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Part 1

Theoretical Foundations

When complex organizational systems developed in one social context (in this case Japan) are transferred to a different setting (the United States), they change, and the resulting system is neither a copy of the original model nor a replica of existing local patterns but something different.

(Eleanor Westney in Liker *et al.* (1999), *Remade in America: Transplanting and Transforming Japanese Management Systems*, p. 385. By permission of Oxford University Press.)

1

Introduction

Background

Multinational enterprises (MNEs) setting up production sites abroad face the ongoing challenge of how to configure their subsidiaries' production systems. This organizational challenge involves the questions: Whether MNEs should define and transfer whole production 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 organizational challenges for MNEs, this study tries to understand *how* and *why* subsidiary production systems differ with regard to their contextual origin or constitution, that is, their hybridization profile.

While answering such questions are important for any internationalizing firm, they are even more salient if provided for firms setting up production sites in large and newly emerging economies. By providing a comprehensive understanding about the conditions of India's business context for foreign direct investment (FDI) with a particular focus on the automobile industry this work serves such a purpose.

Research gaps and contributions

The aim of this study is to make a major theoretical and empirical contribution to hybridization research in organization studies and international business. Hybridization research refers here to different bodies of literature that are concerned with questions of transfer and adaptation of organizational forms and practices (including production models or systems) in MNEs or in cross-national settings.

The study's theoretical contribution

While there is no organizational hybridization theory as such, there are a number of studies from different research traditions that have either contributed to or adopted a hybridization perspective (e.g. Abo *et al.*, 1994; Boyer, 1998; Brannen, 1999). 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 study, three main bodies of research are identified that have made seminal contributions to the question 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 or transplant literature (e.g. Turnbull, 1986; Ackroyd *et al.*, 1988; Elger and Smith, 1994; Oliver and Wilkinson, 1988; Florida and Kenney, 1991; Pil and McDuffie, 1999), Institutional approaches (e.g. Rosenzweig and Singh, 1991; Westney, 1993; Kostova, 1999; Kostova and Roth, 2002; Whitley, 2001; Lane, 2000; Morgan, 2001; Sharpe, 1997; Lorenz, 2000; Saka, 2003) and contributions from the field of International Business (e.g. Bartlett and Ghoshal, 1998; Prahalad and Doz, 1987; Birkinshaw and Hood, 1998; Beechler *et al.*, 1998; Gupta and Govindarajan, 2000; Chini, 2004). However, this work shows that all three bodies of literature remain unsatisfactory for our understanding of hybridization in MNEs, if they are left unconnected. Specifically, the discussion of the different approaches illustrates: (1) that hardly any body of literature systematically addresses the impact of both strategic and institutional contextual difference on production system hybridization; and (2) that most studies on production system hybridization fail to thoroughly theorize and empirically research how strategic choices at the corporate and subsidiary level influence hybridization outcomes in MNEs.

Addressing these gaps, this work makes two main theoretical contributions to the emerging body of hybridization research in Organization Studies and International Business. The first contribution is to address the question how the complex contextual embeddedness of subsidiaries impact transfers and adaptations and thereby production system hybridization. In contrast to much of earlier hybridization research (see Chapter 2), it is particularly stressed that production systems emerge out of both specific strategic and institutional contexts. It is proposed that strategic and institutional differences constitute two distinct sources of contextual distance that impact production system hybridization. The second contribution is to explore the association between production

system hybridization and different strategic choices at the corporate and subsidiary level. In contrast to the neglect of this relationship in much of earlier hybridization research (see Chapter 2), it is proposed that generic product strategies of MNEs and entry modes of subsidiaries have a strong influence on hybridization outcomes.

The study's empirical contribution

Extant hybridization research, particularly Japanization research, has made important contributions to understanding the conditions of the transferability of production systems. However, the literature has largely neglected non-Japanese transfer origins as well as non-Western transfer destinations. This study addresses the empirical bias by focusing on the constitution of subsidiary production systems in India, involving not only Japanese companies, but also a German, an Italian and a Czech/German MNE. Moreover, although researchers from Organization, Management and International Business studies have paid increasing attention to Asian business contexts, most notably to the 'Asian Tigers' and China, India, one of the most important emerging economies in Asia, has been largely neglected. By focusing on India, the study provides insight into one of the most important emerging markets and business environments of the 21st century. Finally, with its focus on the emerging automobile industry in India, this study also makes a contribution to understanding the processes of internationalization in the automobile industry, one of the world's most important and international industries.

Research objective

The research objective of this study is to explore *how* and *why* the hybridization profiles of four automobile-subsidiary production systems in India differ.

The *how-question* in this work involves identifying the hybridization profiles of the four subsidiaries' production system. The term '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. In this research context a hybridization profile essentially describes how the different dimensions, defined to constitute the core of a production system, reflect different contextual origins. Drawing on and extending seminal contributions of hybridization research (e.g. Boyer, 1998) the different contextual origins of a production system can

be captured by four ideal typical (hybridization) outcomes, comprising: imitation, localization, hybridization and customization/novelty. Thus, a hybridization profiles describes in this study the contextual origin of organizational configurations along a number of predefined organizational dimensions. It is important to note, that the approach in this work differs from much of the earlier work in this field in that it does not pre-define a specific production system or model to be transferred and asking in a second step what is implemented and what is not (e.g. Abo *et al.*, 1994). Instead, it takes a more open approach by defining core dimensions of a production system and by identifying then what contextual origin the respective dimensions reflect. Such an approach is based on the assumption that transfers in MNEs understood as 'transnationals' (Bartlett and Ghoshal, 1998) may have many sources, drivers, and may be, rather than being based on clearly intended and comprehensively defined transfer templates, based on transfer restraint, selective transfer intentions or even inarticulate, fuzzy transfer efforts.

The why-question asks why similar or different hybridization profiles have come about in the production set up of the four automobile-subsiidiaries in India. Drawing on and refining earlier research (Westney, 1993; Beechler, 1998; Brannen, 1999), hybridization outcomes in MNEs are seen to be constituted by the interaction of three varying factors comprising different: transfer scenarios, contextual misfit/recontextualization pressures and recontextualization modes (see Chapter 3).

The transfer scenario involves the question, whether or not an MNE transfers a template or poses demands *vis-à-vis* a local production system. There are three ideal typical starting points for transfer scenarios: A foreign/parent template transfer, a host/local template use or, neither a foreign/parent template transfer nor a local/host template use. Based on the different transfer scenarios there are different kinds of fits or misfits these starting scenarios can face. For example, a foreign/parent context 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, that is, recontextualization pressures. The final factor involves the question how misfit induced recontextualization pressures are resolved. It is argued that two principle recontextualization modes exist that can be simultaneously at work. The first mode involves the adaptation of foreign/parent context (templates, demands or conditions) to the local/host context. The second mode involves the opposite, the adaptation of the local/host context to

the foreign/parent context (templates, demands or conditions). Depending on the interaction of these three variables we can expect different hybridization outcomes.

It is argued in this study that the variance on these three constituent factors of production system hybridization can only be properly understood, if we consider: (1) the role of both strategic and institutional distance, (2) the impact of strategic choices at the corporate and subsidiary level, and (3) the possible interplay of strategic choices and contextual distance.

The structure of the study

This study is organized as follows: In the first part of the book, comprising Chapters 1–3, develop the theoretical foundations of the study. Following the introductory chapter, Chapter 2 comprises the literature review and discussion. While Chapter 2 serves to identify research gaps with regard to subsidiary production system hybridization, it simultaneously provides building blocks for the analytical framework in Chapter 3. In Chapter 3, the analytical framework and the research methodology are presented. In this chapter the unit of analysis and different hybridization outcomes are defined. Moreover, propositions are developed, delineating the expected association between hybridization outcomes and institutional/strategic distance as well as between hybridization outcomes and strategic choices. Following the presentation of the analytical framework the study's research design is presented at the end of the chapter.

The book's empirical part starts with Chapter 4. The chapter provides an introduction to institutional and strategic context conditions in India that are particularly relevant for production system hybridization. The chapter focuses particularly on the conditions for the automobile industry in the Indian business context. Presenting and analyzing the hybridization profiles of four automobile subsidiaries in India, Chapters 5–8 present the main empirical part of the study. Specifically, Chapter 5 covers Maruti-Suzuki India Limited, Chapter 6 Fiat India Limited, Chapter 7 Mercedes-Benz India Limited and Chapter 8 Skoda India Limited. Finally, Chapter 9 comprises a discussion and conclusion of the empirical study, including a critical reflection of the study as well as a brief outlook for further research.

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