement in MUL, Fiat had control over the JV practically from the beginning. Given that Fiat not only started off as the senior JV partner but was also very quick to turn the JV into wholly-owned subsidiary and given that it produced its own range of vehicles, it assumed the mandate to set up the technical configuration of FIPL. Although Fiat, in contrast to SMC, used PAL’s Brownfield site, it could only very selectively use the existing factory layout/process design and technical hardware configuration. This was due to the fact that facilities were either run down or strategically too distant – mainly in product quality – to the manufacturing specifications and standards of the World Car range. Thus, Fiat had a template, it had the mandate to shape FIPL’s technical configuration and it ruled out using the existing local template. At the same time, the strategic distance between other
World Car site strategic contexts and the Indian one also made a full transfer of its template difficult. Against this background, Fiat transferred its World Car production template as far as the host strategic conditions and the spatial restrictions of the Brownfield site allowed. Compared to MUL, Fiat de-selected more of its template’s technical configuration, which was mainly caused by a higher degree of strategic misfit (in host context demand market conditions/local volume). While Fiat was able to transfer its World Car template’s configuration is some areas of the site’s level of vertical integration and basic factory layout/process design, it almost completely refrained from transferring the template’s technical hardware configuration. Even though the Fiat template was already optimized for modest demand conditions and low cost labor supply conditions, the host strategic context conditions were still too distant, to allow a full transfer with respect to the template’s technical configuration. In short, like in the MUL case, the strategic misfit led Fiat to only selectively transfer its template. And again, like in the MUL case, the lower volumes-market demand conditions and the price sensitive Indian customers ruled out the transfer of the World Car template’s technical configuration. In contrast to MUL, the local partner had much less power to push for labor intensive production. (However, when market demand fell below expectations, host institutional labor laws made it difficult for FIPL to reduce labor, making it even less attractive to introduce automated production hardware.

In contrast to MUL and FIPL, DCIPL and SAIPL lacked a defined parent template to transfer in the first place. What is more, using their home plants as templates was equally ruled out by the strategic distance between the home and host strategic context conditions. However, using a local template for DCIPL’s and SAIPL’s technical configuration was also out of the question. First, DC had from the first day a majority in the Indo-German JV with Telco. Second, the site was to manufacture the vehicle introduced by the German partner who was therefore mandated to set up the corresponding technical configuration. Clearly, using the technical configuration of an Indian JV partner – who was hitherto a truck manufacturer in a developing country context and who had operated until recently in a suppliers market – for the production of a German luxury vehicle was out of the question. As neither a foreign parent nor a local template were available or could be used, the Greenfield site’s technical configuration had to be created anew. This set-up had to comply with foreign parent strategic demands centering on the specification of the product. In addition to product specific demands, host context strategic supply and demand conditions – crucially defined by low demand and low labor costs – as well as institutional demands – crucially defined by local content requirements – translated into a specific task profile of the site. In contrast to DCIPL, SAIPL had no local JV partner who could provide a local template for its technical configuration. Skoda had to set up the technical configuration for a model, which was also produced at one of its home sites in the Czech Republic. Just as DCIPL, SAIPL neither had a foreign parent nor a local template it could use. Similar to DCIPL, SAIPL’s technical configuration had to respond to a specific set of demands and conditions.
These were foreign parent strategic demands for profitable production, demands with regard to technical and quality specifications of the product and specific host context strategic and institutional conditions: of low demand, low labor costs and local content requirements. The specific task profile of the site resulted from these.

**Table 45: Configuration mandate, (mis)fit and template transfer/use**

<table>
<thead>
<tr>
<th>Technical Configuration</th>
<th>MUL</th>
<th>FIPL</th>
<th>DCIPL</th>
<th>SAIPL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Template availability</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Local template availability (existing at site / from local partner)</td>
<td>No / Yes – in theory</td>
<td>Yes / Yes – in theory</td>
<td>No / Yes – in theory</td>
<td>No / No</td>
</tr>
<tr>
<td>Configuration mandate</td>
<td>Foreign parent nationals</td>
<td>Foreign parent nationals</td>
<td>Foreign parent nationals</td>
<td>Host country nationals</td>
</tr>
<tr>
<td>Foreign template transfer</td>
<td>Yes – but only selectively due to strategic misfit</td>
<td>Yes – but only selectively due to strategic misfit</td>
<td>No – but foreign parent technical configuration related demands</td>
<td>No – but foreign parent technical configuration related demands</td>
</tr>
<tr>
<td>Local/host template used</td>
<td>No</td>
<td>Yes/No – but had to be dealt with as it was</td>
<td>No</td>
<td>No</td>
</tr>
</tbody>
</table>

**INSTITUTIONAL/STRATEGIC (MIS)FITS AND RECONTEXTUALIZATION PRESSURES**

In the case of MUL and FIPL, the strategic distance between the foreign parent template and the host strategic context and the resulting recontextualization pressure were felt before transfer took place and led to a selective transfer. Those selected aspects of SMC’s and Fiat’s templates that were actually transferred, did not cause any strategic or institutional misfit and consequently induced little recontextualization pressure. Yet, those aspects of the production system that were not targeted by transfer due to strategic misfit still had to be configured. In the case of FIPL, the foreign template transfer and demands as well as host strategic conditions, did put some recontextualization pressure on the existing technical configuration. In MUL, in contrast, there was no such recontextualization pressure because there was no existing local template. Also, foreign parent and local/host demands hardly contradicted each other in those areas that were not covered by the template.

Thus, at MUL and FIPL, the configuration of those aspects that were not targeted by transfer, still had to respond to contextual pressures of foreign parent and host context strategic demands and conditions.

This was even more so the case in DCIPL and SAIPL, which did not transfer or could not transfer. DCIPL and SAIPL used no templates at all – neither a foreign parent one, nor a local one. Hence, there was no misfit between any template and specific context conditions and demands. What is more, while at DCIPL and SAIPL technical configurations did have to respond to specific parent demands as well as host context strategic and institutional conditions, there was no contradiction between foreign parent demands and local/host con-
text demands with respect to their site’s technical configuration. This was also related to the
fact that both production systems were established as Greenfield operations with no existing
local institutional demands at the sites.

Table 46: Institutional/strategic (mis)fits and recontextualization pressures

<table>
<thead>
<tr>
<th>Technical Configuration</th>
<th>MUL</th>
<th>FIPL</th>
<th>DCIPL</th>
<th>SAIPL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreign template transfer</td>
<td>Yes – selectively mainly due to strategic misfit</td>
<td>Yes – selectively mainly due to strategic misfit</td>
<td>No – but foreign parent technical configuration related demands</td>
<td>No – but foreign parent technical configuration related demands</td>
</tr>
<tr>
<td>Local/host template used</td>
<td>No</td>
<td>Yes/No – very selectively</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Strategic/institutional (mis)fit</td>
<td>No / No</td>
<td>Yes / No</td>
<td>No / No</td>
<td>No / No</td>
</tr>
<tr>
<td>Recontextualization pressure</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
</tr>
</tbody>
</table>

CONTEXTUAL STRENGTH/RESILIENCE AND RECONTEXTUALIZATION MODE FOUND

As in the MUL and FIPL cases, only those aspects were transferred from the Kosai and the
World Car template that fitted into the local/host strategic context, there was no recontextual-
ization pressure on those aspects of the template that were actually transferred. In turn,
those aspects that did not fit were de-selected. However, as all four sites were either
Greenfield sites or featured no usable technical configurations, the local technical configu-
ration had to be either changed or newly created. In the MUL and FIPL case, the local con-
text was adapted – newly created or changed in the case of FILP’s local template – in line
with those foreign template aspects transferred. In those areas where no transfer was possi-
bile, the technical configuration was mainly created in line with foreign parent demands and
host context strategic conditions. As a result, the technical configuration featured a mix of
imitated and customized solutions in MUL and FIPL. Both SMC and Fiat were only willing
to transfer, what fitted strategically well with non-resilient (i.e. low resilience of supply and
demand conditions).

In DCIPL and SAIPL, there was no recontextualization pressure on any template, either
because neither a foreign parent nor local templates were used. There were, however, dif-
f erent contextual pressures – mainly foreign parent strategic demands and host context
supply and demand conditions – the technical configuration of the sites had to respond to.
This shaping mainly involved an adaptation of the local site’s technical configuration in line
with foreign parent demands and host strategic context conditions. It is important to under-
stand that the host strategic context – demand market conditions and supply conditions, i.e.
labor costs – was not very resilient. FIPL, for example, despite great marketing efforts, had
little chance to change the host context market demand conditions. As regards host context
supply market conditions, specifically labor cost, the companies had no interest in adapting
the host strategic context to the strategic context conditions their templates were originally
designed for. Thus, adaptation of host strategic context conditions limited the companies’
ability and willingness to adapt the host strategic context to their templates. With regard to
the technical configuration of the sites in our sample, this limited ability to adapt the host
strategic context led to an adaptation of MUL’s and FIPL’s template and a customized re-
sponse in the case of DCIPL and SAIPL. In contrast to the low host strategic context resil-
ience, the resilience of the local sites with regard to the technical configuration in line with
foreign parent and host strategic context conditions was high. After all, MUL, DCIPL and
SAIPL were Greenfield JVs. In all cases no matter what their general staffing policy was,
foreign parent expatriates were mandated to configure the technical configuration or keep a
watchful eye on it. At the same time a newly created or changed technical configuration was
not perceived by local employees as a threat to the local/host institutional patterns.

Table 47: Explanatory dimensions of hybridization outcome

<table>
<thead>
<tr>
<th>Technical Configuration</th>
<th>MUL</th>
<th>FIPL</th>
<th>DCIPL</th>
<th>SAIPL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreign template available</td>
<td>Yes – Kosai template</td>
<td>Yes – World Car template</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Foreign template transfer</td>
<td>Yes – selectively</td>
<td>Yes – selectively</td>
<td>No – but foreign parent demands</td>
<td>No – but foreign parent demands</td>
</tr>
<tr>
<td>Existing local template</td>
<td>No – Greenfield</td>
<td>Yes – Brownfield/ Acquisition</td>
<td>No – Greenfield</td>
<td>No – Greenfield</td>
</tr>
<tr>
<td>Local/host template used</td>
<td>No</td>
<td>Yes/No – very selectively</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Misfit/recontext. need</td>
<td>Yes / No (some template de-selection before transfer due to strategic misfit)</td>
<td>Yes / Yes (some de-selection before transfer due to strategic misfit, misfit of the Brownfield facility)</td>
<td>Yes / No (no home template transfer possible due to strategic misfit)</td>
<td>Yes / No (no home template transfer possible due to strategic misfit)</td>
</tr>
<tr>
<td>Form of recontextualization</td>
<td>Adpt. of foreign template through de-selection (to meet and host context demands and conditions) &amp; adpt. of local context (creation) according to selected aspects of parent template, foreign parent demands and host context strategic conditions</td>
<td>Adpt. of foreign template through de-selection (to meet and host context demands and conditions) &amp; adpt. of local context/ template (change &amp; creation) according to selected aspects of parent template, foreign parent demands and host context strategic conditions</td>
<td>Adpt. of local context (creation) in line with foreign parent demands and host context strategic conditions</td>
<td>Adpt. of local context (creation) in line with foreign parent demands and host context strategic conditions</td>
</tr>
</tbody>
</table>
WORK ORGANIZATION AND HUMAN RESOURCE PROFILE: HOW THE CASES DIFFER

With regard to the hybridization outcome of the sites’ work organization and human resource profile we observed the following. MUL was most successful in imitating its home-plant work-organization and human resource profile. Only in a few areas we found traces of typical local forms of work organization and human resource profile. This was in marked contrast with SAIPL, where outcomes were just the other way around. SAIPL featured imitation in a limited number of areas, mainly with regard to the formal work organization at the shopfloor level. For the rest, the work organization and human resource profile were local solutions. The hybrid solution in SAIPL – a side by side of imitation and localization – was based on coexistence rather than on integration of elements from different origins. This outcome was somewhat similar to the FIPL case. FIPL had also successfully imitated major formal aspects of the work organization of the World Car template. However, FILP had not been able to transfer all aspects of its World Car template as it originally intended. There was, particularly in the beginning, a decoupled hybrid solution based more on combination/coexistence rather than on integration of foreign parent and local/host elements. However, over time Fiat’s hybrid solution has probably shifted toward an integrated hybrid solution. Finally, DCIPL showed the strongest signs of integrating foreign and local/host elements with regard to work organization and human resource profile. The fulfillment of foreign parent demands gave rise to a work organization and human resource profile that integrated foreign parent demands and local/host institutional demands and conditions in a way that was novel in the sense that the resulting work organization and human resource profile reflected neither a typical parent nor a typical host context organizational set-up. Although different contextual origins of the set-up were still discernable, the solution integrated the elements in a novel way. All cases – irrespective of their transfer intent and effort were showing socio-professional demarcations that contrasted with foreign parent company conditions. (see table 48).

Table 48: Hybridization outcome on the dimension of work organization & HR

<table>
<thead>
<tr>
<th>Work Organization &amp; HR profile</th>
<th>MUL</th>
<th>FIPL</th>
<th>DCIPL</th>
<th>SAIPL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outcome</td>
<td>Between hybrid and imitated</td>
<td>Hybrid</td>
<td>Between hybrid and novel/customized</td>
<td>Between hybrid and local</td>
</tr>
</tbody>
</table>

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WORK ORGANIZATION AND HUMAN RESOURCE PROFILE: WHY THE CASES DIFFER

GENERIC STRATEGY, INTERNATIONALIZATION EXPERIENCE AND TEMPLATE AVAILABILITY FOR TRANSFER

The respective companies’ variance in generic strategy, related strategic distance and internationalization experience provides an important explanation why SMC and Fiat developed or defined templates and why DC and Skoda did not. However, with regard to the work organization, there was an exception. SA IPL did have a very circumscribed template for transfer, i.e. the Skoda Production System. At the time of research, DCIPL was also in the process of introducing the Mercedes Benz Production System. However, when the site was founded the system was not available.

Table 49: Generic strategy, internationalization experience and template availability for transfer

<table>
<thead>
<tr>
<th>Work Organization &amp; HR profile</th>
<th>MUL</th>
<th>FIPL</th>
<th>DCIPL</th>
<th>SA IPL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Generic strategy</td>
<td>Focus &amp; Cost</td>
<td>Focus &amp; Cost</td>
<td>Focus &amp; Differentiation</td>
<td>Differentiation &amp; Cost</td>
</tr>
<tr>
<td>Strategic distance between units</td>
<td>Low between home and Indian operation and also a number of other integrated foreign operations</td>
<td>High between home and Indian operation; low between World Car operations</td>
<td>High between home and Indian operation; increasingly low between Asian operations</td>
<td>High between home and Indian operation; increasingly low between foreign operations</td>
</tr>
<tr>
<td>Internat. experience</td>
<td>High</td>
<td>High</td>
<td>Low</td>
<td>Low</td>
</tr>
<tr>
<td>Template availability</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
</tr>
</tbody>
</table>

ENTRY MODE AND LOCAL TEMPLATE AVAILABILITY

The entry mode variance – mainly their establishment mode – implied different availabilities of local templates for the firms. While the Greenfield sites MUL, DCIPL and SA IPL had no existing local template at their site; things were different at Fiat’s Brownfield site. At the same time, MUL’s, FIPL’s and DCIPL’s equity mode meant at least in theory that these firms had the option to use the local JV partners’ configurations as a template.
Table 50: Entry mode and local template availability

<table>
<thead>
<tr>
<th>Work Organization &amp; HR profile</th>
<th>MUL</th>
<th>FIPL</th>
<th>DCIPL</th>
<th>SAIPL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Establishment mode</td>
<td>Green</td>
<td>Brown</td>
<td>Green</td>
<td>Green</td>
</tr>
<tr>
<td>Equity mode</td>
<td>Minority JV &gt; Majority JV</td>
<td>Majority JV &gt; Wholly-owned</td>
<td>Majority JV &gt; Wholly-owned</td>
<td>Wholly-owned</td>
</tr>
<tr>
<td>Local template availability</td>
<td>No / Yes – in theory</td>
<td>Yes / Yes – in theory</td>
<td>No / Yes – in theory</td>
<td>No / No</td>
</tr>
</tbody>
</table>

**CONFIGURATION MANDATE, (MIS)FIT AND TEMPLATE TRANSFER/USE**

The foreign parent had the mandate to set up the work organization at all sites. These foreign parent configuration mandates were mainly related to equity modes, foreign partner product ownership and local/host capability gaps. While MUL, FIPL and to a limited degree SAIPL, used a foreign parent template to configure the Indian sites’ work organization and human resource profile, DCIPL was not equipped with such a foreign parent template. This is not to say that DCIPL had no foreign parent demands vis-à-vis its work organization and the human resource profile of the site. Although SMC entered the Indian market as a junior partner in the JV, it was SMC who had the mandate to configure the work organization and shape human resource profile of the site. SMC’s expatriates were very explicitly mandated to use SMC’s leading home plant Kosai as a template to establish the work organization and human resource profile of MUL. Why did SMC get the mandate and why could it transfer the template? First, MUL was basically a Greenfield site that required some configuration. The local JV partner, had chosen a foreign partner because it was lacking capabilities to introduce and produce a vehicle on its own. As a result, the foreign JV partner – even though in a minority position – had to have the mandate to organize the work for building a range of vehicles that were introduced by the foreign partner. More importantly, SMC also was chosen as a partner because of “the Japanese work culture”. The local JV partner asked SMC to transfer its home plant work organization and human resource profiles because they contrasted with prevailing host country institutional patterns. Conversely, SMC had probably no problems with such a transfer approach because institutional conditions in the host context were rated as so disadvantageous that drawing on typical host patterns was out of the question. So institutional distance was actually a reason to transfer the home parent work organization and related human resource profiles. It should be noted, however, that there were also some institutional misfits between the Kosai template and the host institutional context that led to a transfer restraint. Most of all, the strong socio-professional demarcations in the local/host institutional context led SMC to leave out a few aspects of its home sites’ work-organization. A case in point was the concept of consensual decision-making.
In contrast to SMC’s involvement in MUL, Fiat was practically from the beginning the senior JV partner and quick to turn the JV into a wholly-owned subsidiary. Given Fiat’s equity development and given that it produced its own range of vehicles, it was clearly mandated to organize/change the work organization and human resource profile of its Indian site. Like in the MUL case, there was no strategic misfit (i.e. in supply and demand market terms) ruling out the use of its foreign parent template’s work organization and human resource profile. At the same time, FIPL was facing a local template that was institutionally very distant from what the World Car template envisioned. The existing local template deterred Fiat – at least initially – from transferring the full range of its foreign parent template with regard to the work organization and human resource profile to FIPL. The transfer restraint mainly applied to high involvement concepts of its work organization.

DC from the first day had a majority in the Indo-German JV with Telco and turned, like Fiat, the JV into a wholly-owned subsidiary. Moreover, the site was to manufacture a vehicle introduced by the German partner who was mandated by the JV to set up the work organization of the Greenfield site. Clearly, using the local JV partner’s work organization as a template for the production of a German luxury vehicle was out of the question. So essentially, no local template was used to structure the site’s work organization. However, no use was made of a foreign parent template either. This was related to the fact that a specific work organization template was not available for CKD sites. DCIPL Expatriates also could not simply apply home plant standards because these didn’t fit strategically and institutionally. The use of home plant configurations was ruled out by the Indian site’s task profiles based on low volume and low labor costs as well as substantial socio-professional demarcation between different employee groups. While DCIPL did not draw on a work organization template from the local JV partner, it drew on Telco’s experienced workforce to staff its own human resources. Although the human resources delegated from Telco were experienced in automobile manufacturing, this did not mean that their basic work dispositions were in line with the foreign parent demands. Thus, there neither was a foreign parent template and nor local template used with regard to the work organization and corresponding human resource profile. There, however, were local/host context and foreign parent demands and expectations.

In contrast to DCIPL and FIPL, SAIPL had, no local JV partner who could a local template for its work organization and human resource profile. Being a wholly-owned Greenfield subsidiary, Skoda had to set up the work organization and corresponding human resource profile of its own operation. While there was enough strategic fit to transfer the basics of SPS, there was too severe an institutional and strategic misfit to seek a comprehensive transfer of Skoda’s home plants’ work organization and human resource profile. Particularly, the transfer of home plant supervisor-worker relations were ruled out by socio-professional expectations of the Indian employees. Moreover, the modest volumes at the Indian site, the early phase of the venture ruled out the transfer of Skoda’s home vocational
training system. As this supporting infrastructure for reproducing a certain HR profile was missing, the transfer of SPS only covered limited aspects of work organization on the shopfloor. Thus, SAIPL did not use a comprehensive template because it had not defined one for SKD operations and because of the strategic and institutional distance with between SAIPL’s local/host context and the home plant’s context. Nevertheless, Skoda did seek a limited transfer of its home plant work organization and human resource profile. In contrast to DCIPL, however, there were far fewer foreign parent demands in SAIPL vis-à-vis the work organization and human resource profile.

Table 51: Configuration mandate, (mis)fit and template transfer/use

<table>
<thead>
<tr>
<th>Work Organization &amp; HR profile</th>
<th>MUL</th>
<th>FIPL</th>
<th>DCIPL</th>
<th>SAIPL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreign template availability</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>Yes – very limited</td>
</tr>
<tr>
<td>Local template availability (existing at site / from local partner)</td>
<td>No / Yes – in theory</td>
<td>Yes / Yes – in theory</td>
<td>No / Yes – in theory</td>
<td>No / No</td>
</tr>
<tr>
<td>Configuration mandate</td>
<td>Foreign parent nationals</td>
<td>Foreign parent nationals</td>
<td>Foreign parent nationals</td>
<td>Host country nationals</td>
</tr>
<tr>
<td>Foreign template transfer</td>
<td>Yes – comprehensive</td>
<td>Yes – selective</td>
<td>No – but foreign parent function related demands</td>
<td>Yes – very limited, but few additional foreign parent demands</td>
</tr>
<tr>
<td>Local/host template used</td>
<td>No – but host context related demands</td>
<td>Yes/No – but had to be dealt with as it was</td>
<td>No – but host context related demands</td>
<td>No – but host context related demands</td>
</tr>
</tbody>
</table>

**INSTITUTIONAL/STRATEGIC (MIS)FITS AND RECONTEXTUALIZATION PRESSURES**

Both MUL’s and FIPL’s foreign parent templates met very adverse institutional conditions in the local/host context. For FIPL institutional conditions were even more adverse because FIPL had to deal with the conditions of a Brownfield set-up - involving all typical local conditions including a low commitment and high labor unrest human resource profile. In short, the recontextualization pressures on either the foreign parent template or the existing local site context/template exemplified substantial institutional misfits.

Now, while DCIPL, transferred no foreign parent template that could have caused a local/host context misfit, its ethnocentric staffing policy and the nature of local/host institutional conditions also caused institutional misfits between foreign parent demands and local institutional demands and conditions. This institutional misfit and corresponding recontextualization pressure occurred because of foreign parent expatriate demands. These demands met some adverse local institutional demands and conditions in the local context. Thus, also in the DCIPL case there was some misfit between parent demands and local institutional conditions that caused recontextualization pressures.
In contrast to SMC’s and Fiat’s templates, Skoda’s template saw only limited institutional misfit in the local/host institutional context. This had two reasons. On the one hand the template was not very comprehensive and did not strongly challenge entrenched institutional – socio-profession demarcations. On the other hand, in contrast to MUL, FIPL and DCIPL, SAIPL featured an utterly polycentric staffing policy. This implied that there were not many expatriates on site that could pose institutionally conflicting demands. There were, therefore, only few further foreign parent demands with regard to SAIPL’s work organization and human resource profile. Again, this was in stark contrast to DCIPL.

Table 52: Institutional/strategic (mis)fits and recontextualization pressures

<table>
<thead>
<tr>
<th>Work Organization &amp; HR profile</th>
<th>MUL</th>
<th>FIPL</th>
<th>DCIPL</th>
<th>SAIPL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreign parent template transfer</td>
<td>Yes – comprehensive</td>
<td>Yes – between selective and increasingly comprehensive</td>
<td>No – but foreign parent function related demands</td>
<td>Yes – very limited, but little addition foreign parent demands</td>
</tr>
<tr>
<td>Local/host template used</td>
<td>No – but host context related demands</td>
<td>Yes/No – but had to be dealt with as it was</td>
<td>No – but host context related demands</td>
<td>No – but host context related demands</td>
</tr>
<tr>
<td>Strategic/institutional (mis)fit</td>
<td>No/Yes</td>
<td>No/Yes</td>
<td>Yes/Yes</td>
<td>No/No</td>
</tr>
<tr>
<td>Recontextualization pressure</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
</tr>
</tbody>
</table>

**Contextual strength/resilience and recontextualization mode found**

In MUL, the institutional misfit between the template and the local/host context was mainly tackled by massively adapting the local institutional context rather than the template transferred. Like no other company, MUL and its the foreign parent, invested resources to imitate the SMC work organization and human resource profile. The adaptation of the local context was facilitated by combination of measures most important of which: selecting a young workforce, massive two-way transfer of personnel across all employee levels, operating with an ethnocentric staffing policy as well as with an elaborate material and normative incentive system, gratifying very purposefully the desired work behaviors. In addition to, the Greenfield nature of the site and it was the massive support by Indian top management that created a resilient local context for the implementation of a distant work organization and human resource profile. However, in some areas this resilience was also limited, like in all other cases in this sample. Local and host context resilience was low where it targeted changes to deeply entrenched institutional patterns of socio-professional identity and demarcation.

In comparison to MUL, FIPL was facing a more substantial institutional misfit between its foreign parent template and the local institutional conditions. In contrast to SMC, Fiat also
adapted – deselected – more of its foreign parent work organization template. This is not to say that Fiat did not make an effort to adapt the local institutional context in line with its World Car template. However, compared to MUL, FIPL adapted more of its template and less the local institutional context. This different recontextualization mode was the result of its establishment mode and the corresponding lower resilience of the local institutional context. Additionally, the Indian host context, the Indian labor law rendered it quite difficult to lay off employees. This external condition made it difficult for FIPL to achieve a re-composition of its work-force at a short notice. While Fiat also invested substantial resources in two-way personnel transfer, it did not do it to the same extent as SMC did. Moreover, unlike MUL, FIPL did not use an elaborate monetary and normative incentive system to achieve work dispositional change. While it is difficult to give it a numeric estimation, it was quite evident that SMC had been willing and able to put more resources into the Indian operation to adapt the local institutional context, in a sea of adverse host context institutional conditions.

DCIPL, in contrast, had no template to transfer. Yet, DCIPL also experienced some misfit between foreign parent demand and local institutional demands and conditions with respect to the site’s work organization and HR-profile. DCIPL was able to put through its demands. Part of its ‘success’ was related to its staffing policy, the strong presence of German expatriates (involving mostly a one-way transfer of Germans to India) and the entry mode. However, for the most part the success was related to the fact that German demands were not aiming at replicating concrete German work concepts and human resource profiles but trying to achieve desired work dispositions by observing and drawing on host country institutional patterns.

Finally, SAIPL featured the lowest degree of institutional misfit and corresponding recontextualization pressure in the course of the set-up of its work organization and human resource profile. The limited resources that SAIPL was putting into its Indian venture were focused on adapting the local context to the SPS template. This adaptation was made possible by a very deliberate selection of human resources in India, combined with a focused and limited personnel transfer approach. The selection of young workers and the selection of Indian managers with prior work experience in other auto MNE in India moderated the distance between the template and the local conditions. Secondly, given that the template’s work organizational reach was limited, focused personnel transfers facilitated to institutionalize different work dispositions in those few areas. There were potentially more far-reaching misfits between local institutional conditions of the site and what the expatriate considered a proper set-up. However, limited resources expressed by limited personnel transfer and an utterly polycentric staffing policy at SAIPL, did not give the expatriate the willingness and ability to adapt the local institutional context beyond the scope of the SPS.
### Table 53: Explanatory dimensions of hybridization outcome

<table>
<thead>
<tr>
<th>Work Organization &amp; HR profile</th>
<th>MUL</th>
<th>FIPL</th>
<th>DCIPL</th>
<th>SAIPL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreign parent template available</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>Yes – very limited</td>
</tr>
<tr>
<td>Foreign parent template transfer</td>
<td>Yes – comprehensive</td>
<td>Yes – between selective and increasingly comprehensive</td>
<td>No – but foreign parent function related demands</td>
<td>Yes – very limited, but little addition foreign parent demands</td>
</tr>
<tr>
<td>Existing local template</td>
<td>No – Greenfield</td>
<td>Yes – Brownfield/Acquisition</td>
<td>No – Greenfield</td>
<td>No – Greenfield</td>
</tr>
<tr>
<td>Local/host template used</td>
<td>No – but host context related demands</td>
<td>Yes/No – but had to be dealt with as it was</td>
<td>No – but host context related demands</td>
<td>No – but host context related demands</td>
</tr>
<tr>
<td>Misfit/recontext. need</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Form of recontextualization</td>
<td>Adpt. of foreign template through some de-selection (to meet and host context inst. demands and conditions) &amp; mostly adapt. (creation) in line with foreign parent template</td>
<td>Adpt. of both foreign template through de-selection &amp; adapt. of local context/template (change &amp; selection) in line parent template</td>
<td>Adpt. of local context (creation) in line with foreign parent demands, local/host context strategic conditions and institutional demands and conditions</td>
<td>Adpt. of local context (creation) in line with limited parent template but mainly in line with local/host institutional conditions and demands</td>
</tr>
</tbody>
</table>

### ORGANIZATIONAL RELATIONS

### INDUSTRIAL RELATIONS: HOW THE CASES DIFFER

The hybridization outcome on the dimension of industrial relations does not show a great deal of variance across cases. However, the different cases – mainly FIPL, DCIPL and potentially SAIPL – have come to their local solution from different starting points. MUL has started with an imitation of Japanese/SMC company industrial relations. Over time these have developed more towards a local pattern, so that it is somewhere between imitation, hybrid or even increasingly local. FIPL has started from the opposite end. FIPL was witnessing in the beginning a typical local pattern of adverse company industrial relations. Over time, FILP has been able to shift this local pattern to a modern Indian pattern of industrial relations similar to that of MUL, i.e. having just one unaffiliated company union on site. In contrast to MUL and FIPL, DCIPL and SAIPL had no or only weak formalized company industrial relations in the beginning. Over time, DCIPL has come to a modern host context institutional pattern of industrial relations and indications were that SAIPL would follow suit (see table 54).
Table 54: Hybridization outcome on the dimension of company industrial relations

<table>
<thead>
<tr>
<th>Company</th>
<th>MUL</th>
<th>FILP</th>
<th>DCIPL</th>
<th>SAIPL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outcome</td>
<td>From imitated to between hybrid and local</td>
<td>From traditional local to modern local</td>
<td>From absence to modern local</td>
<td>From absence to probably modern local</td>
</tr>
</tbody>
</table>

**INDUSTRIAL RELATIONS: WHY THE CASES DIFFER**

**GENERIC STRATEGY, INTERNATIONALIZATION EXPERIENCE AND TEMPLATE AVAILABILITY FOR TRANSFER**

Generic strategy, strategic distance between sites and internationalization experience provide an important explanation why SMC and Fiat developed or defined templates for transfer and why DC and Skoda did not. While the foreign parent template in the MUL case included an ideal definition of industrial relations, Fiat had left this aspect out of its World Car template definition. Aware of the institutional differences in industrial relations systems, Fiat did not include a specific mode of company industrial relations in its World Car template. This is not to say that Fiat had no demands vis-à-vis industrial relations at its site. Instead, Fiat had defined the development of participative and cordial labor relations as a policy for the whole Fiat group, i.e. not just for its World Car operations.

Table 55: Generic strategy, internationalization experience and template availability for transfer

<table>
<thead>
<tr>
<th>Company</th>
<th>MUL</th>
<th>FIPL</th>
<th>DCIPL</th>
<th>SAIPL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Generic strategy</td>
<td>Focus &amp; Cost</td>
<td>Focus &amp; Cost</td>
<td>Focus &amp; Differentiation</td>
<td>Differentiation &amp; Cost</td>
</tr>
<tr>
<td>Strategic distance between units</td>
<td>Low between home and Indian operation and also a number of other integrated foreign operations</td>
<td>High between home and Indian operation However, low between World Car operations</td>
<td>High between home and Indian operation Increasingly, low between Asian operations</td>
<td>High between home and Indian operation Increasingly low between foreign operations</td>
</tr>
<tr>
<td>Internat. experience</td>
<td>High</td>
<td>High</td>
<td>Low</td>
<td>Low</td>
</tr>
<tr>
<td>Foreign template availability</td>
<td>Yes</td>
<td>Yes/No - company IR not part of World Car template</td>
<td>No</td>
<td>No</td>
</tr>
</tbody>
</table>
ENTRY MODE AND LOCAL TEMPLATE AVAILABILITY

Entry mode variance – mainly in establishment mode – implied that the firms had different availabilities with regard to local templates. While the Greenfield sites could not use an existing local template, this was different for the Brownfield site FIPL. Moreover, the JVs in the research sample had at least in theory the option to draw on their local JV partners’ configurations.

Table 56: Entry mode and local template availability

<table>
<thead>
<tr>
<th>Company Industrial Relations</th>
<th>MUL</th>
<th>FIPL</th>
<th>DCIPL</th>
<th>SAIPL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Establishment mode</td>
<td>Green</td>
<td>Brown</td>
<td>Green</td>
<td>Green</td>
</tr>
<tr>
<td>Equity mode</td>
<td>Minority JV &gt; Majority JV</td>
<td>Majority JV &gt; Wholly-owned</td>
<td>Majority JV &gt; Wholly-owned</td>
<td>Wholly-owned</td>
</tr>
<tr>
<td>Local template availability</td>
<td>No / Yes – in theory</td>
<td>Yes / Yes – in theory</td>
<td>No / Yes – in theory</td>
<td>No / No</td>
</tr>
</tbody>
</table>

CONFIGURATION MANDATE, (MIS)FIT AND TEMPLATE TRANSFER/USE

With regard to the establishment of company industrial relations not all foreign parents had the mandate or used the mandate to structure company industrial relations. The MUL operation was a Greenfield operation and there was no existing industrial relations profile at the site. Given the equity situation, the option of adopting a local template from the local JV partner, suggested itself for the site’s company industrial relations. This was, however, only a theoretical option in the case of MUL. For, the local JV partner – the Government of India – was extremely keen on not replicating a typical local company industrial relations pattern. Thus, SMC had the mandate to introduce its company industrial relations template because the Government of India very deliberately sought to depart from industrial relations typical in public sector and other industrial undertakings at the time. Given the institutional distance between the Japanese and Indian industrial relations and the preference for the Japanese company industrial relations, MUL tried to adopt SMC’s industrial relations template. From the SMC side, this was also welcome because the transfer of SMC’s industrial relations template was clearly an institutional contextual precondition to establish its work organization and high involvement work dispositions.

In contrast, MUL and DCIPL, FIPL not only had the theoretical option of using a local template but was facing an existing company industrial relations template at its Brownfield site. As Fiat had chosen to take over PAL’s Brownfield site, FIPL had to deal with an existing local template of company industrial relations. But Fiat, was not very happy with this template. The existing industrial relations were an adversarial and conflict-prone mode, obstructing the transfer of its template’s work organization. Therefore, it was out of the question to build on or use the existing local industrial relations template. Moreover, as
discussed earlier, FIPL had practically from the beginning control over its Indian operation and turned it quickly into a wholly-owned subsidiary. Against this background, Fiat had the undisputed mandate to structure FIPL’s company industrial relations. While Fiat had not defined company industrial relations as part of its World Car template, the company formulated a broader policy, calling for the establishment of participative, non-adverse industrial relations. Such constructive relations were a crucial element for developing a number of World Car work-organization concepts to their full potential.

In DCIPL the situation was different, yet again. Firstly, DCIPL neither had a foreign parent template to be transferred nor was there any mentioning of a defined foreign parent industrial relations policy. Secondly, as part of the equity mode, it was in the beginning the local JV partner’s mandate to take care of industrial relations. Thirdly, even as DCIPL equity shifted towards a wholly-owned DC subsidiary, the German expatriates left the handling of company industrial relations largely in the hands of their experienced Indian human resource managers. This polycentric staffing policy vis-à-vis the management of company industrial relations implied that host country managers applied modern host context templates for DCIPL’s industrial relations. Fourthly, in the first years of operation DCIPL was in a way under the umbrella of the local JV partner’s company industrial relations. A number of company industrial relations related issues were taken care of by the local JV partner Telco at a wider corporate level. This changed, however, with the shift in equity and when DCIPL moved out of the Telco premises. Fifthly, there was no indication that German managers found the local institutional patterns of company industrial relations – which were distant from home patterns and as handled by their Indian managers – problematic. In fact, quite the opposite was the case; German managers preferred local industrial relations over the ones at home. This naturally implied little demand for changes on their part.

Skoda in contrast, neither had a local JV partner nor an existing Brownfield site to draw on for its company industrial relations. For Skoda had entered the Indian market in the format of a wholly-owned Greenfield subsidiary. From the very beginning the foreign parent Skoda had the mandate to structure the site’s company industrial relations. However, at the time of research, the company neither had a foreign parent template nor concrete foreign parent demands in this regard. Instead, SAIPL’s utterly polycentric staffing policy meant that its industrial relations were handled by host country nationals. The staffing policy suggested that, just as in DCIPL, a typical modern Indian company industrial relations solution would sooner or later be implemented in SAIPL.
Table 57: Configuration mandate, (mis)fit and template transfer/use

<table>
<thead>
<tr>
<th>Company Industrial Relations</th>
<th>MUL</th>
<th>FIPL</th>
<th>DCIPL</th>
<th>SAIPL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreign template availability</td>
<td>Yes</td>
<td>Yes/No – but foreign parent demands</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Local template availability (existing at site / from local partner)</td>
<td>No / Yes – in theory</td>
<td>Yes / Yes – in theory</td>
<td>No / Yes – in theory</td>
<td>No / No</td>
</tr>
<tr>
<td>Configuration mandate</td>
<td>Not quite clear probably foreign parent and host country nationals</td>
<td>Foreign parent nationals</td>
<td>Host country nationals</td>
<td>Host country nationals</td>
</tr>
<tr>
<td>Foreign template transfer</td>
<td>Yes</td>
<td>No – but foreign parent demands</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Local/host template used</td>
<td>No</td>
<td>Yes/No – but had to be dealt with as it was</td>
<td>Yes</td>
<td>Yes - probably</td>
</tr>
</tbody>
</table>

**Institutional/strategic (mis)fits and recontextualization pressures**

MUL was the only company that tried to model its company industrial relations on a foreign parent template. This template was transferred, however, into a host institutional context that presented about the opposite of what the template contextually required. Concretely, the concept of a single company union combined with cooperative and harmonious labor-management relations was placed into a host institutional context that was characterized by the presence of multiple competing unions in companies, unions that were usually externally affiliated with political parties and/or external union leaders, and labor relations that were marked by adverse management-labor relations. Put simply, there was an utter institutional misfit between the foreign parent template and the host institutional context condition. While MUL’s establishment mode probably reduced the misfit, there was still a substantial recontextualization pressure on the foreign parent template.

In contrast to MUL, FILP had no defined foreign parent template to use. Instead, FILP was advised to apply Fiat’s global industrial relations policy calling for cordial and participative labor relations. However, Fiat – in contrast to MUL – had inherited a typical local template of industrial relation that mirrored institutionally about the opposite what Fiat’s policy asked for. There was, thus, a strong misfit between the local industrial relations template at the Brownfield site and foreign parent policy demands. As a consequence, there was a strong foreign parent recontextualization pressure on the local industrial relations template.

Finally, in the cases of DCIPL and SAIPL no major misfit was reported. First, both cases had no foreign parent template to be transferred. Second, based on a polycentric staffing policy on this particular production system dimension in both companies, the configuration of company industrial relations was put into the hands host country nationals. These shaped
the company industrial relations in line with local/host context conditions and demands. In these cases the local configuration of industrial relations met no recontextualization pressure from the foreign parent side because they were either rated positive, as in DCIPL, or because there were no foreign parent demands in this respect, as in SAIPL. After all, this modern Indian mode of company industrial relations was marked by low labor unrest and high factory discipline, which was preferred over foreign parent institutional conditions at the home sites. This modern mode was clearly facilitated by DCIPL’s and SAIPL’s establishment mode.

Table 58: Institutional/strategic (mis)fits and recontextualization pressures

<table>
<thead>
<tr>
<th>Company Industrial Relations</th>
<th>MUL</th>
<th>FIPL</th>
<th>DCIPL</th>
<th>SAIPL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreign template transfer</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Local/host template used</td>
<td>No</td>
<td>Yes/No but foreign parent demands</td>
<td>Yes</td>
<td>Probably Yes</td>
</tr>
<tr>
<td>Strategic/institutional (mis)fit</td>
<td>No / Yes</td>
<td>No / Yes</td>
<td>No / No</td>
<td>No / No</td>
</tr>
<tr>
<td>Recontextualization pressure</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
</tr>
</tbody>
</table>

CONTEXTUAL STRENGTH/RESILIENCE AND RECONTEXTUALIZATION MODE FOUND

How were the institutional recontextualization pressures tackled in the case of MUL and FIPL? MUL’s company industrial relations were based on a foreign parent template that was in stark contrast to host context institutional demands and conditions. Nevertheless, instead of strongly adapting the foreign parent template to host context conditions and local demands, strong efforts and commitments were made to adapt the local institutional context. The goal was to create a context conducive for the transfer and survival of the foreign parent company industrial relations template. This recontextualization mode became possible by the firm willingness of both JV partners. Most important of all, was probably the commitment of the Indian Government. It brought all its influence to bear, to keep out local forces pushing for an adaptation of the foreign parent industrial relations template. The Indian Government used its political power to dissuade external interference aiming at bringing the single union concept off track. Also, the financial resources that were put into the venture played their role in ensuring industrial peace. It is, for example, no coincidence that MUL’s workers are among the best paid in Indian industry. Thus, a strong willingness of the foreign and local parent to institutionalize the foreign parent template, the investment of substantial resources into above industry average wages, and the Greenfield nature of the venture, provided initially a quite resilient local context for a successful transfer. However, the overall host context industrial relations context proved not as resilient in the long run.
Over time, the foreign parent template has been pushed towards a typical host context pattern.

Even more than in the MUL case, FIPL was facing a strong misfit between the company industrial relations inherited from PAL, and foreign parent demands related to company-wide industrial relations policies. There was a misfit between the existing local Brownfield template and foreign parent demands for a cordial and participative mode of industrial relations. While in the beginning this misfit was resolved by freezing foreign parent demands, in the face of deeply entrenched and non-resilient Brownfield conditions, this recontextualization mode changed over time. Gradually, it became possible for FIPL to adapt the local institutional conditions to some extent. The was achieved by shifting company industrial relations to a different host context mode, more in line with foreign parent demands. The adaptation of the local context became possible by a applying a range of measures. Fiat also invested – although not as much as MUL – substantially in personnel transfers and more importantly into voluntary retirement schemes. This has allowed the company to re-compose its human resource profile to a younger work-force, less prone to take industrial action. Thus, FIPL was determined to change its company industrial relations. While it was not able to do so in the beginning, it invested resources to dismiss of some of its old work-force to create a more resilient local context that would allow the implementation of an alternative host-context industrial relations template.

As DCIPL and SAIPL were Greenfield sites, company industrial relations had to be newly established. In these cases the (re)contextualization mode was an establishment of the local site’s industrial relations in line with host institutional context conditions and demands. Neither in DCIPL nor in SAIPL was there a misfit between a foreign parent template and local demands and conditions because no foreign parent template was transferred. There was also no misfit between the company industrial relations that were following host institutional patterns and foreign parent demands. This was either because there were no foreign parent demands or because local industrial relations situations were rated as, as good, if not better than at home. Given the absence of misfit, there were also no recontextualization pressures.
### Table 59: Explanatory dimensions of hybridization outcome

<table>
<thead>
<tr>
<th>Company Industrial Relations</th>
<th>MUL</th>
<th>FIPL</th>
<th>DCIPL</th>
<th>SAIPL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreign template available</td>
<td>Yes</td>
<td>No – but foreign parent IR policy</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Foreign template transfer</td>
<td>Yes</td>
<td>No – but foreign parent demands</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Existing local template</td>
<td>No – Greenfield</td>
<td>Yes – Brownfield/ Acquisition</td>
<td>No – Greenfield</td>
<td>No – Greenfield</td>
</tr>
<tr>
<td>Local/host template used</td>
<td>No – but local/host context demands</td>
<td>Yes – modern host context template</td>
<td>Yes – modern host context template</td>
<td>Yes – modern host context template</td>
</tr>
<tr>
<td>Misfit/recontext. need</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Form of recontextualization</td>
<td>Some adpt. of foreign template &amp; mainly adpt. of local context (creation) in line with foreign parent template</td>
<td>Adpt. of parent demands &amp; mainly adpt. of local template (change) in line modern host context templates</td>
<td>Adpt. of local context (creation) in line modern host context templates</td>
<td>Adpt. of local context (creation) in line modern host context templates</td>
</tr>
</tbody>
</table>

### SUPPLIER RELATIONS: HOW THE CASES DIFFER

With regard to the hybridization outcome of the supplier relations the following was found. MUL came closest to an imitation of SMC’s home-country supplier relations. While MUL’s supplier relations reflected initially a combinatory hybrid solution, constituted by of some typical local patterns and some typical Japanese/SMC patterns, MUL has come over time very close to imitation. Although FIPL has not been able to imitate core aspects of its World Car supplier relations, its supplier relations still reflected to some degree the supplier relations of other World Car sites. For the most part, however, Fiat’s supplier relations, like those of DCIPL and SAIPL, reflected customized solutions. These customized solutions neither mirrored any local/host template nor any foreign parent site but were peculiar to the respective sites (see table 60).

### Table 60: Hybridization outcome on the dimension of supplier relations

<table>
<thead>
<tr>
<th>Supplier Relations</th>
<th>MUL</th>
<th>FIPL</th>
<th>DCIPL</th>
<th>SAIPL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outcome</td>
<td>From between hybrid/customized to increasingly imitated?</td>
<td>Between customized and imitated</td>
<td>Customized</td>
<td>Customized</td>
</tr>
</tbody>
</table>
SUPPLIER RELATIONS: WHY THE CASES DIFFER

GENERIC STRATEGY, INTERNATIONALIZATION EXPERIENCE AND TEMPLATE AVAILABILITY FOR TRANSFER

As discussed earlier, the broader question of template availability in the cases of SMC and Fiat, contrasting with DC and Skoda, was related to different generic strategies, strategic distance and different internationalization experiences of the companies. While Fiat and SMC had defined or developed a foreign parent template serving as blueprints for their supplier relations, DCIPL and SAIPL were lacking it.

Table 61: Generic strategy, internationalization experience and template availability for transfer

<table>
<thead>
<tr>
<th>Supplier Relations</th>
<th>MUL</th>
<th>FIPL</th>
<th>DCIPL</th>
<th>SAIPL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Generic strategy</td>
<td>Focus &amp; Cost</td>
<td>Focus &amp; Cost</td>
<td>Focus &amp; Differentiation</td>
<td>Differentiation &amp; Cost</td>
</tr>
<tr>
<td>Strategic distance between units</td>
<td>Low between home and Indian operation and also a number of other integrated foreign operations</td>
<td>High between home and Indian operation; low between World Car operations</td>
<td>High between home and Indian operation; increasingly low between Asian operations</td>
<td>High between home and Indian operation; increasingly low between foreign operations</td>
</tr>
<tr>
<td>Internat. experience</td>
<td>High</td>
<td>High</td>
<td>Low</td>
<td>Low</td>
</tr>
<tr>
<td>Template availability</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
</tr>
</tbody>
</table>

ENTRY MODE AND LOCAL TEMPLATE AVAILABILITY

Related to their variance in entry mode – mainly their establishment mode – the firms differed in their availability of a local template. While MUL, DCIPL and SAIPL had no existing local template to draw on, this was different at Fiat’s Brownfield operation. The firm’s equity mode implied, in turn, that the JVs, MUL, FIPL and DCIPL had at least in theory the option to use the local JV partners’ supplier relations as a template. This was only a theoretical option, however.

MUL’s operation was a Greenfield operation and there were practically no existing company supplier relations that could be used. At the time of SMC’s market entry, the Indian ancillary sector was utterly under-developed. The size of suppliers, their technical knowledge and financial resources and all sorts of delivery and quality problems provided no supplier base to work with. This situation was somewhat different for DCIPL, FIPL and SAIPL. First, DCIPL and FIPL had a local JV partner with existing supplier relations that could theoretically be used. Second, by the time FIPL and SAIPL entered the Indian market there
was quite a developed and capable supplier base in India. Many international auto MNEs who came earlier had made their suppliers to follow and open up local JVs. Due to the low market volume these suppliers were on the constant look out for business opportunities from different auto MNEs in the Indian market.

Table 62: Entry mode and local template availability

<table>
<thead>
<tr>
<th>Supplier Relations</th>
<th>MUL</th>
<th>FIPL</th>
<th>DCIPL</th>
<th>SA IPL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Establishment mode</td>
<td>Green</td>
<td>Brown</td>
<td>Green</td>
<td>Green</td>
</tr>
<tr>
<td>Equity mode</td>
<td>Minority JV &gt;</td>
<td>Majority JV &gt;</td>
<td>Majority JV &gt;</td>
<td>Wholly-owned</td>
</tr>
<tr>
<td></td>
<td>Majority JV</td>
<td>Wholly-owned</td>
<td>Majority JV &gt;</td>
<td>Wholly-owned</td>
</tr>
<tr>
<td></td>
<td>Majority JV</td>
<td>Wholly-owned</td>
<td>Majority JV &gt;</td>
<td>Wholly-owned</td>
</tr>
<tr>
<td>Local template</td>
<td>No / Yes – in</td>
<td>Yes / Yes – in</td>
<td>No / Yes – in</td>
<td>No / No</td>
</tr>
<tr>
<td>availability (existing at site / from local partner)</td>
<td>theory</td>
<td>theory</td>
<td>theory</td>
<td></td>
</tr>
</tbody>
</table>

CONFIGURATION MANDATE, (MIS)FIT AND TEMPLATE TRANSFER/USE

The pattern of templates use/transfer with respect to supplier relations can be linked to foreign parent configuration mandates – resting on either entry-modes or product-ownership – as well as strategic and institutional misfits between templates and different contextual demands and conditions.

Being a Greenfield operation, MUL was lacking existing supplier relations. In addition, the local/host supplier sector was underdeveloped and practically non-existent. Those suppliers that were existent were technologically and financially incapable to supply the quality and quantity MUL required. Based on the entry mode, the host strategic/institutional context conditions and the task environment – large volume production – there was no possibility to apply a local/host context supplier relations template. Moreover, the local JV partner lacked the experience and capabilities to establish such suppliers on its own or produce the required supplies in-house. After all, SMC introduced its vehicle into a market that had been protected for decades, which had led to a huge technology gap. Thus, even though SMC was the junior JV partner, it was SMC who had the mandate for developing supplier relations. Again, this was related to the circumstance that MUL and local/host suppliers lacked the resources and capabilities to develop supplier relations capable of living up to quality and quantity requirements of a vehicle introduced by SMC. What is more, as exchange rates and local content requirements and import taxes ruled out imports, and as SMC’s outsourcing policy ruled out higher vertical integration, SMC reverted to its home patterns as a template for MUL’s supplier relations. Thus, it was the strategic fit with regard to host context demand market conditions and simultaneously the strategic misfit with regard to local/host supply market conditions that allowed and forced SMC to draw on its own template for MUL’s supplier relations.

This situation contrasted very much with the Fiat case. Fiat had practically from the outset a majority in the Indo-Italian JV and turned it soon into a wholly-owned operation. It had
done so, to have the control over the implementation of World Car project and its template, which included a concept for ideal supplier relations. Thus, Fiat had a template for supplier relations, it was Fiat’s product to be built and Fiat had the equity related mandate to develop supplier relations to its own liking. Wishing to transfer its own template, Fiat had little interest in using its local partner’s supplier relations patterns. For Fiat wanted to introduce a car with state-of-the-art technology and quality standards. Put differently, taking over existing supplier relations from PAL, without alternation, was ruled out by the strategic distance between the site’s existing task profile and the World Car task profile. However, simply transferring its World Car supplier relations template was equally problematic. In contrast to MUL, there was a substantial strategic misfit between Fiat’s supplier relations template and host strategic context conditions. As demand market conditions were much below expectations in India, Fiat dropped its Greenfield project and the related supplier relations concept. As a result, Fiat could not transfer its, follow-sourcing, supplier park and JIT concept. At the same time, and again in contrast to MUL, FIPL was facing much less adverse host institutional/strategic context conditions as far as an existing supplier infrastructure in India was concerned. When Fiat entered the Indian market, the company was able to take advantage of a much more developed host-context supplier base. While Fiat had to drop some of its World Car template’s supplier relations concepts, there were still a range of supplier relation policies that fitted well with the host context supply market conditions. In contrast to MUL and FIPL, SAIPL and DCIPL had no defined foreign parent template. In addition, the demand market conditions were much too distant as to allow any replication effort of foreign parent home country supplier set-up. While DCIPL, in contrast to SAIPL, could theoretically have drawn on a supplier relations template of its Indian JV partner, it did not do so. Like Fiat, DC had from the outset the equity and product ownership related mandate to develop the suppliers for a product it introduced. There were essentially three core reasons why DCIPL did not extensively use its local JV partner’s or host context supplier relations as a template. First, like in FIPL, DCIPL had to follow foreign parent supplier policies/demands that ruled out a simple use of Telco’s or other local suppliers. Second, DC’s JV partner Telco was at the time of DC’s market entry mainly a truck manufacturer. There was a huge strategic/institutional distance between what Telco’s suppliers could supply in terms of quality and what DC demanded for its premium segments vehicles. Third, DCIPL entered the Indian market at a relatively early stage. Unlike, FIPL and SAIPL, there was not a very developed supplier base to take advantage of. Fourth, DCIPL had no volumes to offer to suppliers in India that made it particularly attractive to supply the company. Thus, DCIPL had also no specific CKD template to follow and home plant supplier relations could also not serve as a template, given the strategic misfit in demand market conditions. Strategic and institutional misfits made DCIPL neither use a foreign parent nor a local/host template for its supplier relations. However, although there was no specific tem-
plate from the foreign parent side, there were a number of supplier related policies and local institutional context demands the site had to respond to.

Like DCIPL, SAIPL neither used a home country template nor a host context template to develop its supplier relations. The use of a foreign parent template was mainly ruled out by the absence of such a template and the strategic distance between the local/host and home demand market conditions. The use of a host context template was ruled out by the fact that SAIPL was a wholly-owned subsidiary – giving Skoda the configuration mandate – and had to follow foreign parent policy demands.

Table 63: Configuration mandate, (mis)fit and template transfer/use

<table>
<thead>
<tr>
<th>Supplier Relations</th>
<th>MUL</th>
<th>FIPL</th>
<th>DCIPL</th>
<th>SAIPL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreign template availability</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Local template availability (existing at site / from local partner)</td>
<td>No / Yes – in theory</td>
<td>Yes / Yes – in theory</td>
<td>No / Yes – in theory</td>
<td>No / No</td>
</tr>
<tr>
<td>Configuration mandate</td>
<td>Foreign parent nationals</td>
<td>Foreign parent nationals</td>
<td>Foreign parent nationals</td>
<td>Host country nationals/ foreign parent nationals</td>
</tr>
<tr>
<td>Foreign template transfer</td>
<td>Yes – increasingly complete</td>
<td>Yes – selectively plus foreign parent policy demands</td>
<td>No – but foreign parent policy demands</td>
<td>No – but foreign parent policy demands</td>
</tr>
<tr>
<td>Local/host template used</td>
<td>No – but host context related demands</td>
<td>Yes/No – but had to be dealt with as it was</td>
<td>No – but host context related demands</td>
<td>No – but host context related demands</td>
</tr>
</tbody>
</table>

INSTITUTIONAL/STRATEGIC (MIS)FITS AND RECONTEXTUALIZATION PRESSURES

MUL’s supplier relations were most clearly modeled on a foreign parent template. However, the very reason why supplier relations were transferred in the first place – the institutional/strategic distance – also defined a contextual misfit for the template’s implementation. The local/host contextual conditions with regard to supplier relations were quite the opposite of what SMC’s supplier relations template required. There was, thus, a huge recontextualization pressure on either host context conditions or the foreign parent template.

In contrast to MUL, there was no foreign parent template to be implemented in the FIPL, DCIPL and SAIPL case. However, these cases also had to factor into the establishment of their supplier relations contradictory demands and conditions from the host and the foreign parent context. In contrast to FIPL and MUL, DCIPL and SAIPL faced the dilemma constituted by the low demand market conditions and local content demands in the host context and demands for profitable manufacturing from the foreign parent context. Specifically, in the face of low demand market conditions in the host context, it was very difficult for DCIPL and SAIPL to raise local content as demanded by the host institutional context, to
deepen vertical integration or motivate suppliers in India to supply parts and components as demanded by foreign parent follow sourcing policies. For FIPL, in turn, this problem was less dramatic. FIPL had still some volumes to offer to prospective local suppliers and relied anyway on high local content to offer its low to medium segment vehicles to price sensitive customers. Yet, even FIPL experienced some misfit between certain foreign parent supplier relations policies and the existing local/host supplier sector. Like all other companies, FIPL faced an institutional/strategic misfit between foreign parent quality policies and the quality-levels local/host suppliers were initially able to offer.

Table 64: Institutional/strategic (mis)fits and recontextualization pressures

<table>
<thead>
<tr>
<th></th>
<th>MUL</th>
<th>FIPL</th>
<th>DCIPL</th>
<th>SAIPL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreign template</td>
<td>Yes – increasingly complete</td>
<td>Yes – selectively plus foreign parent policy demands</td>
<td>No – but foreign parent policy demands</td>
<td>No – but foreign parent policy demands</td>
</tr>
<tr>
<td>Local/host</td>
<td>No – but host context related demands</td>
<td>Yes/No – but had to be dealt with as it was</td>
<td>No – but host context related demands</td>
<td>No – but host context related demands</td>
</tr>
<tr>
<td>Strategic/</td>
<td>Yes / Yes</td>
<td>Yes / Yes</td>
<td>Yes / Yes</td>
<td>Yes / Yes</td>
</tr>
<tr>
<td>institutional</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(mis)fit</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Recontextualization pressure</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
</tbody>
</table>

**CONTEXTUAL STRENGTH/RESILIENCE AND RECONTEXTUALIZATION MODE FOUND**

MUL has not been able to set up SMC’s supplier relations template from the first day. Some aspects of the template such as tierisation and JIT supplies were initially not even transferred. However, over time, SMC and MUL have mobilized a tremendous amount of human and financial resource to change and create the local/host supplier context in line with the MUL supplier relations template. While there were some adaptations to the foreign parent supplier relations template, the major recontextualization mode has been an increasing adaptation of the local/host context rather than the other way round. There is probably a complex of factors that explain this recontextualization mode. First, in certain respects the host/local institutional context was not very resilient and allowed little else but to adapt the foreign parent template and customize supplier relations. Absent and adverse supplier relations patterns could not be created and changed over night. Similarly, the geographical distance of suppliers, poor infrastructure, and government regulations improved or changed only slowly. Thus, some aspects to the foreign parent template were adapted to non resilient host context conditions. At the same, time the weakly institutionalized level of the Indian auto supplier sector provided opportunities to establish new patterns. This implied some degree of host context resilience for the first movers. Secondly, the supplier sector was
initially so weekly and adversely institutionalized that the bottom line of business could not be achieved under the prevalent conditions. This meant that the host country supplier context had to be changed or created to some extent to meet SMC’s production system template and demands. Such an effort was only possible, if there was a serious willingness on the part of SMC and MUL to invest resources. Such willingness was present because India’s emerging automobile market offered a huge untapped demand for low segment vehicles.

In the FIPL case, the dominant mode of recontextualization was the adaptation of the foreign parent template and some minor adaptation of the host supplier context, in line with foreign parent and host context strategic conditions and institutional demands. While Fiat withdrew substantial parts of its supplier relations template in the face of strategic misfit, Fiat’s more general supplier policies were implemented. In fact, Fiat’s World Car supplier policies fitted quite well with host context conditions and demands. It was, for example, an integral part of Fiat’s supplier policy to strongly draw on locally available suppliers and localize production in order to keep down transportation and manufacturing cost. This was, in turn, in harmony with the host institutional context’s local content requirements. Thus, there neither was a rejection of foreign parent policy demands nor of local content demands from the host institutional context. Now, with regard to initial supply quality problems, Fiat was able to adapt local/host supplier relations to realize its quality standards. To achieve this, Fiat was willing to mobilize human resources and delegate them to local suppliers for some time. Such investments were not least made because the Indian operation was a cornerstone of the World Car strategy. Interestingly, in contrast to MUL, FIPL faced a much less underdeveloped supplier sector when it entered the Indian market. This meant on the one hand less host context resilience to shape the supplier relations and on the other less of a need to do so. As FIPL was not an early mover and faced strategic misfit in demand market conditions, it was difficult to bring in its own suppliers and implement its ideal supplier relations template. At the same time, Fiat’s late entry made it easier to achieve an adaptation of the supply quality because earlier movers either had already brought in their suppliers or had developed local/host context suppliers.

DCIPL mainly created and changed its host context supplier relations in response to foreign parent demands and host context strategic conditions and demands. DCIPL was able, to attract some of its foreign parent suppliers to India. Being among the early movers, DCIPL was able to ask some of its home suppliers to follow into a market that still promised a huge scope for growth. While SAIPL was at too early an entry-stage to determine as to how its supplier relations would turn out, the DCIPL case showed that there was some adaptation of host context demands because anything else would have threatened the company’s survival. Given low production volumes, DCIPL could not achieve the officially demanded rates of local content but resorted to an accepted ‘trick’ to fulfill the host institutional demands for local value addition. DCIPL’s supplier relations related recontextualization mode involved on the one hand some adaptation creation and change of host context supplier relations
patterns in line with foreign parent demands regarding quality standards, supplier policies and contractual relations. On the other hand, it involved an adaptation of the company’s supplier relations to host context institutional demands and strategic conditions. As such the result could be best described as a customized outcome. The misfit that existed between host context demands for higher local value addition – under low demand market conditions – and the foreign parent demands for profitable production, led to an adaptation of host context demands and some adaptation of DCIPL’s supplier relations. This showed that the host institutional context demands were resilient enough to tolerate such non-compliance but only under the condition that the foreign company displayed a pro-forma compliance with host institutional demands. This solution implied a face saving for host context institutional demands and gave DCIPL the chance to produce profitably under low volume conditions.

Table 65: Explanatory dimensions of hybridization outcome

<table>
<thead>
<tr>
<th>Supplier Relations</th>
<th>MUL</th>
<th>FILP</th>
<th>DCIPL</th>
<th>SAIPL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreign template available</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Foreign template transfer</td>
<td>Yes</td>
<td>No – but parent demands</td>
<td>No – but parent demands</td>
<td>No – but parent demands</td>
</tr>
<tr>
<td>Existing local template</td>
<td>No – Greenfield</td>
<td>Yes – Brownfield/Acquisition</td>
<td>No – Greenfield</td>
<td>No – Greenfield</td>
</tr>
<tr>
<td>Local/host template used</td>
<td>No – but host context related demands</td>
<td>Yes/No – but had to be dealt with as it was</td>
<td>No – but host context related demands</td>
<td>No – but host context related demands</td>
</tr>
<tr>
<td>Misfit/recontext. need</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Recontextualization pressure</td>
<td>Some adpt. of foreign template (de-selection) &amp; increasingly adpt. (creation) of local/host SR in line with foreign template</td>
<td>Major adpt. of foreign template (almost complete de-selection) &amp; adapt. (creation and change) of local/host SR in line with foreign parent and host context inst. demands</td>
<td>Adapt. (creation and change of local/host SR in line with foreign and host context inst. demands (some rejection of host demands)</td>
<td>Adapt. (creation and change of local/host SR in line with foreign and host context inst. demands (some rejection of host demands)</td>
</tr>
</tbody>
</table>
CHAPTER 8: CONCLUSION

In this chapter we will discuss major findings, limitations and a brief outlook for further research. The discussion of findings mainly concentrates on the question whether the theoretical framework and associations posited are appropriate, can be confirmed/rejected or have to be revised.

8.1 DISCUSSION

The goal of this project was to identify the hybridization profile of the production systems of four automobile MNEs’ subsidiaries in India and to explore whether and how possible variations in these profiles can be related to both institutional and strategic distance as well as to the systematic variation in strategic choices on the corporate and subsidiary level. Derived from earlier research different hybridization outcomes were conceptualized as the combined effect of different transfer scenarios, (mis)fits/recontextualization pressures and recontextualization modes.

The first crucial addition to hybridization research was to consider the effect of both strategic and institutional distance on transfer scenarios and recontextualization requirements and thereby on hybridization outcomes. Key questions for exploration were therefore: 1.) Are both strategic and institutional distance relevant for hybridization outcomes? 2.) Are institutional and strategic misfits respectively, more relevant for the hybridization outcomes on certain dimensions of a production system? And, 3.) what do empirical results suggest as to how institutional or strategic misfits impact hybridization outcomes?

The second crucial addition to hybridization research was related to the question how different strategic choices – at the corporate and the subsidiary level – impact hybridization outcomes. Specifically, what is the link between strategic choices and the triad of transfer scenario, (mis)fit/recontextualization pressure and recontextualization mode and consequently the hybridization outcomes? And, whether and how specific strategic choices – the generic strategy of the MNE as well as establishment and equity modes – interact with transfer scenarios, institutional and strategic misfits induced recontextualization pressures as well as recontextualization modes to constitute hybridization outcomes?

EXPLORING THE FIRST ASSOCIATION: DO INSTITUTIONAL AND STRATEGIC (MIS)FITS MATTER?

The empirical analysis of the four cases showed that both institutional and strategic distance have a distinct explanatory value for understanding hybridization outcomes of the produc-
tion systems of international automobile companies’ subsidiaries in India. The study suggested that strategic distance – different task profiles and different supply and demand market conditions in different contexts – as well as institutional distance – different institutional conditions and demands have a substantial impact on the hybridization outcomes. We saw in the case study that the strategic distance between different MNEs’ sites has a profound impact on the definition of transfer templates (in MUL and FIPL), their use and on the recontextualization pressure, where the strategic distance was too great. For example, both SMC and Fiat developed and defined transfer templates because the modest strategic distance between different sites created incentives to do so. However, in both cases the strategic distance in supply market conditions was too pronounced to transfer all aspects of the foreign parent templates. Low labor costs in India – and in the FIPL case additionally lower market demands – disallowed a full transfer of templates and suggested, instead, a transfer restraint, a recontextualization of the original template and customized solutions with regard to the sites’ technical configuration. Similarly, institutional distance proved to have an important explanatory value for understanding the hybridization outcomes. Institutional distance also impacted the transfer scenarios, recontextualization pressures and even modes of recontextualization. In the MUL case, for example, the institutional distance was a core reason why SMC was invited and pressed to transfer its template. For host institutional conditions in India were partly rated as so obstructive that a foreign parent template transfer was sought as a deliberate alternative to host context conditions. Cases in point were transfers of the work organization and labor relations. However, in the very same company and on the same dimension of the production system, some institutional patterns between the home and the host context were so distant that the transfer of certain concepts was not even attempted. An example was SMC’s consensual approach to decision making, which was ruled out by extreme hierarchical socio-professional demarcations in India. Conversely, based on institutional distance, a number of local/host institutional practices in the DCIPL case came under recontextualization pressure from the foreign parent side impacting the hybridization outcome. In contrast to the proposition posited, the research showed that contextual distance not necessarily implies a transfer restraint. The opposite may also be true. A foreign parent may decide to transfer a template simply because the local/host strategic context conditions are so adverse that there is no way to work with them as they are. Thus, contextual distance can lead to both a triggering of foreign parent transfer or demands where no transfers or demands were originally intended; and a transfer restraint where a transfer was originally intended. An example for the former was the DCIPL case where German expatriates found local institutional patterns in the work organization unacceptable. The latter we saw in FIPL where adverse local institutional conditions prevented Fiat from transferring high involvement elements of the work organization. Thus, the analysis showed that both institutional and strategic distances may lead to contextual misfits, which impacts transfer scenarios and recontextualization pressures and thereby hybridization outcomes.
The work also showed that recontextualization pressures induced by contextual distance and misfit can operate in different directions. For instance, just as foreign templates and demands in subsidiaries can come under recontextualization pressures in distant and incompatible with local/host context – as we saw in FIPL and even MUL – so can local/host templates originally used in subsidiaries – as we saw in DCIPL – come under recontextualization pressure, if too distant from or incompatible with foreign parent context demands and conditions. This finding is very much in line with the work of New Institutionalists (e.g. Kostova and Roth, 2002) who have stressed the double embeddedness of subsidiaries in foreign parent and local/host institutional contexts. The findings add, however, to insights from New Institutionalism that in addition to the impact of institutional distance we need to look at the impact of strategic distance on transfer processes in MNEs. Broadly, speaking this suggests adopting a more complex perspective of subsidiary embeddedness, placing them in institutional and strategic contexts as well as in parent company and host country contexts.

The findings also suggest that some dimensions of a production system are more severely affected by institutional distance and others more by strategic distance. For example, while the hybridization outcomes of functional differentiation and technical configuration appeared to be mainly affected by strategic distance, hierarchical differentiation, labor/industrial relations and certain aspects of work organization appeared to be more prominently affected by institutional distance. However, although some dimensions (and even some aspects within certain dimension) appeared to be more ‘institutional-context-sensitive’ and others more ‘strategic-context-sensitive’, it would be wrong to suggest that strategic and institutional distance can be neatly separated in their effect on specific production system dimension as has been suggested by some (e.g. Pil and McDuffie, 1999). Indications were that both of them almost always play a role or play together in affecting hybridization outcomes. A case in point was the establishment of DCIPL’s work organization. In this case, it was essentially the strategic distance – lower volumes and labor costs – that deterred the transfer of a home plant group-work concept because its application only financially paid off in a high volume and a high wage context. Simultaneously, the much more pronounced socio-professional demarcation in India rendered the transfer of the very same group concept – implying substantial equality among group members – not a viable option. Similarly in the SAIPL case, the Czech expatriate perceived a problematic institutional distance between the qualifications and skills of human resources available in India and those he was used to from the home context. Yet, given the low volumes of the Indian site, the strategic distance to the home plant context, there was no possibility to set up an alternative training program and to adapt the local human resources to foreign parent institutional standards. Thus, no matter whether there is an institutional fit or misfit, if there is a strategic misfit; it may be simply not possible to transfer a certain template. Conversely, there may be a strategic fit to transfer a template but institutional conditions may be too adverse to
transfer it. The research evidence suggests that both contexts need to be considered in combination. While one may take the prominence over the other and may be more relevant on certain dimensions the other context in the background always matters.

Now, what contextual distance cannot explain, or at least only partly predict, is in what direction it will impact transfer scenarios, misfit perceptions/recontextualization pressures and why a certain recontextualization mode kicks in. Clearly, when distance is low and there is little misfit and recontextualization pressure, no recontextualization is required in the first place. However, strategic and institutional distance in isolation, without considering the constraining and enabling conditions of specific firms’ contexts and strategic choices, on the one hand, and the constraining and enabling conditions of a specific local/host context conditions, on the other, cannot explain: When distance leads to a transfer restraint? Under which conditions contextual distance translates into a perceived misfit? When a perceived misfit translates into recontextualization pressure? And finally, in what way contextual distance impacts recontextualization mode choices?

How the institutional and the strategic distance impact the transfer scenario, the misfit/recontextualization pressure and what kind of a recontextualization mode is chosen, depends on a host of intervening factors – such as the entry mode and time, overall generic and transfer strategy, if distance is rated positively or negatively, how it effects the bottom line of business, the willingness to invest resources as well as the local/host context resilience – and cannot be derived from the contextual distance alone.

**EXPLORING THE SECOND ASSOCIATION: STRATEGIC CHOICES AND HYBRIDIZATION OUTCOMES**

** generic strategies and hybridization outcomes**

The second mayor research objective was related to the question: Whether and how strategic choices – the generic strategy of the MNE as well as entry modes – are related to transfer scenarios, contextual (mis)fits/recontextualization pressures, modes of recontextualization and consequently hybridization outcomes?

With regard to generic or global product strategies it was expected that particularly the cases featuring a combination of cost leadership and focus strategies – such as SMC and Fiat – would be more likely to define and transfer a foreign parent templates, to face comparatively less strategic misfit and recontextualization pressure, to be more determined to adapt the local context to the foreign template and to feature, as a result, higher degrees of imitation. Conversely, it was expected that cases with an element of differentiation in their generic strategy would be more likely to face strategic distance between different sites, less likely to define and transfer a foreign parent template, more likely to experience strategic misfit induced recontextualization pressure, should a transfer occur, and more flexible in
adapting their templates or demands to the local/host context. In short, these firms were expected to feature higher degrees of local, hybrid or customized outcomes. A first broad analysis of the empirical material confirmed this. MUL with its cost leadership and focus strategy had the highest degree of imitation. SMC had a foreign parent template and sought to transfer it. SMC met little strategic misfit and strategic context related recontextualization pressure. Similarly, Fiat had a foreign parent template, which it sought to transfer. However, despite having designed a template for similar – developing country environments – Fiat experienced a substantial strategic misfit as it had underestimated the strategic distance between its Indian and other World Car operations. Given this strategic distance, Fiat decided to adapt – deselect – some aspects of its template to make it fit the Indian strategic context of low demand and low labor cost market conditions. So in the SMC and in the Fiat case the availability of a foreign template and its transfer seemed to be related to these firms’ generic strategies and the related low strategic distance between different global operations. On the other hand, the generic strategy seemed to be a weak predictor for the actual strategic fit/recontextualization pressures a template was facing in the host contexts. The FIPL case showed that even templates that were devised for developing countries only did not strategically fit all developing country conditions. The FIPL case disconfirms the Japanization literature’s Lean Production wing in a particular convincing way because it shows that ‘best practices’, even those customized for specific business environments, are likely to face high recontextualization pressures.

Now, the cases of DCIPL and SAIPL showed that the generic strategy alone, without a combined attention to internationalization experiences and internationalization strategies of MNEs, do not suffice to explain foreign parent template availability and transfer. DC and VW/Skoda had a differentiation and focus and differentiation and cost leadership strategy respectively. A first overall comparison showed that these companies neither had defined/developed nor transferred foreign parent templates to their Indian sites and that they featured a higher degree of customized solutions. However, a closer look at their generic strategies suggested that it was not self-explanatory why these two cases came to such customized outcomes. After all, both companies featured no pure differentiation strategy and also had some incentive to develop templates. Particularly, DC’s recent strategic reorientation towards Asian markets involved the set-up of a number of Asian CKD sites, with similar task profiles and strategic contexts, suggesting an incentive to develop and transfer a foreign parent template. Interestingly, such a template was at the time of research even in the making. Yet, when DCIPL was established as one of the first of the international CKD sites, DC had not defined such a template and probably lacked the experience to do so. Thus, when DCIPL was established this strategic shift was at an early stage and no such template existed. Instead, there was a vast strategic distance to home operations, no foreign parent template available and consequently little strategic (mis)fit/recontextualization pressure resulting from a transfer. Similarly, in the Skoda case one could have expected a tem-
plate transfer to SAIPL. Such an expectation was even more justified given that VW had a substantial internationalization experience and had a portfolio of low segment vehicles for emerging economies. What is more, Skoda had the strategic task of exploring emerging markets in the format of CKD operations. However, Skoda was acting rather independently in setting up the Indian site and didn’t have the experience or corporate pressure to develop and transfer a comprehensive template to its infant SKD site. Skoda, like DC, had no specific template to transfer, had no defined transfer intent and faced a vast strategic misfit between the home and host operation. This ruled out using home plants as a template. Instead of using a foreign parent template, those dimensions strongly dependent on strategic contexts conditions were customized to the specific strategic demands of the foreign parent as well as host context strategic conditions and institutional demands.

The cases confirm that generic strategies have some relevance for the question as to whether templates are defined/developed and transferred or not. The findings seem to support that there is an association between companies combining both a cost leadership and focus strategy and the development and transfer of organizational templates. Clearly, the development and transfer of templates increases the likelihood of coming to imitation outcomes. For if nothing is being transferred or demanded from the foreign parent context, there is also no chance of coming to imitations as outcomes. Generic strategies of MNE play an important explanatory building bloc in understanding hybridization outcomes. However, even the isolated aspect of whether templates are defined/developed or transferred depends on the interplay with other crucial factors such as: internationalization experience, whether developed or developing markets have been mainly served in the past (i.e. are there import restrictions), unforeseen strategic misfits and institutional misfits as well as the relevance of other strategic choices at the subsidiary level. Moreover, generic strategies do not suffice to explain the difference across different dimensions of a production system within a particular case. The case analysis showed: a cost leadership and focus strategy does not automatically mean that a template covers all dimensions of a production system, that there is the intent or possibility to transfer all aspects of a template, that there are no strategic (or other) recontextualization pressures and that the adaptation of the local context will always be the dominant recontextualization mode. Even if there is a template for transfer, actual transfer may be very selective, given other intervening and interacting factors such as entry mode choices and/or institutional constraints and opportunities in the local/host context. There may be, for instance as in the case of FIPL, templates from the local/host context or from a local JV partner competing with the foreign parent template. What is more, even if there is a transfer of templates, they still may not perfectly fit with the local/host strategic and institutional context conditions. These misfits, in turn, call for recontextualization that can involve as much adaptations of the local/host contexts, demands and templates as adaptations of foreign parent templates. Whether one, the other, or both recontextualization modes kick in, depends not only on generic strategies but among other factors on the establishment mode.
related resilience of a local context, wider host context resilience as well as the equity mode related ability to affect changes and the willingness to mobilize and invest resources on the part of the foreign parent. Thus, to understand the recontextualization mode found, company generic strategies only deliver a part of the explanation. While there were indications that companies where the foreign parent defined and sought to transfer a foreign template were also more willing to adapt the local/host context, there are a number of other intervening factors.

While a cost leadership and focus strategy does not automatically imply template availability and transfer, low strategic distance, fit and local/host context adaptation as a recontextualization mode; a differentiation strategy, especially when it is not a pure one, does not automatically mean no foreign parent transfer intent or the absence of demands, strategic distance, misfit across all dimensions and adaptation of foreign parent templates or demands as the dominant recontextualization mode. Again, just as focus and cost leadership strategies do not automatically mean foreign parent template transfers, low recontextualization pressures and adaptation of local contexts; so do a differentiation strategies not automatically mean no foreign parent template transfers across all dimensions or absent demands, generally high recontextualization pressures and the adaptation of foreign parent contexts demands/templates as the prevalent recontextualization mode. For example, even if a foreign parent lacks a comprehensive template or decides not to transfer certain aspects of a template, there still may be configurational demands vis-à-vis the local site’s production system. Such demands can be part of globally defined corporate policies or direct foreign parent reactions to local/host institutional or strategic conditions through expatriates. Strategic and institutional distance may trigger foreign parent transfers or demands like in the case DCIPL, although there was initially no defined transfer intent. A locally existing template may not be in line with foreign parent context expectations and standards. To what extent such foreign parent demands are raised, strongly depends on the formulation of global policies and on the presence of expatriates on site, which is related to the overall staffing policy. Moreover, like in the case of a foreign parent template transfer, foreign parent demands may be more or less distant or contradictory to the local/host strategic and institutional conditions and demands. In the empirical study we saw in DCIPL and SAipl different recontextualization modes in response to such demands. One possibility is the adaptation of the local/host conditions or the rejection of local/host context demands. The other possibility is an adaptation of foreign parent context conditions or a rejection of foreign parent demands. Whether one, the other, or both recontextualization modes kick in, depends again not only on generic strategies but among other factors on the establishment mode related resilience of a local context, wider host context resilience as well as the equity mode related ability to affect changes and the willingness to mobilize and invest resources on the part of the foreign parent.
With respect to establishment modes, it was suggested that they impact all three components constituting hybridization outcome, i.e. transfer scenarios, contextual (mis)fits/recontextualization pressures and recontextualization modes. First, it was assumed that Greenfield sites are much more likely to receive foreign parent templates than Brownfield sites because they lack an existing configuration and because contextual distance is comparatively lower. Second, it was proposed that Greenfield sites either reduce or mediate contextual distance, which reduces the misfit and the corresponding recontextualization pressure in the case of a foreign parent transfer. Third, related to the second point, it was assumed that Greenfield sites render an adaptation of the local context to distant foreign parent templates and demands easier because of comparatively lower levels of institutionalization. As a result, it was proposed that Greenfield sites are more likely to feature higher levels of imitation than Brownfield sites.

With respect to equity modes it was also suggested that they impact all components constituting hybridization outcomes, including transfer scenarios, misfits/recontextualization pressures and recontextualization modes. The argument was here that the equity mode has an influence on whose management controls the company and whose management can decide: What is or can be transferred or demanded? What is rated as an unacceptable contextual distance or misfit? And to what extent the foreign parent template/demands or local/host demands and conditions have to be responded to or can be rejected? It was proposed that the higher the foreign parent equity, the more likely are we to see the transfer of foreign parent templates or the influence of foreign parent demands, the higher the level of misfit/recontextualization pressure and the more likely an adaptation of the local/host context to foreign parent templates, demands and conditions would be the dominant recontextualization mode. Combining the two entry mode propositions it was suggested that we can expect wholly-owned Greenfield sites to feature the highest and Brownfield JVs the lowest degree of imitation. Related to our four cases this suggested SAIPL and DCIPL to have the highest incidence of imitation; and FIPL and MUL to have the lowest incidence of imitation.

Now, surprisingly the opposite was empirically found. How can we explain this? One important explanation was the generic strategy related availability and transfer of a foreign parent template in the cases MUL and FIPL. But there were other factors that played a crucial role. Let us take a closer look at the two propositions posited with regard to entry mode.

**The Impact of Establishment Mode**

*How does establishment mode impact hybridization outcomes?* The case comparison showed that the establishment mode has an impact on the transfer scenario because it implies the presence or absence of an existing local template. In our sample it was only FIPL,
which had entered – or was forced to enter – the Indian market within the format of a Brownfield operation. That Fiat was not very happy about the existing template at its site is another question, which also forms an important aspect of the transfer scenario. Over all, however, the case comparison showed that establishment mode alone is only a week predictor for foreign parent template transfer. MUL, DCIPL and SAIPL were all Greenfield sites, yet, out of these, it was only SMC that transferred a comprehensive foreign parent template. FIPL in contrast, the only Brownfield site, did see a foreign parent template transfer. The findings indicate that although a Greenfield site implies a need for establishment, this configuration must not necessarily be based on a foreign parent template transfer or even strong foreign parent demands. Instead, indications were that whether a Greenfield site was shaped by a foreign parent template or subject to strong foreign parent demands crucially depended on the questions: 1.) Who (foreign partner vs. local partner; expatriates vs. host context nationals) has the configuration mandate on a specific dimension of a production system? 2.) Whether a foreign template is available and which production system dimensions it covers? 3.) And whether the foreign parent template fits the local/host strategic and institutional context? For example, Skoda had practically no transfer template for its Indian Greenfield operation. Skoda had not defined a template for SKD sites and the home plants were strategically too distant to be used as templates. If at all, we could call the Skoda Production System a very narrowly circumscribed template, which covered only a very limited range of production systems dimensions. Most importantly, due to its polycentric staffing approach, the configuration mandate of the site was in the hands of host country nationals who shaped many production system dimensions in line with host/local conditions and demands.

However, the establishment mode was not only proposed to impact the transfer scenario but also to mediate contextual distance – impact misfit/recontextualization pressure – and as having an influence on the recontextualization mode. In contrast to the establishment mode’s proposed impact on transfer scenarios, there was more empirical evidence to support the latter two assumptions. Indications were that the transfer of foreign parent templates and the realization of foreign parent demands were substantially easier at the Greenfield sites as compared to the Brownfield site. Employees at the Greenfield sites had less preconceived notions working against foreign template elements and demands, causing lower levels of misfit. And even where host context notions were in contradiction with foreign parent demands or templates, the local context was easier to adapt to them. There was evidence to suggest that Greenfield operations rendered it substantially easier to adapt a local context to foreign templates/demands as compared to Brownfield sites. The contrast between MUL and FIPL served as a good example. These findings largely confirm earlier work that has shown the relation between establishment mode and transfer success (e.g. Sharpe, 1997). It should be noted, however, that while the establishment mode has an impact on a local site’s contextual resilience, there are other factors that play into the question,
which recontextualization mode unfolds. For instance, the foreign parent’s ability and willingness to invest resources and put through its demands and templates as well as the wider host context constraints penetrating into the local context are crucial. Thus, the establishment mode alone is hardly sufficient to explain recontextualization modes, as local context are embedded in wider host contexts and even Greenfield contexts are only partly resilient.

**THE IMPACT OF EQUITY MODE**

*How does equity mode impact hybridization outcomes?* The case comparison showed that the equity mode influences the transfer scenario by having an impact on the potential availability of a local template. In the sample it was MUL, DCIPL and FIPL who had a local JV partner and thereby the opportunity/constraint to draw on their local partner’s templates or aspects thereof. By contrast, SAIPL as a wholly-owned operation, had no such opportunity. However, the findings showed that the equity mode not only impacts the availability of templates from local partners but also more generally, the use/transfer of available host/foreign parent templates. The equity mode seemed to impact the transfer scenario because it played an important role for the question: Who has the *configuration mandate* for the production system (local parent vs. foreign parent; host country nationals vs. expatriates)? For example, as Fiat was very quick to turn its JV into a wholly-owned subsidiary, it could relatively unilaterally decide to transfer its World Car template. This was not the case in DCIPL and MUL. SMC for example, which was throughout most of MUL’s history the minority JV partner, was facing transfer limitations on certain dimensions of the production system. These were rooted in the equity mode and the corresponding division of configuration mandates across different dimensions of MUL’s production system. This was also the case in DCIPL, which had put the configuration of a number of organizational aspects in the hands of its Indian JV partner (and later host country nationals) who used, for example, a host/local parent template for the hierarchical differentiation of the site. Thus, there is empirical evidence that the equity mode has an impact on the question whose management is responsible and has the mandate to configure a certain dimension of a production system and, as a result, whose templates or demands are more likely to be used/transferred or have a weight. However, the empirical material also suggested that the equity mode neither is sufficient to explain who has the configuration mandate (on certain dimensions of a production system) nor is the equity mode as such sufficient to fully explain whose templates or demands are more likely to be used/transferred. Even if a firm is in full control and even if it has a defined foreign parent template, it may still decide not to transfer such an available template or all of its parts because of a strategic or institutional distance. We saw this, for example, in the FIPL case, which only selectively transferred its template despite being in full control and despite having developed a template that was specifically tailored for developing country contextual conditions. More importantly, equity mode is not enough to
determine who has the configuration mandate for setting up a production system’s different dimensions. While the equity mode influences the configuration mandate, there are other influencing factors. These factors include: the product ownership, the local/host context capabilities, the capabilities of the respective partners on certain production system dimensions as well as the staffing policy. In this respect, MUL and SAIPL were two telling examples. The equity mode of these two cases suggested in SAIPL the most comprehensive configuration mandate for the foreign partner and its expatriates and in MUL the least comprehensive configuration mandate for the foreign partner and its expatriates. However, the opposite was the case, why? In SAIPL this was mostly related to Skoda’s polycentric staffing policy, which implied that most configuration work was delegated to experienced host country management. It was equally linked to the host context capability – i.e. capable host country managers – which was available by the time Skoda entered the Indian market. Interestingly, such an availability of local/host capability was connected to Skoda’s late market entry, allowing the company to head-hunt experienced Indian managers from other international Automobile companies – options early movers did not have. In MUL, in turn, local/host context capability – or better its absence – also played a key role in explaining SMC’s comprehensive configuration mandate, despite being the junior partner in the JV. Given the lacking local competence – particularly in ailing MUL – as well as in other Indian automobile companies in the 1980s, the Japanese partner was asked to introduce products and processes for manufacturing. Despite being in the minority equity position, SMC’s capability and product ownership earned it the comprehensive configuration mandate for most production related dimension of the production system. This allowed and suggested SMC to transfer its foreign parent template. Similarly, in DCIPL – which was quick, although not as quick as Fiat, to turn the JV into a wholly-owned company – the local capability played a crucial role for staffing its HR-function (throughout the company existence) with Indian managers, giving them the configuration mandate on core HR-issues. While with the equity shift all top management positions were staffed with Germans, HR was the only function where the host country management remained in charge. This was related to the Indian managers’ intimate knowledge about recruitment, retention, redundancy procedures and industrial relations in India – capability German managers did not have and could not acquire at short notice.

However, the equity mode was not only proposed to impact the transfer scenario but also the occurrence of misfits/recontextualization pressures and to influence recontextualization modes. There was only weak evidence to suggest that the equity mode alone impacted contextual misfit/recontextualization pressure between the foreign parent templates and demands and local/host conditions and demands and vice versa. Rather than equity modes, configuration mandates had more explanatory power. Again, despite a foreign parent majority, the host country management may have the configuration mandate on certain dimensions of a production system. Under such a condition the misfit and recontextualization
pressure is lower because of a lower incidence of foreign parent template transfer or demands. (Moreover, even if there is a foreign parent template transfer from a distant context, the distance will be mediated by host country management, which may also defuse the misfit). A case in point was SAIPL: Despite being a wholly-owned subsidiary, the local set-up of the site did not trigger much misfit/recontextualization pressure from the foreign parent. There was little foreign parent template transfer and the locally designed configuration – which was institutionally very distant from the home configuration – did not cause much recontextualization pressure. In this case the absence of foreign parent transfer, misfit perception and recontextualization pressure had largely to do with the staffing policy of the site which translated into a host country national’s configuration mandate. Thus, although the equity mode may have an influence on the configuration mandate – i.e. what kind of management is in control of or influences a site – and thereby on transfer scenarios, misfits and recontextualization pressures, the equity mode does not determine it. Finally, the equity mode has some influence on the recontextualization mode because it not only influences the configuration mandate, but because it ultimately determines the respective side’s power and legal right to push for adaptations of local/host or foreign parent demands, templates and conditions perceived as misfitting. For instance, SMC management was probably not very happy about MUL’s excessive hierarchical differentiation, which was very different from its own in Japan. This aspect of the production system was, however, difficult to change as long as SMC was the junior partner. Thus, the equity mode plays an important part in enabling and constraining the involvement and ability of different parties to adapt foreign parent templates, demands and/or local context templates, demands and conditions.

It can be summarized that equity modes impact transfer scenarios, the occurrence of contextual misfits/ recontextualization pressures and recontextualization modes. However, we have to look at how they interact with other factors discussed earlier to explain hybridization outcomes. Above all, we need to look at the distribution of configuration mandates across the different dimensions of production systems.

8.2 CORE FINDINGS AND CRITICAL REFLECTION

Firstly, this work, in line with basic proposition posited, has shown that hybridization outcomes are impacted by both strategic and institutional distance. Their primary influence on hybridization outcomes rest with their effect on transfer scenarios and inducing contextual misfit related recontextualization pressure. Moreover, it has found that while strategic and institutional contexts form distinct influences and take on different prominence in affecting certain dimensions of a production system, they should always be considered as interacting influences on any production system dimension. It would be erroneous to state that the hybridization of some dimensions of a production system only depends on strategic or institutional context and distance. Both contexts generally matter, albeit to different degrees.
Secondly, this work has shown that strategic choices at the corporate and subsidiary level have a substantial impact on hybridization outcomes. Generic product strategies, for example, play an important role for the availability and transfer propensity of foreign parent templates, for the strategic misfit/recontextualization pressure and even affect the recontextualization mode although this last aspect requires further exploration. Similarly, this work has shown in the four cases researched that strategic choices at the level of the subsidiary affect transfer scenarios, misfits/recontextualization pressures, recontextualization modes and thereby hybridization outcomes. The work also offered some refinement with regard to the impact of strategic choices on hybridization outcomes. While generic strategies appeared to have an important impact on the availability and transfer of foreign parent templates, other factors were required to explain such template development and transfer. The findings suggested, for example, that internationalization experience and internationalization strategies of MNEs are of crucial relevance. Similarly, while establishment and equity modes do seem to impact transfer scenarios, misfits/recontextualization pressures and recontextualization modes, they need to be considered in interaction with other factors. Both establishment mode and equity mode do not suffice to explain transfer scenarios, misfits and recontextualization modes. It emerged in this context that configuration mandates – i.e. the question whether host country nationals or expatriates; local parent or foreign parent management is in control – play a crucial role to understand hybridization outcomes. Although equity modes have an important impact on such configuration mandates, they do not determine them.

Apart from its specific contribution to hybridization processes in MNE, this study has shown that a quasi-experimental research design involving rich array of cases, with great variation of combinations, allow us, if studied interactively in a procedural perspective, to establish refined patterns. The strength of such an approach is that it sensitizes us for complex interactions of factors that constitute processes and outcomes in MNE

**Limitations**

**What Determines Recontextualization Modes?** The particular contribution of this work is that it has shown in the four cases that hybridization outcomes are systematically related to strategic choices at the corporate and subsidiary level. However, some points still remain unclear and some limitations of this work need to be addressed. First, the biggest remaining question of this work is what factors interact and determine a specific recontextualization mode, if there is a contextual misfit. While certainly the ability and willingness of the foreign parent as well as the resilience of the local/host context provide a superficial answer we need to develop a better understanding what factors determine foreign parent ability and willingness, what factors determine the local/host context resilience as well as how the former and the latter interact. Some of the relevant factors have been discussed here such as
strategic choices and contextual distance but their interplay remains still elusive. For example, what kind of local/host institutional patterns can be easily adapted and which are less resilient? Indications were that when efforts to adapt the local/host context hit the core of social-professional identities, affecting entrenched patterns of social stratification and power, they were most difficult, if not impossible, to achieve. However, this requires further exploration.

**THE IDENTIFICATION OF HYBRIDIZATION OUTCOMES:** One of the biggest challenges was the identification and determination of hybridization labels to the various dimensions of production systems. Apart from the fact that in some instances an in depth inquiry of the nature of a certain dimension was not possible as a result of time and access constraints, there are a number of definitional questions to be answered.

One of the problems of labeling hybridization outcomes has to do with different levels of aggregation and analysis. For example, how are we to label dimensions of production systems when sub-dimensions have different hybridization outcomes? Let us say for example the contractual features of the supplier relations of a production system have been imitated but its structural configuration take on a host contextual form. Depending on the level of aggregation we may either present supplier relations as a hybrid solution based on the combination of different outcomes on sub-dimensions (imitation + local = hybrid) or we may paint a more complex picture where supplier relations are presented as both imitation as well as localization. The question really is what level of aggregation do we emphasize and how should we label combinations of imitated, local, hybrid and tailored solutions occurring on one and the same dimension?

Yet another problem can occur when, on the same dimension, two functionally rivaling solutions coexist and it cannot be readily said, if one takes precedence over the other. For example, many MNE in India – also found in this study – have a double hierarchy structure. One flat structure is usually imitated and is said to represent reporting levels. At the same time, most firms have a very steep hierarchy of formal designations that are not without effect on reporting either. Again is the coexistence of functionally/institutionally rivaling solutions a hybrid one?

Another problem of labeling is related to the question where to draw the line between different hybridization solutions. One such challenge is: How are we to distinguish between hybridization and novel/customized? For it may be asked if hybridization, a mix of transfer and local/host origin, could also be perceived as something genuinely new, hardly reflecting a particular origin any more. Likewise, we may wonder whether the concept of a customized or novel solution, resembling neither a typical local organizational configuration nor a foreign one, is really thinkable. Is it really possible that an organizational form emerges that is bearing no trace of at least some kind of origin? Another question is how we define the difference between a customized and a local solution? For example, a firm may refrain from
transfer as local/host conditions are substantially different from home or elsewhere. It therefore sets up a production system that doesn’t resemble any home operation and adapts or better tailors the site to local/host conditions. Now, is this adaptation to local conditions a local or a customized solution? Probably we can only call this solution truly local, if it draws or is based on existing local patterns. If, however, it is tailored to local conditions without drawing on local patterns we may call it novel/customized.

**ARE STRATEGIC AND INSTITUTIONAL CONTEXTS JUST TWO SIDES OF THE SAME COIN?** Let us turn to the explanatory dimensions of this work. It should be noted that institutional and strategic contexts, while analytically distinct, may be to some extent two sides of the same coin. For example, lacking or weak suppliers can be seen as a distant or an un-conducive institutional context. At the same time, they can be seen as a distant or un-conducive strategic context in terms of supply market conditions: supply market conditions that are not able to provide the right quality, quantity and price of input factors. The same holds true for other input factors, such as human resources. Based on institutional conditions, such as education and industrial training systems, human resources are equipped with specific qualifications, skills and work dispositions. At the same time, these institutional conditions play a crucial role in constituting markets for human resources, i.e. the quality, quantity, and price at which human resources are available. Or looked at the other way around, market conditions, for example demand for specific human resources, shape to some degree specific institutional profiles of the education systems.

**STRATEGIC CHOICE: HOW MUCH CHOICE IS THERE REALLY?** The terminology of strategic choice seems to suggest the free choice of firms to decide what kinds of generic strategies to pursue and what kind of entry modes to choose. However, this research project casts doubts over the assertion that there is actually much choice involved. Rather it seems that the strategic choices of firms in this case study are constrained by their path dependencies as well as by institutional and strategic contextual conditions and constraints that strongly structure their choices. For example, Fiat’s generic strategy focusing on a small affordable World Car for emerging markets has to be understood against the background of tax regimes in Italy, the home country, which started during the Second World War and continued thereafter. Once this main path was created, it was difficult for Fiat to be internationally competitive in a higher market segment that had been strongly filled by other firms. Breaking with such a path is not impossible but very difficult due to established strategic contexts, prior investments made, and capabilities held with regard to a specific path. Similarly, the strategic choice at the subsidiary level regarding products and entry modes were strongly impacted by different contextual constraints at specific points in time. When SMC entered the Indian market, the segment it was focusing on, small cars for developing countries, was vacant. However, in the early 1980s only a company with such a product strategy stood a chance to
be accepted and successful in India, given the host context institutional and strategic conditions – high demands for low segment cars and high government intervention. However, while SMC had the chance to tap this unsatisfied demand first, through its early move into the market, it was facing serious restriction on entry mode choice. Equity modes involving majority equity for the foreign partner were ruled out by government regulation. Likewise, there was not much choice regarding the establishment mode and local partner. It was basically a take it or leave it situation for SMC. This whole scenario contrasted markedly with the one of Skoda. Skoda entered the Indian market late but was not facing fewer constraints with regard to its strategic choices. Being a late comer, Skoda/VW had a very narrow choice concerning the kinds of product to introduce into the Indian market. Most segments were already in the grip of other companies and it was practically ruled out to serve the lower market segments that were under strong control of SMC and Hyundai. So the existing strategic conditions in the host strategic context structured the choice for a niche segment, which differed markedly from VW’s earlier move and success in China. At the same time, the late entry made it much easier for VW/Skoda – compared to early movers – to choose a wholly-owned subsidiary as an equity mode. Instead, choosing a JV as an equity mode or a Brownfield site/acquisition had become a difficult option because most local automobile companies had already entered into JV or had proven to be failures.

THE INFLUENCE OF AND ON PERFORMANCE: This work says little about the influence of subsidiary performance on hybridization outcomes and conversely about the influence of hybridization outcomes on subsidiary performance. While there was some indication, for example in the DCIPL case, that lacking performance (here in quality terms) can trigger foreign parent transfer or demands, the relationship between site performance and transfer scenarios, misfits/recontextualization pressure and recontextualization modes has not been explored in this work. Similarly, this work says little about the question whether and how different hybridization outcomes impact the performance of subsidiaries. On the one hand, it can be imagined that too much forced foreign parent transfer and imitation can bring about motivation and performance problems in subsidiaries. On the other hand, too many local solutions may also amount to performance problems, especially when there is a big technology or capability gap between the foreign parent and host context. Clearly the relationship between hybridization outcomes and performance needs to be explored in future.

METHODOLOGY CONCERNS: From a methodological viewpoint, the four cases are based on heterogeneous data sources. In some cases only secondary data was available to determine the hybridization outcomes of certain production system dimensions and the circumstances that brought them about. While a strong effort was made to avoid such a data-related bias, by employing data-triangulation as far as possible, some degree of data-related bias cannot be ruled out.
OUTLOOK: A final challenge this work was not able to address is the question how hybridization processes unfold at the micro-level between specific actors that are embedded in or originate from different strategic and institutional context. It involves asking: How specific hybridization outcomes have come about by taking a closer look at how actors are differently affected and able to shape such processes based on their systemic positioning in corporate and societal contexts? How hybridization processes are socio-politically constituted? What kinds of decision making processes constitute hybridization processes? Whether we should consider transfer processes as ‘translation processes’ or ‘dialectical transformations’, in which the transfer contents change the receiving contexts as much as the receiving contexts change the transfer content? As these questions require an embedded – ideally an ethnographic – micro-perspective for their exploration, they were beyond the theoretical scope and empirical access possibilities of this work. However, the author of this work has developed elsewhere (Becker-Ritterspach, 2006) a micro-level perspective on the ‘dialectical transformation’ of knowledge integration in MNEs. This micro-level perspective provides an alternative framework for future research in the field of organizational hybridization.
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SUMMARY

BACKGROUND
Multinational enterprises (MNEs) setting up production sites abroad face the ongoing challenge of how to configure their subsidiaries’ production systems. This configuration related challenge involves the questions: Whether MNEs should define and transfer whole production system templates or only apply a limited range of policies? What kinds of adaptations are possible and required to match the transferred templates with local or host context conditions? And which templates and practices may not be transferable at all but either have to be drawn from or customized to the local or host contexts? Based on these configurational challenges for MNEs, this work tries to understand how and why the MNEs’ subsidiaries production systems may differ with regard to their different dimensions’ contextual origin or constitution, i.e. their hybridization profile.

RESEARCH GAPS & RESEARCH GOAL
While there is no organizational hybridization theory as such, there have been a number of studies from different research traditions that have either contributed to or adopted a hybridization perspective. Many of these contributions have focused on MNEs because it is particularly challenging to understand the contextual constitution of organizations that are embedded in different national contexts. In this work, three main bodies of research are identified that have made important contributions to the questions how we can capture hybridization outcomes and why these outcomes occur when organizational forms and practices are transferred across borders and units in MNEs. These bodies include: the Japanization literature, the Institutionalist approaches and contributions from the field of International Business (IB). However, it is shown that all three bodies of literature remain unsatisfactory for our understanding of hybridization in MNEs, if they are left unconnected. The discussion of different approaches illustrates that no single body of literature discussed, systematically addresses the impact of both strategic and institutional contextual difference on production system hybridization. More importantly, while the importance of strategic choices is not entirely ignored, there is hardly any work that thoroughly theorizes and empirically researches the question how foreign parent strategic choices on the corporate and subsidiary level influence hybridization outcomes/profiles of production systems in MNEs. Therefore, this work seeks to make two contributions to the emerging body of hybridization research in organization studies in general and with regard to production system hybridization research in the MNE in particular. The first contribution is to address the problem how the complex embeddedness of subsidiary production systems in different context impacts
their hybridization profiles. It is proposed that different strategic contexts – defined as supply and demand market conditions in the host context as well as corresponding local task profiles – and different institutional contexts of production systems – defined as habitual patterns that find expression in specific societal subsystems such as education systems, industrial relation systems – constitute two distinct, yet interrelated, sources of contextual misfit that impact hybridization outcomes. The second contribution is to explore the association between production system hybridization in MNEs’ subsidiaries and different strategic choices at the corporate and subsidiary level. It is proposed that generic product strategies of MNEs and entry modes of subsidiaries have a strong influence on hybridization outcomes.

**ANALYTICAL FRAMEWORK**

The main research goal of this work is to understand how and why the MNEs’ subsidiaries production systems differ with regard to their different dimensions’ contextual origin. In order to tackle this question an analytical framework is developed and structured along the how and why question.

**THE HOW-QUESTION**

Drawing on seminal contributions of hybridization research (e.g. Boyer, 1998) different kinds of contextual constitution can be captured as different hybridization outcomes. The word ‘hybrid’, which means in its Latin root ‘of two origins’, refers in this context to the emergence of organizational forms that are constituted by different contextual origins. Based on contextual origin, there are four ideal typical hybridization outcomes, involving: imitated, local, hybrid and customized/novel solutions (see table below).

<table>
<thead>
<tr>
<th>Contextual origin</th>
<th>Local / Host</th>
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<tr>
<td></td>
<td>Yes</td>
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<td>Foreign parent</td>
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**THE WHY-QUESTION**

Further, it is argued that these different outcomes are the result of the dynamic relation between three crucial factors comprising: the transfer scenario, contextual (mis)fit / recontextualization pressure and the recontextualization mode. (1) The transfer scenario involves the question, whether or not an MNE transfers a template or poses demands vis-à-vis a local production system. There are three ideal typical starting points for transfer scenarios: A foreign parent template transfer, a host/local template use or, neither a foreign parent tem-
plate transfer nor a local/host template use. (2) Based on the different transfer scenarios there are different kinds of fits or misfits these starting scenarios can face. For example, a foreign parent context template can (mis)fit the local/host context just as a local/host context template may (mis)fit the foreign parent context. Misfits of whatever kind tend to induce pressures for adaptation, recontextualization pressures. (3) The recontextualization mode involves the question how misfit induced recontextualization pressures are resolved. It is argued that two principle recontextualization modes exist that can be simultaneously at work. The first mode involves the adaptation of foreign parent context (templates, demands or conditions) to the local/host context. The second mode involves the opposite, the adaptation of the local/host context to the foreign parent context (templates, demands or conditions). Now, depending on the interaction of these three variables we can expect different hybridization outcomes. For example: If there is a foreign parent template transfer scenario and no local/host context misfit, there will little need for recontextualization and we can expect imitation as an outcome. However, if there is a foreign parent template transfer scenario and a local/host context misfit, there will be a recontextualization pressure. If the misfit is resolved through an adaptation of the local/host context, we can expect an outcome between hybrid and imitation, depending on how much the local context is being adapted to the foreign template. Conversely, if the misfit is resolved through an adaptation of the foreign template we can expect an outcome between hybrid and localization.

**PROPOSITIONS**

Institutional and Strategic distance

It is proposed that contextual distance plays a key role for hybridization outcomes because it affects both transfer scenarios and misfits. The discussion of literature showed that rarely have the impact of both strategic and institutional distance been conceptualized as different kinds of sources of misfit affecting hybridization outcomes. Whether the institutional or strategic distance is more relevant for certain dimensions of a production system will be left open to exploration. However, it is proposed:

*Transfer scenarios and misfits vary because there can be more or less of an institutional-contextual distance between the origins and destinations of a transfer template.*

*Transfer scenario and misfits vary because there can be more or less of a strategic-contextual distance between potential origins and destinations of a transfers template.*

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Strategic choices

Generic strategies: It is proposed that firms whose competitive strategy mainly rest on controlling production costs and who have a narrow market scope – *a combination of cost leadership and focus strategy* (Porter, 1980) – have the highest propensity to develop similar production sites when they internationalize. As the product portfolio does not vary a lot and cost control takes on a prime importance, there is a high incentive to develop standard production system templates for global operations. This is even more the case as entry barriers to different markets disallow an export-led internationalization or servicing all markets from one global hub. In contrast, firms that have a broad market scope and rely on their product’s uniqueness – *a differentiation strategy* (Porter, 1980) – have less incentive to define or develop and transfer a standard production system template because different sites are more likely to be strategically distant – based on more differentiated task profiles and market conditions across sites – and because cost advantages through developing standard templates play a less important role for the competitive strength of these companies. Specifically it is proposed:

*MNEs with a combination of cost leadership and focus strategy are more likely to develop/define and transfer a foreign parent template, less likely to face high strategic distance related recontextualization pressure, probably more determined to adapt a local/host context to the foreign parent template and to feature higher degrees of imitation as an outcome.*

*MNEs with a differentiation strategy are less likely to develop/define and transfer a foreign parent template, more likely to face high strategic distance related recontextualization pressure, probably more flexible to adapt their templates or demands to the local/host context and to feature as a result higher degrees of local, hybrid and customized solutions as outcomes.*

Entry modes: The second proposition regarding strategic choices involves the impact of entry modes – defined as *establishment and equity modes* – on transfer scenarios, contextual misfit induced recontextualization pressures as well as recontextualization modes. With regard to *establishment modes* the assumption is that Greenfield sites are more likely to receive foreign parent templates than Brownfield sites because they lack an existing configuration; that Greenfield sites either reduce or mediate contextual distance, which reduces misfit and corresponding recontextualization pressure in the case of a foreign parent transfer and that Greenfield sites – related to the second point – find it easier to adapt the local context to distant foreign parent templates, demands or conditions. With respect to *equity modes* it is also suggested that they impact all components constituting hybridization outcomes. The argument is here that the equity mode has an influence on: Whose management controls the subsidiary and whose management can decide what is or can be transferred or
demanded? What is rated as an unacceptable contextual distance or misfit? And to what extent the foreign parent template/demands or local/host demands and conditions have to be responded to or can be rejected? It is therefore proposed:

In contrast to Brownfield sites, Greenfield sites are more likely to see a transfer of a foreign parent template, will face lower levels of misfit, will find it easier to adapt a local context to the foreign template and will feature higher degrees of imitation as an outcome.

The higher the foreign parent equity in the site, the more likely the transfer of a foreign parent template, the higher the level of misfit, the more likely an adaptation of the local context to the foreign template and, as a result, the higher the degree of imitation as an outcome.

**RESEARCH DESIGN & METHODOLOGY**

It is suggested that a research design best suited to approach the research goal of this work is a *qualitative comparative case study* with a strong exploratory element. Understanding how hybridization outcomes differ and why such outcomes have come about is essentially about understanding *qualitative changes* in an organizational phenomenon in relation to its complex contextual embeddedness. The case studies employed in this research context adopt a multiple-case design (Yin, 2003). A multiple-case design suggests itself when investigating the analytical value of a theoretical framework that explores associations between variations in strategic choice and hybridization profiles (Yin, 2003; Pauwels and MatthysSENS, 2004). The case selection for the overall comparative case study is based on ‘theoretical sampling’ (Eisenhardt, 1989). While in principle the first research question whether both strategic and institutional distance impact hybridization outcomes could be investigated in a single case study (based on within case variation of different production system dimensions), the second question, involving how different strategic choices impact hybridization outcomes, cannot. In this latter respect, we need to compare cases that vary systematically with regard to their strategic choices at the corporate and subsidiary level. While the selection of cases is driven by broad theoretical propositions, the study’s analytical framework is formulated in an open and tentative way.

The case study is based on the comparison of four automobile subsidiary production systems in India. This work chooses the subsidiary as the main level of analysis because it is expected that different contextual pressures are more tangible and their empirical investigation more manageable at subsidiary level compared to the corporate level. Moreover, production systems of automobile subsidiaries in India are selected as the unit of analysis for the following reasons: *First*, production systems as defined here are multi-dimensional
constructs whose different dimensions may be more or less impacted by different kinds of context. Unlike a research that focuses solely on the transfer and hybridization of specific practices, a focus on whole production systems provides us with within case variation that renders it easier to observe whether and how different organizational dimensions are impacted by institutional and strategic contexts. Second, the focus is on the automobile industry and India because extant research has shown that sectoral and host contextual differences have a strong impact on hybridization outcomes. To rule out such influences and reduce research complexity the study is confined to the automobile sector and to India as a host context. Third, the choice of India as the focal host context is motivated by the theoretical sampling logic of this study and informed by the state of hybridization research. On the one hand the Indian context offered a range of cases where both parent generic strategies as well as entry modes differed systematically in line with broad propositions posited in this study. Additionally, the within host context variation for the different cases was also relatively low due to a modest variation of entry times. On the other hand, India was chosen because hybridization research has not paid much attention to emerging market contexts, let alone India.

**RESEARCH RESULTS**

**Institutional and strategic contexts matter**

The empirical analysis of the four cases suggested that both institutional and strategic distance have a distinct explanatory value for understanding the production system hybridization of international automobile companies’ subsidiaries in India. The case study showed that the strategic distance between different MNEs’ sites has a profound impact on the definition of transfer templates, their use or non-use as well as on the recontextualization pressure on transferred templates. Similarly, institutional distance proved to have an important explanatory value for understanding the hybridization outcomes. Institutional distance impacted the transfer scenarios, recontextualization pressures and even the modes of recontextualization. The research corroborated that high contextual distance can lead to both a triggering of foreign parent transfer or demands where no transfers or demands were originally intended, and a transfer and demand restraint where a transfers or demands were originally intended. The analysis confirmed that both institutional and strategic distance lead to perceived misfits, which impact transfer scenarios and recontextualization pressures and thereby hybridization outcomes. The work also showed that recontextualization pressures induced by contextual distance and misfit can operate in different directions. For instance, just as foreign templates and demands in subsidiaries can come under recontextualization pressures in distant and misfitting local/host context, so can local/host templates used in subsidiaries come under recontextualization pressure, if too distant from or misfitting with the foreign parent demands and context conditions. Overall, the findings suggest a more
complex perspective of subsidiary embeddedness, placing them in institutional and strategic contexts as well as in parent company and host country contexts. The findings also suggest that some dimensions of a production system are affected more by institutional distance than by strategic distance and vice versa. However, although some dimensions (and even some aspects within certain dimension) appeared to be more ‘institutional-context-sensitive’ and others more ‘strategic-context-sensitive‘, it would be wrong to suggest that strategic and institutional distance can be neatly separated in their effect on specific production system dimensions as has been suggested by some (e.g. Pil and McDuffie, 1999). Indications were that both of them almost always play a role or play together in affecting hybridization outcomes. Now, what contextual distance cannot explain, or at least only partly predict, is in what direction it will impact transfer scenarios and why a certain recontextualization mode kicks in. Strategic and institutional distance in isolation, without considering the constraining and enabling conditions of specific firms’ contexts, their strategic choices, on the one hand, and the resilience of a specific local/host context, on the other, cannot explain when distance translates into perceived misfit and in what direction distance impacts transfer scenarios and recontextualization modes. How institutional and strategic distance impact the transfer scenario and what kind of recontextualization mode is chosen, depends on a host of intervening and interacting factors – such as the generic strategy, the entry mode and time, if the distance is rated positively or negatively, how the distance effects the bottom line of business, the willingness to invest resources as well as the local/host context resilience – and cannot be derived from the contextual distance alone.

Strategic choices at the corporate and subsidiary level matter

Generic strategy: The case comparison showed that the firms with a cost leadership and focus strategy had the highest degree of imitation. In these firms the availability of a foreign template and its transfer seemed to be related to these firms’ generic strategies and the comparatively lower strategic distance between different global operations. In contrast, the cases with a differentiation and focus or differentiation and cost leadership strategy neither had defined/developed nor transferred a foreign parent template to their sites and featured higher degrees of local, hybrid and customized solutions. However, while the cases confirm that generic strategies have some relevance for the hybridization outcomes, even the isolated aspect of whether templates are defined/developed or transferred depends on the interplay with other crucial factors such as: internationalization experience, whether developed or developing markets have been mainly served in the past (i.e. are there import restrictions), unforeseen strategic misfits and institutional misfits as well as the relevance of other strategic choices at the subsidiary level. What is more, the generic strategies do not suffice to explain the hybridization outcome difference across the dimensions of a production system within a particular case. Overall, the case analysis showed that a cost leadership and focus strategy does not automatically mean that a template covers all dimensions of a production
system, that there is the intent or possibility to transfer all aspects of a template, that there
are no strategic misfits and recontextualization pressures, and that the adaptation of the local
context will always be the dominant recontextualization mode. Similarly, a differentiation
strategy, especially when it is not a pure one, does not automatically mean an absent foreign
parent transfer intent or the absence of demands, high strategic distance and misfit across all
production system dimensions, and the adaptation of foreign parent templates and demands
as the dominant recontextualization mode. Clearly, whether one, the other, or both recontextu-
alization modes kick in, depends not only on generic strategies but among other factors on
the establishment mode related resilience of a local context, wider host context resilience as
well as the equity mode related ability to affect changes and the willingness to mobilize and
invest resources on the part of the foreign parent. Thus, to understand the recontextualiza-
tion mode found, company generic strategies only deliver a part of the explanation. While
there were indications that companies where the foreign parent defined and sought to trans-
fer a foreign template were also more willing to adapt the local/host context in line with
their template there are a number of other intervening factors.

Entry modes: The case comparison showed that the establishment mode influences hybridiza-
tion outcomes. However, the case comparisons demonstrated that the establishment mode
alone is only a week predictor for foreign parent template transfer. Out of the three
Greenfield sites in this study, only one engaged the transfer of a comprehensive foreign
parent template. In contrast, the only Brownfield site in the study did see a template trans-
fer. The findings indicate that although a Greenfield site implies a need for establishment,
this configuration must not necessarily be based on a foreign parent template transfer or
even strong foreign parent demands. Instead, indications were that whether a Greenfield site
was shaped by a foreign parent template or subject to strong foreign parent demands cru-
cially depended on the questions: Who (foreign partner vs. local partner; expatriates vs. host
context nationals) has the configuration mandate on a specific dimension of a production
system? Whether there is a foreign template available and which production system dimen-
sions it covers? Whether the foreign parent template fits or misfits the local/host strategic
and institutional context? However, the establishment mode was not only proposed to im-
 pact the transfer scenario but also to mediate contextual distance and to have an influence
on recontextualization modes. Indications were that the transfer of foreign parent templates
and the realization of foreign parent demands were substantially easier at the Greenfield
sites as compared to the Brownfield site. Employees at the Greenfield sites had less precon-
ceived notions working against a number of the foreign template elements or demands. And
even where host context related preconceived notions were in contradiction with foreign
parent demands or templates, the local context was easier to adapt to them. Thus, there is
evidence to suggest that Greenfield operations rendered it substantially easier to adapt a
local context to foreign template/demands as compared to Brownfield sites. It should be
noted, however, that while establishment modes have an impact on a local site’s contextual
strength and resilience, there are other factors that play into the question, which recontextualization mode unfolds. For instance, the foreign parent’s ability and willingness to invest resources and put through its demands and templates as well as the wider host context constraints penetrating into the local context are crucial.

The case comparison also showed that the equity mode influences hybridization outcomes. The findings showed that the equity mode had a profound impact on the transfer scenario. The equity mode seemed to impact the transfer scenario because it had an influence on the question whose management is responsible and has the mandate to configure a certain dimension of a production system and, as a result, whose templates or demands are more likely to be used/ transferred or have a weight. However, the empirical material also suggested that equity mode neither is sufficient to explain who has the configuration mandate nor is the equity mode as such sufficient to fully explain whose templates or demands are more likely to be used or transferred. While the equity mode certainly influences the configuration mandate, there are other determining factors. These factors include: product ownership, local/host context capabilities, capabilities of the respective partners on certain production system dimensions as well as staffing policy. Now, the equity mode was not only proposed to impact the transfer scenario but also the occurrence of misfits/recontextualization pressures and to influence recontextualization modes. In this respect, there was again only partial evidence that the equity mode alone impacted contextual misfit between the foreign parent templates and demands and local/host conditions and demands and vice versa. Rather than equity modes alone, configuration mandates may have once more, a higher explanatory value. Indications where that when host country management had the configuration mandate in certain respects of the production system, the likelihood of misfit and recontextualization pressure was lower. This was the case because the likelihood of foreign template transfer or demands (consequently misfit) was lower and because distant foreign templates were diffused or mediated by host country management. Finally, the equity mode did seem to have an influence on modes of recontextualization because it determines the respective side’s power and legal right to push for adaptations of foreign or local templates, demands and context conditions perceived as misfitting. Equity modes play an important part in enabling and constraining the involvement and ability of different parties to adapt foreign parent demands/templates and/or local/host context demands/templates and conditions. However, while equity modes do impact transfer scenarios, the likelihood of contextual misfits/pressures, and recontextualization modes we have to look at how they interact with other factors, discussed earlier, to explain hybridization outcomes.
SAMENVATTING

In de onderzoeksliteratuur op het gebied van de internationalisering van multinational ondernemingen (MNO) is er steeds meer belangstelling voor manieren van hybridiseren, d.w.z. het ontwikkelen van mengvormen en tussenoplossingen, tussen de organisatie- en managementpraktijken van het land van herkomst van een MNO en het land waarin een vestiging opgericht is. Dat er meestal hybridiserend plaats vindt, i.p.v. eenvoudige convergentie naar normen van de context van het herkomstland, is al goed aangetoond. Niet onderzocht en niet verklaard zijn echter de aard van hybridiseren en de redenen waarom in het ene geval aapassing aan normen van de herkomstcontext sterker is, in een ander aan normen van de vestigingscontext.

Deze vragen worden met behulp van een onderzoeksdesign behandeld, waarin middels quantitatief uitgebreide gevalsstudies en analyse van beschikbare gegevens binnen één vestigingsland verschillende neerzettingen van uiteenlopende MNO ten opzichte van productiesystemen en human resource management (HRM) worden vergeleken. De MNO’s verschillen ten opzichte van generieke strategieën, marktsegmenten, internationaliseringsstrategieën, internationaliseringservaring en verticale integratie binnen de vestiging. Daarnaast blijken institutionele regelingen in het land van vestiging van belang, zoals domestic content regels of politieke belangen of optredens van de overheid, de locale context waarin een vestiging plaats vindt, de sterkte en het optreden van vakbonden e.d..

Ten einde een zo groot mogelijke variëteit van MNO’s en strategieën te kunnen vergelijken, werden bedrijven en MNO’s in een groot land met bijzonder opvallende aanwezigheid van MNO’s op een centraal markt-/productgebied onderzocht, te weten vestigingen van MNO’s in de automobilie-industrie in India. Op die manier werd de institutionele context van het land van vestiging constant gehouden, terwijl ondernemings- en strategiekenmerken konden variëren.

Het blijkt dat organisatievormen en HRM (waaronder arbeidsverhoudingen) inderdaad verschillend zijn, en wel naargelang institutionele kenmerken van de contexten van het land van herkomst en de moederonderneming, generieke en internationaliseringsstrategieën, en factoren van de plaatselijke context. Als we weten welke keuzes acteurs binnen en buiten de MNO op welk moment maken, kunnen we plaatselijk ontstane systemen van management, organisatie en HRM verklaren. Sommige van deze keuzes worden op corporate niveau gemaakt, andere op plaatselijk niveau, al dan niet in samenspraak met de overheid of
vakbonden. Naast een geaggregeerde behandeling van de automobilindustrie in India in zijn geheel, ligt de focus van onderzoek op vier MNO’s in dit land.

Opvallend is de interactie tussen de verschillende invloedfactoren, waardoor soms verrassende mengvormen van praktijken uit het land van herkomst en het vestigingsland ontstaan. Deze mengvormen kunnen zelfs in hetzelfde bedrijf naargelang aspect of deelgebied sterk verschillen. Op deze manier ontstaat een gedifferentieerd beeld van hybridiseringsprofielen en interagerende invloedfactoren. De qualitatieve exploratie van hybridiseringsprofielen en invloedfactoren in dit onderzoek kan verder gebruikt worden om naar voren gehaalde relaties en interacties in vervolgonderzoek systematisch te toetsen.