THE IMPACT OF THE INTERPLAY BETWEEN MNE ORGANIZATION AND HOST INSTITUTIONAL CONTEXT ON PRACTICE-BASED SUBSIDIARY LEARNING

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Abstract

Current perspectives on learning in MNEs project subsidiary learning as the flow of abstract knowledge, and tend to neglect the impact of the interplay between organization structure and institutional contexts on learning. Drawing on social learning theory, we understand learning as practice-based and subject to various contexts. We apply this understanding to an international setting to shed light on why some organizations learn more than others. We systematically compare the introduction of continuous improvement practices in four subsidiaries located in two contrasting national institutional systems (collaborative and compartmentalized) by two MNEs operating different organizational models (international and multi-domestic). Our findings suggest that i) subsidiary learning varies depending on different levels of fit between MNE organization models and host institutional contexts, ii) high level of learning is encouraged in structures other than the transnational model, and iii) organizational learning in international settings is a process of active participation beyond a process of simply transferring best practices.

Keywords: practice-based learning, host institutional context, MNE organization

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1. INTRODUCTION

Knowledge transfer within organizations has been widely studied by institutional theorists within multinational enterprises (MNEs) (e.g. Güler et al., 2002; Kostova and Roth, 2002) as well as by MNE theorists (e.g. Bartlett and Ghoshal, 1989; Hedlund, 1994; Prahalad and Doz, 1981). Whilst institutional theory has tended to highlight the isomorphic pressures to adopting practices to gain legitimacy, the mainstream international management literature has mainly emphasized how the organizational structure of MNEs and the characteristics of sending and receiving units impact the transfer of knowledge (e.g. Gupta and Govindarajan, 2000). Studies that pay systematic attention to the influence of social institutions on learning where knowledge is distributed across a social system are rare (exceptions include Hong et al., 2006). The interest has remained on the impact of institutions on knowledge transfer, rather than practice-based learning, leading to diverse patterns of work organization across foreign subsidiaries (e.g. Ferner et al., 2005). Similarly, in the MNE literature, organization structure has been acknowledged as one of the knowledge processing mechanisms that leads to high absorptive capacity (see Lane and Lubatkin, 1998; Van den Bosch et al., 1999) where knowledge transfer is conceptualized as a phenomenon divorced from the role of human agency. In brief, current perspectives on learning in MNEs generally project learning as flows of abstract knowledge with little understanding of the social constitution of learning (Becker-Ritterspach, 2006), and focus mainly on the impact of either organizational or institutional contexts on knowledge transfer with little understanding of how differences in learning achievement are impacted by the interplay between national institutional and organization-specific contexts. We adopt here a practice-based perspective (e.g. Cook and Brown, 1999; Nicolini et al., 2003; Gherardi, 2000) on subsidiary learning to understand how this learning is affected by national institutional and organizational settings. We see subsidiary learning as constituted by actors that participate and interact in social processes (Elkjaer, 2005) that are embedded in a particular MNE organization models and host institutional contexts. In our practice-based understanding of learning, we highlight actors' interpretation of acquired knowledge in an international setting. Learning is understood here as a social process where people change or establish their ways of doing things or their practices by participating in social interactions in a particular context (Lave and Wenger, 1991). The multinationals considered in this study operate along a multidomestic and an international model (see Bartlett and Ghoshal, 1989), and in collaborative and compartmentalized host business systems (see Whitley, 1999).

In the following section, we briefly discuss the outlook that the two streams of research—institutional theory and MNE organization—have on practice-based organizational learning. This is followed, in the third section, by the methodology and empirical setting. The learning patterns across various subsidiaries are reported in the findings, and the impact that the interplay of MNE organization and host institutional context has on this pattern are presented in the section on discussion. In the final section, we present an overview of the contribution of the analysis to the literatures on institutional theory, the MNE, and organizational learning in international settings.

2. THEORETICAL BACKGROUND

2.1 Perception of Organizational Learning in Institutional Theory

Institutional theory has been widely used for studying the transfer of knowledge within MNEs (e.g. Kostova and Roth, 2002; Gooderham et al., 1999). The adoption of knowledge is explained by an organization's conformity to institutional pressures driven by legitimacy motives (DiMaggio and Powell, 1983). Much of this work adopts a unitary view of the MNE where knowledge transfer is strongly linked to legitimacy concerns (e.g. Kostova and Roth, 2002). However, when social relationships and the impact that collective norms have on these relationships are examined in conjunction with the historical underpinnings and structural embeddedness of given ties, it becomes apparent that institutional settings are specific to a nation and that organizational practices tend to vary across countries (e.g. Orru et al., 1991; Whitley, 1999). The complex differences in national institutional settings can constrain the transfer of knowledge across countries (Saka, 2004). However, while different contributions from institutional theory, most notably from comparative institutionalism (e.g. Edwards et al., 2005; Ferner et al., 2005), have come to emphasize the effects of home-, host- or third-country effects on knowledge transfer in MNEs, much of the work in this area underexplores the importance of human activity or practical-evaluative agency (Emirbayer and Mische, 1998) that may or may not be constrained by national institutions. These studies highlight barriers to knowledge transfer where recipient and source firms are embedded in institutionally diverse contexts. For instance, the collaborative form of governance in Germany (Lane, 1996; Whitley, 1999) encourages and supports cooperation between collective actors. Key labour market institutions of collective bargaining, co-determination and initial vocational training deem human resource management by a pluralistic style (Giardini et al., 2005). Employees are encouraged to participate in management's decision-making processes. This participation functions through employee representatives that take the form of works councils at the plant level and is backed by extensive legislation (Jacobi et al., 1998). Many human resource policies cannot be implemented without the consent of the works councils. Labour systems in collaborative institutional systems encourage developing high levels of skills in a cumulative manner. A dual educational system, which is jointly governed by professional organisations, employer associations, and the unions, combines on-the-job-training in companies with state-regulated vocational and general training in specific schools (Giardini et al., 2005). It is argued that highly institutionalized features of Germany restrict the implementation of foreign practices (e.g. Wever, 1995). This suggests that learning of new practices could be discouraged by such systems. The German institutional context is commonly contrasted with the Anglo-Saxon context given the significant differences in national business systems. Relations between actors in compartmentalized forms of governance are defined as arm's length and typically adversarial with extensive unilateral control by management and strong management-worker separation (Whitley, 1999; Hall and Soskice, 2001). Consequently, the influence of employee interests on decision-making is low. The limited role of the British government in industry is expressed in the provision of a social infrastructure that is poorly aligned with the needs of the industry, particularly in research, education and training (Lane, 1996). There is emphasis on the reduction of agency costs through heavy reliance on formal mechanisms to order commercial relationships among transacting parties (Vitols, 2001). Relatively low degree of legal regulation tends to encourage firms to develop distinctive capabilities quickly. As Almond et al. (2005: 281) argue, "'innovation' may be easier in less actively regulated business and employment systems", suggesting that learning can be encouraged by such institutional contexts.

However, there is little elaboration, within comparative institutionalism, of the interests and orientations of actors within, in particular, the MNE that guide their behaviour (cf.

Dörrenbächer and Geppert, 2006). Although recent work in institutional theory incorporates the role of interest and agency in shaping action where actors perceive the meaning of new practices and infuse their actions with meaning based upon these perceptions (e.g. Tonwley, 2002; Zilber, 2002), these studies are limited to domestic contexts. We believe that the dynamics of learning can be shaped by not only national institutional systems but also by actors in adopter firms that enact knowledge. By adopting a practice-based understanding of learning, we aim to highlight actors' recognition, location, and implementation of knowledge in their ongoing and situated transactions (Elkjaer, 1999) to shed light on why some organizations learn more than others. In keeping with the contemporary work in mainstream organizational learning literature (e.g. Cook and Brown, 1999; Nicolini et al., 2003), we conceptualize organizational learning as situated, i.e. subject to the influence of various contexts (Gherardi, 2000). This implies that knowledge is adapted to the needs of any given situation as it is transferred. It involves actors who participate in order to communicate and construct meanings about acquired knowledge (Wenger, 1998). Hence, learning does not necessarily depend on the acquisition of more knowledge from, in particular, institutionally similar environments (where barriers to transfer are lower) but on the innovative use of existing knowledge (Cook and Brown, 1999).

2.2 Perception of Organizational Learning in the MNE Literature

The importance of learning has been noted in its link to competitive advantage in the MNE literature (e.g. Kedia and Bhagat, 1988). It is discussed in the context of an organization's absorptive capacity that has advanced our understanding of why some organizations thrive and others struggle when faced with similar environmental conditions. Among various knowledge processing systems, organization structure is shown to create high absorptive capacity (see Lane and Lubatkin, 1998; Van den Bosch et al., 1999). In the field of international management, the emphasis is on the learning facilitating mechanisms of the 'heterarchy', 'transnational', and 'multifocal' organization structure (Bartlett and Ghoshal, 1989; Hedlund, 1994; Prahalad and Doz, 1981). It is believed that the transnational, also known as the integrated network model, provides a valuable perspective on learning, because it reflects the organic evolutionary development of distinctive resources in the subsidiary (Birkinshaw and Hood, 1998: 778). Entrepreneurship in MNEs, which is associated with subsidiary initiatives (Birkinshaw, 1997), becomes apparent in the transnational model where the subsidiary has developed a value-adding entity status. This conceptualization does not recognize subsidiary 'entrepreneurship' in other MNE structures. It is taken for granted that knowledge in MNEs is transferred and exploited more effectively and efficiently in an interorganizational network of differentiated units. Thus, efforts have focused on delineating factors such as absorptive capacity and motivational disposition that facilitate and inhibit knowledge transfers within MNEs (e.g. Gupta and Govindarajan, 2000; Szulanski, 1996) rather than challenging the learning implications of MNE structures.

While not discrediting the importance of 'rich and complex communication linkages, work interdependencies, and formal and informal systems' (Bartlett and Ghoshal, 1989: 61) in the transnational structure, we argue here that learning can be promoted from the periphery, i.e. in structures other than the transnational. We propose that, contrary to Birkinshaw and Hood's (1998) explicit argument, and Bartlett and Ghoshal's (1989) and Hedlund's (1986) implicit assumption, an evolutionary development of capabilities is not essential for a subsidiary to engage in learning when its absorptive capacity is

perceived as a dynamic capability. This deems an analysis that captures micro processes of agency in putting acquired knowledge to practice to arrive at a more fine-tuned understanding of learning within MNEs. It is important to note that absorptive capacity, as is defined by Zahra and George (2002), combines prior knowledge and understanding (i.e. potential absorptive capacity) with processes of internalizing or transforming and implementing knowledge (i.e. realized absorptive capacity). It is the transformation component that fosters entrepreneurial action. This suggests that high potential absorptive capacity or knowledge transfer per se does not encourage learning. It is the enactment of acquired knowledge which practice-based understanding of learning captures that explains for learning.

The foregoing discussion underlines the fact that neither institutional theory nor the MNE literature acknowledges the social/contextual underpinnings of learning in MNEs (exceptions include Hong et al., 2006). Although Kostova and Roth (2002) consider both organizational and institutional effects, their conceptualization rests on a normative account of knowledge transfer that is driven by efficiency and legitimacy concerns. Their understanding ignores historically grown institutional traditions and systems of a society and learning as participation through social process. Hence, we seek to explore the influence that the interplay between organizational models and host institutional contexts has on practice-based learning. We adopt a systematic comparison of two MNEs with different organizational models (international and multi-domestic) and consider four of their subsidiaries operating in two contrasting business systems (collaborative and compartmentalized) (see Figure 1).

Insert Figure1 about here

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3. RESEARCH METHODS

The research involved comparative case studies of learning in a British and a Dutch MNE operating in Germany and the UK in the chemical industry. The aim was to investigate the processes whereby continuous improvement in production was enacted by actors within a given MNE organization model and a host institutional context. The MNEs were selected on the basis of their organization model, i.e. their operation of a multi-domestic (Dutch MNE) and an international structure (British MNE). These models were identified along the dimensions of i) the extent to which capabilities and decision-making were decentralized, ii) the extent to which control was exercised through indirect, implicit means, and iii) the extent to which there existed high interdependency of work between the subsidiaries and headquarters (see Bartlett and Ghoshal, 1989; Harzing, 1999)[2]. As this information was not readily available in the public domain, we relied on the judgement of two strategic managers (VP of Operations at the British MNE, and Supply Chain Europe Director at the Dutch MNE)

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[2] The multi-domestic model is rated higher than the international model on the first and the second dimensions. As regards the third dimension, the perception by management of overseas operations as appendages to a central domestic corporation rates international model higher on interdependency than multi-domestic model.

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in our initial interviews. The selection of the subsidiaries was based on the polarity of host institutional contexts, which either reflected the German collaborative form of governance or the UK compartmentalized form of governance (see Lane, 1996; Whitley, 1999). The continuous improvement practices, i.e. structural and cultural changes along teams, were of systemic nature. In other words, there was the introduction to subsidiaries of new procedures and systems with behavioural consequences (Child, 1994). Practice-based learning was defined as the acquisition and enactment of these new procedures and systems by collective actors at subsidiaries.

The selection of the chemical industry of study was significant from the standpoint of high internationalization and innovativeness (see CEFIC, 2001). Thus, it lent itself to investigating cross-national incidents of learning. Both the British and the German MNE operated a flow-production process.

Case studies employed a total of 22 semi-structured formal interviews, ranging from senior vice-president of operations down to site managers, carried out between May 2002 and August 2007, a day- (at the subsidiaries of the British MNE) to a week-long (at the subsidiaries of the German MNE) participant observation involving informal conversations with 33 shop-floor members (operators, team leaders and shift managers), and company document analysis. Information was collected from respondents on the strategic and operational goals underlying the continuous improvement initiatives, resources that were made available by headquarters, the manner in which changes were implemented, the extent to which UK- and German-based subsidiaries changed their practices and the degree to which the parent company was involved in this process.

Learning was operationalized as high where the collective actors at a subsidiary accepted and sustained alternative practices from headquarters by participating in them. Low learning was measured by unsustained alternative practices whereby actors relied on past behaviour, withholding participation. Where a subsidiary demonstrated some degree of participation in alternative practices but had not fully sustained these, then the learning pattern was categorized as medium.

The reliability of the findings was enhanced by making explicit the procedures that were followed for data collection. These procedures included matters of interview protocol, tape recordings of interviews and feedback on transcriptions or executive summaries from the participants. Within case companies, interview data from a particular work group were checked against responses from another group to validate findings. Similarly, subsidiary and headquarter members' accounts were cross-checked against each other. Interview transcriptions were scanned to identify patterns of high and low learning at subsidiary firms, as well as the host institutional characteristics and MNE organization that accounted for the variation in learning.

The data were analyzed using Ragin's (1987) Qualitative Comparative Analysis. This method met the challenge of dealing with both complexity of interactions and attaining causality in patterns of activities for generalisability. It combined detailed case studies with systematic comparison using Mill's (1974) methods of agreement and difference. Detailed accounts ensured that context-boundedness of (the conditions underlying) a phenomenon of interest was elicited. A systematic comparison allowed for a significant theoretical leverage to make generalisation possible. Through the methods of agreement and difference or positive and negative comparison, several cases characterized by similar and dissimilar outcomes could be

compared. An instance of a phenomenon's occurrence was compared with an instance of its non-occurrence to identify 'bundles of conditions' that explained for the variation in outcome. The analysis required the elimination or the 'successive exclusion of the various circumstance which are found to accompany a phenomenon in a given instance, in order to ascertain what are those among them which can be absent consistently with the existence of the phenomenon' (ibid., p. 392). For instance, 'lean plant structure' was teased out as an alternative explanation of high learning as this condition did not exist at any of the sites except the local site of British Chem. Hence, it could not be a condition associated with the high learning outcome observed at Dutch Chem's German site. Similarly, where two or more outcomes across cases were common, similarities in combination that accounted for that outcome were identified. This analysis contributed to the homogenization of construct definitions and measures to build mid-range theory (Eisenhardt, 1989).

3.1 Research Sites

3.1.1 Dutch MNE and its subsidiaries

Dutch Chem (a pseudonym) was a Fortune Global 500 company employing 62,000 people globally and operating in more than 80 countries. The unit on which this study was based produced paints. Paints was much more local (with strong local adaptation of products) than any other business unit. Unlike their closest rival who converted acquired brands into one of their own, Dutch MNE sustained local brands. "We just buy brands and we keep those brands. We build [our brand] next to a pre-existing brand" (supply chain Europe director, Dutch Chem). Since 2000, the company had been standardizing and centralizing its organization to reduce costs. Nonetheless, "still there is a lot of local decision making about marketing, recipes they choose, assets they have…The [paints] business is very much a local business. Painters are not organized internationally, not even organized regionally" (supply chain Europe director, Dutch Chem).

With increasing pressure to reduce costs owing to increased competition in the industry, Dutch Chem introduced a continuous improvement programme called Star Trek at various sites in Europe in 2003. At the time of data collection, the company, particularly in relation to the British MNE, operated a multi-domestic MNE model. "There are so many different models in the business of Akzo Nobel, some are very local, some are very global…Decorative is much more local" (supply chain Europe director, Dutch Chem).

> In the past, countries were independent business units. They had all the assets, all the decisions, including R&D. So that would be more the model no. 1, i.e. multidomestic. We changed that in 2000, where we said the management will control more of the operations in countries, and the functional responsible persons for countries will report to the central management team. But still there is a lot of local decision making about marketing, recipes they choose, assets they have. (supply chain Europe director, Dutch Chem)

The required operational improvements included service level to customers, quality, cost per litre, stock levels, and health, safety and environmental (HSE) issues (Star Trek Roadmap company document). Each site, including the German and the UK sites at which data were collected, was informed of the need to achieve results in these key five areas, and were given the flexibility to decide on the systems (such as Kaizen, six sigma, Total Productive

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Maintenance (TPM)), and the tools (such as 5S lean manufacturing housekeeping and value stream mapping) to achieve them. However, the flexibility in deciding how to achieve key metrics was also perceived as a structural problem: "In his [supply chain Europe director's] strategic paper, he explained what he means by continuous improvement, there were also some examples of it, but that really is the frame...Still to this day, every country, every production site, is struggling on its own…I think for the company, it [leaving individual sites to define their route to achieving the key metrics] is not really efficient. It also does not develop Production and Logistics Europe into a big team" (Director of the German site of Dutch Chem).

3.1.2 British MNE and its subsidiaries

British Chem (a pseudonym) was a major chemical company in the UK whose activities span over 50 countries. This study was based on the strategically important paints unit of the company. In the late 1990s, the company came under great pressure to achieve the maximum leverage out of a single project, hence it adopted an international approach to operating overseas. Underlying this change had been the emphasis on structuring and formalizing processes, particularly in product development. With the closures of laboratories, subsidiaries grew dependent on the UK headquarters for new product ideas.

> We are much better organized in terms of having country managers and functional structures, which are much more European-based. So in terms of R&D, although we have some labs such as that in France and in Poland, our activities are all pretty well managed in terms of knowing what is going on and who is doing what… There are [links], whether they are solid or not, I would not like to say, some are solid some are dotted lines, but there is a lot of clarity. (General Manager, R&D Europe)

Consistent with this change was the introduction of a continuous improvement programme at the operational level called Paint Plant of the Future across all sites in 2002. "On a global basis, our plants are significantly behind world class performance and therefore we need to raise the standards and performance of all our plants globally and try to give the momentum of everybody working together on a similar sort of agenda" (senior VP of operations, British Chem). The required operational improvements included operation efficiency, cost, cycle times, and the amount of waste generated. Although targets were underpinned with initiatives, support and tools for each manufacturing site to apply changes locally, British Chem's approach to implementing changes was much more structured and centralized than that of Dutch Chem. Various sites, including the British and the German operations, on which this study focuses, were audited against different matrices, given a score and provided detailed guidelines on how to reach higher score rating and improve key operational metrics.

> We use manufacturing excellence model which does an audit of the site against about 100 different matrices. Against those matrices, you score yourself on a scale of one to four. It gives you an idea of what one is, what four is verbally. You can do an internal and/or external audit. You then come up with another raw score rating from zero to four. Most of our plants score somewhere between one and two. So we want to get somewhere between three and four. (senior VP of operations, British Chem)

4. FINDINGS

The case studies showed that efforts to introduce continuous improvement practices produced considerable differences in learning across subsidiaries owing to the variation in MNE organization in its interaction with host institutional conditions. In spite of the similarity in acquired practices as well as the cost pressure felt by all subsidiaries, the German site of Dutch Chem and the local operation of British Chem displayed higher levels of learning than the British site of Dutch Chem and the German site of British Chem.

4.1 Change Efforts within Dutch Chem

The Dutch Chem initiated structural and cultural changes at its subsidiaries with the help of a consultancy firm, who felt that the company had to "go to another planet of performance. Because it is not a small step you have to make, you really have to start managing the shop floor operations. We really did not do that for 15-20 years, because it was not important. We were successful with the infrastructure we had. But you cannot continue like that, there is so much opportunity for learning. So we started a programme that we called 'star trek'" (supply chain Europe director, Dutch Chem). The company had been pursuing a strategy of closing down manufacturing sites to reduce cost levels only to realize that this was not generating the revenue it anticipated. Hence, it aimed to achieve operational excellence across its manufacturing sites by instilling a continuous improvement culture and team-based structure.

> Smaller or bigger projects, I do not care. You have to get all the people involved in some kind of continuous improvement process. That means that you have to change completely your management style from 'I will tell you what to do' to 'do you have any ideas to improve the efficiency of the line?'. Of course, it has to come not top-down but bottom-up. The funny thing is that we used to have many people in our organization but we only used their hands and their muscles. Let us start using the brains of those people; they come for free. (supply chain Europe director, Dutch Chem)

A European Improvement Team, composed of not only production and logistics managers of various countries but also the leaders of shop floor operations, was created to visit different sites and exchange ideas for improvements. The manager of this team assumed a hands-on approach to changing mindsets on the shop floor: "I am more of a coach and a leader than a manager, working on soft issues to shape maybe some of the hard issues". These efforts were supported by training or employee involvement systems but to varying extents at different sites.

4.1.1 Learning patterns at subsidiaries

The German site of Dutch Chem was seen as one of the better operations that managed to sustain change efforts with the high involvement of its shop floor workers and middle managers, hence demonstrated *high learning*. The site developed its own path to achieving the key measures through high levels of participation. This also involved works council members. The works council, which has a strong role in Germany, maintained favourable relations with management to the extent that they were perceived by some of the shop-floor workers as belonging to "them up there" (factory manager of wall paint at the German site).

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> We had some problems in our German operation to be profitable in the market, so there was a lot of pressure on the German site to improve…They have translated our whole Star Trek programme into their own programme with a vision, with how they operate, what they do, how they measure success, what the management responsibility is…There is a manager who really understands how to do this…much better than I do. If you want to get this continuous improvement in place, you have to change your style from being extremely directive to a completely different way of managing. (supply chain Europe director, Dutch MNE)

There was heavy emphasis on the people side of change efforts at the German site. The site adopted two ways of introducing improvements. The first was the suggestion scheme, which was hardly used owing to its bureaucratic and cumbersome nature. The second was the preferred approach of taking a direct initiative. Sustainability could not be achieved where people were not involved in the change programme.

> We started this [continuous improvement] with a consultant named [X]. I was deeply impressed by the [X] people who more or less went with me through that first stage of change, changing process, changing the mindset. But they had one problem: [X] did not care about people. ..When we started with [X], we were looking for results…But every time I went around in the factory, people were totally frustrated…When we went from one project to another, sustainability went away…I was somebody who was saying 'well, you have to try out a lot of stuff. I want you think hard before you change something, but I want you to try out because we have to learn, we have to develop…In the last two years, we strongly focused on people's behaviour and in creating a culture environment…Whatever we do, we try to focus on our people, on behaviour, on culture, on getting their passion…It is all about people at the end, and nothing else. (director of the German production site, Dutch Chem)

Although there was resistance by senior management to, for instance, the integration of maintenance function into production, changes were implemented and could be sustained on the shop floor. "We integrated maintenance and, at the same time, we had 21 full-time employees in the maintenance department, and we put that down to 10. This was a big political issue here at the site….There were some people, high managers, who were really blocking that step" (director of the German production site, Dutch Chem). The most important achievement at the site had been to create an open culture divorced from the obsession of slogans or labels such as Star Trek or Kaizen. In an effort to create solidarity, the Star Trek label was translated to 'Hand in Hand for Cologne'. Like all other initiatives, workers were engaged in the change process: "what have made their way to everyone are the guidelines [with 'looking beyond one's plate' becoming a critical motto]. Workers were involved in their formulation. They find themselves and their ideas in them" (production group advisor at the German site). A 'cover up culture' was converted to a culture of open talk about successes and failures.

> If production runs fail—costing about 30,000 to 40,000 Euros—workers are not punished any more. Instead they enter the office without hesitation and admit something has gone wrong. There is discussion as to why it occurred and how the same mistake can be avoided in the future…Earlier workers would receive an official warning and some would even lose their jobs. (production advisor at the German site)

Smooth communication across all levels of the factory, and weak demarcation between first-line and middle management and the workers aided in instilling a continuous improvement culture: "the plant is headed by the factory manager of wall paint. His right hand and link to the lines is a so called production advisor who worked himself up from the shop floor and is now a 'Meister'. He strongly interacts with the group speakers of different departments…The group speakers [most of whom had an apprenticeship or trade training who were, under the old structure, known as foremen[3]] have a very high acceptance with the workers" (group speaker in the wall paint section of the German site).

Work experience on the shop floor pointed to *high learning* by the German site where changes were taken on board by the operators with little resistance. One of the examples of a learning process was in the filling section. Accidents with acticides, which are conservation agents that fight bacteria in paint filling stations, were frequent, because the filling station, which was run manually, had large open cans that had to be carried between the filling station and the mixer. This encouraged the group speaker to mobilize the search for ways to reduce injuries, and man-hour loss caused by spills. His efforts led to the discovery of a powder that could be used in place of acticides. However, it soon became clear that the powder itself, when mixed with sweat or water, led to injuries. Further search for a solution led to the introduction of mobile tanks that could be rolled to the mixers: "Now the whole process of filling acticides has become a closed system, which lowers the risk of accidents and injuries with the chemical substantially" (group speaker in the filling line at the German site). Another example was the deinstallation and reinstallation of 'bindemittelzapfanlage', which involved change in a process related to mould-development in a particular tank. Mould infection in the chemical causing contamination was common due to the limited use of the tank's certain pipes. This also necessitated frequent cleaning. In order to overcome this problem, "the whole tank was deinstalled and reinstalled into an area where pipes had more throughputs and fewer dead ends. This reduced mould infection and the cost of material and cleaning" (group speaker in the mixing department of the German site).

The continuous improvement team ethos was lived by leadership and was reflected on the shop floor by highly skilled operators (group advisor of lacquer production at the German site). Most of the operators worked for the company for 20 to 30 years due to the incentives that repeated social plans offered for the recruitment of older, long-standing employees.

By contrast, the British site of Dutch Chem faced challenges in sustaining change efforts, hence displayed relatively *low learning*. There have been unsuccessful examples of continuous improvement efforts such as the "fizzling away over the last one and a half to two years" of the 5S housekeeping initiative (operator with 20 years of experience in pre-labelling on the red shift). Local management criticized headquarters for not providing firm guidance on changes to implement.

> This is more of a management issue where not enough or due attention has been given…Our improvement efforts are more or less a trial and error process. We need a firm strategy. There is a lot from headquarters that is relevant but we are asked further questions like 'where do you see yourself in the future? What is

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[3] Team-based work was introduced in 2001. It "proved to be successful in many areas, particularly in lacquer production. And I think Star Trek built on it, and developed it clearly further" (director personnel and social affairs, German site of Dutch Chem). It involved a shift from department heads, 'obermeister', 'meister', 'vorarbeiter' and operators to plant managers, group advisors, group speakers and operators.

your local vision? We do not know how these translate to the operational level. (site manager for the UK, Dutch Chem)

Although the operators were trained to unlearn their baggage of history to work with new processes, these were on-and-off events that were neither administered on a regular basis nor extensive: "there should be more regular briefings and more investment in management training" (manager of the blue shift). "At first, the push from above is big, but then it withers over time because people are busy. The target has been to get the service level up to 99 per cent, which has reduced the focus on other principles" (manager of the blue shift). By the same token, "management has made a start with the standard set of procedures, but they have never tried to finish it…The idea should be to standardize the line, so that it can be operated without previous knowledge of the line after following a training programme with a training officer. But this is no where near implemented because training officers either cannot be freed up or people are not trained sufficiently" (operator with eight years of experience on the blue shift). The site aims to achieve "more teamwork, better organization and stronger leadership" by attempting to balance cost savings with improvements (site manager for the UK). However, it finds this challenging to attain, because it perceives strategic goals as conflicting with operational goals.

> There has always been conflict between the implementation of continuous improvement and delivering results. With a lot of pressure on cost saving, the focus has been on head count…Natural erosion of people through retirement, change of jobs, and even death, led to a reduction in workforce, which was not replenished. Consecutively, resources [manpower] have been so tight that we have had insufficient resources to free up operatives for additional training. (site manager for the UK).

This was perceived by some operators as a lack of competence on management's part: "the plant has not been as well managed as when I started. Management tends to pass the book on to others" (operator with six years of experience on the blue shift). Work experience on the shop floor pointed to hands-off approach to managing operations: "management should take much more control over the plant, be part of the team, and have a clear idea of what people are actually doing. A lot of people can get away with things, work wise" (operator with six years of experience on the blue shift). "What is not in place is the level of training for these middle management people in the area of managing change, coaching, leadership, not just the classroom stuff, but, more importantly, the hands-on stuff" (European improvement manager, Dutch Chem). This is illustrated by an operator with eight years of experience on the blue shift: "the Star Trek programme was communicated through leaflets and by a quick session upstairs. Majority has not been implemented". Quite a number of modules such as 5S and Kaizen were offered to operators in a classroom setting owing to the level of subsidies offered by the UK government to minimize loss of manufacturing jobs.

A team-based structure was introduced to the plant as part of the continuous improvement practices. Although the shift to a team-based structure would have been expected to change some of the problems in management-worker relations, communication problems persisted. "The operatives have been bombarded with graphs and notice boards. The shop floor is now briefed on major issues. They do the big things well, but spend too little attention on the little things. You forget that the small things can be big things for them" (manager on the blue shift). Similarly, an operator (in pre-labelling on the red shift), who worked at the site for 20 years, expressed his frustration with the attitude of management as "they have to work on the

communication between different sections, shifts, and between the shop-floor and management, which should be clearer. Requests should be followed up quicker, and management should believe what operatives are saying. This has not improved. There are personality clashes between lower management and the shop floor. There is a way to be asked and a way not to be asked". Furthermore, "higher management should have an independent position when supervisors have problems with an operative. They often unconditionally side with the supervisors. It is the old [previous owner of the site] mentality…Lower management seems to support some sort of divide and conquer style…There is a blame culture" (operator with eight years of experience on the blue shift).

However, the operators who were involved in continuous improvement projects were more motivated and energized to make changes. These applied, in particular to operators who received on-the-job training from training officers, i.e. experienced operators. "I learn from more experienced operators rather than standard operating procedures" (newly-recruited operator on the red shift). "People want to change and want to be involved. Before, there was no sense of direction. Now, that has changed permanently, but it has to be driven" (team leader with 18 years of experience at the company). However, those who were not involved, being the majority, found it difficult to work with the new practices, indicating *low level of learning* at the site: "So we have made a few demonstrations, improvement projects here and there. But it has not become a way of life" (operations director at the UK site, Dutch Chem). "People often cut corners to get the job done. This is sometimes good, sometimes bad depending on whether the procedure is cut short with the right effect, and whether it is done in a safe way" (team leader on the morning shift). For example, in response to the set targets, figures were reported on a machine that was not even operated. When the operators were confronted by the team leader, they expressed that they could not produce at required speeds owing to paint spillage. However, this did not encourage management to change targets. An incident in the manufacturing control room further illustrated deviation from standards. One of the controllers who was behind a computer working on flow-charts and virtual tanks had marked off the first couple of and the last few points on a checklist when all of these needed to be check-marked in sequence.

4.2 Change Efforts within British Chem

British Chem launched its continuous improvement programme, labelled as the Paint Plant of the Future, in 2000. It aimed to set standards, i.e. a set of metrics[4], that all of its paint plants strived to achieve owing to deficiencies in performance. There was heavy emphasis on having members involved in and agree to the changes.

> We started off by bringing people from all around the world together to agree on the size, whether we were really behind world class or not, then agreeing on the size of the prize. If we sorted this problem out, we concluded that there was about £30 million prize to go for upon an increase in our score. We have gone through all sorts of meetings from global to regional ones. Detailed plans were discussed with regional groups who also had to agree on the size of the prize. Then regional

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[4] These included conversion cost in pence per litre, operations efficiency of the packing lines, right-the-first-time to production, cycle times through the plant, and yield loss, i.e. the amount of waste generated. For example, Toyota lean principles, 5S housekeeping principles of sort, standardize, shine, select and sustain underpinned efforts to double the efficiency on packing lines.

workshops were run with operational managers. (senior VP of operations, British Chem)

The heavy emphasis on people involvement was reflected in the investment in training. 10 people were taken off the line for a week, and were given the opportunity to analyse a problem. This was simply to engage members of the shop-floor in alternative ways of working, and to reduce the distance between management and the shop-floor tier.

4.2.1 Learning patterns at subsidiaries

Of all of the European operations, the UK site made the most progress on continuous improvement efforts (senior VP of operations, British Chem). Although upon the completion of the Paint Plant of the Future programme in 2004, the German site had made better progress than the UK site in people processes[5], at the time of data collection in 2002, they faced difficulties in communication processes and the ownership of new practices by workers.

The German site was initially scanned for improvements by a consultancy firm. "They came up with 10 different projects. The most important one of these was that on organizational change. This involved delayering and enhancing jobs of operators. Productivity improvement teams were set up to create end-to-end responsibility with a particular focus" (manager of the German site). Operators were trained to become maintainers. The site introduced a competency-based selection process, which was unique for Germany. People had to apply for their jobs. Those who passed became maintainers.

> We are working on a skill enhancement model at the moment, whereby we look at different levels in the organisation and what people are put at and what people need to have as a general skill base. Some of that general skill base is brought to what are currently lower levels in the organisation. That means that when the quality of your operators will increase, the number of operators will decrease. (manager of the German site)

There was training on-the-job and a series of seminars were provided off-the-job. "It meant empowerment to operators" (manager of the German site). It was more the middle management rather than the operators who had to learn. A mixture of people expressed that they liked the 'old way': "we were told to do it and we did it" (operator at the German plant). "We were used to saying 'we will fix it for you'" (manager of the German site). This translated into reactive maintenance, the lack of use of data for continuous improvement, lack of discipline and urgency in shop-floor activities, in particular, in the filling area, and exceptions seen as problems. In addition, there were cumbersome processes in introducing new products, hierarchical decision-making processes with long lines of communication, cumbersome sign-off processes, departmental interdependencies rather than an entrepreneurial style, and an 'it is not my problem' mindset (manager of the German site). The aim of introducing a team-based structure and continuous improvement processes was to encourage employees to take decisions, be accountable for results and display a 'can-do'

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[5] In the sense that the UK site faced resistance, in particular, from older operators who questioned for instance team leadership roles: "we are cheap labour. They try and get us to do jobs which the supervisor will have done" (operator). This was seen by the manager of the UK site to be related to insufficient training in some cases: "we probably put them in the deep end too quick without proper training".

approach. However, the ownership of quality control by both the operators and team leaders needed further work. A visit to the plant showed that 5S housekeeping principles were not embedded in the organisation, and informal talks with operators pointed to poor understanding of key metrics. "Special practices such as quality management systems in the UK are spread internationally to improve efficiency and quality. The knowledge that is being transferred from the headquarters has not changed anything fundamentally" (senior product manager at British Chem's German site).

What was critical in restructuring efforts was that a good relationship was maintained with the works council.

> The power of the works council is enormous in Germany. But I must say the way in which we work with our works council is very open-minded. We put things on the table as they are, probably due to the fact that my colleague and I are not Germans. His [non-German colleague's] nature is more or less 'let us be friends. We do not need to compete with each other'. My Dutch nature is openness, no politicking. I think people, to a certain degree, know that if they come to me and they get 'no' for an answer, it is 'no'. And if they get a 'yes', it is from the heart, and I mean it. (manager of the German site)

"There were harsh discussions at the beginning. They [works council] said 'you are taking advantage of people. You are creating different work classes'" (manager of the German site). The works council members were invited to attend skill enhancement workshops and to review selection processes. Their engagement in change processes enabled them to see the benefit to the workers, and provide their support to management.

Although the level of learning at the German site was not as high as that at Dutch Chem's German site as sustainable change was not attained (neither was it as low as that at Dutch Chem's UK site, indicating *medium learning*), there were examples of entrepreneurial initiatives and commitment by the operators. For example, one of the shop-floor operators saw the need to promote company's products by suggesting a visit to distributors: "I do not see our products being promoted at DIY [Do-It-Yourself] stores. We should visit these stores and explain to them that ours is better than that of competition" (operator). "People are also more keen than ever to having open days to show their workplace to their family and friends. Our Christmas event was on Saturday morning. 25 families came with their kids. The event was at 10:30, but the operators came with their families an hour early to show them around the site. That shows pride" (manager of the German site). "What I see quite often is that it takes a quite a long time to get a group working together. Once you got them on a certain track, they go for it. I mean they are detail freaks. They want to do everything right. They sometimes have difficulties accepting 99 per cent solution. It should be 100 per cent" (Dutch shift manager at the German site).

By contrast, the UK site of British Chem was more successful than the German site at implementing continuous improvement processes, hence displayed *high learning* owing, in part, to a lean structure and lower complexity in production.

> [The UK site] was really good from the start. They made a step forward, but not as great a step as us [the German site]. We made a more significant change. They are

better with regard to manufacturing performance.[6] They run a lean operation with large batches and have lower complexity rate than we have. For instance, we have 400 raw materials and 4000 packaging items. [The UK site] has 120 formulations and 400 packaging items. (manager of the German site)

However, more importantly, management encouraged high involvement of operators in alternative ways of operating via the introduction of self-managed teams and cultural change: "when watercolour [division] was sold off, we had to be self-sufficient up here, and change the culture. We are it, there is no one else. That is when we really got involved with our people. We engage them and try to make sure that—is a small site now—flourishes and grows…We have been very keen, because I am from an operator background, on bringing our operators through" (manager of the UK site). This cultural change was aligned with the structural change of eliminating supervisor grades and introducing team leaders. Visit to the plant and informal talks with operators showed that there was no direct supervision of production. The teams produced their own targets, and reported their successes or failures and the reasons why they failed to the management team on a daily basis. There were daily toolbox meetings at ten in the morning where guests, i.e. the site manager, the plant manager, the engineer and anyone else who could help operators achieve their production rates, were invited to discuss the reasons for underperformance. One of the operators would chair the meeting and challenge the management team to put in place technicalities that would improve operations, and have them commit to a deadline. "The management team are out there to serve the operators who actually do the job. That has been a success" (manager of the UK site). The self-managed teams were composed of skilled and highly committed operators: "they are probably the best of the operators we have got. Given the nature of the job, we have actually asked volunteers and we have got the best trainers. Those who actually train the guys in the factory volunteered" (manager of the UK site). The self-managed teams nominated their leader on a rotating basis. An old key with a tag on it would be worn by the leader of the team for the day who would give the final judgment on issues, chair the morning meetings and report performance scores to his members. Operators were even seconded to the plant manager role for a period of, for instance, two months.

One of the entrepreneurial initiatives of operators was on a paint feeding point that required contaminants in the paint to be reduced to 150 micron from 250 micron. Quality was improved upon the fitting of a filter in the form of a mesh disc that pushed rubbish down before the paint was fed to four transfer lines.

5. DISCUSSION AND CONCLUSIONS

The findings demonstrate variation in learning patterns across subsidiaries that is associated with host institutional effects in terms of MNE's approach to employee relations and the way the MNE is organized. British Chem and Dutch Chem's response to global pressures for integration in the chemical industry has led to dissimilar MNE organization models. This has implications for the way in which learning processes are managed at host operations. However, MNE organization alone, unlike what is suggested by the MNE literature, does not

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[6] This is evidenced by their achievements in metrics such as operation efficiency which increased steadily from 47.9 per cent in 1999 to 59.4 per cent in 2001, and yield loss which declined from 1.76 per cent in 1999 to 1.3 per cent in 2001. By contrast, the operating efficiency at the German site declined from 54.8 per cent in 1999 to 51.3 per cent in 2001, and yield loss that dropped to 3.2 per cent in 2000 and rose to 4.5 per cent in 2001 from 3.8 per cent in 1999.

explain for the heterogeneity in learning outcomes. When host institutional characteristics are taken into account, it becomes clear that high levels of learning are attained where there is a fit between the approach chosen to manage employee relations and the model adopted to organize the MNE.

Insert Table 1 and Figure 2 about here

Figure 2 and Table 1 provide an overview of the contextual influences on patterns of learning across the British and German subsidiaries of British and Dutch MNEs. In comparison to the British MNE, the Dutch MNE's multi-domestic MNE model granted its UK and German sites more autonomy, as well as left them less supported, whereby a local subsidiary could, based on its own initiatives, change its work systems for high levels of learning. For instance, the German site of Dutch Chem emphasized and sustained change in mindsets through an integrated 'dual approach', where collective arrangements and high involvement systems form a partnership (see Tüselmann et al., 2006). The highly regulated and strongly institutionalized industrial relations context of Germany deemed necessary an approach that addressed the local institutional pressure of a collectivist system as well as responded to competitive pressures to improve quality and minimise cost. This was achieved at the German site by implementing collective and direct employee involvement schemes. The former included representation of works council members' interests in continuous improvement changes through their participation in alternative work practices (also see Wood and Fenton-O'Creevy, 2005), and the latter involved direct participation in practices, information sharing and consultation that were focused at the level of the individual employee. Although direct involvement practices were adopted, these were rooted in pluralist framework and took on board labour representative bodies. By contrast, there was no ownership of continuous improvement practices, hence a low level of learning, at the UK site of Dutch Chem owing, in part, to the adoption of a 'low road' minimalist approach, i.e. the absence of high involvement system (evidenced by the hands-off approach to management) and of collective arrangements. It is quite common in deregulated industrial relations settings such as the UK to have predominantly individualistic employee relations patterns, which may take either the 'high road' individualized direct involvement approach, where there is direct employee participation but no collective arrangements, or 'low road' minimalist approach where there is neither direct employee participation nor collective arrangements (Tüselmann et al., 2006). Guest and Conway (1999) argue that in 'black-hole' organizations, where there is neither a set of progressive HRM practices nor a recognized union, there is more negative attitude and work experience than in cases where one or the other or both exist(s).

Whereas at British Chem, an international MNE organization model based on central control of management systems and knowledge flows, and 'high road' individualized direct involvement approach encouraged change in routines at the UK site. Operators displayed high level of learning as they were given the opportunity to work in self-managed teams to solve manufacturing quality problems. However, the international model of MNE organization, despite the adoption of a 'dual approach' by local management, was not as supportive in changing methods of operating at the German site as that at the UK site. The level of learning was neither as low as that at the UK site of Dutch Chem nor as high as that at the UK site of British Chem. As is commonly found at German firms (see Giardini et al., 2005), the site was characterized by slow change, high bureaucratization and reduced initiative. There were also indications that, compared to Dutch Chem's German site, British Chem's 'dual approach' was

less integrated (i.e. more co-existent). This may be rooted in the interference of an international organizational model with an integrated dual approach. Specifically, that an international model's central directives, originating from a compartmentalized business system, are likely to give less importance to harnessing the constructive or partnering role of collective arrangements available in a collaborative business system.

Thus, our findings suggest that a mismatch of MNE organization and host institutional approach to employee relations can lead to levels of learning that are lower than anticipated. Arguments in comparative institutionalism or 'Varieties-of-Capitalism' show that there is a strong need to rely on formal, legalistic mechanisms to order relationships among transacting parties and preference for unitaristic and individualistic employee relations in the UK institutional context (see Vitols, 2001; Tüselmann et al., 2006). This would necessitate the central organization of activities (along an international MNE model) for learning to be encouraged at UK subsidiaries. There were many layers and long lines of communication, cumbersome sign-off processes, and departmental interdependencies that, to some extent, inhibited an entrepreneurial style at the German site of the British MNE. Such an organization of work systems would be nurtured in the German institutional system that tends to rely heavily on regulation (i.e. bureaucratic mechanisms aligned with personal and informal controls, see Ferner et al., 2001) as well as partnership formation among transacting parties which lock actors into tightly knit networks (see Lane, 1996). Overall, the German sites (both of which adopted a 'dual approach' to employee relations) needed room that was granted by a multi-domestic MNE organization of the parent company to edit practices to suit their local circumstance, and the UK sites needed a centralized approach, which was enforced by the international model of the parent company, as well as a 'high road' individualized direct involvement approach to employee relations to change manufacturing practices for high levels of learning.

The contributions of the research are threefold. First, comparative institutionalists have argued for diversity in practices owing to the constraining effects of home and/or host institutional contexts (e.g. Almond et al., 2005; Ferner et al., 2005). Our findings show that it is not the institutional systems alone but their interplay with an MNE organization model that enables or constrains learning. Second, there is an overemphasis in the MNE literature on learning that takes place within transnationals. It is shown here that learning processes are common in structures other than the transnational model. We note, in particular, that an international MNE organization, which is evident in the development and diffusion of knowledge from the centre to overseas units, can encourage learning in a subsidiary through 'high road' individualized direct involvement of employees. Third, the study demonstrates that organizational learning in international settings is more than just a process of transferring best practices. Active participation in an activity is a necessary precondition for learning to take place (Gherardi and Nicolini, 2002). It is not sufficient to argue that learning which is disembodied from practice is fostered by diversity in experience and the differences between acquired and acquiring firms (e.g. Barkema and Vermeulen, 1998). Practice-based accounts of learning that recognize the link between knowledge and action in the international arena deem more empirical research, particularly given the emphasis on international diversity as a significant determinant of MNE learning (e.g. Zahra *et al*., 2000).

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Figure 1. MNE Models, and Headquarters and Subsidiary Location by Host Institutional Context
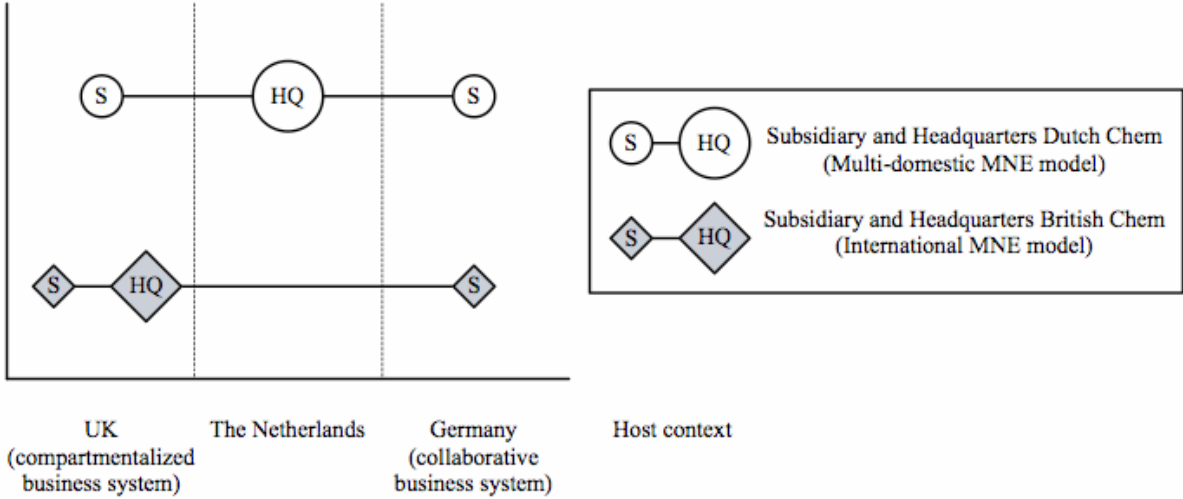
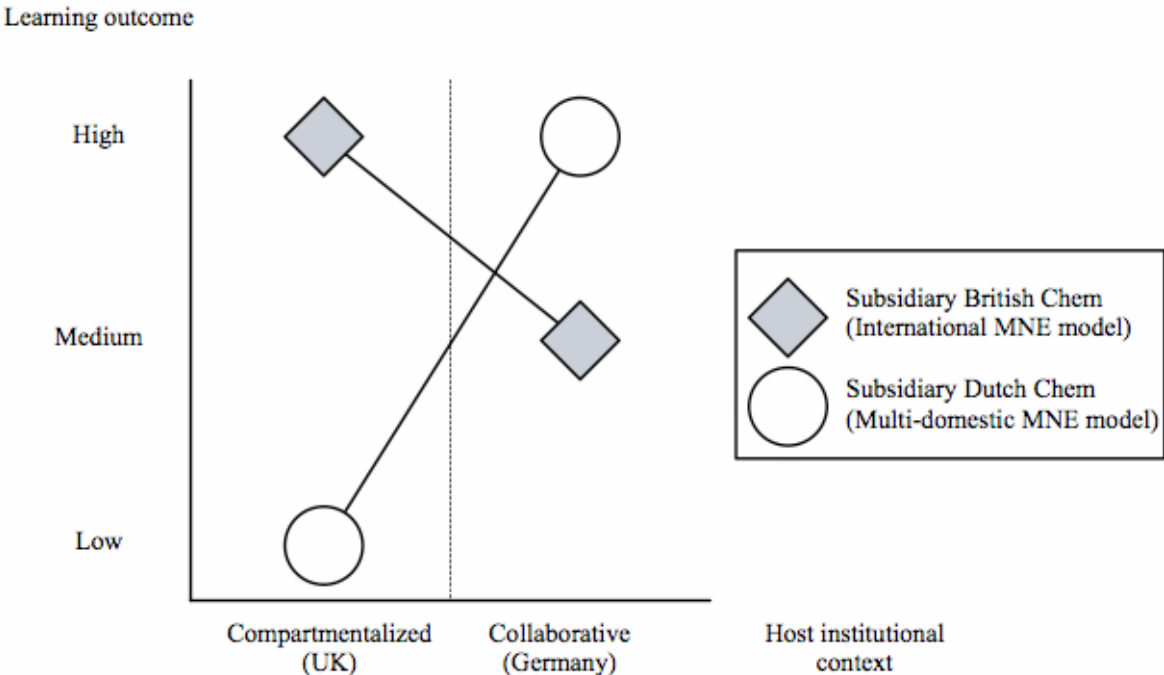**Figure 2. Subsidiary Learning Outcomes by Host Institutional Context and MNE Model**

Table 1. Learning outcomes at subsidiaries

Sampled companies	British Chem's German site	Dutch Chem's German site	British Chem's UK site	Dutch Chem's UK site
MNE model	International MNE model	Multi-domestic MNE model	International MNE model	Multi-domestic MNE model
Approach to employee relations	Dual approach (high involvement system & collective agreement)	Dual approach (high involvement system & collective agreement)	High-road individualized direct involvement approach	Low-road minimalist approach
Learning outcome	*Medium learning*	*High learning*	*High learning*	*Low learning*