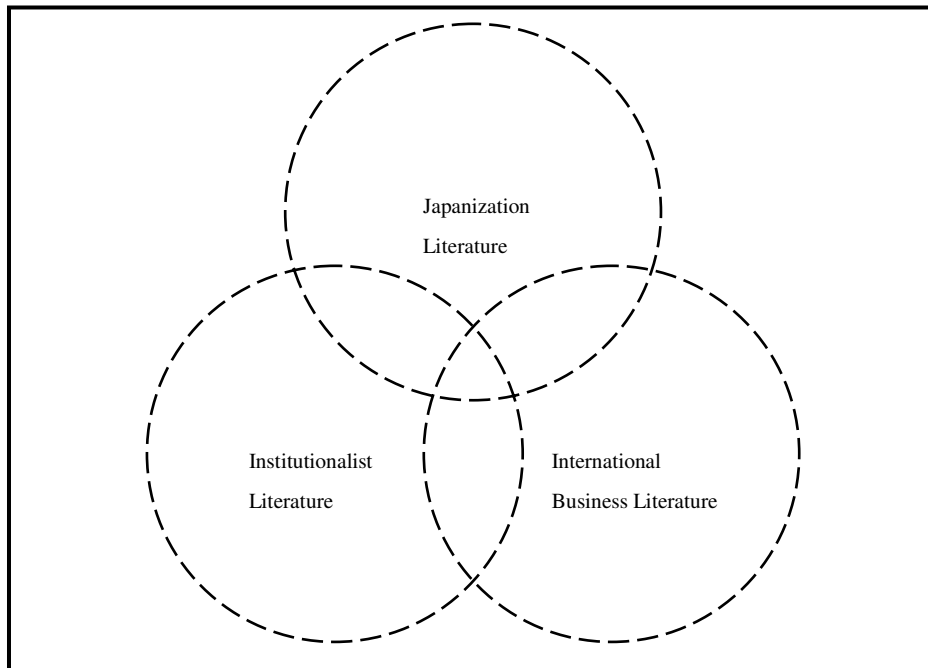


CHAPTER 2: LITERATURE REVIEW

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 contexts. 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.

Figure 1: Overlap between the Japanization, Institutional and International Business literature



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-* and *why-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-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 summery 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-

ment time and attention in building site-specific innovation capabilities. (Kenney, 1999: 289)

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

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

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’

Element Mode of transfer	Human	Material
Method	Work Organization, Administration, Team Sense, Labor Relations	Production control, Parts procurement
Results	Parent-subsidiary relations	Production control, Parts procurement

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 possess 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)¹. As far as the *level of analysis* is

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 too 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 Ackers, 1995; Smith and Elger, 2000; Wood, 1996).² 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 than 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 recontextualization 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 Production 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 subsidiaries 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 neglected how different strategic contexts – understood as task environments and market conditions – 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. Institutional 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: Institutional 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, Institutional approaches fill an important gap in hybridization research for two reasons. First, Institutional 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 Institutional approaches apply Institutional 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 Institutional 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 Institutional 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 rationale 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-

lately 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 thought 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 Institutional 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 Institutional 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 Institutional 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 Institutional 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), 'assent' (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 Institutional 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 Institutional 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

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 divers 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 Institutionalists, 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 3: Modes of internationalization

		Variety of institutional contexts	
		Low	High
Organizational integration	Low	similar multi-domestic	fragmented
	High	similar integrated	hybrid

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-

gration, 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 they 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 Institutionalists 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 to 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 Institutional 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 Institutional 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:

[R]ecognition 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

Nature of process Breadth of process	Imitation	The search for a functional equivalent (FE)	Novelty (N)/ Innovation
Partial: Some components	Imitation 1 Partial Imitation	Hybridization 1 Partial FE	Hybridization 3 Partial N
Complete: All components	Imitation 2 Complete Imitation	Hybridization 2 Complete FE	Hybridization 4 Complete N

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

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

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-

tutions which are different from those faced by the parent company. (Boyer, 1998: 39-40)

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 divers 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 tented 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

Forces for global integration	Forces for local differentiation	Forces for worldwide diffusion
<ul style="list-style-type: none"> • Unified world market place • Convergence of consumer preferences • Market liberalization • Economies of scale • Reduced transportation and communication cost 	<ul style="list-style-type: none"> • Nationally differentiated market structures • Difference in consumer preferences • Host government policies • Liability of geographic distance for transport and coordination • Flexible production technology 	<ul style="list-style-type: none"> • Increasing parity among players • Rising R&D costs • Shortening product life-cycles • A shifts from freestanding products to integrated systems • Global standards and specifications

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

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

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, exploiting 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:

[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 (Birkinshaw, 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 extend 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 constraints 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

how-question, and somewhat in contrast to the mainstream Knowledge Flow literature, 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 coordination 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) suggest 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

	Exportive	Closed hybrid	Adaptive	Open hybrid
Enactment	Parent template	Parent template	Local template	Customized temporary template
Selection	Minor adjustments	Major adjustments	Minor adjustments	Major adjustments
Retention	Verification of fit; fine-tuning	Identification of success consistent with self-image	Local success	Cautions success

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 Institutional 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 of organizations this changes. American Institutionalists 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 Institutionalists 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 Institutionalists 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 dichotomous 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 Institutionalists (Strang and Meyer, 1993) also emphasize the abstract and general nature of 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 Institutionalists 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 diverse 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 Institutionalist 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 Institutionalist 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 Institutional 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 Institutionalists 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, Institutional 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 Institutional 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.

Table 9: Strengths and weaknesses compared across different approaches

Approach	How	Why		
	Dichotomous vs. Complex	Contextual distance	Strategic distance	Strategic choice
		Institutional distance	Strategic distance	Corporate or subsidiary level
Japanization				
Lean Production	From dichotomous to increasingly complex	Weakly considered	Somewhat considered	Somewhat considered
Labor Process	From dichotomous to increasingly complex	Somewhat considered	Weakly considered	Weakly considered
Institutionalist				
American Institutionalism	Largely dichotomous	Strongly considered	Weakly considered	Somewhat considered
European Institutionalism	Largely complex descriptive	Strongly considered	Weakly considered	Somewhat considered
International Business				
Integration-Responsiveness	Not explicitly considered but suggests dichotomous outcomes	Weakly considered	Strongly considered	Somewhat considered
Strategy Structure	Not explicitly considered but allows for complex outcomes	Weakly considered	Strongly considered	Strongly considered
Subsidiary Role	Not explicitly considered but allows for complex outcomes	Weakly considered	Strongly considered	Strongly considered
Knowledge Flow	Mainly dichotomous outcomes	Weakly considered	Strongly considered	Weakly considered