

SUMMARY

BACKGROUND

Multinational enterprises (MNEs) setting up production sites abroad face the ongoing challenge of how to configure their subsidiaries' production systems. This configuration related challenge involves the questions: Whether MNEs should define and transfer whole production system templates or only apply a limited range of policies? What kinds of adaptations are possible and required to match the transferred templates with local or host context conditions? And which templates and practices may not be transferable at all but either have to be drawn from or customized to the local or host contexts? Based on these configurational challenges for MNEs, this work tries to understand *how* and *why* the MNEs' subsidiaries production systems may differ with regard to their different dimensions' contextual origin or constitution, i.e. their hybridization profile.

RESEARCH GAPS & RESEARCH GOAL

While there is no organizational hybridization theory as such, there have been a number of studies from different research traditions that have either contributed to or adopted a hybridization perspective. Many of these contributions have focused on MNEs because it is particularly challenging to understand the contextual constitution of organizations that are embedded in different national contexts. In this work, three main bodies of research are identified that have made important contributions to the questions how we can capture hybridization outcomes and why these outcomes occur when organizational forms and practices are transferred across borders and units in MNEs. These bodies include: the Japanization literature, the Institutional approach and contributions from the field of International Business (IB). However, it is shown that all three bodies of literature remain unsatisfactory for our understanding of hybridization in MNEs, if they are left unconnected. The discussion of different approaches illustrates that no single body of literature discussed, systematically addresses the impact of both strategic and institutional contextual difference on production system hybridization. More importantly, while the importance of strategic choices is not entirely ignored, there is hardly any work that thoroughly theorizes and empirically researches the question how foreign parent strategic choices on the corporate and subsidiary level influence hybridization outcomes/profiles of production systems in MNEs. Therefore, this work seeks to make two contributions to the emerging body of hybridization research in organization studies in general and with regard to production system hybridization research in the MNE in particular. The *first contribution* is to address the problem how the complex embeddedness of subsidiary production systems in different context impacts

their hybridization profiles. It is proposed that different strategic contexts – defined as supply and demand market conditions in the host context as well as corresponding local task profiles – and different institutional contexts of production systems – defined as habitual patterns that find expression in specific societal subsystems such as education systems, industrial relation systems – constitute two distinct, yet interrelated, sources of contextual misfit that impact hybridization outcomes. The *second contribution* is to explore the association between production system hybridization in MNEs’ subsidiaries and different strategic choices at the corporate and subsidiary level. It is proposed that generic product strategies of MNEs and entry modes of subsidiaries have a strong influence on hybridization outcomes.

ANALYTICAL FRAMEWORK

The main research goal of this work is to understand how and why the MNEs’ subsidiaries production systems differ with regard to their different dimensions’ contextual origin. In order to tackle this question an analytical framework is developed and structured along the how and why question.

THE HOW-QUESTION

Drawing on seminal contributions of hybridization research (e.g. Boyer, 1998) different kinds of contextual constitution can be captured as different hybridization outcomes. The word ‘hybrid’, which means in its Latin root ‘of two origins’, refers in this context to the emergence of organizational forms that are constituted by different contextual origins. Based on contextual origin, there are four ideal typical hybridization outcomes, involving: imitated, local, hybrid and customized/novel solutions (see table below).

Different hybridization outcomes

Contextual origin		Local / Host	
		Yes	No
Foreign parent	Yes	Hybrid	Imitated
	No	Local	Customized / Novel

THE WHY-QUESTION

Further, it is argued that these different outcomes are the result of the dynamic relation between three crucial factors comprising: the transfer scenario, contextual (mis)fit / recontextualization pressure and the recontextualization mode. (1) The *transfer scenario* involves the question, whether or not an MNE transfers a template or poses demands vis-à-vis a local production system. There are three ideal typical starting points for transfer scenarios: A foreign parent template transfer, a host/local template use or, neither a foreign parent tem-

plate transfer nor a local/host template use. (2) Based on the different transfer scenarios there are different kinds of *fits or misfits* these starting scenarios can face. For example, a foreign parent context template can (mis)fit the local/host context just as a local/host context template may (mis)fit the foreign parent context. Misfits of whatever kind tend to induce pressures for adaptation, recontextualization pressures. (3) The *recontextualization mode* involves the question how misfit induced recontextualization pressures are resolved. It is argued that two principle recontextualization modes exist that can be simultaneously at work. The first mode involves the adaptation of foreign parent context (templates, demands or conditions) to the local/host context. The second mode involves the opposite, the adaptation of the local/host context to the foreign parent context (templates, demands or conditions). Now, depending on the interaction of these three variables we can expect different hybridization outcomes. For example: If there is a foreign parent template transfer scenario and no local/host context misfit, there will little need for recontextualization and we can expect imitation as an outcome. However, if there is a foreign parent template transfer scenario and a local/host context misfit, there will be a recontextualization pressure. If the misfit is resolved through an adaptation of the local/host context, we can expect an outcome between hybrid and imitation, depending on how much the local context is being adapted to the foreign template. Conversely, if the misfit is resolved through an adaptation of the foreign template we can expect an outcome between hybrid and localization.

PROPOSITIONS

Institutional and Strategic distance

It is proposed that contextual distance plays a key role for hybridization outcomes because it affects both transfer scenarios and misfits. The discussion of literature showed that rarely have the impact of both strategic and institutional distance been conceptualized as different kinds of sources of misfit affecting hybridization outcomes. Whether the institutional or strategic distance is more relevant for certain dimensions of a production system will be left open to exploration. However, it is proposed:

Transfer scenarios and misfits vary because there can be more or less of an institutional-contextual distance between the origins and destinations of a transfer template.

Transfer scenario and misfits vary because there can be more or less of a strategic-contextual distance between potential origins and destinations of a transfers template.

Strategic choices

Generic strategies: It is proposed that firms whose competitive strategy mainly rest on controlling production costs and who have a narrow market scope – *a combination of cost leadership and focus strategy (Porter, 1980)* – have the highest propensity to develop similar production sites when they internationalize. As the product portfolio does not vary a lot and cost control takes on a prime importance, there is a high incentive to develop standard production system templates for global operations. This is even more the case as entry barriers to different markets disallow an export-led internationalization or servicing all markets from one global hub. In contrast, firms that have a broad market scope and rely on their product's uniqueness – *a differentiation strategy (Porter, 1980)* – have less incentive to define or develop and transfer a standard production system template because different sites are more likely to be strategically distant – based on more differentiated task profiles and market conditions across sites – and because cost advantages through developing standard templates play a less important role for the competitive strength of these companies. Specifically it is proposed:

MNEs with a combination of cost leadership and focus strategy are more likely to develop/define and transfer a foreign parent template, less likely to face high strategic distance related recontextualization pressure, probably more determined to adapt a local/host context to the foreign parent template and to feature higher degrees of imitation as an outcome.

MNEs with a differentiation strategy are less likely to develop/define and transfer a foreign parent template, more likely to face high strategic distance related recontextualization pressure, probably more flexible to adapt their templates or demands to the local/host context and to feature as a result higher degrees of local, hybrid and customized solutions as outcomes.

Entry modes: The second proposition regarding strategic choices involves the impact of entry modes – defined as *establishment and equity modes* – on transfer scenarios, contextual misfit induced recontextualization pressures as well as recontextualization modes. With regard to *establishment modes* the assumption is that Greenfield sites are more likely to receive foreign parent templates than Brownfield sites because they lack an existing configuration; that Greenfield sites either reduce or mediate contextual distance, which reduces misfit and corresponding recontextualization pressure in the case of a foreign parent transfer and that Greenfield sites – related to the second point – find it easier to adapt the local context to distant foreign parent templates, demands or conditions. With respect to *equity modes* it is also suggested that they impact all components constituting hybridization outcomes. The argument is here that the equity mode has an influence on: Whose management controls the subsidiary and whose management can decide what is or can be transferred or

demanded? What is rated as an unacceptable contextual distance or misfit? And to what extent the foreign parent template/demands or local/host demands and conditions have to be responded to or can be rejected? It is therefore proposed:

In contrast to Brownfield sites, Greenfield sites are more likely to see a transfer of a foreign parent template, will face lower levels of misfit, will find it easier to adapt a local context to the foreign template and will feature higher degrees of imitation as an outcome.

The higher the foreign parent equity in the site, the more likely the transfer of a foreign parent template, the higher the level of misfit, the more likely an adaptation of the local context to the foreign template and, as a result, the higher the degree of imitation as an outcome.

RESEARCH DESIGN & METHODOLOGY

It is suggested that a research design best suited to approach the research goal of this work is a *qualitative comparative case study* with a strong *exploratory* element. Understanding how hybridization outcomes differ and why such outcomes have come about is essentially about understanding *qualitative changes* in an organizational phenomenon in relation to its complex contextual embeddedness. The case studies employed in this research context adopt a multiple-case design (Yin, 2003). A multiple-case design suggests itself when investigating the analytical value of a theoretical framework that explores associations between variations in strategic choice and hybridization profiles (Yin, 2003; Pauwels and Matthyssens, 2004). The case selection for the overall comparative case study is based on 'theoretical sampling' (Eisenhardt, 1989). While in principle the first research question whether both strategic and institutional distance impact hybridization outcomes could be investigated in a single case study (based on within case variation of different production system dimensions), the second question, involving how different strategic choices impact hybridization outcomes, cannot. In this latter respect, we need to compare cases that vary systematically with regard to their strategic choices at the corporate and subsidiary level. While the selection of cases is driven by broad theoretical propositions, the study's analytical framework is formulated in an open and tentative way.

The case study is based on the comparison of four automobile subsidiary production systems in India. This work chooses the subsidiary as the main level of analysis because it is expected that different contextual pressures are more tangible and their empirical investigation more manageable at subsidiary level compared to the corporate level. Moreover, production systems of automobile subsidiaries in India are selected as the unit of analysis for the following reasons: *First*, production systems as defined here are multi-dimensional

constructs whose different dimensions may be more or less impacted by different kinds of context. Unlike a research that focuses solely on the transfer and hybridization of specific practices, a focus on whole production systems provides us with within case variation that renders it easier to observe whether and how different organizational dimensions are impacted by institutional and strategic contexts. *Second*, the focus is on the automobile industry and India because extant research has shown that sectoral and host contextual differences have a strong impact on hybridization outcomes. To rule out such influences and reduce research complexity the study is confined to the automobile sector and to India as a host context. *Third*, the choice of India as the focal host context is motivated by the theoretical sampling logic of this study and informed by the state of hybridization research. On the one hand the Indian context offered a range of cases where both parent generic strategies as well as entry modes differed systematically in line with broad propositions posited in this study. Additionally, the within host context variation for the different cases was also relatively low due to a modest variation of entry times. On the other hand, India was chosen because hybridization research has not paid much attention to emerging market contexts, let alone to India.

RESEARCH RESULTS

Institutional and strategic contexts matter

The empirical analysis of the four cases suggested that both institutional and strategic distance have a distinct explanatory value for understanding the production system hybridization of international automobile companies' subsidiaries in India. The case study showed that the strategic distance between different MNEs' sites has a profound impact on the definition of transfer templates, their use or non-use as well as on the recontextualization pressure on transferred templates. Similarly, institutional distance proved to have an important explanatory value for understanding the hybridization outcomes. Institutional distance impacted the transfer scenarios, recontextualization pressures and even the modes of recontextualization. The research corroborated that high contextual distance can lead to both a triggering of foreign parent transfer or demands where no transfers or demands were originally intended, and a transfer and demand restraint where a transfers or demands were originally intended. The analysis confirmed that both institutional and strategic distance lead to perceived misfits, which impact transfer scenarios and recontextualization pressures and thereby hybridization outcomes. The work also showed that recontextualization pressures induced by contextual distance and misfit can operate in different directions. For instance, just as foreign templates and demands in subsidiaries can come under recontextualization pressures in distant and misfitting local/host context, so can local/host templates used in subsidiaries come under recontextualization pressure, if too distant from or misfitting with the foreign parent demands and context conditions. Overall, the findings suggest a more

complex perspective of subsidiary embeddedness, placing them in institutional and strategic contexts as well as in parent company and host country contexts. The findings also suggest that some dimensions of a production system are affected more by institutional distance than by strategic distance and vice versa. However, although some dimensions (and even some aspects within certain dimension) appeared to be more ‘institutional-context-sensitive’ and others more ‘strategic-context-sensitive’, it would be wrong to suggest that strategic and institutional distance can be neatly separated in their effect on specific production system dimensions as has been suggested by some (e.g. Pil and McDuffie, 1999). Indications were that both of them almost always play a role or play together in affecting hybridization outcomes. Now, what contextual distance cannot explain, or at least only partly predict, is in what direction it will impact transfer scenarios and why a certain recontextualization mode kicks in. Strategic and institutional distance in isolation, without considering the constraining and enabling conditions of specific firms’ contexts, their strategic choices, on the one hand, and the resilience of a specific local/host context, on the other, cannot explain when distance translates into perceived misfit and in what direction distance impacts transfer scenarios and recontextualization modes. How institutional and strategic distance impact the transfer scenario and what kind of recontextualization mode is chosen, depends on a host of intervening and interacting factors – such as the generic strategy, the entry mode and time, if the distance is rated positively or negatively, how the distance effects the bottom line of business, the willingness to invest resources as well as the local/host context resilience – and cannot be derived from the contextual distance alone.

Strategic choices at the corporate and subsidiary level matter

Generic strategy: The case comparison showed that the firms with a *cost leadership and focus strategy* had the highest degree of imitation. In these firms the availability of a foreign template and its transfer seemed to be related to these firms’ generic strategies and the comparatively lower strategic distance between different global operations. In contrast, the cases with a *differentiation and focus* or *differentiation and cost leadership strategy* neither had defined/developed nor transferred a foreign parent template to their sites and featured higher degrees of local, hybrid and customized solutions. However, while the cases confirm that generic strategies have some relevance for the hybridization outcomes, even the isolated aspect of whether templates are defined/developed or transferred depends on the interplay with other crucial factors such as: internationalization experience, whether developed or developing markets have been mainly served in the past (i.e. are there import restrictions), unforeseen strategic misfits and institutional misfits as well as the relevance of other strategic choices at the subsidiary level. What is more, the generic strategies do not suffice to explain the hybridization outcome difference across the dimensions of a production system within a particular case. Overall, the case analysis showed that a *cost leadership and focus strategy* does not automatically mean that a template covers all dimensions of a production

system, that there is the intent or possibility to transfer all aspects of a template, that there are no strategic misfits and recontextualization pressures, and that the adaptation of the local context will always be the dominant recontextualization mode. Similarly, a *differentiation strategy*, especially when it is not a pure one, does not automatically mean an absent foreign parent transfer intent or the absence of demands, high strategic distance and misfit across all production system dimensions, and the adaptation of foreign parent templates and demands as the dominant recontextualization mode. Clearly, whether one, the other, or both recontextualization modes kick in, depends not only on generic strategies but among other factors on the establishment mode related resilience of a local context, wider host context resilience as well as the equity mode related ability to affect changes and the willingness to mobilize and invest resources on the part of the foreign parent. Thus, to understand the recontextualization mode found, company generic strategies only deliver a part of the explanation. While there were indications that companies where the foreign parent defined and sought to transfer a foreign template were also more willing to adapt the local/host context in line with their template there are a number of other intervening factors.

Entry modes: The case comparison showed that the *establishment mode* influences hybridization outcomes. However, the case comparisons demonstrated that the establishment mode alone is only a weak predictor for foreign parent template transfer. Out of the three Greenfield sites in this study, only one engaged the transfer of a comprehensive foreign parent template. In contrast, the only Brownfield site in the study did see a template transfer. The findings indicate that although a Greenfield site implies a need for establishment, this configuration must not necessarily be based on a foreign parent template transfer or even strong foreign parent demands. Instead, indications were that whether a Greenfield site was shaped by a foreign parent template or subject to strong foreign parent demands crucially depended on the questions: Who (foreign partner vs. local partner; expatriates vs. host context nationals) has the configuration mandate on a specific dimension of a production system? Whether there is a foreign template available and which production system dimensions it covers? Whether the foreign parent template fits or misfits the local/host strategic and institutional context? However, the establishment mode was not only proposed to impact the transfer scenario but also to mediate contextual distance and to have an influence on recontextualization modes. Indications were that the transfer of foreign parent templates and the realization of foreign parent demands were substantially easier at the Greenfield sites as compared to the Brownfield site. Employees at the Greenfield sites had less preconceived notions working against a number of the foreign template elements or demands. And even where host context related preconceived notions were in contradiction with foreign parent demands or templates, the local context was easier to adapt to them. Thus, there is evidence to suggest that Greenfield operations rendered it substantially easier to adapt a local context to foreign template/demands as compared to Brownfield sites. It should be noted, however, that while establishment modes have an impact on a local site's contextual

strength and resilience, there are other factors that play into the question, which recontextualization mode unfolds. For instance, the foreign parent's ability and willingness to invest resources and put through its demands and templates as well as the wider host context constraints penetrating into the local context are crucial.

The case comparison also showed that the *equity mode* influences hybridization outcomes. The findings showed that the equity mode had a profound impact on the transfer scenario. The equity mode seemed to impact the transfer scenario because it had an influence on the question whose management is responsible and has the mandate to configure a certain dimension of a production system and, as a result, whose templates or demands are more likely to be used/transferred or have a weight. However, the empirical material also suggested that equity mode neither is sufficient to explain who has the configuration mandate nor is the equity mode as such sufficient to fully explain whose templates or demands are more likely to be used or transferred. While the equity mode certainly influences the configuration mandate, there are other determining factors. These factors include: product ownership, local/host context capabilities, capabilities of the respective partners on certain production system dimensions as well as staffing policy. Now, the equity mode was not only proposed to impact the transfer scenario but also the occurrence of misfits/recontextualization pressures and to influence recontextualization modes. In this respect, there was again only partial evidence that the equity mode alone impacted contextual misfit between the foreign parent templates and demands and local/host conditions and demands and vice versa. Rather than equity modes alone, *configuration mandates* may have once more, a higher explanatory value. Indications were that when host country management had the configuration mandate in certain respects of the production system, the likelihood of misfit and recontextualization pressure was lower. This was the case because the likelihood of foreign template transfer or demands (consequently misfit) was lower and because distant foreign templates were diffused or mediated by host country management. Finally, the equity mode did seem to have an influence on modes of recontextualization because it determines the respective side's power and legal right to push for adaptations of foreign or local templates, demands and context conditions perceived as misfitting. Equity modes play an important part in enabling and constraining the involvement and ability of different parties to adapt foreign parent demands/templates and/or local/host context demands/templates and conditions. However, while equity modes do impact transfer scenarios, the likelihood of contextual misfits/pressures, and recontextualization modes we have to look at how they interact with other factors, discussed earlier, to explain hybridization outcomes