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Convened by:

Arndt Sorge, Rijksuniversiteit Groningen

a.m.sorge@bdk.rug.nl

Kari Lilja, Helsinki School of Economics

kari.lilja@hkkk.fi

Submitted by:

Florian Becker-Ritterspach

Research School SOM | Systems, Organisation and Management | University of Groningen

PO Box 800 | 9700 AV | The Netherlands

Tel.: + 31 (0) 38 423 58 88 | Fax: + 31 (0) 50 363 3720 | E-Mail: florian.br@gmx.de

The Contextual Constitution of MNE Subsidiaries: The Role of Institutional and Strategic Contexts¹

Introduction

The multinational enterprise (henceforth MNE, standing for both multinational enterprise and enterprises) is frequently hailed as a major driver of globalisation (Ohmae, 1995). Its role in the ‘diffusion’ of organisational models and best practices has been seen a major force toward global convergence. Clearly, the MNE as an organisation that straddles different institutional contexts and particularly its capability to transfer organisational forms and practices across contexts through FDI poses a conceptual challenge for Varieties of Capitalism (VoC) approaches both on the macro- and on the micro-level of analysis (cf. Whitley 1998). On the *macro-level* a major question concerns the aggregate effect of MNE activity on the distinctiveness of national institutional systems. On the *micro level* – which is the concern of this paper – a major question is how MNE are contextually constituted given their complex contextual embeddedness. The analysis of how the MNE is contextually constituted can be asked at two principle levels: at the level of the MNE as a whole and at the subsidiary level. This paper will focus on the subsidiary because it is less complex to understand contextual constitutions at this level of analysis. Asking about the contextual constitution of a subsidiary is to inquire here the extent to which organisational forms and practices either reflect or respond to different contextual origins. From a VoC point of view, the first thing that comes to mind is to ask: how and why subsidiaries may mirror different degrees of parent-, host-, third-country institutional systems? Starting from there we may further ask to what extent national institutional contexts – or even institutional contexts in general – are sufficient contextual frame of reference to understand the contextual constitution of subsidiaries?

In recent years, scholars from VoC have increasingly taken on the conceptual challenge of the MNEs’ complex contextual constitution (e.g. Whitley 1998, Boyer 1998, Lane 2000, Morgan et al. 2001). Major proponents have started to ask ‘what happens when a firm organizes across institutional and national divides’ (Morgan, 2001a: 1)? VoC contributions have tackled this question at both the wider corporate (e.g. Whitley 2001) and the subsidiary level (e.g. Sharpe 1997). Many of these contributions, one way or another, conclude that the impact of different institutional context may give rise to the emergence of hybrid organisational forms in MNE that reflect different institutional origins (e.g. Boyer 1998, Morgan and Whitley

¹ This paper is not conceptualized as an article but comprises basic ideas for a theoretical framework for a dissertation thesis.

2003). While some approaches have moved beyond national institutional system as the sole frame of reference either by looking at institutional levels below or above, there has been comparatively little systematic attention in VoC approaches to the question how the subsidiary's strategic context in the MNE impacts its contextual constitution. Put differently, VoC approaches have largely neglected how different internationalization strategies of MNE, corresponding structural and relational conditions as well as different strategic roles of sites impact the contextual constitution of subsidiaries. It is argued here that while institutional contexts play a crucial role in understanding the contextual constitution of subsidiaries we also have to consider the strategic contexts of MNE as well (cf. Kostova and Roth 2002). The latter involves adding to the institutional perspective a strategic MNE perspective as it has been developed the International Business (IB) literature.

This basic argument also structures this paper: The guiding question of this paper is how and why subsidiaries are differently contextually constituted. The *first chapter* will investigate how contributions from VoC conceptualise how and why subsidiaries differ with regard to their contextual constitution. The *second chapter* will briefly discuss how contributions from IB can supplement the question how and why subsidiaries differ with regard to their contextual constitution. The final chapter tries to sketch a framework and argues that if we wish to fully account for the contextual constitution of subsidiaries we have to look at both institutional and strategic contexts into which subsidiaries are embedded.

Varieties of Capitalism

To understand how *Varieties of Capitalism approaches* (Whitley 1999, Hall and Soskice 2001) conceptualize the contextual constitution of MNE and subsidiaries in particular is no easy task since this literature comprises approaches with different institutional concepts and shifting focuses. Tempel and Walgenbach (2001) have stated, for example, that VoC are more diverse in 'in focus and terminology' as compared to the American New Institutionalism (Tempel and Walgenbach 2001). Major approaches subsumable under this label include for example the 'societal effect approach' (e.g. Maurice et al. 1980, Sorge 1991) the 'national business system' approach (e.g. Whitley 1992), 'industrial order' approach (Lane 1994) and the 'social systems of production' approach (Hollingsworth and Boyer 1997). However, despite all diversity, approaches from VoC are seen to share defiance against propositions about global convergence or statements that are denying the ongoing relevance of national institutional systems in how business is conducted (Tempel and Walgenbach 2001). In fact some VoC proponents even argue that national distinctiveness not only persists despite of globalization but that it is globalization itself that increases it (e.g. Sorge 2005). Yet,

particularly within the context of internationalizing firms there are, though, some marked differences between VoC authors with regard to the question whether national institutional systems remain the only frame of reference to understand their contextual constitution. It should also be mentioned here that VoC approaches were initially only little concerned with firms that straddle different national institutional contexts. This was mainly because early contributions from VoC were based on cross-country comparative studies (e.g. Maurice et al. 1980) and largely concerned with how national firms are constituted by distinct national institutional systems. However, since the mid 90s VoC approaches have started to discover the MNE. Studies from VoC perspectives pay increasing attention to MNE 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). It is realized that MNE and their subsidiaries are impacted by institutional systems in complex ways and it is even questioned if national institutional systems suffice to account for the contextual constitution of MNE (e.g. Morgan 2001c; Plehwe 2001).

In short, with the discovery of MNE a range of new questions emerged most important of which how firms are constituted that operate across different institutional contexts. In the following paragraph there will be a selective review of approaches from VoC moving from a corporate to a subsidiary level of analysis (the latter being the main interest here). These approaches that deal with MNE one way or another will be scanned with regard how they conceptualize possible variation in the contextual constitution of subsidiaries (the how question) as well as what sources they see to account for such variation (the why question)?

Selected Approaches

Richard Whitley, one of the most widely cited proponent of VoC is interested in how MNE from contrasting business systems internationalise and asks if and under which conditions MNE as a whole have a chance to develop into distinctive organisational forms (e.g. 1998, 2001). More concretely, 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 makes MNCs distinctive kinds of organizations” (Whitley 2001: 32). Now, what does Whitley implicitly or explicitly have to say about the question *how* and *why* MNE subsidiaries vary with regard to their contextual constitution.

Whitley is mainly interested in the circumstances under which MNE as a whole get detached from their domestic contexts, develop into corporation-wide hybrids constituted by different contexts 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 statements in this regard.

In terms of the *how-question*, i.e. how and MNE are differently contextually constituted Whitley offers a distinction between four contrasting ideal-types of MNE: the similar multi-domestic, the fragmented, the similar integrated and the hybrid. The development of these types hinges upon two variables: the ‘variety of institutional contexts’ in which the MNE operates and the level of ‘organizational integration’ (see table 1 below).

Table 1: 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 MNE and the greater the commitment to a variety of business contexts of operation the more likely the hybrid or the transnational corporation emerges. But let us take a closer look at the four ideal-types and what they *imply* for the contextual constitution of MNE and their subsidiaries.

The *similar multi-domestic MNE* is neither very diversely contextually constituted across different units nor within different units. Since this kind of MNE operates in similar contexts the contextual constitution across subsidiaries is not very different. Low integration in turn implies that the subsidiaries will most likely 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 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 units but not so much within different units. This type of MNE operates in contrasting business systems and is not very integrated. As a result subsidiaries are very 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* is neither to show much contextual diversity across the MNE subsidiaries nor within these subsidiaries. In fact, due to high levels of integration Whitley expects these MNE to have a *high transfer propensity* and to “extend [their] domestic patterns of behaviour to their new locations” (Whitley 2001: 37). As these MNE 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. 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 also doesn’t expect much innovation in these units. The MNE as a whole is here again not likely to change fundamentally as these firms are not likely to develop mayor innovation in subsidiaries and because high integration is probably strongly biased towards domestic patterns.

The only type of MNE that is not only contextually divers 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 integration 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 MNE, these MNE’s 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 MNE 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 in a further step: how likely it is that the respective ideal-types emerge against the background of different domestic business systems of MNE?

The main rationale is here 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 background different propensities for global integration and for where they locate major proportions of key assets and activities.

The interesting difference is here 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 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 as 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. Cooperative hierarchies are generally more reluctant to internationalize because, compared to isolated hierarchies, their competences and capabilities are embedded in networks, and thereby more reliant on supportive contexts. Related to this, cooperative hierarchies are 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 sensible to *institutional distance*. 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 therefore 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 contexts. In short, based on their business system background and corresponding nature they are probably most likely develop into *similar integrated MNE*.

Isolated hierarchies, in contrast, are less reluctant to internationalize since their capabilities and competences are less dispersed and 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, lower levels of integration. More independent and decentralized subsidiaries suggest that isolated hierarchies are less likely to transfer/imitate domestic patterns to subsidiaries and that they have more leeway to become integrated into local contexts. Thus, based on their business system background they are most likely to develop into *fragmented MNE*.

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 concede that MNE may grow more complex and varied as a result of internationalisation and even admits that subsidiaries may be contextually constituted in complex ways (see also Morgan and Whitley 2003) he remains highly sceptical about the idea that such localized effects could feed back to fundamentally change MNE and their largely domestically founded constitution.

In contrast to Whitley, *Morgan* sees much more scope for the development of MNE as distinctive kinds of organisational entities. Positioning himself between hyperglobalists and globalization sceptics 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 generic" where the significant patterns of interaction is across borders rather than within them (Morgan 2001b: 115).

In terms of 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 MNE can be conceptualized as creating transnational social spaces in which "transnational communities" could emerge. Particularly, global/transnational MNE (unlike the multinational type) that are built on extensive interactions across different sites are seen as potential space for the development of transnational communities. Now, the emergence of these transnationally constituted MNE 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 sites in the MNE. In any event, such MNE would 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 organisational forms emerge, that do not mirror any one national context but rather reflect different or the 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.

Morgan is focused on the MNE as a whole and introduces the concept of a 'transnational space/communities'. He sees the constitution of MNE not simply based on different national institutional systems any more. Such shifts in perspective mark increasing doubts among some European institutionalists whether the institutional constitution of MNE 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 MNE can not be fully grasped by only looking at the national business systems his concept has few implications for the question 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 MNE as a whole. Lane (2001) is also interested in the possible emergence of the transnational corporation as a particular type of MNE. That is, in terms of the *how-question* Lane is also interested in how MNE are contextually constituted given their complex societal embeddedness. In her discussion about the relevance of the societal effect approach within the context of MNE (Lane 2000) she states for example:

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 convinced about the possible emergence of MNE as distinctive organisational forms and their likelihood of departing from domestic

roots. While Lane doesn't develop differentiated typifications of how MNE or their subsidiaries could be differently contextually constituted she also embraces the concept of hybridization. Contrasting her approach with Whitley's (2001) approach to MNE 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 MNE should be considered as having an independent capacity for strategic action. This means that in terms of the *why-question*, she sees hybrid outcomes as the overall result of different national business systems, globalization processes as well as strategic choices. Above all, however, Lane stresses these outcomes as results of "political negotiation between powerful actors in and around the company" (Lane 2001: 71). In her empirical analysis of German MNE she concretizes these findings and shows that hybrid organisational configurations can be attributed to different factors including: the adoption of global best practices, learning from experience in subsidiaries as well as 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 to say on how and why subsidiaries are differently constituted.

Contextual Constitution of MNE Subsidiaries

While Morgan (2001b), Whitley (2001) and Lane (2001) have addressed the issue of contextual constitution of MNE on the overall MNE level and mainly refer to national institutional contexts or above (transnational contexts), Sharpe (1997), Saka (2003), Lorenz (2000) and Boyer (1998) – to be discussed next – have tackled the issue more on the subsidiary level. Moreover, these works investigate increasingly the importance of different institutional situations at the regional, at the firm level or 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 differently received. What she finds is that the two sites show very different levels of resistance and implementation. In terms of the *how-question* Sharpe shows different levels of transfer success and the emergence of ‘compromise solutions’. Concretely, in the Brownfield case local contextual counter-pressures are so high that the implementation of the Japanese practices becomes very difficult. Here, clear departures from the transferred practices emerge and the site’s contextual constitution can be probably best described as mix between mostly local and some foreign contextual constitution. In the Greenfield case, by contrast, the implementation is much easier and the constitution of the site reflects more fully the practices from a foreign 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. Put differently, 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 posed 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 effects 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 interplays between different institutional levels and allows for more *varieties of 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 contextual constitution in MNE at the subsidiary level. Saka is interested in the diffusion of work systems and focuses on the context boundedness and limitations of this process. Like Sharpe, Saka’s research design is also based on a comparative study of Japanese subsidiaries in the UK who try to adopt similar practices from the parent companies. Now, with regard to the *how-question* Saka 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.

Concerning the *why-question*, i.e. explaining different levels of implementation and internalization of practices Saka mainly looks at the institutional- and organisational-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 conceptual starting (Saka 2003) point is Whitley's national business system approach. A core rationale is here 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, i.e. at the subsidiary level she identifies *local institutional settings* as an important variable. At this level she mainly refers to site locations as different bases of skilled labour and different bases of industrial dispute. In other words, she argues that different levels of implementation and internalization may be linked to specific conditions at different local sites within the same national business system. Third, Saka moves beyond established institutionalist thought by factoring the organisational level of individual firms into her framework. Inspired by the diffusion of innovation literature she focuses here on *transfer content* and *local adopter organisation characteristics*. In other words, she looks at the "*nature of the diffused work system*" (i.e. conceptualised 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 here the 'degree of compatibility' between the imported work systems and the existing work system, i.e. particularly how local employees perceive and interpret the import. This marks again an interesting break from earlier work in the institutionalist stream insofar as it not only considers institutional contexts more elaborately but also comes to include firm/organization specific as well as transfer content specific characteristics. Just like Sharpe, Saka stresses the role of the interplay between different analytical levels with regard to processes of diffusion and the degree of implementation and internalization.

Similar to Sharpe, Saka doesn't make a strong effort to typify different outcomes of contextual constitution but talks of different degrees of implementation and internalization. However, her findings do include a notion of contextually mixed constitution 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.

Lorenz does not directly refer to MNE subsidiaries but looks more generally at how firms embedded in national context emulate organisational 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 organising 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 organisational forms and practices is hardly possible and also opts in terms of the *how-question* for a notion of hybridisation.

With regard to the *why-question* he focuses on three sources of 'societal effects' that lead to hybridisation as opposed to straight forward transfer (i.e. Imitation). The first source is related to the local learning that becomes necessary as organisational 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 hybridisation lies in 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 very qualified labour force as in Germany) producers will tend to adapt emulated organizational forms and practices in a way as to make them compatible with the existing available qualifications and training standards. The result is again more likely to be a contextually mixed solution/hybrid than a pure foreign context constitution/imitation. The author mentions a third source of hybridisation which are conflicts springing from threats to institutionally entrenched claims. Such conflicts and negotiations that go along will tend to modify the emulated forms and practices. Similar to Saka, Lorenz introduces the nature of the transfer content as an important variable to explain the possibly different contextual constitution.

Finally, *Boyer's* hybridisation approach (1998) is probably one of the most systematic from a VoC background with regard to how and why MNE units – more specifically their production systems – are differently contextually constituted. Boyer's approach takes its starting point in a critique of “One-Best-Way” claims of the universal superiority of Lean-Production-Models. Although Boyer admits that certain productions models (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 optimised. Thus 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 hybridisation 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)

Now, Boyer focuses on different transfer outcomes when MNE transfer their production systems 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 2). He also considers the possibility of complete transfer failure.

Table 2: Four Main Types of Hybridisation

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

Source: (Boyer 1998:35)

In a second step Boyer addresses the *why-question* and links these outcomes to two core variables. Concretely, 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). In other words, 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) and on other hand to the institutions of the host space (i.e. how strong, coherent, and homogeneous institutional configurations are). Like other institutionalist Boyer stresses the importance of the institutional distance between the *institutional or contextual requirements of what is being transferred* and *the nature of the local context*.

Strengths and Weaknesses

VoC approaches have increasingly dealt with MNE and the question how and why MNE subsidiaries are different contextually constituted. For the most part the contextual constitution in these approaches is linked to different levels or kinds of institutional context.

With regard to the *how-question* VoC approaches introduced different concepts and levels of elaboration as to how variations in contextual constitutions can be grasped. A recurring term is hybridization which sensitizes us for the fact that firms operating across borders can be constituted by or reflect very different institutional contextual origins. A particularly strong framework to capture different contextual constitutions of subsidiaries is Boyer's typology. His typology allows us to conceive of different outcomes ranging from mainly foreign contextual constitutions, through mixed constitutions, to novelties and more local constitutions. I will draw on this framework later in the paper.

With regard to the *why-question* almost all approaches conceptualise the role of differently natured institutional contexts (be it across countries, regions or firms) as well as how such different contexts influence if and what is being transferred and why what is being transferred is differently received and recontextualised. Thus, despite all variation, the role of differently natured institutional contexts (strength, coherence, level of institutionalization, integration) is a common denominator in all contributions. Moreover, the concept of institutional distance plays implicitly or explicitly a paramount role to understand the contextual constitution of MNE and their subsidiaries. For institutional distance potentially impacts where MNE operate, their transfer propensity and how transfer contents harmonize or conflict with receiving contexts.

VoC approaches, however, also have a number of weaknesses in understanding the contextual constitution of MNE. They pay little systematic attention to how and why strategic context impact the contextual constitution of firms. With the exception of Lane, it is hardly recognized that firms – originating from the same industry and country – have a capacity to follow different strategies. In VoC approaches, firm strategies tend to be over-determined by

national institutional contexts or neglected altogether. There is also 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 labour impact if and what is transferred and how and why what is being transferred requires recontextualization. This would involve more focus on differences between MNE, on firm specific internationalization strategies, on firm specific roles within MNE which cannot be fully accounted for institutional contexts.

Insights from the International Business Perspective

The International Business (IB) perspectives has like no other perspective furthered our understanding of the MNE, why MNE come into being and how they are organisationally configured. While the explanation of why MNE come to existence has been strongly associated with economic paradigms (e.g. Hymer 1976, Dunning 2000), the study of organisational design and their relations to strategic contexts tended to be developed in corporate strategy and business policy (Ghoshal and Westney 1993). The latter stream of research has also come to be known as the *environment structure strategy paradigm*. This paragraph will focus exclusively on the *environment strategy structure paradigm* within the IB literature because it has systematically related the organisational configuration of MNE to 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 organisational structure/processes and strategy” (Harzing 1999: 31). From relatively early on, this body of literature recognised that particularly MNE need to organisationally respond to internal and external contextual complexity. Contributions from the *environment strategy structure paradigm* have focussed on different contingencies internal (i.e. mainly task environmental aspects) and external contingencies (i.e. mainly market related aspects) to explain the 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 moving again from a corporate to a subsidiary level of analysis. The guiding question is here what additional insight can be gained from IB literature for the understanding of how and why subsidiaries are differently contextually constituted?

Integration-Responsiveness Paradigm

The *Integration-Responsiveness Framework* can be seen as a cornerstone of the *environment strategy structure paradigm* in IB literature. The framework was originally 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 were labelled by Bartlett and Ghoshal (1986: 377) 'forces for global integration' and 'forces for national differentiation' and parallel by Prahalad and Doz (1987) 'pressure for global integration' and 'pressure for local responsiveness'. The MNE's need to respond to these distinct environmental (essentially market) pressures in terms of strategy and organisational design was seen to mainly 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 coordination, the level of local responsiveness expresses the need for local solutions. The integration-responsiveness framework has not only been applied at the level of industries or firms. Bartlett (1985) for example showed that even within the same company, some function and tasks will be more subject to global integration while other to local responsiveness.

What are the implications of this for the question how and why subsidiaries are differently contextually constituted? First of all, it means that *depending on the environment/internationalization strategy* some subsidiaries will be contextually reflecting globally unified organisational forms and practices (whether these are home/parent patterns or transnational remains open here) while others are more likely to reflect local context patterns. Second of all, it means that *depending on the nature of functions/tasks* some task and function within the same subsidiary will be contextually reflecting globally unified organisational forms and practices while others will be reflecting local patterns. But let us take a closer look at this argument by paying attention to *different strategies* and the *different strategic roles* MNE subsidiaries can assume.

Different Internationalization Strategies

Different authors in the IB literature have come to relatively similar descriptions of what alternative internationalization strategies firms can take (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 stream of literature. Bartlett and Ghoshal (1998) starting point is that MNE may have to 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’. These forces rest in principle on environmental conditions mainly understood as market conditions for inputs and outputs. The following table is a compilation of what underlying conditions constitute these different forces in the business environment (see table 3). However, Bartlett and Ghoshal neither systematically theorize the environment that brings about such forces nor how such forces translate into strategies or strategic choices of firm. These forces are rather defined as a given. This means that the main analytical focus is really on the MNE as an organisation, i.e. – inward biased – on relations between strategy, structure or process.

Table 3: Distinct Environmental Forces and their Sources

Forces for global integration	Forces for local differentiation	Forces for worldwide diffusion
Unified world market place	Nationally differ. market structures	Increasing parity among players
Convergence of consumer preferences	Difference in consumer preferences	Rising R&D costs
Market liberalization	Host government policies	Shortening product life-cycles
Economies of scale	Liability of geographic distance for	A shifts from freestanding products to
Reduced transportation and communication	transport and coordination	integrated systems
cost	Flexible production technology	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 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 internationalization strategies labelled the multinational, the global, the international and the transnational solution. While the multinational, the international and the global MNE, develop strategies that focus respectively on national responsiveness, global integration and transfer of knowledge transfer, 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 MNE also differ in terms of in three crucial dimensions of organisational design, i.e. configuration of assets and capabilities, role of overseas operations and the development and diffusion of knowledge (see table 4).

Table 4: Organizational Characteristics of the Transnational

Organisational Characteristics	<i>Multinational</i>	<i>Global</i>	<i>International</i>	<i>Transnational</i>
Configuration of assets and capabilities	Decentralised and nationally self-sufficient	Centralized and globally scaled	Source of core competencies centralized, others decentralized	Dispersed, interdependent and specialised
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)

While Bartlett and Ghoshal do not directly address the question how and why subsidiaries are differently contextually constituted we can infer from their work how different internationalisation strategies of MNE are likely to impact the contextual constitution of their subsidiaries.

MNE 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 their organizational forms and practices can be largely expected to be constituted by local (e.g. national/regional) contextual conditions. MNE following a *global strategy* are about the full opposite and mainly focus on global integration. Subsidiaries in this scenario are tightly integrated and dependent on the parent. They implement parent strategies and centrally allocated knowledge is largely flows unidirectionally to the subsidiaries. We can therefore imagine, that subsidiaries embedded in MNE following a global strategy mainly reflect home/parent contextual conditions in their organisational forms and practices. MNE that are following the *international strategy* can be probably best perceived as half way between the multinational and the global MNE. The international MNE mainly focuses on knowledge diffusion with the goal to leverage parent company competencies. However, 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 context in some areas or functions and the local/host context in others. In companies 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. Moreover, some subsidiaries and functions will be tightly centralized and globally integrated at some nodes of the network while others remain possibly decentralized. In this scenario different subsidiaries and different functions within subsidiaries can be very differently contextually constituted as the dichotomies between of parent/home country vs. local/host as well as dependent vs. independent give way to a universe of national or even transnational contextual influences (e.g. home, host and third countries and beyond) and a whole spectrum of relations ranging from dependence/interdependence.

In fact the possibility of contextual constitutions become so complex in the transnational solution that the focus has to shift to particular roles and situations of subsidiaries 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 MNE as transnational types or *differentiated networks* implies that subsidiaries take on different strategic roles. The subsidiary role stream 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 MNE (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) have probably most extensively explored the

subsidiary roles and their evolution. Birkinshaw and Hood “embrace the network conceptualisation of the MNC by modelling 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” (Birkinshaw and Hood 1998: 780). As compared to earlier work in the subsidiary role stream they not only distinguish different subsidiary roles, but wish 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 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” (Birkinshaw and Hood 1998: 781). 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 the development of the subsidiary’s role is linked to three contextual factors: 1.) *parent company factors*, 2.) *subsidiary factors*, and 3.) *host country factors*.

Parent company factors comprise the nature of the competitive internal resource allocation, the decentralisation 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 develop new capabilities/resources and cease new market opportunities to extent the charter. Finally, *host country factors* include the strategic importance of the country, the relative cost of factor inputs and the dynamism of local environment. These factors are also summarized as ‘local environment determinism’ and refer to local market conditions (including customers, competitors, suppliers, as well as government agencies) posing opportunities and constrains for the subsidiary’s role development. Birkinshaw and Hood see these three factor complexes as interacting in defining a subsidiary’s role at any given point in time (Birkinshaw and Hood 1998).

Irrespective of different subsidiary role definitions one can easily imagine that role defining factors such as the degree of local environmental complexity and specificity, the degree of localization, the nature of subsidiary capabilities and resources, as well as the degree of integration, interdependence and centrality in the MNE network etc. substantially impact a subsidiary’s contextual constitution. After all these conditions strongly influence what kind of organisational forms and practices can be or are likely to be transferred from where to where and that they need to be adapted to different task environments. For example, the more unique the role of a subsidiary – that is the more distant this is from other subsidiaries in the MNE – for example in terms of functions covered, markets served and the matching capabilities/resources held and the less integrated, the less likely that the subsidiary in question will receive transfers and contextual influences from other sites in the MNE. Moreover, the strategic distance between different subsidiaries may call for adaptations if certain organizational forms and practices optimized for one strategic context (e.g. high production volume, high labour costs) are to be transferred from to another (low volume, low labour cost). What is more, the less a certain function or task is *unique to* or *dependent* on subsidiaries’ task environments, the subsidiaries’ local input/output markets, the more likely it is these functions will be contextually constituted by global solutions.

Without being able to explore this idea further at this point the basic rational is here that if we want to understand how subsidiaries are differently contextually constituted based on if and what is transferred and why transferred contents need to be differently recontextualised we cannot only look at institutional contexts but also need to look at different MNE strategies and different strategic roles of subsidiaries. We need to look at the roles of subsidiaries defined by the specific tasks and markets they respond as well as their resources and capabilities. For it is the distance between subsidiaries with regard to their roles that crucially impacts transfer propensities between them and needs for adaptations.

Knowledge Flows in MNE

Understanding transfer processes in differentiated networks and the conditions that impact these processes are crucial to explaining how and why subsidiaries are differently contextually constituted. As transfers play a pivotal role in constituting organisational forms and practices in subsidiaries by carrying organizational forms and practices from one site/context to another we need to learn more about the enabling and constraining conditions of such transfers.

Clearly, the rapidly emerging literature on knowledge flows in MNE can give us some additional hints light in this regard. Triggered by the seminal work of Gupta and Govindarajan's (2000) *Knowledge Flows within Multinational Corporations* a huge body of research has emerged that takes an differentiated network perspective on the MNE and asks under which conditions knowledge inflows and outflows occur at the subsidiary level. A cursory review of more recent publications in the MNE knowledge stream shows that the most frequently cited factors impacting knowledge processes in MNE include: 1.) the characteristics of the sender unit – such as motivation and knowledge stock (Foss and Pedersen, 2002; Gupta and Govindarajan, 2000); 2.) the characteristics of the receiving unit – most notably its motivational conditions and 'absorptive capacity' (Foss and Pedersen, 2002; Gupta and Govindarajan, 2000; Minbaeva et al., 2002; Tsai, 2001); 3.) the characteristics of intra-organizational context and relations – based on structural configurations as well as coordination- and control mechanisms (Almeida and Phene 2004, Björkman et al. 2004, Dhanaraj et al. 2004, Foss and Pedersen 2002, Gupta and Govindarajan 2000, Hansen 1999, 2002, Hansen and Lovas 2004, Teigland et al. 2000/1, Tsai 2001); 4.) the characteristics of the transferred knowledge – for example its tacitness (Dhanaraj et al. 2004; Foss and Pedersen 2002, Hakanson and Nobel 2000, Hansen, 1999, 2002, Kotabe et al. 2003, Schulz 2003); and, 5.) characteristics of a unit's local environment and 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, Singh 2004, Yamin and Otto 2004).

While some studies touch on external environmental factors such as technological richness and diversity in the host country there is practically no attention how institutional contexts in home, host or third countries or even beyond impact transfer processes. For the most parts these studies are very inward looking, firm centred and focus mainly on the configuration of the MNE, the relations between different units and how these relations are differently governed. Bhagat et al. (2002) study *Cultural Variations in the Cross-border Transfer of*

Organisational Knowledge is a notable exception where the impact of cultural contexts, i.e. cultural distance on the effectiveness of knowledge transfer across borders is looked at.

Strengths and Weaknesses

IB literature allows us to relate the question how and why subsidiaries are differently constituted to strategic 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 if and what is being transferred and if and how what is being transferred needs to be recontextualised is also dependent on strategic conditions within the MNE. Such strategic conditions are certainly impacted by institutional conditions. It would be problematic, however, to suggest that firms from the same domestic context and the same industry cannot develop different strategic responses to similar environmental pressures.

The IB literature can be read to suggest that we not only have to take note of varieties of capitalism but also of the varieties of firms that are intertwined with institutional contexts but don't mirror them always in homogeneous ways. IB literature tries to explain contextual constitution of MNE in relation to 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, cost) and the nature of output/demand factors (e.g. nationally differentiated vs. globally unified demand conditions). Internal contingencies comprise different task environments as well as relations between different organisational features. Overall, however, there is a strong inward focus on firms, which comes at the cost of not comprehensively theorizing firm-environment relations. Particularly, in Bartlett and Ghoshal's work environmental contingencies are taken as a given and are only marginally discussed. We learn little about the processes how environmental pressures are translated into strategies and strategies into structures or processes. For the most part the focus is on configurational aspects amounting to a fairly descriptive approach on the relations between different organisational characteristics. While different market conditions and internal contingencies lie at the centre of why MNE are differently constituted there is practically no attention to the institutional constitution of MNE and their subsidiaries.

The following table tries to give an overview with regard to the strengths and weaknesses of the two research streams discussed.

Table 5: Strengths and Weaknesses of VoC and IB Approaches ompared

Approaches from	Major Explanatory Dimensions		Outcomes
	Strategic context	Institutional context	How contextual constitution is conceptualized?
VoC	Weak: The strategic conditions inside the firm (e.g. strategic roles) and outside firm (input/output markets) are generally not a major focus in this stream.	Strong: Consider both the institutional conditions inside and outside the firm. Inter-firm differences in terms of their 'internal institutional conditions' are partly focussed on.	Strong: A number of approaches develop differentiated typologies. E.g. Boyers approach.
IB&M	Strong: The strategic conditions inside the firm (e.g. strategic roles) and outside firms (input/output markets) are a major focus in these streams.	Weak Institutional conditions inside and outside firms play a marginal role.	Weak: Generally simply dichotomies btw. Global and Local solutions

An analytical framework

In this final paragraph an effort is made to roughly sketch a framework that could serve for a better understand how and why subsidiaries are differently contextually constituted. This involves as a first step to suggest how we can best capture the variance of the contextual constitution of a subsidiary. It would involve in as a second step, to suggest that both institutional as well as strategic contexts need to be looked at to explain different contextual constitutions of subsidiaries. Let us first turn our attention to the *how-question*.

The How-Question: Identification of different contextual constitution

Asking how the contextual constitution of subsidiaries differs is about identifying different contextual origins in their organizational forms and practices. The review above offers us different concepts from VoC and IB approaches how we can capture a subsidiary's contextual constitution. IB approaches remain utterly weak in typifying or describing to what extent organisational forms and practices reflect different contextual origins. For the most part, such typifications vary between global and local solutions with little explicit consideration where they exactly originate from, let alone how they feature specific mixes in terms of origins. Approaches from VoC, in contrast, have developed far more differentiated typologies. Boyer has probably developed the most systematic typology to describe organisational forms and practices with regard to different contextual origins. I will therefore draw on Boyer's

framework here with some minor adaptations. In line with Boyer (1998) we can imagine four ideal-types of how subsidiaries can be differently contextually constituted with regard to their organizational forms and practices. These ideal-types include: *imitations, hybridisations, novelties and localisations* (see table 6). Concretely, a subsidiary or its different organizational forms and practices can: 1.) resemble a transferred foreign-context organisational-form or practice (*imitation*), 2.) resemble a local-context organisational-form or practice (*localisation*), 3.) resemble both a transferred foreign-context organisational-form or practice a local-context organisational-form or practice (*hybridisation*), 4.) resemble neither a transferred foreign-context organisational-form or practice nor a local-context organisational-form or practice (*novel/customised*)

Table 6: Different contextual constitution

		Local	
		Yes	No
Foreign	Yes	Hybridisation	Localisation
	No	Imitation	Novelty / Customised Solution

The Why-Question: Explanatory Dimensions

In this second step the goal is to identify core analytical dimensions that potentially explain *why* subsidiaries are differently contextually constituted. Drawing on the strengths of VoC and IB approach this paper suggests an impact of two different dimensions: an institutional and a strategic one.

The basic underlying rationale is here that the contextual constitution of the subsidiary is crucially linked to 1.) if and what is being transferred and 2.) how what is being transferred is being recontextualised. Firstly, if there is *no transfer* we can expect the subsidiary to most likely reflect *localization*, a local contextual constitution. Secondly, if there is transfer, the possible outcomes depend on different modes of recontextualization. We can theorize *4 idea-typical modes of recontextualization* based on the *contextual distance* between what is being transferred and the receiving context.

In the first instance there is *no distance or misfit* between what is being transferred and the receiving context. The result will be therefore most likely *imitation* as an outcome. In the second instance there is a misfit between what is being transferred and the receiving context. This *misfit can be dissolved in three principle ways*. The first possibility is that *the transfer content is adapted to the local context*. The outcome can be, depending on the degree of adaptation, anything between hybridization and close to localisation (as a result of extreme

adaptation of the transfer content). The second possibility is that the *local context is adapted to the transfer content*. In this scenario, depending on the degree of adaptation, we can expect outcomes ranging from hybridization and close to imitation (as a result of extreme adaptation of the local context). Finally we can imagine that both happens, i.e. that *the transfer content adapts to the local context and vice versa*. In this scenario, we can imagine different hybrid forms as outcomes and in the extreme, forms, which are so far removed from their respective origins that they deserve to be labelled novel or innovations. Let us now look at the question why subsidiaries could be differently contextually constituted depending on institutional and strategic conditions.

The Institutional Dimension

VoC approaches have looked at the transferability of organizational forms and practices mainly under the perspective of institutional distance. The major focus has been on the role of national institutional context. The basic reasoning is that firms or their organizational forms and practices are embedded and grow out of distinct institutional contexts. As such their functioning is inextricably linked to specific institutional contexts. In other words, organisations and their elements are institutionally constituted.

If organizational forms and practices are transferred to a different national institutional context chances are that a misfit emerges between what the transferred content institutionally requires and what the local context institutionally offers or demands. This is mainly because organizational forms and practices rely, albeit to different degrees, on specific institutional conditions which may or may not be available in receiving context.

Put differently, the misfit depends on the degree to which transfer contents rely on specific institutional contexts (Whitley would argue high institutional context dependence of transfers from coordinated hierarchies) and degree to which the receiving context provide such institutional conditions or features contradictory demands. Now, the question if such misfits lead to adaptations of the transfer content or to adaptations of the local context is probably linked to the interplay between the willingness and ability of a firm to invest resources and the strength/coherence of the receiving institutional context.

What is more, the institutional distance and potential misfit may not only influence the potential recontextualization need, but also the *transfer propensity* in the first place. If for example institutional conditions in the host contexts are very adverse or very advantageous – in relations to what can be potentially transferred – an MNE or subsidiaries may refrain from

transfers. We can therefore conclude that *transfer propensities* and *needs for recontextualization* vary because:

- *Transfer contents can be more or less institutional-context dependent*
- *There can be more or less of an institutional-contextual distance between potential origins and destinations of transfers*

Generally, differences between subsidiaries in terms of their local/internal institutional conditions that mediate the institutional distance and thereby the ease of transfer are not strongly conceptualised in VoC approaches. However, as discussed above, more recent work has looked at how subsidiary specific and regional institutional contexts within the larger institutional context of the host country impact the transferability. Sharpe (1997) has shown for example, that different levels of institutionalisation between Brownfield and Greenfield regions within one host context and different levels of internal institutionalisation between Greenfield sites and Brownfield sites within the same firm strongly influence the ease to transfer components from institutionally distant origins. The importance of the internal institutional set-ups has also been stressed by Saka (2003). In sum, these more recent findings from VoC suggest that the institutional-contextual distance between potential origins and destinations of transfer contents are mediated by different local institutional contexts within host countries and different institutional conditions between subsidiaries in the same country. As VoC proponents have been weak with respect to theorising the impact of strategic factors on transfer propensities and recontextualization this will be addressed next.

The Strategic Dimension

The IB literature has largely ignored the institutional embeddedness of organisational forms and practices as well as the fact that institutional distance can impact transfer propensities and recontextualization needs. What is more, there has been generally little consideration for different modes of recontextualization and potentially hybrid outcomes. Global or local solutions, transfer or no transfer seem to be decided on rational strategic grounds with little concern for institutional mismatches upon arrival. It seems as though firms can select, change and create local contexts (adaptation of local context as dominant institutional recontextualization mode) as they please. Put simply, transfer contents don't necessarily change or have to be changed in the face of institutional contextual misfit. However, while there seems to be some underlying conviction about the global transferability and imitability if strategically required, the IB literature can be read to suggest that there are strategic-

contextual misfits that impact transfer propensities and recontextualization needs. These barriers to transfer and needs for recontextualization mainly derive from the division of labour in MNE (i.e. different task profiles of different sites) and different market conditions in different countries (e.g. comparative advantage of input factor costs).

Adopting a *differentiated network perspective* of the MNE, in which subsidiaries take on different and evolving roles (Brikinshaw, 2000) has three important implications for our understanding of transfer and recontextualization dynamics in subsidiaries. First, the differentiated-network perspective allows us to envision many more transfer origins than has commonly been considered in VoC approaches. In such a perspective, the parent is but one transfer source. Other subsidiaries and even other organisations from local networks come into the picture here. Second, by adopting a subsidiary perspective, we can see subsidiaries not only as an instrument of the corporate parent but as actors in their own right, more or less resourceful and capable, needy and greedy for transfers. This also allows considering local transfer initiative as much as changing transfer propensities and needs for recontextualization as subsidiaries and their environments evolve over time.

Thirdly, and probably most importantly, seeing subsidiaries with Brikinshaw (2000) as differentiated in terms of roles, defined by their resources/capabilities and their charters suggests different transfer propensity and recontextualization needs on strategic grounds.

If organizational forms and practices are transferred to a different strategic context, chances are that a misfit emerges between what the transferred content strategically requires (e.g. production volumes and labour costs) and what the receiving contexts strategically offers (e.g. production volumes and labour costs) or demands. This is because organizational forms and practices rely, albeit to different degrees, on specific strategic conditions which may or may not be present in the receiving subsidiary. Put differently, the misfit depends on the degree to which transfer contents rely on specific strategic contexts and degree to which the receiving context offers similar strategic conditions. For example, the more specific and distant the task profile of a subsidiary, the more specific and distant the local market conditions (e.g. quality, quantity and price of input factors) from other operations in the MNE, the lower the transfer propensity and the higher the recontextualization need. Parallel to the reasoning on the institutional dimension we can also imagine that transfer contents can be more or less dependent on specific strategic conditions of subsidiaries defined by task profiles, capabilities/resources as well as input and output market conditions. We can therefore conclude that *transfer propensity* and *recontextualization needs* are likely to vary because:

- *Transfer contents can be more or less strategic-context dependent*

- *There can be more or less of an strategic-contextual distance between potential origins and destinations of transfers*

In sum, these more recent findings from *International Business* suggest varying propensities for transfers or need for recontextualization because subsidiaries vary in terms of their local strategic context (resources/capabilities, task profiles, local input and output market conditions) and in terms of their strategic contextual distance to other sites in the MNE. A subsidiary that has a strategic context similar to other sites (e.g. similar task profile, low wage conditions) in the MNE is much more likely to imitate certain forms and practices from other sites without much recontextualization.

The challenging question that remains is to understand how strategic and institutional context interact (without giving one the precedence over the other) to differently contextually constitute subsidiaries. This is, however, beyond the scope of this paper. Nonetheless, ideas or suggestions are very welcome.

Conclusion

This paper tried to understand how and why the organisational forms and practices in subsidiaries are differently contextually constituted in terms contextual origins. The paper started with a review of VoC contributions that suggested, albeit with different focus and weight, the crucial role of institutional contexts for our understanding how and why subsidiaries are differently contextually constituted. While the institutional perspective was seen as an important aspect for such an understanding it was criticised that VoC approaches largely neglect the independent capacity of firms to follow different internationalization strategies as well as the specific strategic contexts into which subsidiaries are embedded. This, it was argued, is the strength of the IB literature. While IB literature has tended to ignore the relevance of institutional contexts in the constitution of MNE and their subsidiaries it has comprehensively theorized MNE, their different internationalisation strategies as well as the embeddedness of subsidiaries in differentiated-strategic networks. Based on the literature review a first rough framework was finally suggested drawing on insights from both the VoC and the IB literature. It involved a suggestion of how to relate the possible variations in the contextual constitution of subsidiaries to both institutional as well as strategic conditions. The main argument was here that the contextual constitution of a subsidiary is crucially dependent on if and what is being transferred and how what is transferred is being recontextualised. The

transfer propensity and the need for recontextualization, in turn, were seen to depend on the degree to which transfer contents rely on specific institutional or strategic context and the degree to which the strategic or institutional contexts of receiving subsidiaries are distant or adverse to the transfer contents requirements. A major open challenge of this paper remains with regard to the question how strategic and institutional contexts interact to constitute subsidiaries. Moreover, the paper raises the question as to what kinds of transfer contents would be possibly more strategic or institutional context dependent.

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