Managing Marketing Practices in Asymmetrical Institutional Duality: Evidence from British and Chinese MNC Subsidiaries

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ABSTRACT

This dissertation refines a newly developed concept in the literature of institutional theory, institutional duality, focusing on its primary assumption – institutional distance and its essence of conflict. In so doing, it aims to better understand the interaction between MNC subsidiaries and the fragmented contextual environments they face.

Specifically, by concentrating on the interaction between subsidiary managers and the socially constructed and symbolic aspects of marketing practices in MNC subsidiaries, the dissertation addresses two theoretical issues concerning organizations facing fragmented environments: (1) faced with multiple institutional templates, why do organizations adopt and institutionalize some of them, and not others? (2) how do organizations cope with the potential conflict between multiple institutional templates?

The methodology adopted is chiefly a case study approach, following the logic of modified analytic induction. Throughout the dissertation I use the literature-driven concept, institutional duality and two initial propositions as sensitizers while still remaining open to discovering concepts and propositions not accounted for in the original formulations. Case evidence of marketing practices was gathered from two groups of subsidiaries: three British subsidiaries of Chinese MNCs and four Chinese subsidiaries of British MNCs. The research process included two stages: the first was a pair of initial case studies, one from each group, for exploratory purposes; they were then followed by more focused and explanatory multiple case studies. As a result, the two initial propositions were modified twice in light of the data from the new cases in each stage.

Two of the key findings indicate the need for a refinement of the concept of institutional duality to take some mediating factors into account: (1) the findings suggest that different levels of home and host country development is one of the important contingency factors affecting the magnitude of institutional duality faced by MNC subsidiaries; (2) it was also found that MNCs and their subsidiaries are not only affected by institutional duality, they also have a certain level of choice to influence institutional duality.

Keywords: institutional duality, MNC subsidiaries, Chinese MNCs, marketing practices

This thesis is the result of the author's original research. It has been composed by the author and has not been previously submitted for examination which has lead to the award of a degree.

Signed: 郭曦嘉 Date: 20/10/08

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At times our own light goes out and is rekindled by a spark from another person. Each of us has cause to think with deep gratitude of those who have lighted the flame within us.

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Chapter 1: Introduction

This dissertation refines a newly developed concept in the literature of institutional theory, institutional duality, based on evidence from case studies of marketing practices in four Chinese subsidiaries of British MNCs and three British subsidiaries of Chinese MNCs[1]. In so doing, it aims to better understand the interaction between MNC subsidiaries and the fragmented contextual environment that they face.

Neo-institutional theory (*Meyer* and *Rowan* 1977; *Powell* and *DiMaggio* 1991; *Scott* 1995, 2001) has risen to prominence as a popular and powerful explanation for both individual and organizational action. Its central tenet is that organizations need to conform to the rules and belief systems in their environment to earn them legitimacy (*Suchman* 1995). However, there have been two puzzling dilemmas posed by the scholars gathering under the banner of neo-institutional theory: institutional stability versus change and institutional isomorphism versus heterogeneity (*DiMaggio* 1988; *Brint* and *Karabel* 1991; *Dacin*, *Goodstein* and *Scott* 2002). While the attempts to resolve the former have so far been fruitful, the latter has not yet received much attention.

As will be argued in Chapter 2, the literature review chapter, the MNC subsidiary viewed as a set of differentiated functional practices, is an appropriate research context for investigating organizations under fragmented environments. In terms of the relationship between MNCs and their organizational environments, scholars have

[1] In this dissertation, China denotes "Mainland China", which excludes the Hong Kong and Macau Special administrative Regions of the PRC.

recognized that most large MNCs are likely to be subject to a variety of different and potentially contradictory isomorphic pulls in the different national institutional environments (*Westney* 1990, 1993; *Rosenzweig* and *Singh* 1991). This primarily results from the institutional distance between the home and host countries – that is the difference/similarity between the regulative, cognitive, and normative institutions of the two countries (*Kostova* 1996). Therefore, observing MNC subsidiaries through an institutional lens highlights the institutional duality that subsidiaries are facing. This institutional duality is defined as: "There is a within-organization domain that defines a set of pressures to which all units within the organization must conform. At the same time, the foreign subsidiary resides in a host country with its own institutional patterns specific to that domain" (*Kostova* and *Roth* 2002, p216). Prior research has related this concept to four aspects of MNC subsidiaries, namely, MNC subsidiaries' legitimacy both in host countries and within the MNC (*Zaheer* 1995; *Zaheer* and *Mosakowski* 1997; *Kostova* and *Zaheer* 1999), the adoption of local versus parent company practices in MNC subsidiaries (*Rosenzweig* 1994; *Rosenzweig* and *Nohria* 1994; *Robinson* 1994), the transfer of strategic organizational practices from the parent company to its foreign subsidiaries (*Kostova* 1999; *Kostova* and *Roth* 2002; *Lervik* and *Bjorkman* 2007; *Ferner*, *Almond* and *Colling* 2005; *Lervik* and *Lunnan* 2004), and the influences of institutional duality on MNC strategies and performance (*Xu* and *Shenkar* 2002; *Davis*, *Desai*, and *Francis* 2000; *Hillman* and *Wan* 2005; *Rangan* and *Sengul* 2005).

Yet, as *Westney* and *Zaheer* (2001) acknowledged, most of the research on MNCs using institutional theory has focused on companies that are multinational, as opposed to companies that are becoming multinational. Therefore, this dissertation extends and refines the conceptualization of institutional duality by investigating MNCs based in the UK, a developed country, as well as MNCs headquartered in China, which is currently the most active internationalizing economy among the developing countries (*Child* and *Rodrigues* 2005).

Specifically, by concentrating on the interaction between subsidiaries' managers and the socially constructed and symbolic aspects of marketing practices in MNC subsidiaries, the dissertation addresses two specific theoretical issues concerning organizations facing fragmented environments: (1) faced with multiple institutional templates (*Greenwood* and *Hinings* 1993, 1996), why do organizations adopt and institutionalize some of them, and not others? (2) how do organizations cope with the potential conflict between multiple institutional templates? These two issues also relate to two fundamental properties of institutional duality: the former is concerned with its assumption, institutional distance, the latter with its essence of conflict. Thus, based on a review of existing studies of institutional duality, two initial propositions are developed to examine these two issues.

The methodology reported in this dissertation is predominantly a case study approach (*Yin* 2003; *Eisenhardt* 1989), following the logic of modified analytic induction (*Robinson* 1951; *Bogdan* and *Biklen* 1992; *Gilgun* 1995). The method of modified analytic induction begins with an explanatory proposition and a definition of something to be explained. The initial definition and proposition is provisional. The very intention of having a definition and proposition is to refute and modify them.

Throughout this study, therefore, I use the literature-driven concept, institutional duality and the two initial propositions as sensitizers, while remaining open to discovering concepts and propositions not accounted for in the original formulations. Case evidence was gathered from two groups of subsidiaries: three British subsidiaries of Chinese MNCs and four Chinese subsidiaries of British MNCs. The research process included two stages: the first was a pair of initial case studies, one from each group, with exploratory purposes; they were then followed by more focused and explanatory multiple case studies. As a result, the two initial propositions were modified twice in light of the data from the new cases in each stage.

The findings of the case studies highlight that different levels of home and host country development is one of the important contingency factors affecting the magnitude of institutional duality faced by MNC subsidiaries. In the case companies, institutional duality concerning marketing practices was found to be asymmetrical: the institutional pressures from the British side were greater than those from the Chinese side, irrespective of which side was the home or host country. It was also found that MNCs and their subsidiaries are not only influenced by institutional duality, they also have a certain level of choice to influence institutional duality.

This dissertation contributes to research on institutional duality by examining and refining the assumption and essence of the concept. The previous research has assumed explicitly or implicitly that institutional duality is an immediate result of institutional distance between home and host countries. The findings of this research suggest, however, to the extent that the dual institutional pressures meet largely in a subsidiary, which is part of an MNC, the institutional pressures can be filtered and mediated by the MNC. That is, MNCs and their subsidiaries can influence institutional duality to a certain extent by toning up and down the magnitude of potential institutional confliction. Yet, the managers of MNC subsidiaries are meanwhile constrained cognitively by a supra-national institution, referred to as global institutional flow. As a consequence of this flow, management practices, structures and systems are diffused across the globe, generally from developed countries towards developing countries, and therefore, institutional duality becomes asymmetrical between developing country based MNCs' subsidiaries in developed countries and developed country based MNCs' subsidiaries in developing countries.

The dissertation also contributes to institutional theory. Viewing MNCs as organizations straddling a multi-level and nested institutional environmental context, this research suggests the most overarching institutional environment faced by the organization – the MNC – can ultimately determine which institutional template to be adopted, among the multiple templates originating from the fragmented environments. But, this ultimate effect can be mediated by the other institutional environments that nest within this overarching environment. Also, the organizations may be able to mediate as well to a certain extent between these environments, not uniformly at the organizational level but heterogeneously at the sub-organizational level. In coping with a fragmented environment, this research implies that organizations may be able to circumvent the possible contradictory between multiple institutional templates in two ways: (1) localization, which means to keep the newly adopted elements' effect as local and peripheral as possible, and not affecting the rest of the organization; (2) approximation, which is to endeavour to enact those existing elements within the organization that are most similar to the elements needed to be adopted from the environment.

For the studies of international management in general, this dissertation reminds scholars that more attention needs to be paid to the global institutional context in which MNCs and their subsidiaries are asymmetrically embedded. This research is also one of the few studies to look into how newly raised Chinese MNCs organize their foreign subsidiaries in a developed country.

The organization of the dissertation is as follows: Chapter 2 provides a review of relevant literature on institutional theory, MNC subsidiaries and institutional duality, based on which two initial propositions are developed. Chapter 3 discusses methodological issues. The findings are then presented in Chapter 4. And finally, Chapter 5 offers a discussion of the findings in the context of the literature reviewed in Chapter 2 and concludes the dissertation by summarizing its major contributions.

Chapter 2: Literature Review

2.1 Introduction

The purpose of this chapter is to provide a theoretical foundation for the dissertation by reviewing relevant literature. The chapter is organized as follows:

It begins with a review of neo-institutional theory in section 2.2, focusing on how proponents of this theory endeavour to address two important and related puzzling paradoxes: institutional persistence versus change and institutional isomorphism versus heterogeneity. It is argued that whilst the research attempting to resolve the former has been fruitful, relatively little attention has been paid to the latter. In understanding organizations surrounded by fragmented institutional environments, there has been little discussion on two issues: (1) faced with multiple institutional templates, why do organizations adopt and institutionalize some of them, and not others? (2) how do organizations cope with the potential conflict between multiple institutional templates?

Section 2.3 argues that the recent shift in direction towards research on differentiated functional practices in MNC subsidiaries makes subsidiaries a suitable context to examine these two issues. Then, the extant literature on MNC subsidiaries from an institutional perspective is reviewed in section 2.4, centring on a newly developed concept, institutional duality. Finally, two initial propositions concerning institutional duality are developed in section 2.5 to explore the interaction between MNC subsidiaries and the fragmented institutional environments they face.

2.2 Institutional Theory

Although institutional analysis can be traced back to the dawn of the 20th century, most of the early work focused on wider institutional and social structures, such as constitutions, political and legal systems, and religious beliefs (e.g. *Willoughby* 1904; *Cooley* 1902) and shared a common limitation: there was little attention to organizations (*Scott* 1995). It was not until the 1950s and 1960s that theorists began to recognize the existence and importance of collective and individual organizations, which were distinguishable from broader social institutions.

In early functionalist analyses of organizations, formal structure was assumed to reflect organizational decision makers' rational efforts to maximize efficiency by securing coordination and control of work activities (e.g. *Thompson* 1967; *Lawrence* and *Lorsch* 1967). Providing a radical departure from these then dominant ways of thinking, neo-institutional theory (*Meyer* and *Rowan* 1977; *Powell* and *DiMaggio* 1991) offered the key insight that formal structures have symbolic as well as action-generating properties. This theory developed during the mid-1970s across the social sciences. In the sociological study of organizations in particular, its arrival was marked by two seminal papers published in the same year: *Meyer* and *Rowan* (1977) and *Zucker* (1977). At the level of macro cultural rules and micro cognitive beliefs respectively, both of them built on *Berger* and *Luckmann*'s (1967) concept of institutions that emphasised a social constructive perspective, arguing that organizations and individuals were not simply the product of increasing technical sophistication, but also shaped by their wider institutional environment.

This institutional environment consists of "regulative, normative, and cognitive structures and activities that provide stability and meaning to social behaviour" (*Scott* 1995, p33). The regulative processes involve the capacity to establish rules and inspect or review others' conformity to them; the normative aspect of institutions introduces a prescriptive, evaluative and obligatory dimension, including values and norms, into social life; the cognitive elements of institutions are rules that constitute the nature of reality and frames through which meaning is made. These regulative, normative and cognitive elements are referred to as three pillars of institutions (*Scott* 1995). Broadly, the central tenet of neo-institutional theory is that organizations need to conform to the rules and belief systems in their environment to earn legitimacy – a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions (*Suchman* 1995). This process of homogenization, called isomorphism, is a constraining process that forces one unit in a population to resemble other units that face the same set of environmental conditions (*DiMaggio* and *Powell* 1983). As *Aldrich* (1979, p265) argue: "The major factors that organizations must take into account are other organizations." Therefore, through three mechanisms – coercive, normative, and mimetic – organizations in the same environment tend to share the same practices and structures and become isomorphic with one another (*DiMaggio* and *Powell* 1983).

Among others, *Scott* (1995, 2001) provides a concise yet comprehensive overview of the institutionalist approach to organizational analysis. Although most of the early statements were chiefly theoretical (e.g. *Meyer* and *Rowan* 1977; *DiMaggio* and

Powell 1983), it was not long before a substantial amount of empirical research with a variety of foci began to proliferate. In terms of the level of analysis, some studies examine institutional effects at the society level, investigating when and how developments occurred in history (e.g. *Hall* 1986; *Whitley* 1992a, 1992b; *Fligstein* 1990, 1991).

Other research focuses on the level of the organizational field, seeking to understand the factors influencing the boundaries of fields and the ways in which they are organized (*Lant* and *Baum* 1995; *DiMaggio* 1983; *Meyer*, *Scott*, *Strang* and *Creighton* 1988). Following *DiMaggio* and *Powell* (1983), an organizational field refers to "those organizations that, in the aggregate, constitute a recognized area of institutional life: key suppliers, resource and product consumers, regulatory agencies, and other organizations, that produce similar services or products" (p148). Whilst a great deal of work on organizational fields makes the assumption that the state and professional groups play a critical role in bounding the field (e.g. *DiMaggio* and *Powell* 1983), in other studies the existence of organizational fields is believed to be vitally determined by participants' shared cognition. As *Scott* (1994a) suggests, "The notion of field connotes the existence of a community of organizations that partakes of a common meaning system and whose participants interact more frequently and fatefully with one another than with actors outside of the field" (p207-208). Similarly, *Fligstein* (1990) argues an organizational field "is established by the mutual recognition of actors in different firms of their interdependence. These actors share a similar conception of legitimate action and the place of each organization in that field" (p6). This has been illustrated in *Lant* and *Baum*'s (1995) study of the

Manhattan hotel industry. Their findings suggest that managers do engage in cognitive categorization tasks in order to determine the relevant group of firms that they consider to be their competition. The categorization could be based solely on managers' beliefs rather than the measurement of objective financial, strategic, or structural variables. Also, hotels within the same competitive group tend to be isomorphic both in their practices and in their beliefs.

Still other research has focused on the level below the organizational field, such as the industry (*Baum* and *Oliver* 1992; *Dacin* 1997; *Holm* 1995), line of business (*Tsai* and *Child* 1997), profession or task (*Gupta*, *Dirsmith* and *Fogarty* 1994) and inter-organizational relations (*Galaskiewicz* and *Wasserman* 1989; *Oliver* 1988).

As suggested in *Scott* (1994b), the transmission of institutions can occur at multiple levels: societal institutions provide a context within which more specific institutional fields and forms exist; organizational fields operate at intermediate levels, providing institutional frameworks within which specific organizations operate; and organizations provide institutional contexts within which particular actors are located and take action. Institutionalized models of structures, systems and practices diffuse horizontally between different social settings (e.g. *Westney* 1987) as well as vertically across the various layers of the same national environment (e.g. *Dobbin*, *Sutton*, *Meyer* and *Scott* 1993).

During the last three decades of development, the robustness of neo-institutional theory in both accounting for organizational phenomena and informing managerial behaviour has been clearly demonstrated. However, institutional theory has often been criticized as largely being used to explain persistence and isomorphism rather than change and heterogeneity (*DiMaggio* 1988, p12; *Brint* and *Karabel* 1991, p343; *Dacin*, *Goodstein* and *Scott* 2002, p45).

2.2.1 Institutional Persistence and Change

Zucker (1977) states that institutionalization is both a process and a property variable. But early research treated institutions as a given property and only asked how they affected organizations. What was ignored was the change of institutions – how institutions are created, altered, and reproduced. Later, a number of studies employed a process approach to the examination of institutional changes. Among them, *DiMaggio* (1991) and *Barley* (1986) were two pioneering studies.

DiMaggio (1991) studied how professionals created the cultural conditions that would support the development and maintenance of art museums during the late 19th century in America. Barley (1986) investigated the changes in the social order of radiological departments within hospitals occasioned by the introduction of new technology. Both studies stressed cognitive aspects of institutions but at different levels: *DiMaggio* (1991) stresses the selection of cultural models at the organizational field level and *Barley* (1986) the interdependence between ongoing activities and interpretations of action at the organizational level. But the two studies differ in two important ways: (1) borrowing from *Giddens*' (1984) structuration theory, *Barley* (1986) sees institutional change as triggered by external factors, such as a technological innovation, whereas *DiMaggio* (1991) emphasizes that the change is the result of competition and conflict among key players in the organizational field; (2) whilst *Barley* (1986) highlights the duality of institutions as both producer and product, in which institutions both constrain and are altered by unconscious actors' ongoing activities, *DiMaggio* (1991) explicitly attributes the change to more self-conscious actors who intentionally pursue their own interests.

These two differences have been at the core of the debate on how institutions are created and changed, which has inspired a growing body of literature. A number of scholars have tried to resolve the paradox of "how new institutions can be created or changed if institutions are deeply rooted in taken-for-granted rules, norms, and routines" (*DiMaggio* and *Powell* 1991). The answer given by some, similar to *DiMaggio* (1991), is that "new institutions arise when organized actors with sufficient resources see in them an opportunity to realize interests that they value highly" (*DiMaggio* 1988, p14). These actors are called institutional entrepreneurs (*DiMaggio* 1988). Most of these studies imply that power and interest play important roles in institutional change (*Edelman* 1992; *Leblebici*, *Salancik*, *Copay* and *King* 1991). However, this answer directly contradicts one of the most central assertions in institutional theory – that actors and their interests are themselves institutionally constructed (*DiMaggio* and *Powell* 1991; *Seo* and *Creed* 2002). *Goodrick* and *Salancik* (1996) point out that the direct incorporation of agency and interests into institutional theory has a problem in that it discounts the social-fact quality of institutions, which are primary and exist as the context constraining actors' choices. In other words, institutional frameworks define the ends and shape the means by which interests are determined and pursued (*Scott* 1987; *Friedland* and *Alford* 1991;

Brint and *Karabel* 1991; *Powell* 1991). So the new paradox becomes "how can actors change institutions if their actions, intentions, and rationality are all conditioned by the very institution they wish to change?" (*Holm* 1995, p398)

Most scholars attempting to tackle this new paradox, in the same vein as *Barley* (1986), emphasize that under certain conditions, collective actors can become partially conscious of incomplete institutionalization. These collective actors then mobilize resources available to realize their own interests, resulting in institutional change. For example, *Greenwood* and *Hinings* (1996) set out a framework in which they attribute change to the outcome of the interplay between the contextual pressures such as market context, institutional context and intra-organizational political dynamics such as interests, values, power dependences, and capacity for action. Actors' political action within organizations can eventually change the institutional context. In another example, based on a fusion of institutional and structuration theory (*Giddens* 1979, 1984), *Barley* and *Tolbert* (1997) develop a model of institutionalization as a structuration process in which institutions and actions are reciprocally related through scripts, seen "as behavioural regularities instead of mental models or plans" and therefore as "observable, recurrent activities and patterns of interaction characteristic of a particular setting" (*Barley* and *Tolbert* 1997, p98). By thinking of institutions as being enacted through scripts, they contend that existing institutions are maintained and modified by actions, eventually leading to the emergence of a new institution. A sequential model that comprises four moments is proposed: (1) the encoding of institutional principles in actors' scripts, (2) actors' unreflexive enacting of those scripts, (3) actors' intentional efforts to revise the scripts or change their automatic replication of scripted behaviours, (4) the objectification and externalization of the patterned behaviours.

Appealing as *Greenwood* and *Hinings*' (1996) and *Barley* and *Tolbert*'s (1997) models may be, neither covers the conditions and processes that actors' can become conscious of incomplete institutionalization. To put it another way, if as *Jepperson* (1991) argues, human behaviour and action can be distinguished – human behaviour contributes to the automatic reproduction of social arrangements, whereas action entails a particular type of human behaviour, involving conscious and purposeful departures from institutionalized social patterns – when and how do organizational actors' behaviours turn into actions?

Many scholars have endeavoured to specify the contingency factors that could enable this process. For instance, directly building on the above two models, *Johnson*, *Smith* and *Codling* (2000) argue that experimentation is an important characteristic of both rule development and script development and of their interrelationship when an institutional template shifts from one to another, such as during the processes of privatization. They further assert that the extent and manner of such experimentation, which ultimately results in institutional change, is likely to be variously dependent on different contexts, different degrees of involvement of actors, reciprocal behaviour among the actors (one actor's scripted behaviour is responded to unquestioningly by a recipient's scripted behaviour), and symbolic reinforcement. Based on the evidence of caesarean deliveries in California hospitals, *Goodrick* and *Salancik* (1996) propose that organizational interests affect the choices in selecting practices, but only as an addition to the constraint provided by prevailing institutions, rather than as an alternative to them. Only within some institutional contexts, where institutions are uncertain, hence, insufficient for constraining choices, idiosyncratic organizational interests are permitted to influence institutional change. In the same vein but to a fuller extent, *Dorado* (2005) suggests that institutional change processes can adopt multiple profiles depending on the form taken by three factors that define them: agency, resource mobilization and field opportunity. In different combinations of these three factors, three alternative profiles of institutional change are conceived: partaking may lead to change regardless of the objective conditions of organizational fields; entrepreneurship is likely in opportunity transparent fields, which expose actors to a moderate degree of ambiguity, uncertainty, and conflict; convening may jumpstart institutional change in fields dominated by uncertainty.

Another framework focusing on articulating the conditions under which actors have the reflexive moment to become institutional entrepreneurs has been proposed by *Seo* and *Creed* (2002). From a dialectical perspective, this framework locates human praxis as a mediating mechanism of institutional change. The concept of praxis includes three components: (1) actors' self-awareness or critical understanding of the existing social conditions in which their needs and interests are unmet; (2) actors' mobilization, inspired by the new, collective understanding of their social conditions and themselves; and (3) actors' multilateral or collective action to reconstruct the existing social arrangements and themselves. *Seo* and *Creed* (2002) contend that praxis is neither passively and unconsciously enacting institutional rules, nor unilaterally strategic complying with or resisting these rules. In contrast, human praxis points to "a particular type of action, rooted in a collective consciousness that is conditioned but not determined by existing social arrangements" (*Seo* and *Creed* 2002, p240).

The preceding discussion is concerned with institutional changes. Scholars under the banner of institutional theory have also studied the creation and demise of institutions. Certainly, the rise, change and fall of institutions can be seen as different parts of a continuum, since "the weakening and disappearance of one set of beliefs and practices is likely to be associated with the arrival of new beliefs and practices" (*Scott* 2001, p184).

DiMaggio (1988) provides a description of institutional creation process. First, actors define a project. Second, they gain support for their project from other actors. Finally, with the support of other actors, they bargain for support and acceptance from external constituencies. However, establishing new institutional arrangements involves facing high uncertainty, ambiguity and cost. So it is not surprising that some attempts to do so either simply fail due to "the liability of newness" (*Singh*, *Tucker* and *House* 1986), or involve a great deal of imitation of others, especially those who appear to be similar or successful (*Haveman* 1993). A crucial element in the successful creation and survival of new institutions is gaining legitimacy. Because of high uncertainty and ambiguity involved, cognitive legitimacy such as comprehensibility (*Suchman* 1995) is enormously important. In the presence of such legitimacy, organizational activity will prove predictable, meaningful, and inviting; in its absence, activities will collapse because of repeated miscue, oversights, and distractions. Some scholars have suggested how this legitimacy can be acquired. *Aldrick* and *Fiol* (1994), for instance, discussed the dynamics at the organizational level, suggesting how the progressive building of trust may work its way up the hierarchy, collectively reshaping the inter-industry and institutional environment. *Rao* (2002) describes the way in which automobile entrepreneurs used highly publicized reliability contests to legitimate the new mode of transportation. A number of other studies, explicitly or implicitly, have described the role of rhetoric in understanding legitimation processes (*Heracleous* and *Barrett* 2001; *Oakes*, *Townley* and *Cooper* 1998; *Covaleski*, *Dirsmith*, *Heian* and *Samuel* 1998; *Suddaby* and *Greenwood* 2005). Above all, the actors need talents and skills for framing (e.g. *Rao* 1998; *Thorton* 2002) the new institutional arrangements and persuading others of the need for change (*Fligstein* 1996). An effective way to achieve this is to employ symbolic devices that connect new ideas to "established accounts" (*Meyer* and *Scott* 1983, p201) – meshing the account of new ideas with both larger belief systems and with the experienced reality of the audience's daily life (*Geertz* 1973; *DiMaggio* and *Powell* 1991; *Suchman* 1995).

The fall and eventually collapse of institutions is another period of institutional life, which has attracted relatively little research attention (*Oliver* 1992; *Scott* 2001). If legitimacy needs to be obtained for creation of new institutions, deinstitutionalization is the process by which the legitimacy of an established or institutionalized organizational practice erodes or discontinues (*Oliver* 1992). De-legitimation results from the failure of organizations to reproduce previously legitimated or taken-for-granted organizational actions. *Oliver* (1992) identifies a set of environmental and organizational factors that are hypothesized to cause institutionalized organizational practices to fall into disfavour or disuse. Political, functional and social mechanisms both within and beyond the organization are proposed as determinants of deinstitutionalization. Entropy and inertial pressures are inherent and competing processes in organizations that moderate the rate of deinstitutionalization. Together, they determine the probability of dissipation or rejection of an institutionalized organizational practice.

Compared with the paradox of institutional persistence and change, another related dilemma faced by scholars under the banner of institutional theory – institutional isomorphism and heterogeneity – has received relatively little attention. Institutional heterogeneity has been generally considered as one of the antecedents of institutional change (e.g. *Seo* and *Creed* 2002; *Oliver* 1992). For example, *Seo* and *Creed* (2002) summarize four sources of institutional contradictions: (1) legitimacy that undermines functional efficiency; (2) adaptation that undermines adaptability; (3) intra-institutional conformity that creates inter-institutional incompatibilities; and (4) isomorphism that conflicts with divergent interests. This incompleteness and contradiction of institutions may ultimately lead to institutional change since actors gain agency from the tension between divergent institutional referents (*Sewell* 1992; *Seo* and *Creed* 2002; *Whittington* 1992; *Bekert* 1999; *Dorado* 2005).

However, an important link seems to be missed: how and why, in institutional change, can institutional heterogeneity once again become institutional isomorphism?

2.2.2 Institutional Isomorphism and Heterogeneity

Institutional pressures lead organizations to adopt the same organizational forms. That is, the institutional context provides "templates for organizing" (*DiMaggio* and *Powell* 1991, p27; *Greenwood* and *Hinings* 1996). If a template or archetype is the configuration or pattern of an organization's structure and system that reflects a single interpretive scheme (*Barley* 1986; *Ranson, Hinings* and *Greenwood* 1980; *Greenwood* and *Hinings* 1993, 1996), institutional change can be seen as the succession of institutional templates (*Greenwood* and *Hinings* 1993; 1996; *Johnson, Smith* and *Codling* 2000). Yet, we still know little of the contest among the alternative archetypal templates. In most of the literature dealing with institutional change, the shift of templates is almost always linear. Once a new template emerges, scholars tend to concentrate on how it replaces the old dominant one (e.g. *Ruef* and *Scott* 1998, *Rao, Morrill* and *Zald* 2000). In these studies, the contest between the old and new template is evident, but it is rather like in a Hollywood blockbuster: no matter how dramatic and problematic the clashes between the good and evil, the decision over the ending has been arbitrarily predetermined – the good will win and evil will lose. In the case of institutional change, the old template will eventually be replaced by the new one. Even in more comprehensive frameworks of institutional change, like *Greenwood* and *Hinings* (1996), *Barley* and *Tolbert* (1997), and *Seo* and *Creed* (2002), little has been articulated about how the multiplicity of institutional templates evolves after the change has been initiated.

The implicit or explicit conceptualization of institutional change, in terms of the shift from one organizational template to another, overlooks two significant theoretical issues and therefore might reduce the explanatory power of institutional theory. First, it leaves one fundamental question of institutional theory unanswered – why are some structures and practices institutionalized, and not others (*Abrahamson* 1991)?

In their classic paper, *DiMaggio* and *Powell* (1983) make it clear that institutional theory is set out to "explain homogeneity, not variation" (p148). Yet, it was not long before many institutionalists found that in fact institutional contexts, organizations and the interaction between them are not always consistent and uniform. Multiple institutional templates do co-exist at times, if not always.

It has been realized that just as with technical environments, institutional environments can be multiple, enormously diverse, and variable over time (*Scott* 1987). Several earlier studies focus the effects on organizations of environmental complexity, instability, and inconsistency. *Scott* and *Meyer* (1991a; 1991b) proposed that organizations confronting more complex, fragmented environments would develop more complex and elaborated internal structures. This proposition was confirmed by evidence from the administrative structure of district elementary and second schools (*Meyer*, *Scott*, and *Strang* 1987), community mental health organizations (*D'Aunno*, *Sutton* and *Price* 1991), and a comparative study of a scholarly book publishing house and a public television station (*Powell* 1988). The results of these studies all suggest conflicts in the environment can be reflected in the structure and practices of the organizations.

Some systems, structures or practices in the institutional environment are simply more institutionalized than others. *Tolbert* and *Zucker* (1996), for instance, divide institutionalization into three sequential stages: the pre-institutionalization stage, the semi-institutionalization stage and the full-institutionalization stage. When institutionalization is high, then transmission of the action, maintenance of that action over time, and resistance of that action to change are all also high (*Zucker* 1977). This variability in the levels of institutionalization may be caused by the institution's certain intrinsic characteristics. For example, *Edelman* (1992) exhibits that laws differ in clarity. Those laws that contain vague or controversial language leave more room for organizational mediation than do specific laws. The different levels of institutionalization can also be the result of the varying degrees of support that the institution receives from influential agents of the external institutional environment, as shown in *Rowan*'s (1982) study of the adoption and retention of administrative innovations. His findings suggest that the programmes that have more consistent and balanced support are more likely to be adopted and retained than programmes lacking such support.

Being located in different institutional fields or within the same institutional field but in different positions is likely to influence the scale and pace of institutionalization in an organization as well. Institutional fields differ on their openness to ideas practised in other fields (*Grenwood* and *Hinings* 1996). Open fields are more tolerant towards the development of new institutional arrangements than tightly closed ones (*Rao* 1998). Organizations in mature fields develop institutions more readily than in developing ones (*Greenwood*, *Cooper*, *Hinings* and *Brown* 1993). Within a single field, as *Leblebici*, *Salancik*, *Copay* and *King* (1991) show, organizations that are more peripheral and thus less embedded are less committed to prevailing practices and readier to develop new ones.

It is, therefore, only natural that organizations do not invariably conform to the rules, myths, or expectations of their institutional environment. They exhibit various degrees of choice, awareness, proactiveness, influence, and self-interest in their responses to institutional pressure, which leads to a range of strategic behaviours from passive conformity to proactive manipulation (*Oliver* 1991).

The above argument and evidence appears to be inconsistent with *Greenwood* and *Hinings'* (1993) hypotheses that (1) organizations tend to exhibit archetypal coherence; and (2) organizations that have structures and systems that are not manifestations of a single, underlying interpretive scheme will move toward archetypal coherence. These hypotheses beg the question of where the new institutional template comes from if there is an inexorable push towards homogenization among organizations. The perception that organizations only have one single coherent archetype, and if not, will move toward a coherent one, obscures the possibility that there may exist multiple archetypes. It is not unconceivable that there are at least two archetypal structures in the manufacturing plants and R&D centres of a certain company. The former might tend to be a pyramid hierarchical archetype and the latter a flat cooperative one. Both archetypes are necessary and right to their own adopters and there seems no reason for the two to converge into one. This becomes further complicated when it comes to diversified conglomerate corporations.

Therefore, when the old institutional template has been disregarded, organizations often face multiple templates with the potential to be institutionalized. In some circumstances, institutional fields can even be "too open", generating complexity-driven uncertainty (*Duncan* 1972; *Dorado* 2005). Indeed, both *Oliver* (1992) and *Zucher* (1988) believe entropy is one of the inherent properties of organization. *Zucher* (1988) states that entropy rather than stability characterizes social systems; organizations in general are typified as tending towards disorganization or a "gradual erosion of their taken-for-granted character" (p26). This tendency towards entropy may lead to random error and the chance to disrupt and destabilize institutional systems (*Cohen*, *March* and *Olsen* 1972). Therefore, the immediate baffling issue in the face of re-institutionalization is to know which template is to be institutionalized. The emergence of a new template to be adopted ought to be seen as problematic rather than automatic.

Once the possibility of multiple institutional templates co-existing in an organization is accepted, one may readily see the second theoretical issue that may be neglected in the conceptualization of institutional change as they shift from one template to another. That is between two radical institutional changes how organizations cope with contextual environments that are often full of inconsistent and even contradictory institutional templates. Although thinking of institutional change in terms of template succession enables us to better account for revolutionary change

(*Greenwood* and *Hinings* 1996), it offers little insight into incremental changes, which happen continuously in organizations(*Pettigrew* and *Fenton* 2000).

Despite early acknowledgement of the significance of this issue for institutional theory (e.g. *Meyer* and *Rowan* 1977), the issue of how organizations cope with fragmented contextual environments remains largely unresolved. Broadly, scholars have identified two ways for organizations to control environmental fragmentation (*Meyer* and *Rowan* 1977, 1991; *Suchman* 1995). The first is to segregate environments and cater to one of them at the expense of the others; the second is integrating environments and demonstrating that organizational behaviours would be legitimate under any applicable standard. The first strategy seems to be unrealistic, because few organizations that strive to success can afford to ignore or even appear to ignore influential external constituencies (*Suchman* 1995).

This leaves organizations to resort to integration strategies. In their seminal papers, *Meyer* and *Rowan* (1977, 1991) identify two interrelated strategies: "decoupling" and the logic of confidence. They argue that formal structural elements can be loosely linked to each other and to activities. This decoupling enables organizations to maintain standardized, legitimating, formal structures while their activities vary in response to practical consideration. The confidence and good faith of the organization's internal participants and external constituents enable these structures to appear useful in spite of the lack of technical validation. The underlying logic of these two strategies is that the potential conflict between different templates can be avoided by creating a series of purely symbolic templates and in practice decoupling them from each other and from actual day-to-day activities. This view has received some support, for instance, in a study on the comparison between adopting and actually implementing CEO compensation incentive plans in 564 of the largest US corporations, where *Westphal* and *Zajac* (1994) found a large number of the corporations adopted such plans but that a much smaller number actually put them to use. *Powell* (1988) also found evidence that organizations such as public television stations that locate in environments in which conflicting demands are made upon them "will be especially likely to generate complex organizational structures with disproportionately large administrative components and boundary-spanning units" (p126). On the other hand, some other scholars point out a general problem in these strategies – symbolic social structure cannot emerge unproblematically (*Scott* 1995; *Tolbert* and *Zucker* 1996). From an institutional perspective, symbolism, the mechanism by which meanings are shaped, exerts great power (*March* and *Olsen* 1989). In other words, organizational actors cannot create a symbolic archetype freely and independently without any risk of the development of sympathy towards it. As *Suchman* (1995) suggests, "Managers do enunciate supportive myths and prescribe culturally congruent rituals; however, managers rarely convince others to believe much that the managers do not believe themselves" (p577). Thus, once created, these archetypes may start to alter actions and have lives of their own.

To date, there has also been little empirical research to help us understand how organizations deal with multiple conflicting environmental demands. One of few exceptions is *D'Aunno*, *Sutton* and *Price*'s (1991) study based on a sample of 362 outpatient drug abuse treatment units in the United States. In this study, some units of community mental health organizations, termed "hybrids", were, as a result of diversification, exposed to two conflicting models for staffing and providing services in drug abuse programmes. The traditional mental health approach prescribed a psychosocial model of treatment administered by mental health professionals, whereas the new competing model, more common in the drug abuse treatment sector, endorsed the Alcoholics Anonymous Model, relying on ex-addicts and client-centred approaches. The results show that the "hybrid" units attempted to incorporate some features consistent with both the mental health and the drug abuse institutional practices. The adopted practices were those that were visible to external groups to attain a minimum level of legitimacy. For example, these units responded by combining hiring practices from the two sectors. They also "adopted conflicting goals for client treatment and somewhat inconsistent treatment practices" (*D'Aunno et al* 1991, p656). *D'Aunno* and his colleagues shed some light on the issue of how organizations respond to fragmented environments that present conflicting demands. However, the chosen context of the study may discount the theoretical value of its results, as, of the two competing models, the mental health treatment model was a diminishing one and was being replaced by the newer model, the drug abuse treatment model. It is admitted in the study that "hybrid units face powerful pressures to abandon traditional practices in favour of new beliefs and practices" (p641). Thus, in terms of institutional templates, this study describes, at best, one special period of the template replacement process when there is evidence of a conscious duality of scripts (*Johnson et al* 2000). Moreover, while the results of this study suggest the hybrid units adopted some features from both templates, the data were self-reported, gathered through a telephone survey from only two top managers of each selected unit. The measure of the adoption of these features, for instance, relied on measuring the extent to which the units emphasized hiring staff from one of the two respective sectors, corresponding to mental health treatment and drug abuse treatment. As a result, we are still left wondering whether practices were put to use and how, if they were indeed put to use, the units actually carried out these adopted practices, especially when they appeared to be incompatible.

In summary, institutional contradictions are not only by-products of the processes of institutionalization (*Seo* and Creed *2002*), they are, and have always been, at the very core of institutionalization. Organizations are commonly surrounded by institutional environments with complex, overlapping, sometimes conflicting institutional referents, operating at multiple levels. Yet, as the result of its early premise of isomorphism, neo-institutional theory has so far not put institutional heterogeneity at its central stage. We need to better understand how organizations cope with multiple institutional templates simultaneously and why some, but not other, institutional templates are diffused, causing isomorphism among organizations. As argued in the next section, multinational corporations' foreign subsidiaries, as an empirical context, are uniquely suited to study of these issues.

2.3 New Development in MNC Subsidiaries Research

Following World War II and the reestablishment of the international economy, the renewal and increase of international flows of direct investment became a key feature of the dynamism of Western economies. But it was not until the 1970s, that the multinational corporation (hereafter MNC) as an entity, with problems of organization and a purposive strategy became central to the international business agenda. Progressively, research on strategy, structure, and administrative process in MNCs formed the basis for a named subfield – international management (*Melin* 1992). The most accepted definition of the MNC has been that it is a specific organizational form that "comprises entities in two or more countries, regardless of legal form and fields of activity of those entities, which operates under a system of decision-making permitting coherent policies and a common strategy through one or more decision-making centres, in which the entities are so linked, by ownership or otherwise, that one or more of them may be able to exercise a significant influence over the activities of the others, and in particular, to share knowledge, resources, and responsibilities with others" (*Ghoshal* and *Westney* 1993, p4).

Starting from the early 1980s, with globalization as the backdrop, there have been two significant changes in research on international management, which are embodied in the above definition of the MNC. The first change is a shift of perspective from the MNC to its subsidiaries (*Birkinshaw* 1994, 2001).

2.3.1 A Shift of Perspective from the MNC to its Subsidiaries

There has been a large and growing literature mainly focusing on MNC subsidiaries. Although parent-subsidiary relationships in MNCs have long been studied, most early research only covered limited linkage between the parent and subsidiary, such as centralization, formalization, coordination and control (e.g. *Brandt* and *Hulbert* 1977; *Cray* 1984; *Picard* 1980). In an exhaustive literature survey, *Martiez* and *Jarillo* (1989) identified 82 empirical studies published between 1964 and 1988 on coordination mechanisms in MNCs. They observed an evolution in those studies from concentration upon the more formal and uni-dimensional mechanisms of coordination (e.g. *Brooke* and *Remmers* 1970; *Schollhammer* 1971) to emphasis on the informal, subtler and multi-dimensional ones (e.g. *Doz* and *Prahalad* 1981, 1984). Later, new conceptualizations of the MNC, such as heterarchy (*Hedlund* 1986) and the transnational corporation (*Bartlett* and *Ghoshal* 1989) rendered a more complex and holistic perspective on the MNC in which subsidiaries play differentiated roles. For example, *Bartlett* and *Ghoshal* (1986) argue that, "Subsidiaries shouldn't just be pipelines to move products. Their own special strengths can help build competitive advantage." They propose that national subsidiaries can take one of four generic roles, strategic leader, contributor, implementer and black hole, based on the strategic importance of the local environment and the competence of the subsidiary. Their study is consistent with *Ghoshal* and *Nohria* (1989) and *Jarillo* and *Martinez* (1990) in the sense that they all implicitly looked at subsidiaries from the parent company perspective and saw the role of a subsidiary in an MNC as assigned by its parent.

However, *Birkinshaw* and colleagues (*Birkinshaw* 1997; *Birkinshaw* and *Hood* 1997, 1998) found that subsidiary managers have a certain level of choice within the constraints imposed by the parent company and local environments. To these scholars, the subsidiary's strategy is constrained rather than defined by the parent company or coordination and control mechanisms, and subsidiary managers have considerable latitude within the imposed constraints to shape a strategy as they see fit. For example, considering initiative as a key manifestation of entrepreneurship at the subsidiary level, *Birkinshaw* (1997) exhibits four distinct types of initiatives, referred to as global, local, internal and global-internal hybrid, in a sample of six Canadian subsidiaries of American MNCs. These initiatives taken by management at the subsidiary level are able to enhance local responsiveness, worldwide learning and global integration. Two different entrepreneurial processes were identified: one was internally focused on entrepreneurship in which initiatives were subject to corporate selection mechanisms such as formal approval for resources to be made available; the other was externally focused entrepreneurship in which initiatives were subject to environmental selection mechanisms such as local or global customer acceptance, with typically implicit approval from the headquarters.

Based on the premise that subsidiaries can enjoy self-determination to a certain extent, *Birkinshaw* and *Hood* (1998) developed a model of subsidiary evolution to shed light on the process that drives changes in a subsidiary's activities and its underlying capabilities. They built on *Galunic* and *Eisenhardt*'s (1996) notion of the divisional charter in multi-division corporations and extended it into the context of the MNC, defining the charter of a subsidiary as "the business – or elements of the business – in which the subsidiary participates and for which the subsidiary is recognized to have responsibility within the MNC." *Birkinshaw* and *Hood* (1998) maintain that in the MNC there is internal competition for charters, both for existing charters where one subsidiary "steals" a charter from another, and for new charters where two or more subsidiaries "bid" against one another. Successful subsidiaries are able to maintain or obtain more important charters; unsuccessful ones could lose their own charter. Thus, subsidiary evolution is viewed as the enhancement or depletion of capabilities in the subsidiary, coupled with an explicit change in the subsidiary's charter. Of importance, their argument suggests that subsidiary evolution can be driven from within the subsidiary, i.e. through the initiative of subsidiary managers, or from outside the subsidiary, i.e. investment from the parent company or external forces. As the resources and capabilities accumulate in a subsidiary, its role may change and evolve. *Birkinshaw* and *Hood* (1997) put this argument into empirical examination in thirteen mature Scottish and Canadian subsidiaries of American MNCs. Subsidiary development was confirmed as a function of parent company-, subsidiary-, and host country-driven resource accumulation, involving very high levels of subsidiary initiative. Regarding host country-driven subsidiary development, it is clear that some countries continue to resist foreign ownership in many strategic sectors, particularly those established through greenfield developments rather than acquisition, simply because the foreign companies are embedded to a lesser degree in the local industry cluster compared with indigenous companies, hence making less contribution to the host country, or even damaging immature local industry (e.g. *Birkinshaw* 2000). However, it is also true that countries like Canada have considered the use of world product mandating to improve its international competitiveness. The world product mandate requires the local subsidiary of a foreign owned company to become the world centre for the research and development, manufacturing, and sales of a product or series of products (*Poynter* and *Rugman* 1982).

The revelation of subsidiary entrepreneurship is not to say that the headquarter-subsidiary relationship is a harmonious one. On the contrary, the interests and perceptions of the two parties are frequently not aligned with one another (*Ghoshal* and *Nohria* 1989). Where the subsidiary desires autonomy, headquarters see opportunism; and where the subsidiary is acting primarily in the interests of the local business, headquarters is far more concerned about the MNC's worldwide profitability. *Asakawa* (1996), *Arvidsson* (1997) and *Holm*, *Johanson* and *Thilenius* (1995) all identified perception gaps between HQs and subsidiary managers on a variety of issues. Using data collected from 89 HQ-subsidiary dyads of Swedish MNCs, *Birkinshaw*, *Holm*, *Thilenius* and *Arvidsson* (2000) found the perception gap – operationalized as the extent to which subsidiary managers overestimate the strategic role of their subsidiary vis-à-vis HQ managers – is associated with greater HQ control of the subsidiary, which in turn is associated with a lower level of HQ-subsidiary cooperation.

In helping to narrow this perception gap, two approaches have been put forward: one centres on the concept of procedural justice, the other feedback-seeking behaviours. *Kim* and *Mauborgne* (1991, 1993a, 1993b) define procedural justice as the extent to which the dynamics of an MNC's strategy-making process are judged to be fair by the top managers of its subsidiaries. Through measuring commitment, trust, and outcome satisfaction of subsidiary top managers, they found that these managers' perceptions that the headquarters exercised procedural justice enhanced the formers' attitude and behaviour compliance in strategy implementation. The explanation for why procedural justice judgements can directly affect the compliance of subsidiaries' top managers, according to *Kim* and *Mauborgne* (1991, 1993b), is that group membership is a powerful aspect of social life and people value participation in the groups to which they belong and their status as group membership. The high levels of involvement generated by perceptions of procedural justice fulfil individuals' desires for group participation and affirm their group members. Consequently, subsidiary managers believe their control over the outcome of the strategy is enhanced, which motivates their compliant behaviours.

In addition to reactively being subject to control or judging procedural fairness of the parent company, *Gupta* and *Govindarajan* (1999) found that subsidiaries also demonstrated self-regulatory behaviour in the form of the proactive performance-oriented feedback-seeking behaviour of the subsidiary president. It was shown, utilizing data from 374 subsidiaries of 75 American, European and Japanese MNCs, that subsidiary presidents do engage in performance-oriented feedback-seeking behaviour to various extents. The major rewards of feedback-seeking are: (1) an increase in the accuracy of signals regarding the relative importance of various goals; (2) a reduction in the uncertainty about issues surrounding goal attainment; and (3) a better basis for the improvement of one's own competence.

In short, when shifting the perspective from the MNC to its subsidiaries, subsidiary managers in the literature of international management are depicted as more sensitive and active towards the responsibility and capability for which the subsidiary is recognised. They constantly monitor, participate, and sometimes even shape the parent and other sister subsidiary managers' comprehension of the position the subsidiary is or should be in. This makes the role of a subsidiary actually an outcome of a negotiation process, though it is the parent company that makes the ultimate decision.

2.3.2 MNC as a Nexus of Differentiated Organizational and Functional Practices

The second change in the literature on international management is that the MNC is no longer seen as a total entity.

In earlier research, many scholars treated the MNC as a monolithic entity facing a homogenous global environment. For example, in a seminal paper, *Perlmutter* (1969) described three types of MNCs. Some are "geocentric", in that they develop a global, cosmopolitan orientation that is not tied to any particular national identity. Others are "ethnocentric", in that their identity is strongly rooted in the home country. Still others, "polycentric", develop a multiplicity of identities to reflect each of the countries they operate in. This typology distinguishes MNCs in terms of an overall orientation. In later studies (e.g. *Hedlund* 1986; *Bartlett* and *Ghoshal* 1989; *Ghoshal* and *Nohria* 1989), some scholars argued that viewing MNCs in terms of an overall orientation obscures the internal differentiation of systems and practices within an MNC. As *Soenen* and *Van den Bulcke* (1988) found in their study of Belgian firms, some subsidiary practices may tend more closely to resemble the MNC's home-country practices (ethnocentric), while others may more closely resemble host-country practices (polycentric), and still others may be global in nature (geocentric). Also, in the investigation of the globalization process at one traditionally ethnocentric MNC, the leading US pharmaceutical company Eli Lilly and Company, *Malnight* (1995) found there was no single objective of "globalizing" the company. Rather, the process was driven by a shifting mix of strategic objectives over time, each of which differed in its impact on various functions. In other words, globalization occurred at the level of the function, rather than the company. *Malnight* also describes a sequential and interdependent development pattern across functions, as change in one function created opportunities and requirements for change in others. The development of functions varied in timing and stages. At any one time, the MNC might be comprised of a mix of centralized, decentralized, and network structures.

Even the national subsidiary company *per se* in some MNCs has become something of "an endangered species" (*Birkinshaw* 2001, p381). A national subsidiary has been conventionally considered a legally distinct and operationally integrated national entity. But, the reality that many MNCs are moving towards some variant of the global business unit structure has made the national subsidiary no more than a series of discrete value-adding activities within a legal shell, such as a marketing and sales operation, a manufacturing plant or an R&D centre, each of which reports through its own business unit or functional line. Moreover, even these value-adding operations within the same functional line can play different roles when they are located across the globe, as shown by *Nobel* and *Birkinshaw* (1998) in a sample of international R&D units from 15 large Swedish MNCs. Three types of R&D unit roles were identified: (1) the local adaptor helps the local producing unit to assimilate and effectively utilize the existing mainstream technology of the MNC; (2) the international adaptor provides backup for a local producing unit, but aspires to a more fundamental creative role than a support laboratory, seeking to endow its subsidiary with some kind of product autonomy; (3) the international creator provides inputs into a centrally defined and coordinated R&D programme, with no necessary connection with host country producing operations. Each type of R&D

unit was managed primarily through a different model of control in terms of centralization, formalization and socialization.

Some of these value-adding operations become so good at what they are doing that they are identified as centres of excellence (*Fratochii* and *Holm* 1998; *Holm* and *Pedersen* 1999; *Surlemont* 1998; *Frost, Birkinshaw* and *Ensign* 2002). *Frost, Birkinshaw* and *Ensign* (2002) define a centre of excellence as "an organizational unit that embodies a set of capabilities that has been explicitly recognized by the firm as an important source of value creation, with the intention that these capabilities be leveraged by and/or disseminated to other parts of the firm" (p997). For instance, an MNC's marketing and sales subsidiary in Hong Kong actually directs and monitors all the company's marketing activities across Asia, not just the Hong Kong market. *Frost et al.* (2002) also point out that a centre of excellence may not be synonymous with a particular subsidiary. Many MNCs are creating centres of excellence based around particular functional specializations within subsidiaries. Also, multiple centres of excellence may coexist within a particular subsidiary, enabling the subsidiary to have multiple roles.

Taking the above two changes together, it seems there are two implications: first, individual subsidiaries embed more deeply in local host countries, but at the same time, they have to engage more actively in the MNC's global activities. Second, MNCs and their subsidiaries are better conceived as a nexus of differentiated organizational and functional practices, ranging from marketing to human resources to finance (*Hedlund* 1986; *Bartlett* and *Ghoshal* 1989; *Ghoshal* and *Nohria* 1989; *Rosenzweig* and *Singh* 1991; *Rosenzweig* and *Nohria* 1994).

In a sense, these two changes reflect the reality that MNCs have become extremely complex and powerful in an increasingly globalized world, influenced by advances in transport and communications technologies and the reduction in trade and investment barriers (*Dunning* 1998). But one fundamental challenge still remains to be tackled, which to a certain degree has been aggravated due to globalization. That is how to strike a balance between global integration and local responsiveness. Although an MNC enjoys a great advantage over a national company, in that it is exposed to a wider and more diverse range of information and expertise in different countries (*Bartlett* and *Ghoshal* 1986), this advantage of multinationality (*Yamin* 2002) comes with dispersed responsibility, scattered knowledge and multiple cultures. Indeed, the integration-responsiveness framework has been one of the most enduring conceptual frameworks in the field of international management, in which the strategy and structure of MNCs have been portrayed as a response to two major environmental factors. The first includes a number of "forces for global integration", consisting of growing homogenization of market segments across societies; the geographic dispersion of lead users; and the growing parity in technology among countries. The second category, "forces for national differentiation", includes state intervention to maintain a local presence in certain industries, distinctive tastes and preferences, and distinctive marketing and distribution systems (*Doz* 1979; *Bartlett* 1979; *Ghoshal* and *Westney* 1993). The two forces are regarded as orthogonal: companies are seen as subject to simultaneously increasing environmental pressures for global integration and responsiveness to local conditions. In the 21st century, scholars as well as international managers are continuing to wrestle with this conundrum. Only this time, the task at hand is a little different. The traditional task has been to organize resources and capabilities efficiently and integrally, and to customize them to local requirements. The new challenge is to identify and nurture heterogeneous company resources and capabilities locally, and to share and synergize these resources and capabilities across the countries and regions in response to an increasingly interconnected global market (*Dunning* 1998; *Birkinshaw* 2001).

Based on the above discussion, an MNC subsidiary is defined here as a value-adding activity controlled by the MNC and situated outside the home country (*Birkinshaw* 1997, 2001). This definition remedies the shortcomings of the artificial notion of a uni-dimensional parent-subsidiary relationship, making room for discerning a subsidiary's multitude of linkages with other entities, both inside and outside the corporation, at home and worldwide. It also implies that research needs to focus below the national subsidiary level, preferably on a single value-adding function such as marketing function, since such a functional activity can readily be identified, and more importantly can be compared across countries and MNCs.

Yet, in a review of recent literature on MNC subsidiaries, *Birkinshaw* (2001) admits that, "Much of the research ... is lacking in strong theoretical underpinnings, and for the field to move forward it is important for this deficiency to be remedied" (p388). For example, a network conceptualization of the MNC (*Ghoshal* and *Bartlett* 1990) has been a popular theoretical thinking that is being increasingly applied to subsidiary-level research (e.g. *Birkinshaw* and *Hood* 1998; *Gupta* and *Govindarajan* 2000). The advantage of this perspective is that the subsidiary moves from being a subordinate entity of the parent company to a node in a network, hence having greater degrees of freedom to link with external and internal actors. The weakness of this perspective, however, is that it is frequently used in a purely descriptive way, which makes it unfalsifiable, and therefore detracts from its power as a theory (*Melin* 1992; *Birkinshaw* 2001).

To *Birkinshaw* (2001), the main difficulty in applying organizational theory to MNC subsidiary research is that the relevant level of analysis for most theories is the MNC as a whole, not the subsidiary. So, there is often a problem in translating or applying the firm-level theory to the subsidiary unit. For example, transaction cost based theory of international production (*Buckley* and *Casson* 1976; *Dunning* 1980; *Rugman* 1981) seeks to explain the existence of MNCs in terms of ownership specific advantages vis-à-vis incumbent domestic competitors, location specific advantages that favour investment in the local country, and intermediate market failure that favours internalization over other forms of contractual arrangements. Applying this theory to the MNC subsidiaries is however troublesome because implicitly it assumes that ownership advantages originate in the MNC's home country, whereas the reality is they often arise in subsidiaries as well (*Birkinshaw* 2001), although there is a corrective to this theory in respect of MNC subsidiaries (*Rugman* and *Verbeke* 1992).

Birkinshaw (2001), and *Birkinshaw* and *Hood* (1998) advocate a resource-based view (*Amit* and *Schoemaker* 1993) of the firm in the MNC subsidiary research. Resources are defined as the stock of available factors owned or controlled by the firm, and capabilities are a firm's capability to deploy resources, usually in combination, using organizational processes to effect a desired end (*Amit* and *Schoemaker* 1993). The argument is that resources and capabilities are not developed and held in a monolithic firm, rather, the reality in the MNC is that some are likely to be held at a firm level while others are held at a subsidiary level. However, although *Birkinshaw* (2001) asserts that it is possible to split resources and capabilities between the subsidiary and the MNC to a certain degree, whether this perspective can hold and offer any additional insights into MNC subsidiary research needs further exploration.

Therefore, as suggested in the next section, viewing MNC subsidiaries through the lens of institutional theory can readily avoid this problem of locating the relevant level of analysis. Furthermore, while many mainstream theories and paradigms are enormously insightful, they tend to primarily see MNCs as economic actors, ignoring their embeddedness (*Granovetter* 1985) in a wider social and political environment (*Child* and *Rodrigues* 2005). With its innate sensitivity to contexts, institutional theory can provide a vital complementary perspective (*Scott* 1987).

2.4 Institutional Duality and Organizational Practices in MNC subsidiaries

Starting from the early 1990s, institutional theory has been recognized as holding the potential to inform and advance the study of international management. In recent years, many scholars have employed institutional theory and produced insightful results on the comparative performance of business groups (e.g. *Guillén* 2001; *Khanna* and *Palepu* 2000), industry development trajectories (e.g. *Biggart* and *Guillén* 1999), corporate diversification effects (e.g. *Wan* and *Hoskisson* 2003), and alliance partner selection (e.g. *Hitt*, *Ahlstrom*, *Dacin*, *Levitas* and *Svobodina* 2004).

This body of literature has shown "a growing appreciation of the importance of the institutional context and the patterns in the way MNCs respond to that context" (*Westney* 1993, p60). For example, it has been found that the pattern of FDI may be in fact mimetic behaviour rather than a company's individual strategy (*Bjorkman* 1990). Later entrants tend to follow the entry mode patterns established by earlier entrants from the same home country or from the same MNC across time (*Jane* 2002).

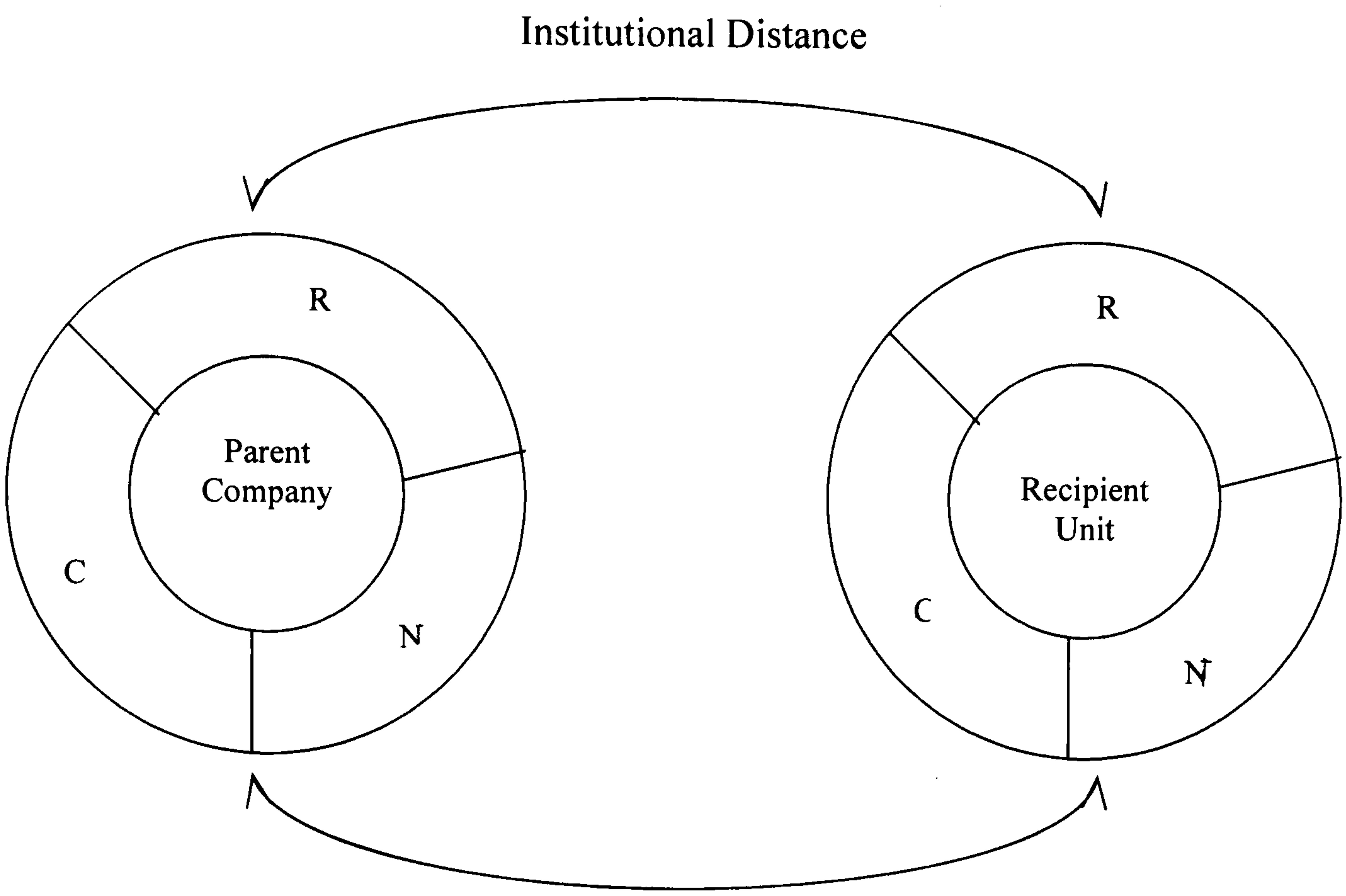
In a departure from the dominance of economic explanations, this appreciation of institutions, to a certain degree, coincides with the internationalization process model, in which internationalization is viewed as a series of incremental adjustments to changes in the company and its environment: "a firm's engagement in a specific foreign market develops according to an establishment chain, i.e. at the start no export activities are performed in the market, their export takes place via independent representatives, later through a sales subsidiary, and eventually manufacturing may follow" (*Johanson* and *Wiedersheim-Paul* 1975, p305-322). This stage model of internationalization is a process of attaching higher commitment related to the overseas market, as the firm acquires and accumulates better knowledge and experience of the market. As such, internationalizing firms extend their business to other host countries along a sequential path in line with a key variable "psychic distance", which is "the sum of factors preventing the flow of information from and to the market" (*Johanson* and *Vahlne* 1977, p27) – for instance, differences in language, education, business practices, culture, and development. So, according to this model, companies will start their internationalization on markets with the lowest perceived market uncertainty, in other words, markets that they can easily understand, often in neighbouring countries.

There are two major shortcomings in this model that have been accepted by *Johanson* and *Vahlne* (1990). One of the shortcomings is that it is too deterministic. The stage model describes internationalization history as the result of predetermined factors and pre-programmed forces. It excludes other options of strategic choices, e.g. to initiate local production in a foreign country without having gone through the steps of exporting or having local sales subsidiaries, or to acquire an extant company in the host country and develop it into a subsidiary (*Forsgren* 1990). The other shortcoming of the internationalization process model is that its significance is limited to the early stages of internationalization. It tells us little about the internationalization process taking place in experienced companies which have learned through decades of internal activities (*Melin* 1992). *Child*, *Ng* and *Wong* (2002) suggest that the concept of psychic distance can benefit from applying an analytical framework based on the distinction between distance-creating, distance-compressing, and distance-bridging factors. Distance-creating factors are those responsible for dissimilarity in business environments between the home and host countries for investment, such as different culture and language. Distance-compressing factors are those beyond any action taken by forms themselves that narrow the sense of distance between home and overseas business locations. They concern macro developments arising from social movements, including institutional changes, globalization and technological advance. Distance-bridging factors are those factors that are open to the initiative of firms themselves, taking place at two levels: the strategic level concerns choice of overseas location, while the operational level concerns the management of ongoing operations within the chosen countries.

By adopting *Hofsted*'s (1980) classification of culture, the "cultural distance" index has been widely used as a proxy for "psychic distance". However, applied to studies on foreign investment expansion, entry mode choice, and the performance of foreign invested affiliates and other areas of international management (e.g. *Kogut* and *Singh* 1988; *Benito* and *Gripsru*d 1992; *Barkema*, *Bell* and *Pennings* 1996; *Hennart* and *Larimo* 1998; *Brouthers* and *Broughers* 2001; *Li*, *Lam* and *Qian* 2001), this index fails to yield consistent empirical evidence (*Shenkar* 2001). One of the main reasons may be that it over-emphasizes national culture as a determinant of psychic distance (*Child*, *Ng* and *Wong* 2002), hence not capturing the complexity of cross-country differences; in particular, it neglects the critical role of societal institutions in articulating, disseminating, and arbitrating cultural and social cues (*Xu* and *Shenkar* 2002). This has led scholars to pay more attention to national institutional factors.

When turning the lenses of institutional theory on MNCs and their subsidiaries, scholars have recognized that most large MNCs are likely to be subject to a variety of different and potentially contradictory isomorphic pulls in different environments (*Westney* 1990; 1993). The establishment and maintenance of legitimacy in multiple host environments is one of the most critical MNC issues (*Kostova* and *Zaheer* 1999). *Rosenzweig* and *Singh* (1991) depict the MNC "as a set of differentiated structures and processes, and each of these structures and processes exists in the many subunits of the organization. These structures and processes, in turn, are affected by a variety of environmental forces, some of which are specific to the host country and some of which are global in nature" (p344). Based on this premise, similar to the integration and responsiveness framework, they propose a two-dimensional framework of the MNC consisting of two sources of institutional pressures: pressures for consistency within the MNC and pressures for isomorphism with the local environment. These two sources are potentially contradictory due to institutional distance – the difference/similarity between the regulatory, cognitive, and normative institutions of the home and host countries (*Kostova* 1996). Therefore, MNC subsidiaries may face "institutional duality" (*Kostova* and *Roth* 2002), which is described as: "There is a within-organization domain that defines a set of pressures to which all units within the organization must conform. At the same time, the foreign subsidiary resides in a host country with its own institutional patterns specific to that domain" (*Kostova* and *Roth* 2002, p216, *See Figure 2.1*).

The concept of institutional distance complements, rather than replaces, the cultural distance construct (*Xu* and *Shenkar* 2002). It potentially could provide more proximal ways of accounting for the effects of social institutional context on MNC subsidiaries.



Note: R is the regulatory institutional environment, C is the cognitive institutional environment, and N is the normative institutional environment.

Figure 2.1 **Institutional Distance and Duality** (*Source: Kostova* 1999, p315)

2.4.1 Key Research on Institutional Duality

Table 2.1 summarizes the key research on institutional distance and institutional duality. This line of thinking emerged during the 1990s. To date, four streams of research can be discerned. The first focuses on the challenge for subsidiaries to gain and maintain the legitimacy both externally in the host country and internally within the MNC. By surveying 24 foreign exchange trading rooms of major Western and Japanese banks in New York and Tokyo, *Zaheer* (1995) found that MNCs' foreign subsidiaries faced a "liability of foreignness" – the costs of doing business abroad that resulted in a competitive disadvantage for an MNC subunit. In overcoming this liability of foreignness, if the major source of firm-specific advantage lies in organizational capabilities, foreign subsidiaries may be better off sticking with practices imported from home than attempting to mimic local practices, as the latter is often an imperfect process. Attempting to copy the practices of efficient local organizations in areas in which the home office has no expertise may depress performance at the subsidiary level. Also the liability of foreignness may change over time: once the MNC has existed in a foreign environment for a substantial length of time, the liability of foreignness is likely to decline (*Zaheer* and *Mosakowski* 1997). *Kostova* and *Zaheer* (1999) develop a set of propositions on organizational legitimacy in three types of complexity that MNCs typically face: the legitimating environment, the organization, and the process of legitimation. In the legitimating environment, MNCs face at least as many different institutional environments as the number of countries in which they operate, since institutions tend to be country specific. Their number and variety pose specific challenges to MNC legitimacy. From an organizational perspective, because of institutional distance, MNC subsidiaries face institutional duality and may need to achieve internal legitimacy within the organization in addition to legitimacy with the external environment. Concerning legitimation processes, *Kostova* and *Zaheer* (1999) emphasize cognitive aspects and propose that the legitimacy of the MNC as a whole and that of its parts are related. For instance, the legitimacy of a foreign subsidiary of an MNC may be judged based on the legitimacy of all subsidiaries of that MNC or of all subsidiaries of the same home country in that host country.

Table 2.1 Key Research on Institutional Duality

Topic	Author(s) and Year	Empirical/ Theoretical	Sample and Country	Key Results/Conclusions
The challenge for subsidiaries to gain and maintain the legitimacy	Zaheer (1995)	Empirical/ Survey	24 foreign exchange trading rooms of major Western and Japanese banks in New York and Tokyo	MNCs' foreign subsidiaries faced a "liability of foreignness".
	Zaheer and Mosakowski (1997)	Empirical/ Survey	2667 market-making trading rooms located in 47 countries	Once the MNC had existed in a foreign environment for a substantial length of time, the liability of foreignness was likely to decline.
	Kostova and Zaheer (1999)	Theoretical	—	MNC subsidiaries typically face three types of complexity regarding legitimacy: (1) environmentally, the number and variety of host countries pose challenges to MNC legitimacy; (2) organizationally, subsidiaries face institutional duality; (3) concerning legitimation processes, the legitimacy of the MNC as a whole and that of its parts are related.
The adoption of local versus parent practices in MNC subsidiaries	Rosenzweig (1994)	Empirical/ Survey	249 US subsidiaries of 8 parent countries: Canada, France, Germany, Japan, the Netherlands, Sweden, Switzerland, and the United Kindom	HRM practices are most strongly influenced by local isomorphism; marketing and manufacturing practices also tend to resemble local practices, although to a distinctly lesser degree than HRM, but that financial control practices more closely adhere to parent practices.
	Rosenzweig and Nohria (1994)	Empirical/ Survey	249 US subsidiaries of 8 parent countries: Canada, France, Germany, Japan, the Netherlands, Sweden, Switzerland, and the United Kindom	In general the HRM practices of foreign MNC's US subsidiary closely followed local practices.
	Robinson (1994)	Empirical/ Survey	a sample of American MNCs' subsidiaries in Japan	An increase in the level of interdependence between the parent and the subsidiary was associated with increased similarity of practices across all functions.

Table 2.1 (continued)

Topic	Author(s) and Year	Empirical/ Theoretical	Sample and Country	Key Results/Conclusions
The transfer of strategic organizational practices from the parent firm to foreign subsidiaries	Kostova (1999)	Theoretical	—	A multi-level model of contextual factors influencing the transfer of practices, including social, organizational and relational contextual factors.
	Kostova and Roth (2002)	Empirical/ Survey	A US MNC's 104 subsidiaries in 10 countries	Variation in the level of institutionalization of the same practice across broad county contexts as well as across MNC subsidiaries.
	Lervik and Bjorkman (2007)	Theoretical	—	A model offering more holistic understanding of the outcome of HRM practices transfer as encompassing three dimensions: implementation, internalization, and integration.
	Ferner, Almond and Colling (2005)	Empirical/ Case Studies	5 US MNCs' subsidiaries in the UK	A pattern of uneasy subsidiary accommodation to transferred diversity policies, complicated by incomplete and contested institutionalization of the diversity policy within the US itself and by differing conceptions of diversity between the US and the UK
	Lervik and Lunnan (2004)	Empirical/ Case Studies	A Norwegian MNC	A typology providing different accounts of management knowledge diffusion, namely conformity, transfer, translation and local modification, based on (1) whether the emphasized aspect is symbolic or technical; and (2) whether the management knowledge is seen as reified or constructed.
The influences of institutional duality to MNC strategies and performance	Xu and Shenkar (2002)	Theoretical	—	Three dimensions of institutional distance: regulative, normative, and cognitive dimensions are linked with MNC company-level attributes to explain MNC's host country selection and foreign entry strategy.
	Davis, Desai, and Francis (2000)	Empirical/ Survey	1383 business unit managers of US based companies	Business units that are highly influenced by their parent firm's institutional norms tend to use wholly-owned entry modes; those that are influenced more by host-county environmental factors tend to use export, joint ventures, or licensing as their entry-mode; and those that are influenced by both parental and host country factors tend to use multiple modes of entry.
	Hillman and Wan (2005)	Empirical/ Survey	178 US MNCs' subsidiaries operating in 14 EU countries	The choices of MNC subsidiaries' three generic political strategies, including information strategies, financial incentive strategies, and constituency-building strategy, are subject to the dual influence of external and internal legitimacy.
	Rangan and Sengul (2005)	Empirical/ Archival Data	Leading foreign MNCs operating in Brazil, China, India, Mexico, Japan and the USA for the years 2000 ~ 2001	Home-host institutional similarities aid MNC performance in foreign markets.

The second stream of literature looks at the adoption of local versus parent practices in MNC subsidiaries. *Rosenzweig* (1994) reported findings on the comparison between management practices in US subsidiaries of foreign MNCs and local practices in four functions – human resource management, marketing, financial control and manufacturing. It was found that human resource management (HRM) practices were most strongly influenced by local isomorphism. Marketing and manufacturing practices also tended to resemble local practices, although to a lesser degree than HRM. But financial control practices more closely adhered to parent practices. These results were further explored in *Rosenzweig* and *Nohria* (1994), focusing on HRM practices. The findings demonstrate that in general the HRM practices of foreign MNC's US subsidiaries closely followed local practices, and suggest that a set of factors including the method of founding, dependence on local inputs, the presence of expatriates and the extent of communication with the parent, moderate the degree of similarity to local practices. Using a sample of American MNCs' Japanese subsidiaries, *Robinson* (1994) examined the relationship between structural integration in MNCs and conformity of parent subsidiary management practices. She found that an increase in the level of interdependence between the parent and the subsidiary was associated with increased similarity of practices across all functions.

The third stream of literature is concerned with the transfer of strategic organizational practices from the parent company to foreign subsidiaries. *Kostova* (1999) proposes a multi-level model of contextual factors that influence the successful transfer of a strategic organization practice. At the country level, the construct of country institutional profile (CIP) is proposed, consisting of regulative, normative and cognitive components (*Scott* 1995), to capture the institutional characteristics of a national environment. The success of transfer is hypothesized to be associated with the institutional distance. At the level of subsidiary, the transfer is hypothesized to be influenced by whether the subsidiary's organizational culture is generally supportive of learning, change, and innovation and compatible with the new practices. It is also predicted that the transfer will be smoother if the recipient subsidiary is more dependent on, commits to, identifies with and trusts the parent company. This model was then tested in a later study by *Kostova* and *Roth* (2002) and general support was found based on data of the adoption of total quality management (TQM) practices from 534 managers and 3238 non-managerial employees in 104 subsidiary locations from ten countries of a US MNC. By conceptualizing practice adoption with two dimensions – the implementation of the practice and the internalized beliefs about the value of the practices, *Kostva* and *Roth* (2002) found variation in the level of institutionalization of the same practice across broad county contexts as well as across MNC subsidiaries. *Lervik* and *Bjorkman* (2007) add a third dimension of practice adoption – integration, defined as to what degree a transferred practice is connected and linked up with existing practices in the recipient subsidiary. In another empirical study, *Ferner*, *Almond* and *Colling* (2005) used a comparative institutional approach combined with a power/interests perspective to examine the processes whereby workforce diversity policy was transferred in US MNC to their subsidiaries in the UK. Their findings show a pattern of uneasy subsidiary accommodation to transferred diversity policies, complicated by incomplete and contested institutionalization of the diversity policy within the US itself and by differing conceptions of diversity between the US and the UK. The ability of actors within the UK subsidiaries to mobilise and deploy specific power resources allowed them to resist the full implementation of the policy, leading to a range of compromised accommodations. In an in-depth case study of the adoption patterns of performance management within a Norwegian MNC, *Lervik* and *Lunnan* (2004) draw on multiple perspectives to develop a four-quadrant typology that provides different accounts of management knowledge diffusion, namely conformity, transfer, translation and local modification, based on (1) whether the emphasized aspect of management knowledge is symbolic or technical; and (2) whether management knowledge is seen as reified or constructed.

The fourth stream of literature attempts to identify the influences of institutional duality to MNC strategies and performance. *Xu* and *Shenkar* (2002) decompose institutional distance into regulative, normative, and cognitive dimensions of institutions and link these with MNC company-level attributes to explain two critical steps in the FDI process: host country selection and foreign entry strategy. They argue that the choice of host country must be matched to company-level attributes such that the legitimacy of the foreign subsidiary in the host country is established and the transfer and sustainability of competitive advantage are ensured. Once a host country has been targeted, entry strategies must be matched with institutional distance to that country in order to enhance competitive advantages resulting either from a small institutional distance or from the ability to mitigate the negative impact of a large distance. Also focused on the mode of international entry, *Davis*, *Desai*, and *Francis* (2000) examine how institutional duality affects the strategic choice at the level of strategic business unit, using the data collected through a questionnaire-based survey administered to 1383 business unit managers of US based companies competing in the pulp and paper industry. It was found that neither business unit level strategy nor business experience had an impact on entry-mode. In contrast, the results confirm that parental and external institutional norms are strong contributors to patterns of internal entry and expansion at the business unit level. Business units that were highly influenced by their parent firm's institutional norms tended to use wholly-owned entry modes; those that were influenced more by host-county environmental factors tended to use export, joint ventures, or licensing as their entry-mode; and those that were influenced by both parental and host country factors tended to use multiple modes of entry. Using survey and archival data from Western European subsidiaries of US MNCs, *Hillman* and *Wan* (2005) developed and tested a multilevel model to examine the dual institutional factors that influence MNE subsidiaries' political strategies. The three generic political strategies include: (1) information strategies based on the provision of information to political decision-makers; (2) financial incentive strategies targeting political decision-makers with financial incentives; and (3) constituency-building strategy targeting political decision-makers indirectly through constituent support. The findings support the view that the choice of these strategies is subject to the dual influence of external and internal legitimacy. *Rangan* and *Sengul* (2005) found that home-host institutional similarities aid MNC performance in foreign markets through the comparison of the market information on market leadership and relative market share of all leading foreign multinationals operating in six host countries, Brazil, China, India, Mexico, Japan and the USA for the years 2000 ~ 2001.

2.4.2 The Stance Taken in This Research

A bird's eye view has been taken in the above literature review to identify any theoretical or empirical research that potentially could shed light on institutional duality. Integrating this body of research with the literature on institutional theory and MNC subsidiaries together provides us a useful basis to understand organizations under fragmented environments. In order to move forward, however, it is important to take a position and articulate the view that is taken in the current PhD research.

2.4.2.1 Institutional Template

Broadly, perspectives derived from neo-institutional theory to examine institutional forces have both an economic orientation (e.g. *North* 1990) and a sociological orientation (e.g. *DiMaggio* and *Powell* 1991). Whilst the former has been primarily concerned with the rule and governance systems developed to regulate or manage economic exchanges, the latter has emphasized the effects of cultural belief systems operating in the environments of organizations. Following this distinction, institutions in the international context can be seen as both material, consisting mainly of the economic and technological developments associated with trade liberalization and IT, and ideational, including ideas, values and other common models of social order (*Meyer* 2000; *Child* 2000). These institutional forces also function at different levels, from the global, supra-national level, such as the WTO, the regional level, such as the EU and ASEAN, the national level, right down to organizational and sub-organizational levels, such as Total Quality Management (TQM) programmes.

The key manifestation of institutionalized templates (*Greenwood* and *Hinings* 1993, 1996, *Johnson et al* 2000) in this dissertation is institutionalized functional practices of an MNC and its subsidiaries. This focus on functions is consistent with the implication from the literature on MNC subsidiaries that the MNCs and their subsidiaries are better conceived as a set of differentiated functional practices (e.g. *Hedlund* 1986; *Bartlett* and *Ghoshal* 1989; *Ghoshal* and *Nohria* 1989; *Rosenzweig* and *Singh* 1991; *Rosenzweig* and *Nohria* 1994). *Kostova* (1999) defines these practices as "particular ways of conducting organizational functions that have evolved over time under the influence of an organization's history, people, interests and actions and have become institutionalized in the organization" (p309). Further, these functional practices consist of both a set of (un)written rules of how a certain organizational function should be conducted and an accompanying set of cognitive elements, such as the concepts and categories by which these rules are described. That is, they become "infused with value" (*Selznick* 1957), acquiring meaning for organizational members that is symbolic in nature, a meaning that goes beyond technical efficiency. Using *Lervik* and *Lunnan*'s (2004) classifications, the functional practices studied in this research emphasize more on symbolic and socially constructed aspects rather than technical and reified aspects. The latter aspects of organizational knowledge have been emphasized in previous research, for example on innovation diffusion (*Kogut* and *Zander* 1992, 1993; *Zander* and *Kogut* 1995) and R&D roles (*Nobel* and *Birkinshaw* 1998). In other words, the functional practices in MNC subsidiaries in this study are primarily "soft" practices (i.e. activities encoded into people's actions) as opposed to "hard" practices (i.e. activities encoded into technologies.)

2.4.2.2 Contextual Environment

As suggested by *Scott* (1995), institutional environments are composed of various types of institutional elements that can be grouped into three categories, known as "three pillars": regulatory, normative and cognitive pillars. To a certain degree, these pillars can be treated as distinct, as empirically exhibited by *Busenitz, Gomez* and *Spencer* (2000), for their assumptions, legitimacy requirements (*Scott* 1995; *Suchman* 1995) and influences on organizational practices (e.g. *Kostova* and *Roth* 2002; *Xu* and *Shenkar* 2002) are different. For example, among the three pillars, the distinctiveness of the regulative pillar appears to be clearer. Scholars stressing this pillar are distinguished by the prominence they give to explicit regulative processes: rule-setting, monitoring, and sanctioning activities. Regulative elements of institutions affect the behaviours of actors by altering their benefit/cost, and reward/penalty calculation. Thus, actors conform to institutions because it serves their individual interests. Economists, especially economic historians, are particularly likely to view institutions as resting primarily on the regulative pillar (e.g. *North* 1990), as they commonly see individuals as pursuing their self-interests and behaving instrumentally and expediently. By contrast, scholars emphasizing normative and cognitive pillars move away from a restricted definition of rational behaviour. For them, rational action is always grounded in social context that institutionally shapes the ends and means by which interests are determined and pursued (*Scott* 1987).

Institutions, however, are multifaceted systems, in which meaning systems, monitoring processes and actions are interwoven. When it comes to the distinction between normative and cognitive pillars, the differences are subtler, and sometimes the boundary between the two is blurred. *Scott* (1995) admits that scholars stressing the normative pillar fall somewhere between the two camps of scholars emphasizing either the regulative or cognitive pillar, but closer to the cognitive than the regulative position. Therefore, in this thesis the regulative, normative and cognitive pillars of institutions are acknowledged as a continuum rather than absolute discrete classification.

Nonetheless, both *Powell* and *DiMaggio* (1991) and *Scott* (1995) point out that neo-institutional theory within sociology differs from earlier versions by shifting attention from a primarily normative to a cognitive focus, by stressing the importance of how reality is constructed by the human mind interacting in social situations. This implies there is still a possibility to discern the different emphasis given by scholars to normative and cognitive pillars. For analytical purposes, it is argued below that there are at least two dimensions along which the two pillars can be treated as distinct. Being consistent with neo-institutional theory, in this thesis more attention is paid to the cognitive pillar.

First, scholars tend to emphasize the different core components that the normative and cognitive pillars consist of. Whereas cognitive theorists emphasize the extent to which choice is informed and constrained by shared knowledge, analysts gathering under the normative pillar see choice as orientated by a moral dimension, especially values and norms. This aspect of the difference between cognitive and normative elements is similar to the difference between "knowledge" and "virtue" used by

Greek philosophers, such as Socrates, and Japanese philosopher, Yukichi Fukuzawa. Here, knowledge can be defined as intelligence or information and virtue as morality (*Fukuzawa* 1969). This dimension of the distinctiveness between the two pillars has been empirically validated by *Kostova* and *Roth* (2002) and *Busenitz*, *Gomez* and *Spencer* (2000). Concerning quality management in national contexts, *Kostova* and *Roth* (2002) defined the cognitive dimension as shared social knowledge about quality and quality management and the normative dimension as quality related social norms and values. Items such as "people in this country know a great deal about quality" was developed for the measurement of the cognitive elements and items such as "in this environment, ensuring product quality is a moral obligation" for the normative elements. Similarly, *Busenitz*, *Gomez* and *Spencer* (2000) also measured country institutional profiles for entrepreneurship consisting of regulatory, cognitive and normative dimensions by conducting a survey. In their study, the cognitive items focused on the public's knowledge about how to finance, structure, and manage new business, whereas the normative questions focused on society's admiration for individuals who start their own business and the belief that starting a business is an acceptable and respected career path. In general, institutionally shared knowledge in these two studies was seen as reified rather than socially constructed.

This thesis focuses on another dimension along which the cognitive and normative pillars of institutions can differ, which is concerned with the source of constraining/empowering institutional forces. For the normative pillar, the source is primarily in "others" – external constituencies' evaluations of structures, techniques and procedures, outputs and consequences of the focal organization (*Scott* 1977;

Scott and *Meyer* 1991b; *Suchman* 1995). By contrast, in the case of the cognitive pillar, the source of institutional forces is in "self" – organizational actors' internal representations of their environment (*D'Andrade* 1984). Whereas, in a normative conception of institution, actors would employ logic of appropriateness, and ask, "Given my role in this situation, what is expected of me?" (*March* 1981; 1994), in a cognitive conception, actors would apply logic of comprehensibleness, and ask, "Given my sensemaking of the situation, what action is meaningful to me?" In other words, in the former, actors conform to institutions because they are obliged to do so and it is expected of them to "do the right thing". These expectations are held by other salient actors in the situation and so are experienced as external pressures by the focal actor. On the other hand, cognitive institutions give rise to reflex action, which is more deeply ingrained in individuals. This deep embeddedness often leads us to look at institutionalization at a more micro level, involving cognitive structures that strongly influence individual behaviours by providing schemas and inferential sets which people use when selecting and interpreting information, such as scripts or routines, as demonstrated in *Barley* (1986), *Pentland* and *Reuter* (1994), and *Johnson*, *Smith* and *Codling* (2000).

However, the focus in this thesis is on a wider and more macro level of social frameworks. Cognitive institutions are viewed to reflect the extent to which wider belief systems and cultural frames are imposed on or adopted by individual actors and organizations. Actors do construct and continuously negotiate social reality in everyday life, but they do so within the context of wider, pre-existing cultural systems: symbolic frameworks, perceived to be both objective and external that provide orientation and guidance (*Zucker* 1977). *DiMaggio* and *Powell* (1983) identify that the pressures for isomorphism concerning normative elements of institutions stem predominantly from professionalization, involving the collective struggle of members of an occupation to define the conditions and methods of their work, to control the production of producers. Through this struggle process, diffusion is primarily enabled by "socialization" (*DiMaggio* and *Powell* 1983; *Powell* and *DiMaggio* 1991) – interaction and interdependence among incumbents of different roles in a local organizational field. On the other hand, the isomorphic mechanism that most clearly captures cognitive dimension is, according to *DiMaggio* and *Powell* (1983), "imitation": individuals and organizations tend to model themselves after similar individuals and organizations that they perceive to be more legitimate or successful. Within modelling processes, the key enabler of diffusion is theorization – "the self-conscious development and specification of abstract categories and the formulation of patterned relationships such as chains of cause and effect" (*Strang* and *Meyer* 1993, p492). Here, what is emphasized is how individuals organize information with the assistance of social categories (*Rosch* 1978). Theorizing is one of the strategies for actors to make sense of the world. For example, people make sense of social events by categorizing them on the basis of such cognitive structures as stereotypes (e.g. *Markus* and *Zajonc* 1985). Also, under conditions of bounded rationality (*March* and *Simon* 1958), people's judgements about particular events are affected by their judgements about similar events that fall into the same cognitive categories – a process referred to as the "representativeness heuristic" (*Tversky* and *Kaheman* 1974). As a consequence, rather than individuals or organizations demonstrating moral allegiance owed to their local organizational field in a normative conception, a cognitive conception of institutions underscores the predominant influence of macro-level abstractions, rationalized and impersonal prescriptions, shared typifications (*Meyer* and *Rowan* 1977; *Power* and *DiMaggio* 1991; *Strang* and *Meyer* 1993), often beyond and independent of local organizational field, creating the lenses through which actors view the world. Indeed, grouping institutional elements into the three pillars is itself a categorization activity to appreciate the multiplicity of institutions. Thus, theorizing identifies and interprets regularities in ways that define populations within which diffusion is imaginable and sensible. Unlike normative institutions relying primarily on relational connectedness through socialization for diffusion, cognitive institutions can diffuse even when direct interaction among actors is minimal and understanding of the social network of which the actors are a part is limited (*Rabinowitz*, *Kelley* and *Rosenblatt* 1966). Institutionalized practices diffuse among individuals and organizations within institutionalized contexts sharing similar beliefs about the meaning of their actions. As *Strang* and *Meyer* (1993) argue, the linkages through which diffusions take place can be cultural as well as relational. Cognitive effects can operate via perceptions built into the actors involved. Based on these perceptions, the individual or organization's cognitive map identifies reference groups that bound social comparison processes for modelling. Rational mimicking requires prior and potential adopters be understood as fundamentally similar, at least with respect to the practice at issue. The cognitive understanding that social entities belong to a common social category – actors are seen as falling into the same category – constructs a tie between them, hence enabling the diffusion.

Here, a social constructionist perspective is fully embraced, highlighting the interdependence and interpenetration between action and institutionalization. Institutional elements are not simply externally imposed on actors, since the cognitions of actors make this a two-way process. As shown in *Lant* and *Baum*'s (1995) study of the Manhattan hotel industry, managers' cognitive categorizations of who are relevant competitors may not only reflect the attributes of firms within competitive groups, managers' actions based on these beliefs may also actually create these groups. In this sense, managers both respond to and create their environment (*Weick* 1979).

In summary, whilst a focus on normative perspective calls for greater attention to *how* to carry out a certain practice, a focus on cognitive entails more sensitivity to *which* and *why* a certain practice is to be carried out; whereas normative approaches delimit the sphere of permissible acts, cognitive approaches permit, through trial and error, all means and methods to pursue specific ends.

Based on the above subtle difference between cognitive and normative elements of institutions, it seems that the cognitive pillar is mostly relevant to this research. This is because managers working in MNC subsidiaries innately face uncertainty and ambiguity, as they are running their business in an extremely complex organization located in a foreign country. Both the subsidiary and the host country are constantly observing, learning, and interpreting each other. Due to the lack of sufficient information, this sensemaking processes is often complex, imperfect and based on bounded rationality. Consequently, within the MNCs, managers in subsidiaries and parent companies may also suffer from perception gaps (*Asakawa* 1996; *Arvidsson* 1997; *Holm*, *Johanson* and *Thilenius* 1995; *Birkinshaw*, *Holm*, *Thilenius* and *Arvidsson* 2000). To overcome these gaps, as noted earlier, parent companies often exercise procedural justice (*Kim* and *Mauborgne* 1991, 1993a, 1993b), and subsidiaries can engage in performance-oriented feedback-seeking behaviours (*Gupta* and *Govindarajan* 1999). Central to all these processes in which subsidiaries interact with the dual environments are the cognitive institutions that influence the way an issue is categorized and interpreted. Therefore, in line with the purpose of this research, which is to explore why a particular institutional template, among many, is chosen to diffuse, more analytical attention is paid to the cognitive elements of institutions.

2.4.2.3 Embedded Agency

As discussed earlier, whilst in some early research from the institutional perspective managerial agency is downplayed (e.g. *Meyer* and *Rowan* 1977; *DiMaggio* and *Powell* 1983; *Meyer* and *Scott* 1983; *Zucker* 1987), many later institutional theory studies, especially those that try to account for institutional changes, have brought agency, power and interests back into institutional analysis (e.g. *DiMaggio* 1988; *Oliver* 1991; *Greenwood* and *Hinings* 1996). This is also reflected in the literature on institutional duality. In two of the four reviewed streams on institutional duality, one focusing on the influences of institutional duality on MNC strategies and performance, the other examining the degree of isomorphism between subsidiaries and parent company or local companies, institutional duality is implicitly treated as given, shaping strategies and structures of organizations (e.g. *Rosenzweig* and *Nohria* 1994; *Davis*, *Desai*, and *Francis* 2000).The other two streams of literature employ an active agency perspective. For example, although foreign subsidiaries face a liability of foreignness, they are also able to import practices from the home country or copy local practices to overcome this liability. When a practice or a policy is transferred from the parent company to its subsidiaries, subsidiaries may vary in their adoption responses either because of the filter effect of "internalization" – the cognition of subsidiaries managers (e.g. *Kostova* 1999; *Kostova* and *Roth* 2002), or power mobilized by the managers to resist the full implementation (e.g. *Ferner et al* 2005)

Following *Suchman* (1995) and *Seo* and *Creed* (2002), a middle course is taken in this dissertation between the strategic and the institutional orientations towards agency, discounting neither the active role nor the institutional embeddedness of agency. This stance is congruent with empirical evidence that subsidiaries are constrained rather than defined by the parent company and host environments (*Birkinshaw* and *Hood* 1997, 1998). Subsidiary managers have a certain level of choice within these constraints to negotiate with the parent company and host environments. During the socially constructed negotiation process, the emphasis on cognitive elements (*Kostova* 1999; *Kostova* and *Roth* 2002) rather than power and political struggle (*Ferner et al* 2005) is embraced fully in the present research.

In the above discussion, the stance taken in this dissertation was made clear drawing on the literature of institutional theory, MNC subsidiaries and institutional duality. The next section introduces two initial propositions guiding the research process. These propositions are modified twice in the light of the data, as reported in detail in the methodology chapter.

2.5 Two Initial Propositions on Institutional Duality

It is worthy noting that at the outset of this research project, the functional practice to be studied is not specified in the initial propositions. This is to follow the main methodological logic of this research – modified analytic induction. While the details of the methodology is to be fully discussed in the methodology chapter, it seems pertinent to briefly mention the main idea of analytic induction to give explanation as to why the functional practice was not specified initially. The method of analytic induction (*Robinson* 1951; *Bogdan* and *Biklen* 1992; *Gilgun* 1995) begins with an explanatory proposition and a definition of something to be explained. The initial definition and proposition with analytic induction is provisional. The very intention of having a definition and proposition is to refute and modify them. When compared with case evidence, "modifications are made in two ways: (1) The hypothesis itself is modified so that the new facts will fall under it, and/or (2) the phenomenon to be explained is re-defined to exclude the cases which defy explanation by the hypothesis" (*Robinson* 1951, p813). In keeping with this logic, I used the literature-driven concept, institutional duality as sensitizer throughout the research while remaining open to discovering concepts and propositions not accounted for in the original formulations. Since MNCs and their subsidiaries have been seen as a nexus of differentiated practices, ranging from marketing to human resources to finance, each of which is under institutional duality to varying degrees, the issue of which functional practice should be studied is not primarily theoretical but needs to be resolved by empirical evidence. Furthermore, since the main aspect of organizational practices emphasized in this research is its "infused value", the most appropriate functional practices should be assessed using data gathered from the subsidiary managers rather than asserted by the researcher before going into the field.

Following the logic of modified analytic induction, the two initial propositions of this study are derived from the extant literature reviewed in section 2.2 ~ 2.4 and also shaped by the perspective taken in this research. The first proposition is:

Initial Proposition (I) *When two MNCs, one based in a developed country, the other headquartered in a developing country, establish subsidiaries in each other's market, the dual institutional pressures from the host environments and the parent companies to the two subsidiaries, concerning all functional practices, will be symmetrical, i.e. managers of the two subsidiaries are under a similar degree of pressure to adopt home/host country models of practice.*[2]

This proposition is concerned with the theoretical question raised earlier – faced with multiple templates, why do organizations adopt and institutionalize some of them, and not others? The issue of institutional duality provides us with a perfect opportunity to address this question, which has barely been considered in the extant studies. This perhaps relates to the underlying assumption of institutional duality, institutional distance. Institutional distance between the home and host countries has been defined as the difference/similarity between the regulatory, cognitive, and normative institutions of the two countries (*Kostova* 1996). Similar to the criticism of

[2] In this dissertation, developing economies broadly include rapidly growing emerging countries in Asia, Latin America, Africa and the Middle East, and transition economies in Central and Eastern Europe (*Hoskisson, Eden, Lau* and *Wright* 2000; *Wright, Filatotchev, Hoskisson* and *Peng* 2005)

culture distance made by *Shenkar* (2001), it is argued here that the name of institutional distance implicitly indicates that when MNCs from the same two countries establish their subsidiaries in each other's market, the two subsidiaries will be under equal institutional pressures from the two countries, since the subsidiaries face the same institutional distance. Thus, the two subsidiaries will confront similar degrees of difficulty in identifying, transferring and adopting home or host organizational practices. However, so far there has been no evidence showing that this is the case.

National history has affected the general order of entry into international markets: Western Europeans first, Americans second, Japanese third and other Asian countries and some Latin American ones going international most recently. Early entry clearly leads to greater global dominance (*Yip*, *Johansson* and *Roos* 1997). So it is not surprising that the institutional duality literature has overwhelmingly concentrated on MNCs based in developed countries, especially the American MNCs. However, according to the United Nations Conference on Trade and Development (UNCTAD)'s World Investment Report 2007, large MNCs from emerging economies are internationalizing particularly fast. Total FDI outflows from these groups of economies reached \$193 billion, or 16% of world FDI outflows. In 2005, foreign sales and foreign employment of the top 100 MNCs from developing economies increased by 48% and 73% respectively. Many scholars have argued that institutional perspective is the most applicable paradigm for explaining the behaviours of enterprise operating in developing *economies (Shenkar and Von Glinow 1994; Hoskisson, Eden, Lau* and *Wright* 2000; *Wright*, *Filatotchev*, *Hoskisson* and *Peng* 2005), since the profound differences in institutional frameworks between developing and developed economies force scholars to pay more attention to these differences in addition to considering industry-and resource-based factors (*Doh*, *Teegen* and *Mudambi* 2004; *Makino*, *Isobe* and *Chan* 2004; *Peng* 2005). Nonetheless, as acknowledged by *Westney* and *Zaheer* (2001), most of the work on MNCs using institutional theory has focused on companies that are multinational, as opposed to companies that are becoming multinational.

According to *Kogut* (1993), companies develop out of the socio-economic conditions of their home environments. Even as they internationalize, they remain imprinted by their early developmental histories and domestic environments, which differ across countries. For example, *Biggart* and *Guillén* (1999) show how different institutionalized patterns of authority and organization in South Korean, Taiwan, Spain and Argentina affect their way of participation in the global economy. In the global market, there are mature MNCs based in developed countries, which are internationally very experienced. For example, *Millington* and *Bayliss* (1990) found that in the later stage of international development of UK-based firms international experience can be transferred across markets and between products, thereby acting as substitutes for market experience and enabling firms to leapfrog the incremental process within markets. So when they entered the European market, these UK-based firms most often engaged in "jumps" from no involvement or simple export operations to "transnational operations" with a producing subsidiary in the market.

On the other hand, there are also companies from developing countries that are newcomers, lacking both resources and experience. Indeed, when it comes to MNCs based in newly industrializing countries, scholars are commonly aware of their "late development". The notion of "late development" has always been applied to label emergent new economies of East Asia, the countries of Eastern and Central Europe as well as countries in Latin America (*Storper*, *Thomadakis* and *Tsipouri* 1998). Japan has also been viewed as a classic case of the "late development" process (*Dore* 1990). Conceptually, as *Warner*, *Hong* and *Xu* (2004) argue, "the very notion of 'late development' is itself relativistic. The idea implies almost intrinsically a tendency of the 'late developers' to 'catch up' with the 'forerunning' economies or the 'early developers' (p328)", although the term "catch-up" is not intended to have any normative connotation.

The studies on "late development" countries and their MNCs can be traced back to the period between the late 1970s and the mid-1980s, when a stream of research was concerned with FDI by firms based in developing countries. This research suggested that these firms, which were referred to as "third world multinationals" initially (e.g. *Wells* 1983; *Lall* 1983, 1984), rely on firm-specific advantages in product and process technologies that are appropriate to the factor costs, input characteristics, and demand conditions in the host countries in which they invest (*Lall* 1984; *Wells* 1983; *Lecraw* 1977, 1981). These firms are often portrayed as utilizing smaller scale, more labour-intensive and flexible technology than other MNCs. The output is generally of lower quality than that of other MNCs and they compete based more on lower price than on product differentiation (*Lecraw* 1977, 1979 and 1981; *Wells* 1983). As such, third world multinationals often find themselves investing in neighbouring, "downstream", developing countries with lower levels of industrialization and technological capabilities. In host countries, demand conditions, market size, factor costs, and input characteristics are similar to those in their home countries (*Lecraw* 1993). The competitive advantage of these firms is postulated to vanish in the long run because of the learning achievements of the host country and the eventual entry of large multinationals from developed countries equipped with the state-of-the-art technology. Later, *Yeung* (1994) calls for a total abandonment of the term "third world multinationals" because of its chronic problems and imperialism, instead, he proposes the new term, "developing country transnationals", which is defined as "domestic enterprises headquartered in developing countries which control assets and/or exert influence in the decision-making process of one or more cross-border subsidiaries and/or affiliates" (p298).

Therefore, as developing country MNCs and developed country MNCs enter each other's home markets, it is very unlikely that they will face symmetrical institutional duality.

Nevertheless, one key challenge remains the same for both groups of MNCs – to identify and nurture heterogeneous company resources and capabilities locally, and to share and synergize them globally. The realization among the scholars interested in institutional duality is that, serving as a conduit connecting home and host institutional fields, a subsidiary introduces a new set of organizational practices, both to the MNC and the host organizational field directly and to the home field indirectly

(*Rosenzweig* and *Singh* 1991). However, there is little discussion on why some identified practices are diffused within MNCs instead of others. Scholars have readily recognized that MNCs and their subsidiaries are confronting at least two sets of templates in terms of organizational practices, namely the home and host models of practices. Yet, as admitted by *Kostova* and *Roth* (2002), they "did not directly measure the level of conflict between the different institutional pressures that subsidiaries face." In most of the research looking at the transfer of organizational practices (e.g. *Kostova* and *Roth* 2002; *Ferner et al* 2005), scholars focus more on a situation in which a parent company is transferring, and actually imposing, an organizational practice on its subsidiaries worldwide. This makes the adoption process somewhat artificial in that the interaction of home and host models of practices is biased towards the home model. After all, a subsidiary has to adopt a practice that its parent introduces across the organization, albeit adopting in a variety of forms, sometimes even ceremonially (*Kostova* and *Roth* 2002). Whilst other studies examine to what extent that the practices adopted in subsidiaries are isomorphic to home or host model practices (*Rosenzweig* and *Nohria* 1994; *Robinson* 1994), and tell us *which* model of practices, home or host, and *what* practices have been adopted, we still know little about *why* they have been adopted and the conditions that facilitate or impede the adoption. This echoes the similar issue pointed out earlier in the literature of institutional change – the relative inattention towards interaction between multiple templates taking place in a more "natural" rather than "predetermined" circumstance.

But what we do know is that the process of one institutional template becoming dominant over the others does not occur automatically, it requires legitimacy. According to the literature on institutional duality, there are three crucial and interrelated factors influencing the ease of gaining cognitive legitimacy, which is the main focus of this dissertation. The first is the stereotype of the home country and its companies in the host country. It arises from long-established, taken for granted assumptions in the host environment regarding MNCs in general, or of MNCs from a particular industry or a particular home country (*Kostova* and *Zaheer* 1999). One example of stereotypes of management practices across countries is "dominance effects" described by *Smith* and *Meiksins* (1995). They maintain there are hierarchical relationships between national economies within the global economy. Companies from countries lower in the hierarchy may perceive an interest in adopting practices from those based in more dominant economies. Conversely, companies in dominant economies may tend to assume that their practices are superior and capable of transfer to less dominant host countries. In explaining the reason why some US MNCs transferred international diversity policies to their foreign subsidiaries, despite the fact that the policies did not lead to competitive advantage, *Ferner et al* (2005) suspect that the dominance of the US business model in the world economy encourages a presumption by US MNCs that domestically devised policies, such as diversity management, are superior. Such policies may have legitimacy both domestically and abroad, simply because they are associated with a dominant business system. Another example is the widespread admiration of Japanese management practices in the 1970s and 1980s. To the extent that management practices originating from different countries are stereotyped, it is possible that the perceived attractiveness of these archetypal organizational practices tend to vary.

The second factor influencing the cognitive legitimacy is the stability of existing institutional logic (*Greenwood* and *Hinings* 1996; *Suddaby* and *Greenwood* 2005). Institutional logic was defined by *Horn* (1983, p1) as "the underlying assumptions, deeply held, often unexamined, which form a framework within which reasoning takes place." They encode the criteria of legitimacy by which organizations and their activities are constructed and sustained (*Greenwood* and *Hinings* 1996; *Suddaby* and *Greenwood* 2005). However, institutional logics do change. For example, *Thornton*'s (2002) study of changing organizational forms in higher education publishing emphasizes how resource competition and market pressures in the middle 1970s, undermined the pre-existing editorial logic driven by professional norms, and led to the institutionalization of market logic throughout the mid-1970s and 1980s. *Lounsbury* (2002) also highlights a related shift in institutional logics driven by environmental change in the US financial industry. For MNC subsidiaries, there are at least two institutional logics: the home and host institutional logic. Therefore, if institutional change is associated with a shift of institutional logic (*Friedland* and *Alford* 1991; *Ruef* and *Scott* 1998; *Rao*, *Morrill* and *Zald* 2000; *Suddaby* and *Greenwood* 2005), how home and host institutional logics interplay with each other may significantly affect which template of practices, home or host, become dominant in MNC subsidiaries.

The third factor is legitimacy spillover (*Kostova* and *Zaheer* 1999). Both the subsidiary and the host country are constantly making sense of each other. The legitimacy of an MNC as a whole and the legitimacy of its individual subsidiaries are related. When the host country assesses the legitimacy of a particular subsidiary of an MNC, it will refer to the legitimacy of its other subsidiaries, even other similar MNCs operating in that country, and vice versa. This is because under conditions of bounded rationality, people's judgements about particular events are influenced by their judgements about similar events that fall into the same cognitive category – a phenomenon often referred to as the "representativeness heuristic" (*Tversky* and *Kahneman* 1974). *Kostova* and *Zaheer* (1999) distinguish between internal spillovers, which occur within an MNC, and external spillovers, which occur between MNCs. Internal spillovers reflect the interdependence in legitimacy across subsidiaries within an MNC. They can happen vertically – that is, between the subsidiary and the MNC as a whole – or horizontally – that is, across subsidiaries.

The effect of these factors on institutional duality in MNCs from developing countries entering developed countries and MNCs from developed countries entering developing countries requires further exploration.

The second proposition to be examined is:

Initial Proposition (II) *The essence of institutional duality is entirely conflict. In particular, a long institutional distance between home and host countries, e.g. one developed and one developing country, tends to make it difficult for MNCs to transfer home practices into subsidiaries or adopt local practices.*

This proposition is used to explore the theoretical question of how organizations cope with potentially conflicting multiple institutional templates. The existing literature on institutional duality focuses on the tension between the home and host models of practice. The implication is that a longer institutional distance will create more challenges for dealing with the contradiction of the home and host models of practice. For instance, a US based MNC tends to face greater challenges in establishing and maintaining legitimacy in China than in Canada (*Kostova* and *Zaheer* 1999). Difficulty also arises when it comes to transferring or copying local practices. As demonstrated by *Zaheer* (1995), when Japanese trading rooms in New York attempted to copy performance-based control systems, the lack of expertise in the parent banks in this area appeared to hinder their efforts to implement them, and some heads of these trading rooms mentioned their continuing struggles and changes between different plans. In the research concerning the transfer of practice from the parent company to subsidiaries, a long institutional distance seems to impede the adoption in recipient subsidiaries (*Kostova* and *Roth* 2002).

Actually, conflict may only be one dimension of institutional duality. As *Dunning* (1998) observed, the most significant change in the motives for FDI over the last two decades has been the rapid growth of strategic asset-seeking FDI (*Wesson* 1999), which is geared less to exploiting an existing specific advantage of an investing company, and more to protecting, or augmenting, that advantage by the acquisition of new assets, or by a partnering arrangement with a foreign company. In the internationalization of those asset-seeking companies, better managerial practices will be actively targeted and adopted to maintain or increase their competitive advantages in the world arena. As revealed in section 2.3, subsidiaries are increasingly given more responsibility and autonomy to recognize and accumulate local resources and capabilities. So it may well be the case that in some subsidiaries, some institutional home and host models of practice can be combined harmoniously to a certain degree, and a few local practices can even be assimilated and shared with other sister subsidiaries. That is, the subsidiary becomes a centre of excellence (*Fratochii* and *Holm* 1998; *Holm* and *Pedersen* 1999; *Surlemont* 1998; *Frost*, *Birkinshaw* and *Ensign* 2002)

This may be especially true for "late development countries". *Warner*, *Hong*, and *Xu* (2004) propose that the later the development of MNCs based in developing countries, the more likely they will circumvent and by-pass the "stage" of incremental development and the more likely they will seek to explore and build a new and fast lane to their globalization. This implies there is a possibility that MNCs based in these "late developed" countries may set up subsidiaries in developed countries to tap into local technological and managerial resources. For instance, *Lecraw* (1993) reveals that as management expertise of all kinds is in short supply, one motivation for Indonesian companies investing abroad is to acquire management expertise in marketing, technology, and general management. He reports that, relative to their past performance, the performance of Indonesian firms that invested abroad improved dramatically after their investments in terms of management expertise, exports, quality, and costs. *Kogut* (1991) also suggests that the leadership of international competition could be explained by differences in country capabilities, in terms of both technologies and organizing principles. These technologies and organizing principles develop and diffuse across countries along a trajectory according to different institutional factors in these countries, but organizing principles diffuse more slowly than technologies due to their greater embeddedness in the institutional environment. This diffusion may lead not to global convergence, but to alterations in current national practices. Therefore, using *March*'s (1991) terms, a central motivation for companies from developing economies entering developed economies is an emphasis on *exploration*, whereas for companies from developed economies entering developing economies is *exploitation* (*Hoskisson et al* 2000; *Wright et al* 2005).

These arguments are only parts of a heated debate about whether business and management strategies, structures and practices converge towards the same globally, despite being strongly embedded in distinct and contrasting cultural and institutional national systems of business (e.g. *Biggart* and *Guillén* 1999; *Hofstede* 1991; *Whitley* 1992a, 1992c; *Dicken* 1998; *Child* 2000; *Child* and *Yan* 2001). Though from two contrary angles, scholars on either side of the debate agree that MNCs are one of the important forces in precipitating the convergence. This suggests the MNC as an organization must possess something unique in harnessing potentially conflicting templates of organizational practices. Yet, the reality is far more complex and subtle. If formal and informal institutions can be likened to the rules of a game, the nature of developing economies poses a difficult question for both domestic and foreign companies: "How do organizations play the new game when the new rules are not completely known?" (*Peng* 2003, p283) So, a fundamental challenge confronting MNCs from developed economies is whether their conventional "global strategy" can be extended and adapted with minimal changes to emerging economies. As for MNCs from developing economies entering developed economies, the control and coordination of an almost "aristocratic" subsidiary in a developed host country can cause managerial problems, even embarrassment to the parent companies that are in a "knowledge-inferior" position.

Therefore, the question of how the two groups of MNCs, namely companies from developing countries entering developed countries and companies from developed countries entering developing countries, deal with the potentially contradictory home and host models of management practices deserves more attention.

2. 6 Summary

Based on a review of relevant literature on institutional theory, MNC subsidiaries and institutional duality, this chapter argued that viewing MNC subsidiaries through an institutional perspective can offer us an opportunity to address two specific theoretical issues regarding organizations facing a fragmented institutional environment: (1) faced with multiple institutional templates, why do organizations adopt and institutionalize some of them, and not others? (2) how do organizations cope with the potential conflict between multiple institutional templates?

By concentrating on the interaction between managers and the socially constructed and symbolic aspects of functional practices in MNC subsidiaries, the above two issues have been translated into two initial propositions centring on the assumption and essence of the concept of institutional duality:

Initial Proposition (I) *When two MNCs, one based in a developed country, the other headquartered in a developing country, establish subsidiaries in each other's market, the dual institutional pressures from the host environments and the parent companies to the two subsidiaries, concerning all management practices, will be symmetrical, i.e. managers of the two subsidiaries are under a similar degree of pressure to adopt home/host country models of practice.*

Initial Proposition (II) *The essence of institutional duality is entirely conflict. In particular, a long institutional distance between home and host countries, e.g. one developed and one developing country, tends to make it difficult for MNCs to transfer home practices into subsidiaries or adopt local practices.*

The methodology adopted to examine these two propositions is presented and discussed in the next chapter.

Chapter 3: Research Methodology

3.1 Introduction

In Chapter 2, two initial propositions were developed based on the prior literature, focusing on the concept of institutional duality. This chapter describes the methodology used to generate data for examining the two propositions. A brief introduction to the methodology was provided in Chapter 1; this chapter builds on that introduction and tries to provide assurance that appropriate data collection and analysis procedures were followed in the research process. The chapter is organized around three topics: research design, data collection and data analysis.

3.2 Research Design

"The [research] design is the logical sequence that connects the empirical data to a study's initial research questions and, ultimately, to its conclusions" (*Yin* 2003, p20). There has been a heated debate concerning different research strategies (e.g. *Shaveson* and *Townes* 2002; *Sharp* 1998). The stance taken in this research is that various research strategies should be regarded as complementary. The most appropriate research design, rather than the best one, ultimately depends on the nature of the research and the resources available to the researchers. Nonetheless, the bottom line which can not be considered lightly is to generate data with high reliability and validity, to treat the data fairly, to produce compelling analytical conclusions, and to rule out alternative interpretations (*Parkhe* 1993; *Yin* 2003).

3.2.1 A Case Study Method

Most of the extant research on institutional duality has adopted quantitative methods, especially questionnaire-based surveys. While in the initial stage it is necessary to learn whether institutional duality genuinely exists through a broad based sample; it is time we gained closer understanding of how institutional duality takes place in MNC subsidiaries, not least because it can be challenging to collect quantitative data on companies based in developing countries (*Adler*, *Campbell* and *Laurent* 1989; *Shenkar* 1994; *Hoskisson, Eden, Lau* and *Wright* 2000; *Wright, Filatotchev, Hoskisson* and *Peng* 2005). In a critical review of MNCs based in developing counties, *Yeung* (1994) suggests that company level investigation, rather than aggregate analysis at the industry level, is still in great demand. Case studies, in conjunction with secondary data from published sources, continue as the preferred model of empirical research, as it could play a critical role in revealing rich insights.

It is worth noting again the position taken in this research in terms of institutional duality. As stated in section 2.4, Chapter 2, this research attempts to examine and refine the conceptualization of institutional duality by emphasizing in particular the interaction between subsidiary managers and the socially constructed and symbolic aspects of functional practices in subsidiaries. In line with this purpose, there are two main reasons why a case study method is more suitable than a questionnaire-based survey for this research.

Firstly, it is believed the choice of which functional practice to be studied should emerge during the research process rather than be decided at the outset. As noted in section 2.3, Chapter 2, MNCs and their subsidiaries have been seen as a nexus of differentiated practices, ranging from marketing to human recourse to finance, each of which is under institutional duality to varying degrees. Some functional practices, such as finance, are controlled more tightly by the parent company, others are not. Since this study is primarily interested in how MNCs cope with potentially contradictory home and host models of practices, it is believed that the issue of which functional practice to be studied is not primarily theoretical; rather, it needs to be resolved by empirical evidence. Furthermore, as the main aspect of organizational practice emphasized in this research is its "infused value", the most appropriate functional practices should be assessed using data from the subsidiary managers rather than be asserted by the researcher before going into the field.

Secondly, the cognitive elements of institutional duality are socially constructed and very hard to quantify. One of the important distinctions between institutional duality literature and the previous research on diffusion of technologies is the realization that organizational practices may become "infused with value - that is they may acquire meaning for organizational members that is symbolic and normative in nature, a meaning that goes beyond technical efficiency" (*Kostva* 1999). But, the recognition of this cognitive element of organizational practice has been obscured by "hard" country level aggregated questionnaire data. *Kostova* and *Roth* (2002) used a questionnaire based survey to construct a country institutional profile (CIP) for each country, which was defined as the issue-specific set of regulatory, cognitive, and normative institutions in a given country, to measure the favourability of managers towards the transferred practices in the country. Actually, to the extent that institutional duality is socially constructed and highly problematic at the level of company and individual (*Berger* and *Luckman 1967*), the same institutional distance may be interpreted differently among different individuals in the same subsidiary. In other words, institutional duality is not happening in "abstract" subsidiaries; rather, institutional elements enter organizations through people working in and around them (*Scott* 1995; *Westney* 1993; *Zucker* 1977). It is subsidiary managers who organize subsidiaries' activities and they are the very interface of institutional duality. A case study approach can provide more insight about subsidiary managers' cognitive understanding of home and host models of management practices.

To summarise, a case study method was deemed as the most appropriate strategy to carry out this research since it could provide the opportunity to investigate closely the perceived home and host models without making premature decisions, and bring out more insight of how and why subsidiaries interact with institutional duality in a certain way. Put another way, this research is more interested in looking at why and how the home or host models of practice were adopted from the subsidiary managers' viewpoint than examining the reified functional practices and how they were carried out. This focus on subjective meaning required the method of case study, which was regarded more sensitive to interpretation than frequency (*Ragin*1987; *Van Maanen* 1983).

3.2.2 Modified Analytic Induction

Many scholars have discussed the variety of ways of conducting research involving a case study method. For example, *Yin* (2003) provides a comprehensive presentation of the case study method, from designing, to collecting and analyzing case evidence, and finally reporting case studies. *Eisenhardt* (1989) proposes a roadmap for building theories from case studies. In a series of works, (*Glaser* and *Strauss* 1967; *Glaser* 1978; *Strauss* 1987), Glaser and Strauss recommend grounded theory building using a constant comparative method. Analytic induction, developed in *Znaniechi* (1934), *Robinson* (1951) and *Gilgun* (1995), is another slightly different approach to collecting and analyzing data as well as a way to develop a theory and test it. Focusing on data analysis, *Miles* and *Huberman* (1994) codified a series of useful procedures and techniques.

There is a consensus among these approaches that the case study method involves a close combination of data collection with data analysis. In the research, the emerging themes and categories often guide data collection in the following steps; then the analysis of the new data modifies or develops the original themes and categories. This is followed by more data and analysis, and so on – until the research is completed. For example, as *Glaser* (1978) noted, although one could talk about the constant comparative method as a series of steps, the analysis keeps doubling back to more data collection and coding. So the final result of most of these approaches usually comes out of a series of iterations between propositions and the findings, with repeated revisions as necessary.

However, when it comes to a starting point for case study research, especially concerning the role of literature and theory, there has been disagreement. *Yin* (2003) emphasized that the initial step in designing the study must consist of theory development, in which the researcher relates the study to previous theory and aims for a priori explanation. Having a proper research question, to Yin, was not enough, because "only if you are forced to state some propositions will you move in the right direction" (*Yin* 2003, p 22). In contrast, *Eisenhardt* (1989) and scholars championing grounded theory argue that theory building research from case studies should begin as close as possible to the ideal of no theory under consideration and no hypotheses to test. *Eisenhardt* (1989) suggests the research should just formulate a research problem in broad terms, and possibly specify some potentially important variables, with some reference to the extant literature. But thinking about specific relationships between variables and theories should be avoided.

So, while the former approach to the case method starts from focused research problems as well as preconceived variables and their relationships that explain the problem, the latter endeavours to set out from a "pure" problem without any explanations. It is argued here that the former approach may ignore the possibility of discovering new variables or relationships of interest during the research, as preconceived propositions may bias and limit findings. On the other hand, the latter approach is untenable in reality. Even *Eisenhardt* (1989) herself concedes that "it was impossible to achieve this ideal of a clean theoretical slate" (p536). Moreover, the resulting research of the latter approach may simply replicate prior theory, or there may be no clear patterns within the data. Therefore, in the present research, a middle road was taken by borrowing some parts of modified analytic induction method (*Robinson* 1951; *Gilgun* 1995) and synthesizing them with the above two approaches.

The method of analytic induction can be traced back as early as *Znaniechi* (1934). Early adopters include *Anguell* (1936), *Lindesmith* (1947) and *Cressey* (1950). *Robinson* (1951) gives an explicit and systematic statement of the method as a research procedure as follows: "(1) A rough definition of the phenomenon to be explained is formulated. (2) A hypothetical explanation of that phenomenon is formulated. (3) One case is studied in the light of the hypothesis with the object of determining whether the hypothesis fits the facts in that case. (4) If the hypothesis does not fit the facts, either the hypothesis is re-formulated or the phenomenon to be explained is re-defined, so that the case is excluded. (5) Practical certainty may be attained after a small number of cases have been examined, but the discovery by the investigator or any other investigator of a single negative case disproves the explanations and requires a re-formulation. (6) This procedure of examining cases, re-defining the phenomenon and re-formulating the hypothesis is continued until a universal relationship is established, each negative case calling for a re-definition or a re-formulation" (p813).

So, the method of analytic induction begins with an explanatory hypothesis and a definition of something to be explained. This seems to be the same as *Yin*'s (2003) case study method. However, the difference is that the initial definition and hypothesis with analytic induction is provisional. The very intention of having a definition and hypothesis is to refute and modify them. When compared with case evidence, "modifications are made in two ways: (1) The hypothesis itself is modified so that the new facts will fall under it, and/or (2) the phenomenon to be explained is re-defined to exclude the cases which defy explanation by the hypothesis" (*Robinson* 1951, p813).

This procedure of working hypotheses shares similarities with "shaping hypotheses", in *Eisenhardt*'s (1989) case approach, and the constant comparative method of grounded theory building, as in all three approaches the emergent relationships between variables are tested against each new case. Sometimes a relationship is confirmed by the case evidence, while other times it is revised, disconfirmed, or thrown out for insufficient evidence. But with analytic induction, the initial hypotheses do not emerge from the field; they "can be based on [the researcher's] hunches, assumptions, careful examination of research and theory, or combinations" (*Gilgun* 1995, p269). These initial hypotheses to the researcher are just like the first clue to a detective: however crude, it can provide something to start with.

Originally, early scholars like *Znaniechi* (1934) held that analytic induction gives us exhaustive knowledge of the situation under study, so that further study would not and could not reveal anything new. It is also maintained the method produces universal and causal hypotheses. But contemporary researchers have de-emphasised universality and causality and have emphasized instead the development of descriptive hypotheses that identify patterns of behaviours, interactions and perceptions (*Gilgun* 1995). *Bogdan* and *Biklen* (1992) call this new version modified analytic induction.

Gilgun (1995) provides an illustration of the method in a study of incest perpetrators. She uses the literature – driven concepts, care and justice, to sensitize her throughout the research while remaining open to discovering concepts and hypotheses not accounted for in the original formulations. As she noted, "I was anchored by my knowledge of the relevant literature, while at the same time I found I was discovering information I did not anticipate. Analytic induction, then, combined the discovery aspects associated with grounded theory while anchoring research processes to prior research and theory" (p278). She did have new insight from the study: "Most striking about the perpetrators' accounts was that almost all of them defined incest as love and care...These were unanticipated findings. I did not hypothesize that perpetrators would view incest as caring and as romantic love. Rather, I had assumed that incest represented lack of care and, implicitly, an inability to love" (p270). As a result, she reformulated the hypotheses to such an extent that she generated new sets of statements.

3.3 Research Setting

The current research has been carried out in two groups of subsidiaries: British subsidiaries of Chinese MNCs and Chinese subsidiaries of British MNCs.

3.3.1 China's Inward and Outward FDI

China has become a legitimate and viable context for management and organization research (*Tsui*, *Schoonhoven*, *Meyer*, *Lau* and *Milkovich* 2004). Its unique environment and organizational practices have long represented a challenge to the universality of management theories as well as a real-life testing ground for their applicability. The last 30 years of economic and administrative reform have enabled an investigation of what may amount to be the largest scale organizational development and change ever attempted (*Warner* 1987; *Laaksonen* 1988; *Shenkar* 1991; *Child* 1994). The transition from a planned economy to a market-based one has changed fundamental managerial assumptions, criteria, and decision making and represents a genuine transformation of the business (*Warner* 1992; *Tan* and *Litschert* 1994; *Ralston*, *Gustafson*, *Terpstra* and *Holt* 1995; *Guthrie* 1997). *Boisot* and *Child* (1988, 1996) developed an institutional framework by arguing that the traditional "markets versus hierarchies" typology found in the West (*Williamson* 1985) needed to be expanded to account for organizational behaviour in China's transitional economy. They suggested that the limited extent of codification of information and communal property rights and organization of economic transactions caused the former state-command system in China to move not toward a market order, but toward a distinctive institutional form network-capitalism. The system "works through the implicit and fluid dynamic of relationships" based on managers' trust and agreements (*Boisot* and *Child* 1996, p625). The network-based strategy of growth and expansion has been highlighted and demonstrated in a series of articles by Peng and his colleagues (*Peng* 1994, 1996, 1997, *Peng* and *Heath* 1996; *Peng* and *Tan* 1998). This network system is suited to absorbing environmental complexity and uncertainty by creating options and risk-hedging strategies, often through alliance. It contrasts with the complexity reduction approach preferred by Western firms, which entails getting to understand the complexity and acting on it directly, including attempts at environmental enactment (*Boisot* and *Child* 1999).

China's transition to a market-based economy also includes a progressive engagement with international business (*Child* 2001; *Child* and *Tse* 2001). Indeed, since the mid-1990s, China has established itself as the top recipient of foreign direct investment (FDI) among developing countries (*UNCTAD Investment Brief Number 2*, 2007). In 2002, China even overtook the US to become the largest recipient of foreign direct investment (FDI) in the world (*Tung* 2005). According to the UN Conference on Trade and Development (UNCTAD)'s World Investment Report, in 2007 China continued to receive the most FDI inflows of any developing country at 67.3 billion dollars. The report also shows that China hosts the largest number of foreign affiliates in the world.

The predominant motive for foreign companies investing in China has been to gain faster entry to the domestic market and maintain strong business presence ahead of their competitors (*Glaister* and *Wang* 1993; *Child* 1994; *Yan* and *Child* 2002). Some investment from Hong Kong, Japan and Singapore has also been attracted by lower costs of labour and sourcing in China. An increasing number of MNCs are also likely to establish their R&D facilities in China given the relatively high level of Chinese technical education (*Child* 2001).

Besides becoming the most popular destination of inward FDI, China is currently the most active internationalizing economy among the developing countries (*Child* and *Rodrigues* 2005). But, as *Peng*, *Yuan*, *Shenkar*, and *Denis* (2001) point out, the internationalization activities of Chinese companies have not received much research attention. This is unjustifiable as the expansion of Chinese outward FDI has grown rapidly to the point where China has become the world's fifth outward direct foreign investor with a total of US$ 37 billion by the end of 2004 (*Ministry of Commerce* 2005). Although this internationalization process is still at an early stage, it is proceeding at a rapid pace (*Nolan* 2001).

China's outward FDI has progressed through several stages (*Cai* 1999; *Warner, et al* 2004). Before the late 1970s, China's outward FDI was minimal and activities were largely trade servicing in nature, and hence did not qualify as FDI (*Tung* 2005). However, starting in the mid-1980s, especially after 1992, there was a big jump in China's FDI outflow (*Cai* 1999; *Deng* 2004). The period of 2000 until the present day has witnessed a proactive positioning of China's transnational business and investment activities, now located within an expressly integrated framework of strategic planning at both the national and enterprise levels (*Warner et al* 2004).

On the other hand, China has been viewed as one of the cases of "late development" process (e.g. *Warner et al* 2004; *Child* and *Rodrigues* 2005). When compared with the global giants from developed countries, MNCs based in developing countries like China often suffer from some common disadvantages, such as their weakness in R&D, their limited marketing capacity and lack of brand development (*Yeung* 1994). In addition, similar to many other newly industrialized countries (*Aggarwal* and *Agmon* 1990), the Chinese government has, to a great extent, played a crucial role in shaping the pattern of Chinese outward investment (*Deng* 2004). Many of the early investment activities were motivated by the governments' political rather than commercial interests. This was particularly evident in China's heavy investment in

Hong Kong and, to a lesser extent, in some strategically and politically important Third World countries (*Zhang* and *Bulcke* 1996, *Cai* 1999, p859). Whereas in the past, particularly in the 1980s, the Chinese governmental agencies tended to control and limit outward FDI, more recently they have adopted the role of sponsor and fund-provider for firm internationalization (*Child* and *Rodrigues* 2005). There is an increasingly strong political commitment on the part of the Chinese government to further liberate its economic system and provide greater integration into the regional and global economy. In particular, outward FDI has increasingly been seen as a strategic option for establishing a presence in foreign markets, getting access to foreign resources and increasing the competitiveness of Chinese companies.

There are four main motives for outward FDI from China (*Child* 2001; *Cai* 1999; *Deng* 2004). Broadly, as *Boisot* (2004, p6) argued, in contrast to the assumptions of conventional international business theory, "many Chinese firms will not be moving abroad to exploit a competitive advantage that was developed in the domestic market, but to avoid a number of competitive disadvantages incurred by operating exclusively in the domestic market". The first motive for many outward FDI from China is to provide support for foreign trade. The second motive, which could be called resource-seeking, is to gain and secure access to raw materials. Many of these companies are state owned material processing enterprises in strategic sectors, such as oil companies. Another motivation for Chinese MNCs to invest overseas is often to seek advanced technologies (*Young*, *Huang* and *McDermott* 1996). The fourth motive is market-seeking, which has only recently been evidenced by a number of leading Chinese companies internationalizing with a view to becoming global players competing with other giant MNCs in the international market (*Child* and *Rodrigues* 2005; *Warner et al* 2004). While this last group of Chinese MNCs do heavily invest in other developing markets (*Deng* 2004) especially the Asian-Pacific region, such as Hong Kong (*Cai* 1999), they appear to focus on developed countries like those in Europe or the US quite early on, probably because these companies are pursuing long-term globally-oriented strategies (*Child* and *Rodrigues* 2005). This PhD research focuses on the last group of Chinese MNCs, because (1) they are the type of companies going abroad with the primary intention of competing in international markets; (2) as *Deng* (2004) predicts, Chinese MNCs will place more emphasis on seeking strategic assets, such as globally recognized brands, and proprietary knowledge by concentrating on developed countries.

Yet, there has been so far a dearth of empirical studies on how Chinese MNCs manage their overseas subsidiaries, especially in the developed countries. Among a few exceptional studies, *Zhang* (2003) shows how Chinese MNCs' UK subsidiaries use the advanced environment of a developed country to transfer best practices of human recourse management into their organizations. However, the case companies that Zhang studied were in banking and trade-supporting areas, which belong to the first group of Chinese MNCs categorized above.

3.3.2 UK's Inward and Outward FDI

Britain was the first country to industrialize, applying the ideological principle of capitalism, in which an economic agent, individual or collective, pursues the maximum reward in commercial activities. The environment within which business organizations operate is diverse, consisting of: well developed markets coordinating transactions of commodities, products, financial resources, and labour; a mixed economy in which private ownership is dominant in most industries and government plays a role in the public sector; economic policy-making through limited intervention in market competition, whereby political systems are separated from business practices; and a comprehensive set of laws and legal systems binding the rights, identity, and obligations of an economic agent (*Farnham* 1990).

UK management practices share some features with that of the USA and other so-called Anglo-Saxon countries (*Hickson* and *Pugh* 1995). Many US and UK companies are managed for the maximization of profits and the short-term satisfaction of shareholders (*Calori* and *De Woot* 1994; *Jacobs* 1991). Both societies are heavily oriented towards the use of contracts for governing business and employment relations (*Arrighetti*, *Bachmann* and *Deakin* 1997). Anglo-Saxon business models place great emphasis on rationalism and formalization associated with a high use of formal systems and operating procedures, although this is found to a lesser extent in UK companies (*Lawrence* 1996). The MBA is seen as a necessary qualification for corporate advancement.

Although the UK has been a major host economy for inward FDI throughout the twentieth century (*Jones* 1993), the scale of inward FDI since the mid-1980s has been large and growing. The UK has become the most popular destination in Europe for overseas investors. The USA, Japan, Germany and France have been the largest national sources of this inward FDI. According to the World Investment Report 2007 of the United Nations Conference on Trade and Development (UNCTAD), the UK attracted US$1,135 billion in FDI stocks in 2007 and was US$353 billion ahead of France, which ranked second in Europe. Globally, the UK ranked second only to the USA in the report produced by UNCTAD.

The UK has positioned itself as a mature market, producing higher-value goods and services and with a highly-skilled workforce. Foreign investors are attracted by the UK's general business environment, economic stability, and the tax and regulatory regime. While the UK cannot necessarily compete with emerging economies on cost, the UK is not only an important and valuable market in its own right but also provides a platform for reaching markets in Europe. More than one-third of the UK's manufacturing sector is now foreign owned, and it is an even more important source of jobs in many regions. And the open nature of the UK's service sector, particularly in telecoms and financial services, has encouraged a recent wave of service sector investment. There has also been an increasing tendency for R&D in the UK to be carried out by foreign firms. Mirroring this, UK firms have been doing an increasing amount of their R&D abroad (*Bloom* and *Griffith* 2001).

In addition to greenfield and expansion investment, a major vehicle for inward FDI has been the acquisition of UK companies (*Child*, *Faulkner* and *Pitkethly* 2000). These foreign investments have impacted on UK domestic management practices, for instance, *Child*, *Faulkner* and *Pitkethly* (2000) found clear evidence from a survey of UK companies acquired by American, French, German and Japanese companies between 1985 and 1994, that the very process of being acquired and subsequently controlled by foreign investing companies led to significant changes in their management practices.

The UK is also one of the top 10 developed source countries of FDI outflows. Outflows from the UK fell by 5% to $79 billion in 2007; nevertheless, its position as the world's second largest source country of FDI in terms of stock remained intact. Large UK companies in telecommunications and finance continue to invest in developing countries, as illustrated by the acquisitions by the Vodafone group of firms in Turkey and South Africa and by HSBC of a bank in Panama (*World Investment Report* 2007). The UK is predicted to be the second largest outward investor globally between 2007 and 2010.

A substantial proportion of the world's leading companies are UK-owned. The "*Financial Times Global 500*" survey[3], which identifies the largest 500 global companies by market value, calculates that UK companies comprise the third highest number of the world's largest companies, behind only the US and Japan. Major UK companies in the list include BP, Vodafone, GlaxoSmithKline, HSBC, The Royal Bank of Scotland, Barclays, AstraZeneca, Tesco and Diageo. The major UK companies account for the second highest market capitalization in the world, only bettered by the US.

[3] www.ft.com/ft500

3.3.3 Bilateral FDI between the UK and China

According to *Deming* (2008), the China-UK trade volume amounted to 39.4 billion US dollars by 2007. The UK has become China's 3rd largest trade partner in the EU, while China is the UK's largest trade partner in Asia. The mutual investment between the two countries has enjoyed steady development. According to UK Trade and Investment, the UK is the biggest EU investor in China, with nearly 5,130 joint ventures by June 2006. The accumulative UK investment in China has amounted to nearly 15 billion dollars.

Like many foreign companies investing in China, the predominant motive for British companies in China has been to gain faster entry to the domestic market and maintain a strong business presence ahead of their competitors (*Glasister* and *Wang* 1993; *Child* 1994; *Yan* and *Child* 2002). British partners in Sino-British joint ventures are found to prioritize "market-related" strategic objectives in running IJVs. It is reported that the achievement of the initial objectives of British partner firms is often less satisfactory than envisaged at the formation of the IJV. This is commonly associated with conflicts arising from strategic objective compatibility with the Chinese partner and lack of congruence between partner objectives at the time of creation of the IJV (*Yan* and *Child* 2002).

In terms of the other side of investment flow, Britain is already by far the largest recipient of Chinese foreign investment in Europe; a third of all Chinese investment in the UK goes to London (*Willman* 2007). According to UK Trade and Investment (*UK Inward Investment 2006/2007*) China was the source of the second largest number of investment projects among developing countries only after India. The number of projects from China almost doubled during the year, up from 27 to 52. Until 2007, more than 220 companies from mainland China had investments in the UK. 48 Chinese companies were listed on the London Stock Exchange.

Many Chinese companies want a platform from which to sell their products throughout Europe and the Middle East. However, they are also seeking to move away from mass produced products where competition is eroding margins, and are looking for the design and marketing skills that the UK can offer. For example, Midea, China's second largest domestic appliance manufacturer, has already created a design centre at its European headquarters in Finchley, north London.

The prior research on institutional duality, as reviewed in Chapter 2, has been overwhelmingly concentrated on US based MNCs. Therefore, in summary of the above discussion, British MNCs' Chinese subsidiaries seems to be a suitable European choice to be compared with Chinese MNCs' British subsidiaries for the purpose of this research, given that: (1) The UK and China are currently among the most active internationalizing economies in developed and developing countries respectively; (2) the UK ranked first among European countries in terms of the total stock of FDI in China and the UK remains China's largest investment country in the EU; (3) the institutional difference between the UK and China is large enough to result in institutional duality in British subsidiaries of Chinese MNCs and Chinese subsidiaries of British MNCs.

3.3.4 Entry-modes of the Case Subsidiaries

With regard to the entry-modes of subsidiaries, international joint ventures (IJVs) are not excluded from the case sample in this research, as long as the parent companies own more than 50% of the IJVs. This is consistent with the definitions of subsidiary used in many leading global databases on the ownership of MNCs, such as D&B's Who Owns Whom[4]. In addition, there are two reasons for this inclusion of IJVs in the present research. First, *Davis*, *Desai* and *Francis* (2000) found that entry methods of subsidiaries are affected by the two competing sources of isomorphic pressures, namely the host country (external) institutional environment, and the (internal) institutional environment of the parent organization. Their results indicate that subsidiaries using wholly-owned entry-modes demonstrate high levels of internal isomorphism; those subsidiaries using joint ventures demonstrate more external isomorphism; those using multiple or mixed entry-modes demonstrate low levels of isomorphism to either sources. These results confirm *Davis et al*'s (2000) prediction that the entry-mode of a subsidiary is dependent on the relative strength of internal versus external isomorphic forces. Although their data do not suggest how the two competing institutional forces determine entry-modes, the implication of this association between entry-mode and institutional duality is clear: excluding IJVs and only focusing on wholly-owned subsidiaries in the case sample could lead to biased findings that downplay the significance of the external institutional forces of the host country.

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[4] D&B - Who Owns Whom is a worldwide company directory file that links a company to its corporate family, showing the size of the corporate structure, family hierarchy, and key information on the parent company, headquarters, branches, and subsidiaries worldwide.

Second, forming joint ventures with local partners has been one of the main vehicles for both Chinese MNCs and foreign companies in China. Chinese MNCs have a preference for joint ventures or various co-operative projects with local partners for reasons of limited financial resources, lack of necessary knowledge of local business conditions, minimizing or avoiding various risks, and use of the various existing networks of local partners (*Cai* 1999; *Deng* 2004). Within the joint ventures, however, Chinese MNCs are generally inclined to hold a majority equity share, between 40 and 70 per cent, so as to be able to control the operation of ventures.

In the Chinese market, joint venture was the most popular entry-mode for foreign MNCs before the mid-1990s. Considerable attention has been paid to this topic. Research includes coverage of the characteristics of JVs in China (*Beamish* 1992), foreign companies' motivations and preferences in partner selection (*Glaister* and *Wang* 1993; *Schroath*, *Hu* and *Haiyang* 1993), learning and decision making (*Yan* and *Child* 2002), factors influencing control (*Child* and *Yan* 1999) and the performance of international JV (*Child* and *Yan* 2003; *Yadong* 1995). However, since entering China, many foreign companies have endeavoured to convert their "first-generation" joint ventures into "second-generation" wholly owned subsidiaries, or at least secure a substantial majority of equity ownership (*Vanhonacker* 1997; *Peng* 2000). Wholly foreign-owned enterprises (WFOEs) have grown rapidly since 1997 and their growth exceeded that of JVs for the first time in 2000. This is mainly due to a number of problems that have been noted concerning Sino-foreign JVs, including concerns about the competence of the Chinese partner, a dislike for shared control in an IJV, and frustration that IJVs often do not deliver the expected business objectives

(*Yan* and *Warner* 2001). Thus, the combinational factors – the disappointing performance of too many IJVs, the inherent advantages of WFOEs, such as the flexibility and managerial control they deliver, and changes in government regulations creating a less uncertain environment – have made the shift from IJVs to WFOEs as the preferred market entry method for Western firms, including British companies (*Yang* 1998; *Wilson* and *Brennan* 2003). Nonetheless, some scholars have warned that there is no over-simple "one-best-way" in the choice between an IJV or a WFOE as a market entry method in China, rather it depends on firm-level contingencies such as size, experience in China, and other conditions in the macro-environment such as the nature of the industry and geographical region in China (*Pan* and *Chi* 1999; *Child* 2001; *Yan* and *Warner* 2001; *Wilson* and *Brennan* 2003).

Therefore, the above two reasons, one theoretical and one empirical, exhibit the complex and closely associated relationship between the dual institutional forces and the different entry-modes. Disentangling this complexity and linkage entails attention to both IJVs and WFOEs as entry-methods in case subsidiaries.

3.4 Data Collection and Analysis

Case studies were carried out between August 2005 and November 2006 in four British subsidiaries in China and three Chinese subsidiaries in the UK (*see Descriptions of Case Companies in Table 3.1*).

Following the logic of modified analytic induction, the process of data collection and analysis was in two stages: the first was a pair of initial case studies, one British subsidiary of a Chinese MNC and one Chinese subsidiary of a British MNC, for exploratory purposes; they were then followed by more focused and explanatory multiple case studies. As a result, the two initial propositions were modified twice in light of the data revealed by the new cases in each stage.

3.4.1 Stage 1: Two Initial Case Studies

In stage one, two cases, one Chinese subsidiary of a British MNC and one British subsidiary of a Chinese MNC, were selected for preliminary comparison for three exploratory purposes: the first was to examine whether institutional duality existed in the two cases. Second, for the reasons noted earlier (*see Chapter 2, section 2.5*), the two cases were used to probe the issue of which functional practice Chinese and British subsidiary managers perceived to confront institutional duality to the greatest degree. That is, in a certain functional area the managers constantly felt it difficult to adjust back and forth between the home and host models of practice. This made sure that the selected functional practice would be the one in which managers perceived that home and host models were most likely to be contradictory. Third, the cases were used to test the two tentative propositions developed at the end of Chapter 2.

3.4.2 Data Collection in the Two Initial Cases

The two subsidiaries studied initially were Bfmcg China and Cappliance UK[5]. While Bfmcg had a long history of successful internationalization, Cappliance was a new player in the global market. However, Cappliance had been one of the first Chinese enterprises to implement an internationalization strategy and had been considered to

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[5] The companies' names are pseudonyms adopted to preserve anonymity.

be the official template for the Chinese MNC of the new millennium. This match was to increase the "fairness" of the comparison, as both case MNCs were regarded as first class among MNCs based in China and the UK.

The most central data collection method used in the two initial cases was semi-structured open-ended interviews. According to *Yin* (2003), an open-ended interview is an interview in which key informants are asked about the facts of a matter as well as their opinions about events. In some situations, the informants might even be asked to propose their own insights into certain occurrences and these explanations may be used as the basis for further inquiry. The semi-structured interviews "had the dual benefit of enabling the researcher to stay focused, yet concurrently to investigate topics of interest in greater details where these arose" (*Child* and *Tsai* 2005, p103-104).

In Cappliance UK, interviews with nine managers were conducted, including three senior managers (two co-managing directors and one non-executive director), and six middle level managers responsible for key functions. For Bfmcg China, two senior managers (the Chairman and one of the vice presidents) and two middle-level marketing manager were interviewed. The main issues raised in the interviews were the founding of the company, the major changes of the company's structure and its functioning, and the informants' views on the different functional practices in the parent, local and subsidiary companies (*See Appendix I for a checklist of interview questions asked in the two initial cases*). During the interviews, it was noticed that only senior managers, who either were expatriates themselves or local people having opportunities of constant interaction with parent and local companies, were knowledgeable enough to compare both local and MNC's organizational practices. Nonetheless, the interviews with middle level managers provided detailed information on different functional practices. These interviews also offered useful opportunities for data triangulation.

All interviews were recorded. Each interview typically lasted about an hour and half to two hours. Only two were conducted in Chinese: one with the vice president of Bfmcg China, the other with one middle level finance manager from Hong Kong at Cappliance UK; the rest of the interviews were conducted in English.

The data obtained from these interviews were then supplemented by: (1) public information sources, such as The McKinsey Quarterly, Financial Times, The Economist, etc.; (2) company information sources, such as company website, annual reports, and PowerPoint presentations.

3.4.3 Data Analysis in the Two Initial Cases

Primarily, the data analysis of the two initial cases focused on the interviews with senior managers of the subsidiaries, as the researcher's account of the studied scene should be built on the information provided by the most knowledgeable members of that scene (*Van Maanen* 1979). However, the interviews with middle level managers were used to cross-check and provide more background information.

Table 3.1 Descriptions of Case Companies

Chinese Subsidiaries in the UK

Company \ Profile	Ownership of the Parent Company	Industry	Year of Foundation	Funding Method	Size (Number of Employees)	Number of Informants
Cdirect UK	Public Company	Direct Selling	2001	WOS	11	6
Ctransport UK	State-owned Company	Transportation	1998	JV (Chinese 60%, British 40%)	85	7
Cappliance UK	Collective Company	Household Appliances	2003	JV (Chinese 60%, British 40%)	15	9

British Subsidiaries in China

Company \ Profile	Ownership of the Parent Company	Industry	Year of Foundation	Funding Method	Size (Number of Employees)	Number of Informants
Bairlines China	Public Company	Airline	1999	WOS	33	6
Bservice China	Comprising charities and non-charitable companies	Risk Management Service	1970	WOS, but entered into a JV with a local partner	160	4
Bengineering China	Public Company	Engineering	1997	Integration five business groups into one corporate	80	5
Bfmcg China	Public Company	Fast Moving Consumer Goods	1986	Conversion of 14 JVs into one WOS	500	4

JV = Joint Venture WOS = Wholly Owned Subsidiary

The analysis was organized at two levels (*Van Maanen* 1979; *Gioia, Thomas, Clark,* and *Chittipeddi* 1994). A first-order analysis was conducted to discover themes and patterns in terms of informants' accounts of events. It employed description that was meaningful to, and used by, the informants in the study. Given the purpose of the research, particular attention was paid to: (1) the functional area(s) in which the managers constantly felt it difficult to adjust back and forth between the home and host models of practice; (2) the interpretations made by the managers in terms of which and why a set of practices had been adopted in that function: parent, local or mixed. As reported in more detail in Chapter 4, it emerged in both case subsidiaries that marketing practices were seen as the functional practices under institutional duality to the greatest extent compared with other areas of management practices. Therefore, the first-order reporting takes the form of a mini-case report centred on marketing practices. The reports were generated mainly by using quotations from the interviews and combining with other background information.

The second order analysis moved to a more theoretical level, wherein the data and first-order findings, i.e. the mini-case reports, were examined in line with the two initial propositions. It began by applying a "start list" of codes to the data (*Miles* and *Huberman* 1994). The start list of codes may come from "the conceptual framework, list of research questions, hypothesis, problem areas and/or other key variables that the researcher brings to the study" (*Miles* and *Huberman* 1994). In this research, these codes (*See Table 3.2*) were generated based upon the two initial propositions and some of the key literature on institutional duality. Specifically, the codes associated with "Stereotype" and "legitimacy spill-over" were generated based on

Kostova and *Zaheer* (1999). The codes related to "institutional logic" were developed by drawing on *Greenwood* and *Hinings* (1996) and *Suddaby* and *Greenwood* (2005). These perceptive characteristics of the legitimation process affect the legitimacy of a certain set of marketing practices by influencing subsidiary managers' cognitive understanding towards these practices (*Kostova* and *Zaheer* 1999). The rest of the codes were based on the two initial propositions. Data from the transcripts were repetitively reviewed, coded, categorized, and studied for content and meaning against the start list of codes. This was similar to what *Glaser* and *Strauss* (1967) called "theoretical sampling". In some circumstances, the start list of codes was confirmed and proved to be useful; in others, the codes did not fit very well with the data and were revised; in still other circumstances, new codes were added to the list.

When analyzing data concerning the explanations/justifications provided by subsidiary managers in relation to which and why a set of marketing practices had been adopted, care was taken to differentiate between normative and cognitive institutional pressures. Whereas those statements conveying a reflex sense of "who we are determines what we do and how we do it" were classified as indicating cognitive institutional pressures, those conveying an altruistic sense of "when in Rome, we are expected to do as the Romans do" were categorized as signalling normative pressures. For example, in the case of Bfmcg China, when explaining why the subsidiary had rejected the idea of incorporating a local Chinese model of distribution systems, the Chairman said, "The [local] management system is primarily loyalty-based... That system is not something which a multinational can follow... Loyalty is important, of course, but is not a primary backbone for a multinational company's management system." This statement was classified as conveying a cognitive institutional pressure, since the chairman's justification was not on the grounds that adopting the local model would contradict the expectations of the parent company or other sister subsidiaries, rather, the explanations were directly and explicitly based on his own assumption of Bfmcg being a global company. That is, having a management system chiefly resting on loyalty would conflict with the identity perceived by the chairman of Bfmcg as a multinational company.

The coding process stopped when a saturation point (*Glaser* and *Strauss* 1967; *Eisenhardt* 1989) was reached – that is, the iteration process between codes and data stopped when the incremental improvement to the codes was minimal. The new list of codes was then developed and referred to here as "a list of modified codes" (*See Table 3.3*). Based on this new list of codes, the initial two propositions were modified.

3.4.4 Stage 2: Multiple Case Studies

The second stage of data collection and analysis took into account a number of methodological guidelines offered by *Yin* (2003), *Eisenhardt* (1989) and *Gilgun* (1995). Firstly, it adopted what *Yin* termed multiple case design, which followed a replication logic (*Yin* 2003), whereby multiple cases were treated as a series of experiments, each case serving to confirm or disconfirm the inferences drawn from previous ones. Secondly, in carrying out the multiple case studies, the analytic induction process continued (*Gilgun* 1995). Specifically, the data from multiple cases

Table 3.2 The Start List of Codes

Codes	A Short Description	Code Definition
ID	Institutional duality	Managers are conscious of the competing home and host models of marketing practices
	Local	
LP-UK	Local practices in the UK	Managers' views on local companies' marketing practices in the UK
LP-CH	Local practices in the China	Managers' views on local companies' marketing practices in China
LIL-UK	Institutional logic in the UK	Local institutional logic regarding marketing in the UK
LIL-CH	Institutional logic in China	Local institutional logic regarding marketing in China
	Parent	
PP-CH	Parent's practices in the Chinese MNCs	Managers' views on parent company marketing practices in the Chinese MNCs
PP-UK	Parent's practices in the British MNCs	Managers' views on parent company marketing practices in the British MNCs
S-CH	Stereotyped Chinese practices in the UK	The stereotypes of Chinese companies and their marketing practices in the UK
S-UK	Stereotyped British practices in China	The stereotypes of British companies and their marketing practices in China
L-CH	Spill-over for the whole Chinese MNC	The contribution of gaining legitimacy in the UK to the legitimacy of the Chinese MNC as a whole
L-UK	Spill-over for the whole British MNC	The contribution of gaining legitimacy in China to the legitimacy of the British MNC as a whole
	Subsidiary	
SP-CH	Subsidiary's practices in the Chinese subsidiaries in the UK	Managers' views on the subsidiary's practices in the Chinese subsidiaries in the UK
SP-UK	Subsidiary's practices in British subsidiaries in China	Managers' views on the subsidiary's practices in the British subsidiaries in China

Table 3.3 The List of Modified Codes

Codes	A Short Description	Code Definition
ID	Institutional duality	Managers are conscious of the competing home and host models of marketing practices
IDUK	Institutional duality with a bias towards the UK	Managers are under more pressure to adopt the perceived British model of marketing practices
	Local	
LP-UK	Local practices in the UK	Managers' views on local companies' marketing practices in the UK
LP-CH	Local practices in the China	Managers' views on local companies' marketing practices in China
ELIL-UK	Established local institutional logic in the UK	Local institutional logic regarding marketing in the UK is relatively stable
TLIL-CH	Transitional local institutional logic in China	Local institutional logic regarding marketing in China is relatively unstable
	Parent	
PP-CH	Parent's practices in the Chinese MNCs	Managers' views on the parent company's marketing practices in the Chinese MNCs
PP-UK	Parent's practices in the British MNCs	Managers' views on the parent company's marketing practices in the British MNCs
NS-CH	Negative stereotypes of Chinese companies in the UK	The stereotypes of Chinese companies and their marketing practices in the UK is negative
PS-UK	Positive stereotypes of British companies in China	The stereotypes of British companies and their marketing practices in China is positive
ML-CH	More spill-over for the whole Chinese MNC	The contribution of gaining legitimacy in the UK to the legitimacy of the Chinese MNC as a whole is bigger
LL-UK	Less spill-over for the whole British MNC	The contribution of gaining legitimacy in China to the legitimacy of the British MNC as a whole is smaller
	Subsidiary	
SP-CH	Subsidiary's practices in the Chinese subsidiaries in the UK	Managers' views on the subsidiary's practices in the Chinese subsidiaries in the UK
SP-UK	Subsidiary's practices in the British subsidiaries in China	Managers' views on the subsidiary's practices in the British subsidiaries in China
CH-AB	Absorbing local practices	The Chinese MNCs tend to absorb local marketing practices rather than export home practices to their subsidiaries in the UK
UK-EX	Exporting home practices	The British MNCs tend to export home practices rather than absorb local marketing practices in their subsidiaries in China.

were carefully examined one by one in the light of the modified propositions. If the cases turned out as predicted, they would be used to provide compelling support and richer understanding for the modified propositions; if the cases were in some way contradictory, the propositions would be revised a second time. Meanwhile, other important factors and dimensions, which had not been noticed from the initial two cases and hence not included into the propositions, would be identified. The outcome of this analysis was that the propositions modified using the two initial cases were re-formulated again.

3.4.5 Data Collection in Multiple Case Studies

According to the method of modified analytic induction, the second round of modification continued in deliberately selected potential negative cases (*Robinson* 1951; *Gilgun* 1995). Negative cases are those cases that may be likely to challenge the explanations and require further re-formulation to the phenomenon and/or propositions. Following this logic, several caveats were identified in interpreting the findings of the two initial cases (*see Chapter 4, section 4.4*). These caveats were then applied as criteria for selecting the multiple cases. Based on the findings of the two initial cases and bearing in mind these caveats, the criteria for selecting the multiple cases were: (1) marketing function should be strategically important to the case subsidiaries; (2) the Chinese subsidiaries of British MNCs should be relatively small and with shorter internationalization experience; (3) the British subsidiaries of Chinese MNCs should include wholly owned subsidiaries.

By using these criteria, two more Chinese subsidiaries in the UK and three more British subsidiaries in China were selected. They were Cdirect UK, Ctransport UK, Bairlines China, Bservice China and Bengineering China[6]. To ensure that the findings would be valid for a wide spectrum of companies, sampling also accommodated substantial variation in terms of age, ownership and industry.

3.4.6 Data Sources in Multiple Case Studies

A case protocol, which is "a standardized agenda for the investigator's line of inquiry" (*Yin* 2003, p68), was developed and deployed in the investigation of each case subsidiary. Semi-structured interviews were carried out with the country manager, other senior management team members responsible for marketing and the marketing team in the case companies. The interview consisted of a series of open-ended questions based on the modified propositions. In the meantime, it also focused on the discussion of how marketing practices were organized to capture the managers' views on marketing practices in parent, local and subsidiary companies. Specifically, the senior managers were asked to portray at least two marketing issues or events that they considered critical to the subsidiary. Then, in the interviews with the marketing team, those issues or events were traced and triangulated. In all cases, all senior managers and marketing teams agreed at least two issues or events that were significant for the subsidiaries. The informants were also encouraged to express their views and comments on these issues and events in the interview, through comparison with either the parent company (if the informant was an expatriate) or local companies (if the informant was recruited locally). All interviews were

[6] Again, the companies' names are pseudonyms adopted to preserve anonymity.

recorded. The data obtained from these interviews were supplemented by secondary data, wherever available, such as the company's website, annual reports, and PowerPoint presentations.

Although there were propositions to be tested, all interview questions were asked in a "probe" not "lead" way (*Easterby-Smith*, *Thorpe* and *Lowe* 1991). For instance, to understand how the informants considered the legitimacy spill-over of the subsidiary, they were asked "How would you describe this subsidiary's role in your parent company's global strategy? In what way do you believe this subsidiary contributes to your parent company?" Also, the designed open questions were supplemented with ones that seemed fruitful to pursue during the interview *(See Appendix II and III for a checklist of interview questions asked in the multiple cases).*

In the field, efforts were also made to be open to new data sources where they emerged. For example, when doing fieldwork at Cdirect UK, a Chinese direct selling company, an opportunity arose for me to observe, in a London five-star hotel, one of the company's important marketing activities, Open Plan Presentation (OPP), which was attended by around 600 existing and potential distributors from the London area. Another example was during the interviews with managers in Bairlines China, it was found that their marketing agency played an important role in the company's day to day marketing. A request was made to interview the relevant managers of the marketing agency company and permission was granted. The data from these interviews turned out to be helpful and offered new aspects that had not been covered in prior propositions.

3.4.7 Data Analysis in Multiple Case Studies

The data analysis of the multiple case studies was carried out in two steps.

3.4.7.1 Step 1: Generating Narratives of the Marketing Issues/Events

In the first step, a set of "narratives", mainly composed of quotations from the interviews were generated, each combining the accounts associated with a marketing issue or event. These narratives were developed as first-order analysis. It started with the creation of a list of every marketing issue or event mentioned in the interviews (typically 5-10 in each company). Examples included: "launching a new global communication campaign", "developing a branding strategy", and "winning a deal with a new big client". Then the list was reduced to a set of "critical" marketing issues faced by or occurring in the British subsidiaries in China and the Chinese subsidiaries in the UK (2-4 in each company, *see Table 3.4 for the list of critical issues and events*). The choices were made on three criteria: first, both senior and middle level managers agreed the issue or event was of real importance to the subsidiary; second, the issue or event involved as many marketing related managers as possible; third, there were sufficient data sources available to be analysed. These criteria allowed maximisation of the validity of the data, ensuring triangulation through comparing different accounts from as many managers as possible. A narrative centred on each of these "critical" issues or events was then developed by combining different accounts and views in the form of quotations from the interviews. Thus, these narratives were composed primarily of raw data with necessary explanations for clarity. Care was taken to preserve the meanings attributed by those managers to the marketing issues or events. Although they were few, any conflicting descriptions were also kept in the narratives.

Table 3.4 Critical Issues or Events

Case Subsidiary	Issues or Events
Cdirect UK	A new promotion A distributor conference Join-in of three local managers Becoming a member of UK Direct Selling Association
Ctransport UK	A marketing meeting VIP customers
Cappliance UK	Marketing management structure Branding Securing a deal with Tesco
Bairlines China	A PR event Launching of premium economy class
Bservice China	A new business development system Joint ventures with China Classification Society
Bengineering China	Integration of marketing across business units Seminars and exhibitions
Bfmcg China	Distribution systems Developing a new ice-cream brand Choosing suitable brands to sell

3.4.7.2 Step 2: Comparing the Modified Propositions with New Data

In this step, the modified propositions resulting from the two initial cases were examined using the narratives generated in the first step. This was similar to the second order analysis in the two initial cases.

The analysis began with applying the list of modified codes (*Table 3.3*) to the narratives. Each narrative was examined individually, searching for concrete indicators in the narratives to determine the fitness of the codes. When the fitness of the codes was confirmed, the new case was used to develop a further and richer understanding of the existing propositions. For instance, one code generated from the case of Cappliance UK was "More spill-over for the whole Chinese MNC". When examining its usefulness with the new cases, it was found that this code was indeed applicable to the new Chinese cases. In analysing the case of Cdirect UK, many managers of the company, not only confirmed the importance of having a presence in the UK, some of them also provided concrete examples of how the company benefited from presence in the UK. One example given was at a conference held in Indonesia in April 2006, when the distributor representatives from all over the world were introduced country by country, including the UK and the US, these representatives realized it was a "real" global company.

When the codes did not fit well with the new data or could not cover the new dimensions of the data, they were revised. That is to ensure that any variation was carefully noted and taken into account in order to challenge the existing findings. For example, one of the codes developed from Bfmcg China was "Exporting home practices". As testing it against the narratives generated from the new cases of British subsidiaries in China, it was found this code was too narrow. Actually, many marketing systems or practices were not transferred from the home country, the UK, but from a third country, which was typically institutionally adjacent to China. As a result, the code was renamed: "Exporting the MNC's practices".

In some circumstances, the codes did not fit with the new data at all or could not cover a totally new theme of the new data; new codes were then added. For instance, one of the codes emerging from the new data that was not discovered in Bfmcg China was "Resuming the network". It became clear that the three new cases of British subsidiaries in China all had previous working relationships outside China with many of their clients/customers operating in the Chinese domestic market. When re-examining the data of the two initial cases, this dimension was indeed found to be existing, yet had not been incorporated in the initial stage of data collection and analysis. So, the new dimension was added into the list of codes. This eventually resulted in the generation of a new proposition.

Following *Eisenhardt* (1989), the search of new propositions was also assisted by constantly selecting pairs of Chinese and British subsidiaries and listing similarities and differences between each pair and by categorizing subsidiaries according to variables of interest, such as positive or negative stereotyped marketing practices. These variables were open to be examined against the extant codes using the procedures discussed above. Finally, when this recursive process reached the saturation point (*Glaser* and *Strauss* 1967; *Eisenhardt* 1989), a series of descriptive propositions were developed based on this re-modified set of codes (*See Table 3.5 for a list of re-modified codes*).

Overall, in line with the logic of modified analytic induction, the concept of institutional duality and the propositions were used as sensitizers during the entire analysis. Meanwhile, it also sought to reveal other factors that affected the adoption of different models of marketing practices and had not been covered by the propositions modified in the initial stage of data collection and analysis.

Table 3.5 The List of Re-modified Codes

Codes	A Short Description	Code Definition
ID	Institutional duality	Managers are conscious of the competing home and host models of marketing practices
IDUK	Institutional duality with a bias towards the UK	Managers are under more pressure to adopt the perceived British model of marketing practices
	Local	
LP-UK	Local practices in the UK	Managers' views on local companies' marketing practices in the UK
LP-CH	Local practices in the China	Managers' views on local companies' marketing practices in China
ELIL-UK	Established local institutional logic in the UK	Local institutional logic regarding marketing in the UK is relatively stable
TLIL-CH	Transitional local institutional logic in China	Local institutional logic regarding marketing in China is relatively unstable
	Parent	
PP-CH	Parent's practices in the Chinese MNCs	Managers' views on the parent company's marketing practices in the Chinese MNCs
PP-UK	Parent's practices in the British MNCs	Managers' views on the parent company's marketing practices in British MNCs
NS-CH	Negative stereotypes of Chinese companies in the UK	The stereotypes of Chinese companies and their marketing practices in the UK is negative
PS-UK	Positive stereotypes of British companies in China	The stereotypes of British companies and their marketing practices in China is positive
ML-CH	More spill-over for the whole Chinese MNC	The contribution of gaining legitimacy in the UK to the legitimacy of the Chinese MNC as a whole is bigger
LL-UK	Less spill-over for the whole British MNC	The contribution of gaining legitimacy in China to the legitimacy of the British MNC as a whole is smaller
	Subsidiary	
SP-CH	Subsidiary's practices in the Chinese subsidiaries in the UK	Managers' views on the subsidiary's marketing practices in the Chinese subsidiaries in the UK
SP-UK	Subsidiary's practices in the British subsidiaries in China	Managers' views on the subsidiary's practices in the British subsidiaries in China
CH-NT	Nurturing new networks	The British subsidiaries of Chinese MNCs tend to nurture new networks in the UK
UK-NT	Resuming the network	The Chinese subsidiaries of British MNCs tend to resume the network with other MNCs that it had outside China
CH-CTR	Loosening the control	The Chinese MNCs tend to loosen the control between headquarters and their subsidiaries in the UK
UK-CTR	Tightening the control	The British MNCs tend to tighten the control between headquarters and their subsidiaries in China
CH-AB	Absorbing local practices	A Chinese MNC tends to absorb local marketing practices rather than export home practices to its subsidiary in the UK
UK-EX	Exporting the MNC's practices	A British MNC tends to export the company's existing marketing practices rather than absorb local practices in its subsidiary in China.

3.5 Summary

In this chapter, the methodology adopted in the research was presented. Through comparison with a questionnaire based-survey, a case study method was argued as the most suitable approach for this research. Following the logic of modified analytic induction, data collection and analysis were carried out in two stages: the first was a pair of initial case studies for exploratory and descriptive purposes; they were then followed by more focused and explanatory multiple case studies. As a result, the two initial propositions were modified twice in line with the new data. The findings are reported in the next chapter.

Chapter 4: Findings

4.1 Introduction

As reported in Chapter 3, the methodology adopted in this study is predominantly a case study approach and follows the logic of modified analytic induction. Specifically, I used the literature-driven concept of institutional duality and two initial propositions developed in Chapter 2 as sensitizers throughout the study, while remaining open to discovering concepts and propositions not accounted for in the original formulations. To examine the propositions, case evidence was gathered from two groups of subsidiaries: three British subsidiaries of Chinese MNCs and four Chinese subsidiaries of British MNCs. In line with the method of modified analytic induction, the research process included two stages: the first was a pair of initial case studies, one from each group, with exploratory purposes; these were then followed by more focused and explanatory multiple case studies. As a result, the two initial propositions were modified twice in light of the data gathered from the new cases in each stage.

The propositions developed are descriptive propositions – the goal is to develop descriptive statements of relationships among concepts and make no claim of universality (*Gilgun* 1995). These descriptive propositions may illuminate and perhaps help in understanding institutional duality in other MNC subsidiaries, but they are open ended, subject to reformulation in other circumstances.

To demonstrate how the refinements to and development of the propositions arose, this chapter presents the findings in the order of how they were generated. That is, the findings of the two initial cases are reported first and this is followed by the findings of the multiple cases. Within each stage, the findings are separated into two levels: first-order and second-order. The first-order findings portray the dominant themes of the informants, and the second-order involves putting the first-order findings into a broader theoretical structure.

The findings highlight that:

- institutional duality concerning marketing practices was found to be asymmetrical: the institutional pressures from the British side were greater than those from the Chinese side, irrespective of which side was the home or host country;
- MNCs and their subsidiaries were not only affected by institutional duality, they also had a certain level of choice to influence institutional duality.

4.2 First-order Findings of the Two Initial Cases

The first-order findings provide brief backgrounds to the two MNCs and their subsidiaries, and accounts of the events or issues that subsidiary managers considered critical to the subsidiary. Through extensive use of representative quotations from the interviews, it attempts to represent the managers' interpretations and experiences. The second-order analysis then moves to a more theoretical level, wherein the data and first-order findings are examined in light of the two initial propositions.

Cappliance UK[7]

Background of Company Cappliance

Despite intense competition from foreign companies, the Chinese consumer electronics and domestic appliances market is dominated by home grown giants, one of which is Cappliance.

Cappliance, founded in the mid-1980s, is a diversified manufacturer of more than 80 products ranging from refrigerators, washing machines, and air conditioners – a few of the core products that make it one of the world's leading makers of white goods – to cell phones and televisions. Cappliance is a collective enterprise, employing about 500 million workers. Officially, the government does not own or invest in collectives such as Cappliance and makes no claim on profits, other than taxes. Finances, apart from the company's Shanghai-listed refrigerator arm, are not routinely disclosed.

As China's domestic markets have mushroomed over the past two decades, Cappliance has built a reputation at home for quality, innovation, and customer service. It enjoys leading domestic market shares in washing machines, refrigerators, vacuum cleaners, and air conditioners. Moreover, it sells its products in 160 countries and owns 13 factories outside China, including a refrigerator plant in the United States. In 1997, the Chinese government named Cappliance one of six companies it hoped to develop into one of the world's top 500 companies by 2010.

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[7] Throughout this chapter, and indeed the whole dissertation, the names of the case companies and the informants are pseudonyms to preserve anonymity.

Yet as Cappliance tries to replicate its domestic success overseas, it faces enormous challenges – everything from learning the preferences of new customers to managing its growing foreign operations. In the United States, where it started exporting in 1990, it has established a beachhead by selling niche products under its brand name through The Home Depot, Sears, and Wal-Mart, but its biggest test will come when it tries to sell more mainstream home appliances.

The company's internationalization strategy is different in two aspects from the approach that most other Chinese companies have taken. One is that while the main objective of many Chinese enterprises expanding into global markets is to export products and earn foreign currency, the aim of Cappliance is to establish a brand reputation overseas.

The other difference is that many Chinese companies tend to explore easier markets first and difficult markets later. Some of them first export to Southeast Asia, for instance, which has competitive markets but where there are no strong, dominant competitors, as there often are in Western markets. But Cappliance's strategy is the other way around: it enters easier markets after first penetrating difficult markets such as the United States and Europe. These are much bigger markets as well as the home markets of Cappliance's largest global competitors. It is believed that if they can succeed in these developed markets they can succeed in the developing markets.

Founding of Cappliance UK and UK Air-Conditioning Market

Selling commercial air-conditioning products, Cappliance UK was founded in the UK in March 2003 as a joint venture, 60 per cent owned by the Chinese parent company and 40 per cent by the local consortium led by Mr B and Mr M.

Through many decades of involvement in international competition, the UK air-conditioning market was considered by both senior and middle managers in Cappliance UK as "the most sophisticated market for air-conditioning in Europe, probably in the world."

> "This field (the UK air-conditioning market) is beset by regulations and controls, very competitive, overrun by manufactures providing alternative options. The trade is very traditional and the specification is highly developed, controlled and determined by very, very large, major end users who have extremely high standards." (A Non-Executive Director)

> "Red tape and over-regulation are killing this industry. For example, the planning, this is just one area of regulation and planning is a very, very simple one. In Italy if you want to put air-conditioning in your house you do it. You can install it wherever it's suited to your property. If you want to do air-conditioning in a restaurant or hotel you don't have that sort of restriction. You have some restriction, but not much. In the UK the restriction is very, very tight ... Much of the new legislation comes from Europe, it can be used as a threat, a barrier to

entry or opportunity... It makes our prices go up. It also increases the cost of labour because you have to re-train people." (The Co-Managing Director)

"All the major companies have a similar policy of selling direct as well as selling through the distribution channels. So now the air-conditioning market is, generally speaking, following these two options...I think the market itself has settled into those two main elements here. There is always little variation in between. But generally speaking, that is the major structure." (A Non-Executive Director)

Therefore, as a new player based in a developing country, Cappliance had to overcome many barriers to enter this field. To start with, it had a huge perception gap to bridge, since Chinese products had been traditionally dismissed as having the "4Cs" in the UK market: "Cheap, Cheerful, Chinese, Crap."

Staffing of Marketing Related Managers

Despite the fact that the parent company owned the majority of the shares all marketing related, indeed all, staff in Cappliance UK were locally recruited by Mr B and Mr M.

The management team in Cappliance UK were "all very well-known in the industry, nationally". Of two co-managing directors, Mr B was a former main board director of T UK (a well-known Japanese company) and Mr M was the former marketing director of T UK. One of the non-executive directors was the former managing director of the largest logistic company for air-conditioning in the UK. As legislation was a very important aspect of the business, a technical consultant, who was the technical director of T UK and regularly sat on committees on legislation in Brussels and the UK, was bought in to keep the company up-to-date and well advised on legislation issues.

> "So we know from experience what the market requires. We are very close to the market and know the industry extremely well. I know all the people, the companies and their history." (The Co-Managing Director)

In terms of marketing, the UK subsidiary was controlled through the European headquarters in Italy. The parent company rarely intervened. On the contrary, the managers from the parent company were keen to learn local practices and responded very quickly to local requests.

> "They (the parent company) tend not to have Chinese nationals in this business, which they should have. There is no question they should have. But they don't... We did ask China to put someone here full time, to aid the communication, to make sure that they know what is going on with the business. But they've never done it. I think they are short of skilled staff. I think that's the real reason." (The Co-Managing Director)

> "Day to day, other than financially, they really don't try to tell us how to run the business. They just say, OK, your business, you run it. They are quite good at that... What's really encouraging about our Chinese colleagues is that they really are aware that they don't have the knowledge. They admit that openly.

The Japanese or Koreans would never have said that. The Chinese would say, yeah, we need to learn...There is no arrogance. They do learn and have learned very, very fast." (The Co-Managing Director)

"The speed at which China deals with product changes is unbelievably impressive. What we are very, very pleased with is that the reaction time is instant. We had a problem. I e-mailed the problem to them. I told them what I thought the solution was. The next day I went to work they sent me design changes with photographs. That frankly is a staggering pace of movement of meeting the market needs. There is a willingness to accept that there is a need to change the products and there is a willingness to accept that there is a problem. I am used to fighting to prove it. That does set them apart from all [the companies of] other countries I've dealt with." (A Non-Executive Director)

Critical Marketing Issues and Events

Problems with the UK Versions of Products

One major event considered to be critical by both senior and middle managers was the development of UK versions of products. It took three years for Cappliance to develop suitable products to meet the specifications of the UK market. As the Co-Managing Director described,

"We had major problems on products in the UK. In the first year, we lost a huge amount of money. That was all down to technical issues. We had to clear out all the warranties in the market place. Again, the Chinese's knowledge of the market was not good. So they didn't understand that all the products being sold in the UK had a warranty with them. So we had to deal with all the technical issues and, the warranties… In the second year, we actually prepared to redesign the models. They reacted very quickly, but they got it wrong. Now in the third year, the 2005 product is very, very good. But we still have some problems that we are working on in our warehouse."

In explaining the reasons that caused the problem, the managers in Cappliance UK were bewildered and frustrated by the lack of marketing awareness in the Chinese management model.

> "The issue is not the product itself. The issue is they (the parent company) are not setting up their management structure correctly." (The Co-Managing Director)

> "I think it is a case of, not just Cappliance, but also of other Chinese manufactures, not having a classical marketing structure. And there seems to be (a long pause) I don't know what to say, what it's called. They don't appear to see marketing as an effective tool. Not yet anyway." (The Co-Managing Director)

One example of this lack of classical marketing structure was that Cappliance did not put the product manager in the UK but kept him in China. As a result, the opportunities for sending back market information and creating the demand was lost.

> "As a manufacturer, they have to change from being a volume-led manufacture operation to be a market-led operation… The product manager should be on the

> territory. He should be listening to what the market is telling you. He then should send that information back to the factory and also identify the opportunities here, to not only satisfy the demand but also look where they can create demand. And it's a traditional role, but the Chinese have not got that on board yet... It's not new. It's an old model, very old model. In life there are not a lot of new things when it comes to business." (The Marketing Director)

Major Deal Sealed with Tesco

In June 2003 the company sealed a multi-million pound deal with Tesco, a UK based retail giant. More than 500 Tesco stores, including the newly acquired TNS mini-market chain, Tesco Express and superstores were supplied with the company's split units, in cassettes, ceiling, floor and wall versions. This deal was regarded by all managers as a major breakthrough for the company as it gave them a vital foothold in the UK market. The company used "traditional refrigeration contractors" to install the kit.

> "Having someone like Tesco on your side, being able to use them as a third party reference, that's the way you have to sell, because Cappliance UK haven't got a brand... Cappliance UK is unknown and it's Mr B and Mr M (the two co-managing directors) at the moment." (The Co-managing Director)

Branding Issues

Most of the managers in Cappliance UK were frustrated that the Chinese parent company insisted that the business needed to be profitable before they could invest in the brand. The co-managing director complained,

> "The Koreans got it the opposite way. If you look at LG, they spend millions and millions. I know exactly how much they spend, because we track their spending. They would spend on air-conditioning over one and half million on commercial activities and they aren't making profit.... So it is much tougher than, say, if you work for an American company, Korean company, Japanese company, or British company. The value of the brand is always on American companies' balance sheet... The reason [why Cappliance are not investing], when I was questioning at very senior level, even at the president level, is that they need to be profitable before they can invest."

> "Normally, you would say 3 or 4 percent of sales for marketing. Cappliance use that number, but for a brand starting from nowhere. That number should be higher for the first few years. The Japanese did that and the Koreans did that. That's the only way you can do it."

Many managers also pointed out that Cappliance did not "look after the brand very well" in the UK, as it used to export products through low tier distributors before Cappliance UK was established.

> "It's not a way to develop the brand. He [the distributor] imports only low tier, low end products, and cheap products...If you walk into Argos, it's the cheapest products. If you walk into Dixon, it's the cheapest products. So in brand development, they have a lot to learn." (The Co-Managing Director)

> "They (Cappliance) need to concentrate on knowing where they are going to position the brand. I'm not sure they have a clear strategy of brand positioning.

> Is it premium? Is it middle tier or is it lower tier? And who are our competitors?" (The Marketing Director)

British or Chinese Marketing Model

Cappliance UK's marketing approach was regarded as a "classical" key account practice, which adopted forward thinking strategies and considered the account's life time rather than one sale, for a 5 year period rather for a 12 month period in China.

> "Mainly the [marketing] strategy we adopted is totally different from the one in China. Our approach is a classical key account practice, which in China is still reasonably new. I tried to teach them (the parent company). I don't know many companies have adopted it [in China]. Now the Chinese have started to think in that way. So it is British way [of marketing]." (The Marketing Director)

Therefore, since Cappliance UK was run by British people in a "British way", the trade saw it as a British company: "Only the products are Chinese, not the business". Even within the subsidiary, except for the two managing directors who felt it was a sort of quasi-British company, the rest of the managers felt that it was a British company selling Chinese products.

> "I think that in the way we are visible to the market we are a British company." (The Co-Managing Director)

Bfmcg China

Background of Company Bfmcg

Bfmcg is one of the world's largest consumer products companies in the Fast Moving Consumer Goods (FMCG) industry, producing and marketing a wide range of foods and beverages, soaps and detergents, and personal care products.

The company grew out of a merger in 1930. In recent years, the company has faced increasing pressure from US rivals. Since the mid-1980s, the company has got rid of its packaging companies, most of its agribusiness and speciality chemicals business. This left it with home and personal care, and foods. The company then embarked on a spending spree in these three areas.

Globally, Bfmcg is organized through a matrix structure, cutting across product categories, regions and functions. It focuses on more than 14 product categories of foods, and home and personal care. In 2006, Bfmcg reported turnover of €39.6 billion, with 27% (€10.9bn) from Asia and Africa. Until 2005 it operated through some 500 companies in over 150 countries around the world with 206,000 employees. Through over sixty years of global expanding, Bfmcg has become one of the Fortune 500 companies.

Founding of Bfmcg China and FMCG Industry in China

When the Chinese market finally opened up after decades of closure to foreign companies, Bfmcg re-established itself in China in 1986 (it first entered China in the 1920s and pulled out for political reasons in the late 1940s).

In the late 1980s, unlike the current complex and diverse Chinese FMCG market, the development of the local FMCG industry was limited with high governmental control and low competitiveness. Foreign management practices, along with their advanced technologies and investments were welcomed in China.

> "I think that all the success we have achieved in China is due to the fact that it is one of the Fortune 500 companies and its good reputation. Everywhere we go we will get support from local authorities in terms of tax, etc. Other companies, including local companies may not be able to get this." (VP)

China at that time was a supplier-driven economy, not a demand-driven economy. Thus, in terms of generating demand, Bfmcg China was really competing against no one, except for subsidiaries of other major foreign MNCs.

Many vital decisions that had profound influences later on were mainly driven by the parent company. For instance, product introduction to the Chinese market was started with laundry detergents and ice-creams:

> "That (the decision of first focusing on laundry and ice-cream products) was really driven by personalities, for we had two very strong people in the business,

who were the joint chairmen: one was in charge of laundry and one was in charge of ice-cream." (The Chairman)

The subsidiary in China commenced with "high quality, high price, and high brand awareness products". The subsidiary soon dominated in many big cities. The following example was given by vice president of Bfmcg China, who was involved in the establishment of the company's W (a well-known ice-cream brand) business in China. He described the typical circumstances of the Chinese FMCG industry when Bfmcg entered the Chinese market:

> "When W entered China, the Chinese ice-cream market was underdeveloped. Although there were more than 300 local companies in Beijing, none of them had a dominant brand and the quality of products was low due to lacking cold chains[8]. So the prices were also low. We (Bfmcg China) offered retailers freezers with our logo on it for free. That was a totally new way of doing ice-cream business at that time. It increased both the quality and our brand awareness. So the brand of W was established over night."

Staffing of Marketing Related Managers

In the beginning, it was difficult for Bfmcg China to find local Chinese marketers who would be sufficiently qualified to meet the subsidiary's needs, due to the fact that only a minority had an academic or business education. Consequently, most marketing duties were performed by expatriates or third country managers.

[8] A cold chain is an uninterrupted series of storage and distribution activities which maintain a given temperature range.

Investment had to be made to train or educate local Chinese managers. Given the high spend on the subsidiary's management development programmes it was not surprising that its personnel were targeted by other companies, especially local companies.

The shortage of local talent was gradually alleviated by more and more well-educated and experienced local marketers emerging over the years. Nonetheless, when the data were collected, although expatriate managers and third country managers had been reduced to 5% of total management, they remained in all the top management positions, except for public affairs positions that needed to interact with government and other local organizations. The middle and junior marketing managers were a combination of local employees and expatriates. Communication is predominately in English. Bfmcg China also preferred to recruit local Chinese students directly after their graduation from university. So they would think much more in "the Bfmcg way", which was "quite different from local businesses".

Critical Marketing Issues and Events

Managers in Bfmcg China considered marketing to be a "fascinating" area, because:

> "You can see all shades of the spectrum, from being able to utilise global expertise right down to having to develop local knowledge of the country, and everything in between. Really it's an extraordinary complex situation to deal with... In some other areas it is straightforward, for example, finance is not an issue. It is very factual...The most difficult, consistently most difficult, has been the marketing side." (The Chairman)

Transferring Distribution Systems

Bfmcg applied to the Chinese market its successful systems and practices from other markets, especially emerging markets, where, to the company's managers, development of the market was similar. One of these systems was its distribution system. Trade in China was a mixture of General Trade (distributing products mainly through wholesalers) in rural areas and Modern Trade (distributing products mainly through retailers) in big cities, whereas in developed countries Modern Trade is dominant.

Initially, the company "appointed a number of senior people from India and Pakistan and thought China would be similar to the Indian and Pakistan markets," since India and Pakistan were countries of thousands and thousands of small villages and very few big cities. However, retailing in China developed very quickly and differently from that in India and Pakistan. The concentration of consumer spending power in China facilitated the rapid development of hypermarkets and supermarkets, which the company's Indian and Pakistani managers were not familiar with, as those were not common trade formats in their countries. So, management of the subsidiary was replaced by another team from Taiwan to develop Modern Trade capabilities by concentrating on the major cities.

> "We are familiar with dealing with Carrefour and Wal-Mart. So we were able to get some expertise from the rest of Bfmcg to help us build up quickly our management systems to manage effectively Carrefour and Wal-Mart. And this is certainly a major advantage that we have over Chinese local companies. We are

> familiar with dealing these companies from North America, from Western Europe. So we know how to manage them quite well." (The Chairman)

Bfmcg China became very strong at Modern Trade, but weak in managing General Trade, which had been playing a key role in second- and third-tier cities and rural areas in China. After in-depth study and comparison of the local and its own marketing models, Bfmcg China concluded that the local model was not suitable to follow. Company D was one of the leading local Chinese companies in the FMCG industry. Its marketing model was seen as quite typical of local companies. Company D managed the General Trade through a huge on-the-ground presence of sales managers. Bfmcg China considered an alliance with Company D or even acquisition to help it manage General Trade, but these options were rejected because the differences in the two models were too extreme. The strength of Company D's model was seen as being inseparable from the leader, who had charisma, strong contacts, and long association with the business.

> "Mr Z's (the CEO of Company D) management system is primarily loyalty-based. And we know that some of his management was paid less than our sales representatives, but they were still very loyal to him, and he knows them down to the personal level. That system is not something which a multinational can follow. You can not have a business which runs primarily on loyalty. Loyalty is important, of course, but is not a primary backbone for a management system. So, we considered and we rejected [the options], because so much rested on Mr Z." (The Chairman)

Indeed, it was believed that, in terms of dealing with distribution channels in China, localization may not always be a wise thing for Bfmcg China to do.

> "While one of the local companies' advantages is that they are good at dealing with General Trade, we are good at dealing with Modern Trade. But as the Chinese economy develops, I think Modern Trade will become more and more dominant." (VP)

Converting Joint Ventures into a Wholly Owned Subsidiary

During the 1980s and early 1990s, Bfmcg had to form joint ventures with local Chinese companies when it came to China, as other options were restricted by the Chinese authorities. However, "joint venture means joint management practices" and Bfmcg China found the partnership backfired. By the mid 1990s, the subsidiary had 14 joint ventures with different partners, all of whom were state-owned companies. The profit these companies gained had to be submitted to the State, "so they didn't have enough money to reinvest to enlarge the market share." This did not meet Bfmcg China's expectation of establishing dominant brands and long term development. Finding itself losing out to one of its major rivals, who had consolidated their position due to only having one local partner to deal with, Bfmcg China lobbied the Chinese government and Shanghai light industry to allow them to buy out all 14 joint venture partners and to form one joint venture. Later, the company became a wholly owned subsidiary. This provided more management control to the subsidiary and enabled it to run the business in its own way.

> "Getting out of the joint ventures was critical as it allowed us to have full management control." (The Chairman)

In this restructure and other major consolidations, the subsidiary's Vice President, Mr W played a critical role in lobbying the Chinese central and local governments. Before joining the subsidiary in the early 1990s, Mr W worked in the government as a senior official in charge of planning and attracting foreign investment.

> "Mr W's relationships mean tremendous value to this business. We've done things that we couldn't have done unless we had him. When it comes to relationships with central and local authorities, he is extremely helpful. But I think he would say that he could not have got these deals unless he'd been working for multinationals." (The Chairman)

Tailoring International Brand for Local Needs

Market research and the success of other international companies proved that the Chinese consumers were very open to international brands. The concepts of international brands and what they represent were very attractive to Chinese consumers. Yet, these global brands had to be tailored significantly for Chinese consumers. Contrary to the belief that the Chinese market was homogenous, managers of Bfmcg China thought it was very diverse, fragmented and changing rapidly because of its large scale, and fast but unbalanced economical growth.

> "The art, it's really an art, is to try to bring international brands into China in a way which would meet the emotional functions of the Chinese consumers." (The Chairman)

For example, Bfmcg developed a global communication campaign for one of its laundry detergent brands. The key message was that the parents should let their children get dirty in order to learn. In China this message would be rejected absolutely as culturally Chinese parents strive for perfection for their children and do not want their children to get dirty. As a result, the campaign message had to be modified for China. But the managers of Bfmcg found it extremely challenging to convince the corporate marketing team members when they had to modify the marketing concept and convince local marketing managers when to stick with the essence of the global brand.

> "It was a great challenge when we found in anything we wanted to change in China. You've got so many people who are responsible for brands globally and locally. When you say to them that we have to modify this brand, they get very uncomfortable." (The Chairman)

> "We've even found it difficult with regard to which brand to sell in China. There was a particular mood to focus on H brand, which is not an appropriate band in China. It worked very well in the Brazilian market. It's focused on a very particular type of consumer. We've done research through Ogilvy & Mather to prove that the type of consumer that was attracted to this brand in Brazil is not very numerous in China. The Brazilian consumers are really

different from the Chinese consumers. So market research is very, very important to all of this. It gives you some quantifiable understanding." (The Chairman)

The balance of managing the interface between the global and local marketing teams was regarded as "art" and at times entailed "something beyond the organization", for instance, trust between the local and global teams.

British or Chinese Marketing Model

The managers felt that Bfmcg China was operating predominantly like a European multinational company. Typical comments were as follows:

> "We've really got very little to compare with the local companies, especially in terms of our management systems." (VP)

> "In terms of our management systems, I think we are definitely multinational." (A Marketing Manager)

4.3 Second-order Findings of the Two Initial Cases

As explained in section 3.4.1, Chapter 3, two cases were initially selected for study with three exploratory purposes: (1) the cases were used to detect whether institutional duality indeed existed in British subsidiaries of Chinese MNCs and Chinese subsidiaries of British MNCs; (2) for the purpose of this research, it was to establish, in the two initial cases, in which area of management practice Chinese and British subsidiary managers perceived to confront institutional duality to the greatest degree. That is, in a certain functional area the managers constantly felt it difficult to adjust back and forth between the home and host models of practice; (3) the two cases were used to examine the two initial propositions as follows:

Initial Proposition (I) *When two MNCs, one based in a developed country, the other headquartered in a developing country, establish subsidiaries in each other's market, the dual institutional pressures from the host environments and the parent companies to the two subsidiaries, concerning all functional practices, will be symmetrical, i.e. managers of the two subsidiaries are under a similar degree of pressure to adopt home/host country models of practice.*

Initial Proposition (II) *The essence of institutional duality is entirely conflict. In particular, a long institutional distance between home and host countries, e.g. one developed and one developing country tends to make it difficult for MNCs to transfer home practices into subsidiaries or adopt local practices.*

After analyzing the two cases in line with the method of modified analytic induction, both the phenomena under study and the initial propositions were modified.

4.3.1 Focus on Marketing Practices

In both cases, marketing practices were seen as the functional practices under institutional duality to the greatest extent compared with other areas of management practices. In Bfmcg China, managers considered marketing to be a fascinating area, as the Chairman described, "Because you see all shades of the spectrum, from being able to utilise global expertise right down to having to develop a local knowledge of the country, and everything in between. ... The most difficult, consistently most difficult, has been the marketing side." The managers of Cappliance UK were bewildered and frustrated by the lack of marketing awareness of the Chinese management model. As the co-managing director commented, "They (Cappliance) don't appear to see marketing as an effective tool. Not yet anyway."

Indeed, as reported in the first-order findings, the events and issues that the managers of the two cases regarded most significant to the subsidiary were mostly marketing related. Moreover, marketing practices are strategically important for both British companies entering China and Chinese companies entering the UK. To gain access to the Chinese domestic market and maintain strong business presence ahead of their competitors is one of predominant motives for Western, including British, companies investing in China (*Casson* and *Zheng* 1992; *Glasister* and *Wang* 1993; *Child* 1994). Also, in running Sino-British joint ventures in China, *Yan* and *Child* (2002) found the British partners prioritized "market-related" strategic objectives, focusing particularly on the establishment of a strategic position in China vis-à-vis competitors, the acquisition of local market knowledge. Yet, in looking at companies operating in developing economies, much attention has focused at the corporate and business levels; the development of internal functions and their links with overall strategies have been rarely discussed. Setting up marketing operations, which have typically been absent in these developing economies, can be paramount to achieve sustainable competitive advantage (*Hoskisson*, *Eden*, *Lau* and *Wright* 2000; *Hooley* 1993). Regarding Chinese MNCs, as noted earlier, the current research focuses on those leading market-seeking Chinese companies that internationalize with a view to becoming global players competing with other giant MNCs in the international market (*Child* and *Rodrigues* 2005; *Warner et al* 2004). One of the first formidable challenges facing these companies is to establish a globally recognized brand, especially when coming to developed countries, such as the UK (*Jaworski* and *Fosher* 2003), given that until now Asian products in Europe have widely been seen as products with low quality (*Fuchs* 2003). While a number of studies have mentioned several Chinese MNCs' broad global marketing strategy, there is little research reporting how these strategies are organized at the subsidiary level. So, it seems that marketing practices is a suitable focus area for this research.

In general, there are two separate perspectives on the marketing concept, one emphasizing a corporate-wide philosophy manifested in a measurable outward orientation towards markets (e.g. *Kohli* and *Jaworski* 1990; *Narver* and *Slater* 1990; *Chan* and *Ellis* 1998; *Baker* and *Sinkula* 1999; *Shoham* and *Rose* 2001), and the other focusing on the actual execution of the marketing function by the marketing department or division within the firm (e.g. *Greenley* and *Shipley* 1992; *Chang* 1996; *Shaw* 2001; *Avlonitis* and *Gounaris* 1997). While scholars in the former group commonly view marketing as the combination of three factors, namely, customer orientation, competitor orientation, and the inter-functional coordination of marketing activities (*Narver* and *Slater* 1990), proponents of the latter are less concerned with external orientations, and more concerned with the company's management of marketing mix – pricing, product, channels and promotion, marketing research, marketing positioning strategies and other internal marketing activities (e.g. *Greenley* and *Shipley* 1992).

In China, economic readjustment with the operation of free market forces has substantially supplemented the planning system since 1979. Consequently, the role of marketing in the Chinese economy has changed dramatically. It is evident that marketing practices in China are reflective of the nature of the country's transitional economy (*Holton* 1985; *Ambler* 1994; *Deng* and *Dart* 1995).

In the planned economy era, the government authority planning departments dictated production, price, and assigned the products across the country (*Kuang* 1990). Most of the companies' input would come from government sources and output would be purchased by state agencies. Manufactures received little feedback as to how their products moved through the distribution channels or if they reached the final consumers at all. Across the marketing mix, the managers of a company had discretion only with regard to product design, and even there the discretion was limited. If modifying the product would require new capital beyond the resources of that company, the managers had to have permission from the local branches of the Ministries, known as Bureaus. Thus, except for a few enterprises involved in foreign trade, the practices of marketing, as understood in Western countries, could not be said to have existed within individual companies in China before 1979. Thus, it was not surprising that in the early 1980s moving away from fully planned production and distribution left many managers very uncertain about how they could operate. Initially, sales became the most important aspect of marketing for them (*Holton* 1985). Marketing was even translated by business and management academics as "Xiaoshou" which means "sales management" (*Luo* 1982; *Hong* 1987). Until the mid-1990s, *Deng* and *Dart* (1995) still found that Chinese managers rated internal variables such as inventory control, purchasing and sales forecasting much higher than tasks involving external considerations such as marketing research, customer relations, promotion and strategic planning. They also observed that unlike Western managers who regarded customer satisfaction as the very core of marketing and usually relied heavily on promotion to influence consumers, Chinese managers seemed to believe that as long as they had a quality product with good product service, the product would sell itself. This production orientation characteristic perhaps reflected China's transition from a supply-driven to demand-driven economy at that time. However, since then, especially after China's entry to the WTO in 2001, awareness of marketing is rising steadily, both in business and academe (*Agarwal* and *Wu* 2004). Marketing has been renamed "Shichang Yingxiao", a new term that is similar to the meaning of marketing in Western countries (*Xu* 1994; *Wang* 1995). Most companies, even state owned companies, are actively engaging in utilizing marketing tools in an increasingly competitive market. In all business schools marketing is taken as one of the eight compulsory courses in MBA programmes. By 2001, there were about 50 million people employed in marketing (*Gu* 2001). 50 percent of managers now rank marketing as one of the first three factors which reflect the corporate core competitive capability (*Chen* 2002).

On the other hand, operating in a relatively immature market still limits the application of marketing practices in China. *Ellis* (2005) argues that marketing-minded managers in developing economies encounter a number of institutional and environmental obstacles, for example, the lack of an infrastructure to promote the dissemination of information and products (*Boisot* and *Child* 1988; *Boisot* and *Child* 1996) and to collect useful market intelligence. For those managers, the development of marketing orientation that emphasizes marketing as an over-arching business philosophy or company culture of creating superior value for customers will be inevitably hindered and they will prefer to focus on boosting specific marketing practices that have clearer links with performance. For example, *Ambler* and *Xiucun* (2003) found the difference of customer orientation across the functional departments was greater in Chinese companies than in British companies. British companies had a relatively integrated marketing orientation across the whole company. Another example is that managers in transitional economies, such as Central Europe, often see competitive pricing as the most important factor for successful marketing (*Hooley* 1993). "Price reduction" is also one of the most frequently used marketing strategies in China. Compared with their British counterparts, the business philosophy of many Chinese companies, especially small companies, is still sales and production oriented (*Siu* 2001).

The results of a survey by *Liu* and *Pak* (1999) on the role of marketing in Sino-foreign joint ventures show that Western marketing techniques and concepts can be effectively applied in China, but it is important for foreign partners to have a major influence on marketing. Effective marketing in China requires companies to apply Western marketing concepts and techniques with great flexibility and adaptability. One of these crucial aspects of marketing that foreign companies need to adapt to in China, according to *Ambler* (1994), is the relational dimension of marketing, which sees marketing as more to do with cooperation than competition. For instance, the seller-buyer exchange which underlies all marketing is itself cooperative: both parties should benefit from the exchange. In this way of thinking, all relationships in the business network, including the seller, the consumer and other key players, is either relative to competition, or the competitors themselves are part of the network. Chinese buyer and supplier emphasize more on Xinyong – personal trust – at a personal level rather than satisfaction at an organizational level to generate partnership relationships. A Chinese buyer may sacrifice business profits for personal friendships and sometimes they make a trade-off between them (*Leung*, *Kai* and *Chan* and *Wong* 2005).

In the light of these substantial institutional and organizational differences between marketing practices in China and the West, it would be extremely challenging to transfer a Chinese model of marketing to a developed country like the UK. It would probably be equally challenging for British companies to organize their marketing effectively in China. Therefore, given the importance of the marketing function and the disparity between Chinese and British marketing approaches, there is a need to look at marketing practices in both Chinese subsidiaries in the UK and British subsidiaries in China.

Regarding management functions other than marketing, financial and manufacturing management functions were considered by the managers in the case subsidiaries as "very factual" and "not difficult issues". This finding has also been confirmed in research on management practices in US subsidiaries of foreign MNCs (*Rosenzweig* 1994; *Rosenzweig* and *Nohria* 1994). As for HRM practices, the differences between British and Chinese models were mentioned briefly in the interviews, but there was little evidence suggesting managers found themselves struggling to adjust back and forth between the two models, especially compared with marketing practices. In the Chinese subsidiaries of British MNCs, most senior and middle levels managers were expatriates. Although many of the junior managers were local Chinese, they were recruited directly after their graduation from university, so they would think much more in "the Western way". When recruiting experienced local managers, the subsidiaries tended to look for managers who had not worked for local companies, but worked previously in other international companies in similar industries. Thus, these approaches might mitigate the possible contradictions between the home and local models of HRM practices experienced by the managers. As for the British subsidiaries of Chinese MNCs, almost all functions were run by local British experienced managers except that the country manager and the financial director were typically expatriates despatched from the parent company. As a result, because most of these subsidiaries were newly established and predominately run by local staff, the subsidiaries' managers seemed not to experience much conflict between the home and local HRM practices.

The managers' perception of a relatively lesser clash between home and host models of HRM practices may also be accounted for by the fact that HRM are innately more sensitive to regulative than normative and cognitive elements of institutional pressures, hence leaving little space for symbolic interpretation or social construction. After all, many key aspects of HRM practices, such as reward systems and union representation, are clearly established and articulated in the legislation of the host institutional environment. Foreign companies tend to have little choice but to simply follow the local law and regulations. On the other hand, compared with HRM practices, marketing practices appear to be influenced directly by the regulative elements of institutions to a lesser extent. For example, there are surely legislations concerning the content of an advertisement. However, there is often very limited law or regulations delimiting the options of how to launch a marketing campaign.

Therefore, given that in this thesis: (1) one of the main purposes is to understand better how organizations cope with the potential conflict between multiple institutional templates; (2) the emphasis of the functional practice is more on symbolic and socially constructed aspects rather than technical and reified aspects, the focus of management practices under study is limited to the marketing function rather than other management functions.

Focusing on marketing practices, the two initial propositions were modified in section 4.3.2 to 4.3.5 in light of the data of the two cases. These re-formulated propositions are referred to as modified propositions.

4.3.2 Stereotyped Marketing Practices

The stereotyped marketing practices of the home country, its companies, and management practices in the host country arise from long-established, taken for granted assumptions in the host environment regarding MNCs in general, or MNCs from a particular industry or a particular home country (*Kostova* and *Zaheer* 1999). The data indicate that while the Chinese model of marketing practices is often perceived negatively in the UK, the British model of marketing practices is generally seen in China to be associated with professional management. This results in a relatively higher liability of foreignness (*Zaheer* 1995) for Chinese companies operating in the UK but a relatively lower liability of foreignness, indeed it sometimes even turns out to be an asset, for British companies in China.

In perceiving the Chinese model of marketing practices, "quite naïve", "quite surprising", "don't have the knowledge", "management structure isn't correct", "volume-led, not market-led" were some of the words that managers of Cappliance UK used. But, in Bfmcg China, the British model of marketing practices was often regarded as "professional" and "a multinational way".

4.3.2.1 Unclear/Clear Marketing Positioning

The marketing positioning of Cappliance in the UK was considered to be ambiguous, even the marketing director was not quite sure. As she commented, "I'm not sure they (the parent company) have a clear strategy of marketing positioning. Is it premium? Is it middle tier or is it lower tier? And who are our competitors?" To the managers of Cappliance UK, this was due to lack of a clear global strategy of marketing positioning, given that Cappliance was only at the early stage of its internationalization.

As for Bfmcg China, the positioning in the market had been clear from the very beginning when the company came to the Chinese market. As one of the vice presidents of the subsidiary described, "When we initially entered China, we positioned our products as high quality, high price and high brand awareness products. Over the years, as local Chinese companies developed, the products from local companies have been almost the same as ours in terms of quality. But we still enjoy the advantage of having higher brand awareness."

4.3.2.2 Low Cost (Price) Focused /Value Added (Brand) Focused

Another evident contrasting stereotype of the marketing model in the two cases was that the Chinese model was perceived to be more concerned with cost, while the British model was regarded as paying more attention to the brand. In Cappliance UK, unwillingness to invest in the brand until the business was profitable and exporting through UK distributors who only deal with lower-tier products, were examples given by managers to accuse the parent company of "not looking after the brand very well". In contrast, the emphasis of Bfmcg China on building up a high profile brand was demonstrated through offering free freezers featuring the company's logo to retailers and frustration over the inability of its joint venture partners to reinvest in the brand.

Certainly, it would not be fair to contend that Cappliance neglected completely the importance of marketing positioning and brand awareness. After all, it had beaten back fierce competition from some of the world's major brands in the Chinese domestic .market. Moreover, unlike many Chinese companies involved in the international market, chiefly via OEM or export, Cappliance showed the determination to establish a global brand by setting up subsidiaries in both developing and developed countries. The contention that the stress on marketing segmenting and branding is something inseparable from the British model of marketing could equally be made too lightly. As mentioned by managers of Cappliance UK, many Japanese and Korean MNCs' British subsidiaries exhibited these traits.

It helps when one considers the institutional contexts that the two subsidiaries faced. The British air-conditioning field was "beset by regulations and controls". The product specification was highly developed and determined "by very, very large, major end users who have extremely high standards." These local requirements were difficult for Cappliance to meet since it was based in a country where the market was less demanding. No wonder it took them almost three years to finally develop suitable products for the UK market after two disastrous failures. Thus, the issue that Chinese MNCs like Cappliance struggled with was: how to bridge the gap between the goal of developing a leading brand globally and the reality of having only limited resources and know-how.

On the other hand, the FMCG field that Bfmcg China faced in China was a developing market. It started from a supply-driven economy with limited local and no international competition. When Bfmcg China entered such a market, where the concept of marketing had just been introduced from the West, it was only natural that its marketing practices were seen as superior. Offering free freezers with the company's logo to retailers might have been a common marketing approach in developed countries at that time, but it was certainly new to the Chinese market. Since then, the speed of Chinese economic development has been extraordinary. A great deal of complicated and innovative marketing thinking and practices have emerged as a large number of strong local companies rose and the market became much more exposed to international competition. Nonetheless, the level of market development in many respects was still behind that of developed countries.

Therefore, when taking into account the different levels of development between the institutional environments they had been operating and the new host institutional environment, we can better understand managers' stereotypes of British and Chinese models of marketing practice. Managers working in MNCs' foreign subsidiaries innately face uncertainty and ambiguity, as they are running the business in terms of at least two different models – home and host – on a daily basis. When making decisions of which model to use and how to justify the decision, they tend to stereotype the different models according to the practice's "country of origin". When an MNC that has been mainly operating in developing countries comes to a developed host county, subsidiary managers tend to stereotype the host practices positively but the home practices negatively. When an MNC that has been operating in developed countries comes to a developing host country, subsidiary managers tend to stereotype the host practices negatively but home practices positively. In formal terms:

Modified P1 *Many Chinese marketing practices tend to be stereotyped negatively in the UK, whereas many British marketing practices tend to be stereotyped positively in China.*

4.3.3 MNC Spill-over

The legitimacy of the MNC as a whole and the legitimacy of its individual subsidiaries are related. When the host country assesses the legitimacy of a particular subsidiary, it often refers to the legitimacy of the MNC's other subsidiaries, and vice versa. This is called legitimacy spill-over (*Kostova* and *Zaheer* 1999). This can happen vertically – that is, between the subsidiaries and the MNC as a whole – or horizontally – that is, across subsidiaries.

4.3.3.1 Gaining/leveraging International Reputation

Bfmcg China utilized its global reputation effectively in winning the Chinese local market. Statements such as "customers trust us", "one of the Fortune 500 companies" and "good reputation" were often used by the managers.. Chinese consumers were indeed very open towards the company's renowned international brands. In addition, being one of the Fortune 500 companies undoubtedly helped in lobbying the Chinese central and local governments to allow the subsidiary to buy out all of the joint venture partners and convert into a wholly-owned subsidiary. As the vice president of Bfmcg China explained, "I think that all the success we have achieved in China is due to the fact that we are one of the Fortune 500 companies and its good reputation."

However, there is no evidence indicating that Cappliance UK leveraged the reputation accumulated in other parts of the world to appeal to the local British market. Rather, like other Chinese companies, Cappliance UK had a burdensome image that it was only good at manufacturing "knock-up" products and was weak in marketing or other management areas. But the results seem to suggest that Cappliance believed that gaining success in mature markets, like the US and the UK, would enable them to overcome this negative image and to build up a more positive image back home and in other countries. Although after 1996 the company established subsidiaries in nearby developing countries such as Indonesia, the Philippines and Malaysia, its main internationalization thrust was directed at developed countries, like the US and Western Europe. Many managers pointed out that, in the air-conditioning business, the UK market was considered "the most sophisticated market in Europe, probably in the world. If you can succeed in the UK market, you can succeed anywhere in Europe."

Attributing the lack of "good reputation" simply to "the liability of foreignness" or "the liability of newness" may be too superficial, since both case MNCs had to confront the challenges. The explanation for the difference may still lie in the different institutional environments from which the MNCs had been gaining legitimacy. There were three institutional environments: the Chinese market, the British market and the global market and the first two markets were part of the global market. The Chinese market had only recently become part of the global market, while the British market had long been an international arena. The data suggest that obtaining legitimacy in the British market is of more importance than in the Chinese market because it plays a more central role in the global economy.

Indeed, under more scrutiny compared with domestic companies, MNCs are often vulnerable in that they have to gain legitimacy in every country where they operate. Nevertheless, the contributions of legitimacy gained in different countries to an MNC's global spill-over are disproportionate. To an MNC's global legitimacy, the augmentation of legitimacy in developed countries is more crucial than in less developed countries. Therefore, when an MNC that has been mainly operating in developing countries comes to a developed host county, gaining local legitimacy can increase its legitimacy in the global market. When an MNC that has been operating in developed countries comes to a developing host country, it can mobilise its global legitimacy to gain local legitimacy. Hence:

Modified P2 *British MNCs tend to utilize the legitimacy accumulated elsewhere in the world to gain legitimacy in China, whereas Chinese MNCs tend to utilize the legitimacy accumulated in the UK to increase its legitimacy elsewhere in the world.*

4.3.4 Stability of Local Institutional Logic

Institutional logic was defined by *Horn* (1983, p1) as "the underlying assumptions, deeply held, often unexamined, which form a framework within which reasoning takes place." It encodes the criteria of legitimacy by which organizations and their activities are constructed and sustained (*Greenwood* and *Hinings* 1996; *Suddaby* and *Greenwood* 2005).

4.3.4.1 Established / Transitional Marketing Model

Through many decades of involvement in international competition, the air-conditioning industry became well established in the UK. The logic of how to conduct marketing activities was relatively stable. During the interviews, "the only way", "classical", "a traditional role", "typical", "must be done" and "a very old model" were the words that the managers used.

At Cappliance UK, the parent company was accused of not having a "classical" marketing structure in the UK. For example, it did not put the product manager in the UK but kept him in China. So opportunities to send back market information and create demand were lost. The go-to-market approach adopted by Cappliance UK was seen as "typical" in the UK, following two options: one was by having a small number of high volume direct accounts and the other through a distribution wholesales chain. "All the major companies" were seen as having a similar policy of selling direct as well as selling through the distribution channels. "There are not a lot of new things when it comes to business." It was believed that to survive and succeed in the UK market, certain things "must be done", "some business models" had to be followed. "To be professional" was essential. The parent companies also seemed eager to learn local marketing logic, as described by the co-managing director, "it is really encouraging about our Chinese colleagues that they really are aware that they don't have the knowledge. They admitted that openly… The Chinese would say, 'Yeah, we need to learn' ...There is no arrogance. They do learn and have learned very, very fast."

In contrast, in the Chinese market, commitment to marketization and continuous opening to the world economy led to a situation where local institutional logic underwent significant change. A more customer and competitor driven logic, which most of the Western MNCs had already been familiar with from the day they were born, became more and more dominant. So in this respect the "logic shock" was relatively small for Bfmcg China. Moreover, the data indicate that there was a shared perception among managers of Bfmcg China that, as the local economy developed, more Western marketing approaches would gradually replace Chinese ones. One example was given by the vice president of Bfmcg China in discussion on the companies' distribution channels. He claimed that although one of the local companies' advantages was that they were good at dealing with General Trade (distributing products mainly through wholesalers), as the Chinese economy develops, Modern Trade (distributing products mainly through retailers), which Bfmcg had more experience and expertise with, would become more and more dominant in China. Therefore, he continued, "localization might not always be a wise thing to do in China."

Institutional logic is deeply embedded in the institutional environment. But, it does change from time to time under certain circumstances. The transition from a planned-driven to a market-driven economy is one of these circumstances. Thus, the stability of local institutional logic regarding business and management in non-transitional economies like the UK is relatively more stable than that in transitional economies like China, where the fundamental managerial assumptions are shifting. This instability can weaken local institutional pressures in resisting foreign practices.

Therefore, it would not be inconceivable that an MNC, such as Cappliance, which has grown out of a transitional economy, remains with a hybrid of logics. For these companies, establishing a subsidiary in the UK where the market-driven logic has been firmly established is not only a test, but perhaps an opportunity to speed up its transition to a market-driven logic. In other words, they have the willingness to accelerate the transformation process towards a more market-driven logic. On the other hand, in the Chinese market companies like Bfmcg, in many ways, epitomize the rationale of the newly-proposed institutional logic. The local environment is less resistant to the logic they represent, and even follows this logic.

Therefore, when an MNC that has been mainly operating in a transitional country comes to a developed host county, it tends to face a relatively stable local institutional logic. When an MNC that had been operating in developed countries comes to a transitional country, it tends to face a relatively unstable, hence weak local institutional logic. Hence, the following proposition regarding institutional logic was generated:

Modified P3 *Concerning marketing practices, British MNCs tend to face a transitional, hence relatively unstable institutional logic in China, whereas Chinese MNCs tend to face a relatively established institutional logic in the UK.*

4.3.5 Adaptation and Absorption of Marketing Practices

One of the key factors making subsidiaries resemble each other and their headquarters is replication – MNCs enact existing routines and standard operating procedures when setting up new operations (*Nelson* and *Winter* 1982; *Rosenzweig* and *Singh* 1991). A subsidiary becomes the MNC's foreign extension in the host county. In analyzing the data of the two initial cases, little evidence suggests that Cappliance exported any significant marketing practices to its UK subsidiary, while much evidence show that Bfmcg did tend to apply existing marketing approaches and adapt to the Chinese market.

4.3.5.1 Entry Mode and Composition of Marketing Related Staff

Prior research found that Chinese MNCs prefer to form joint ventures to reduce investment risk (e.g. *Deng* 2004). The data from Cappliance UK suggested that risk mitigation might not be the only or even the primary motivation of this type of entry strategy. Cappliance UK appear to absorb local marketing practices through joint venture with local partners and empowering experienced local staff. It entered joint ventures with local partners and avoided Chinese nationals, even though they held the majority of the shares. The co-managing director explained the rationale of the joint venture, "Cappliance prefers to work with business stronger partners ... The senior managers in Cappliance UK are all very well known in the industry, nationally ... So we are very close to the market and know some very senior people in the industry." Despite the fact that Cappliance owned 60% of the shares, all marketing related, indeed all, staff in the subsidiary were recruited locally. "We did ask China to put someone here full time," the co-managing director described, "But they've (the parent company) never done it... I think they are short of skilled staff. I think that's the real reason."

In contrast, the data suggest that in China Bfmcg prefer to set up wholly owned subsidiaries and staff them with expatriates to implement their own systems and practices whenever possible. In terms of entry method, before the mid-1990s, foreign MNCs like Bfmcg entering China had to form joint ventures with local Chinese companies because the Chinese authorities restricted other options at that time. When the legal restriction was lifted later, many converted their subsidiaries into wholly owned subsidiaries. This provided the company with management control. By the mid-1990s, Bfmcg had 14 joint ventures with different partners. However, joint venture meant joint management practices. As the local partners were state owned companies, they had to give profit to the government. They could not reinvest to enlarge the market share and continue to develop the brand. This directly contradicted Bfmcg China's long-term goal of gaining access to the Chinese market and maintaining strategic business presence ahead of their competitors. So Bfmcg China eventually lobbied the Chinese government to allow them to convert all 14 joint ventures into one wholly owned subsidiary. The Chairman believes this restructure to be significant, because "it allows us to concentre on our brands the way we want to do it."

Concerning marketing-related staff in Bfmcg, although expatriate managers had been reduced to 5% of total management, they all remained in top management positions.

Most of the local staff either joined the company directly after their graduation from university or had worked for other foreign MNC Chinese subsidiaries.

4.3.5.2 Transfer of Marketing Practices

The marketing model of Cappliance UK was perceived as British. For example, "the classical key account approach" used by the subsidiary was regarded as "reasonably new" for the Chinese parent company. The approach adopted forward thinking strategies and considered the account life time rather than one sale. Although the parent company held the majority of the shares, it was involved very little with marketing activities in the UK. There was no manager despatched from the parent company to the subsidiary, which was a surprise to the local managers. Rather, in many occasions, the subsidiary persuaded the parent to "take on board" local advice of how to conduct marketing. "Trying to help them", "teach them", "explain to them", "improvement" and "adjustment" were the words subsidiary managers used.

In contrast, the data from Bfmcg China suggest that it transferred marketing systems and tried to marry them with the local model. The company attempted to apply its successful experiences of distribution systems from India, Pakistan and Taiwan to the Chinese market. Trade in China is a combination of General Trade (distributing products mainly through wholesalers) in rural areas and Modern Trade (distributing products mainly through retailers) in big cities, not like mature economies such as the UK, where it is dominated by Modern Trade. Bfmcg first appointed a management team from its subsidiaries in India and Pakistan, believing Indian and Pakistani markets to share similarities with the Chinese market. Later, when hypermarkets and supermarkets emerged, this management team was replaced by another team from Bfmcg's subsidiary in Taiwan to develop Modern Trade capabilities concentrating on major cities.

Bfmcg China also tried to bring many of its international renowned brands into China. During the process of establishing these brands, many practices, such as promotion campaigns, had to be adapted to the local market. This was seen as a political process, in which the expatriate managers of the subsidiaries were the interface endeavouring to balance between the parent and local marketing teams. "It's an art", "trust is important", "beyond the organization" were the words used by the managers. Marketing research was also used extensively to provide quantified information for making decisions.

Managers of Bfmcg China pondered the opportunity to adopt some of the local marketing models, but found them incompatible with the company's management system. For instance, at one time, Bfmcg China considered an alliance with a leading local company, Company D, or even acquisition to help it manage General Trade in China. However, after an in-depth study of the local marketing model, the management of the subsidiary rejected the option, since they believed the local model relied primarily on huge ground sales presence and loyalty to the leader, which could not be consonant with the rest of marketing system of Bfmcg.

Therefore, it appears that the two subsidiaries responded differently to the consequence of the asymmetrical institutional duality they faced. Under greater institutional pressure from the parent side, Bfmcg China responded by enacting its existing marketing practices and adapting them to the local Chinese market. The adaptation process was iterative and full of political struggle between the global and local marketing team. But to the managers of Bfmcg China, enacting the extant practices was more doable than adopting local practices. On the other hand, confronting greater institutional pressure from the host side, Cappliance UK reacted to the asymmetrical institutional duality by extreme localization. It exported very few home marketing practices. On the contrary, through the joint venture, it incorporated many local experienced managers who were adept at working with the local marketing model and ran the business on their behalf. It was obvious that the parent company lost a great deal of power in doing so, but the compensation of survival and success in the UK market seemed more tempting to Cappliance.

Thus, when an MNC that has been mainly operating in a developing country comes to a developed host county, it tends to absorb local marketing practices. When an MNC that had been operating in developed countries comes to a developing host country, it tends to apply and adapt its extant marketing practices to the local market. Therefore:

Modified P4 *British MNCs tend to apply and adapt their home marketing practices to its Chinese subsidiaries rather than adopt local practices whereas Chinese MNCs tend to absorb local marketing practices rather than apply and adapt home practices in their British subsidiaries.*

In summary, through the analysis of the two cases, the two initial propositions were modified, resulting in four new propositions. Taken together, the new propositions highlight the fact that the two subsidiaries face asymmetrical institutional duality, which is contingent upon the different levels of home and host country development. Conforming to this asymmetrical institutional duality, the two subsidiaries reacted differently.

4.4 Some Caveats on the Analysis of the Initial Cases

Regarding findings of the two initial cases, several caveats appear to be in order. The first is whether the entry mode of Cappliance UK as a joint venture affected the institutional duality it faced and its response towards it. It is possible that a subsidiary is prone to adopt more local practices if it is formed as a joint venture with local partners as opposed to a wholly owned subsidiary. Also, it is no secret that power struggles exist between joint venture partners, which may increase the chances of resisting parent companies' practices. But the fact that the parent company avoided despatching expatriates and showed willingness to learn from the subsidiary seems to signify that the parent company treated the joint venture as a learning vehicle via which it could attune itself to the local market more quickly. If this is the case, forming the joint venture becomes the very means to absorb local practices. Nonetheless, the problematic role of the joint venture deserves to be further examined. One needs to establish whether a wholly owned British subsidiary of a Chinese MNC would still follow a pattern similar to the findings of Cappliance UK.

The second caveat is that the asymmetrical institutional duality may simply result from the fact that Bfmcg is more experienced or bigger than Cappliance, given that Bfmcg is one of the Fortune 500 companies with more than seven decades of international experience, while Cappliance is less than thirty years old and has only recently started to internationalize. However, the limited size and experience of Cappliance reflects China's comparatively short history of engaging with the global economy. Cappliance is regarded as one of the most promising and pioneering internationalized companies in China. Still, one may wonder whether a relatively smaller and younger British MNC setting in China, would be under more institutional pressures from the local environment.

The third caveat is that companies in different industries may confront institutional duality to varying degrees. Although, an ideal test would be to compare two companies in the same industry, it would be difficult to confine the sample companies to one industry, since there are only a limited number of internationalized marketing-seeking Chinese companies. Also, both of the initial case subsidiaries were not strategically state controlled or atypical industries in China or the UK. Nevertheless, concerning marketing in particular, it seems to be sensible to select case companies involved in both Business-to-Business and Business-to-Customer marketing to see if there would be any difference.

In accordance with the logic of analytic induction, the modified propositions should be examined in light of some more new cases. Moreover, the new cases ought to be potentially negative cases that are likely to challenge the propositions or require their re-formulation. Therefore, based on the findings of the two initial cases and bearing in mind the above caveats, the following criteria were used in selecting the multiple case companies:

(1) Marketing function should be strategically important to the case subsidiaries;

(2) The Chinese subsidiaries of British MNCs should be relatively smaller and with shorter internationalization experience;

(3) The British subsidiaries of Chinese MNCs should include wholly owned subsidiaries.

4.5 First-order Findings of the Multiple Cases

Similar to presenting the findings of the two initial cases, the first-order findings of the multiple cases are also reported as mini-cases, primarily providing brief backgrounds to the case MNCs and the subsidiary, and accounts of the marketing events or issues that subsidiary managers considered critical to the subsidiary. In doing so, it is attempted to represent the managers' interpretations and experiences by extensive use of representative quotations from interviews.

Ctransport UK

Background of Company Ctransport

As a result of its increasing involvement in international trade, China has experienced significant growth in its shipping industry. For example, from 1996 to 2003, port throughput in China grew at an annual growth rate of about 30% and China has become the largest container throughput country in the world. Many Chinese shipping companies have managed to gain a strong footing in the highly competitive global shipping market. One of these companies is Ctransport.

Ctransport is a rapidly growing container shipping company with its headquarters in China. It is principally engaged in the operation and management of international as well as domestic trade lanes, providing services to customers, in storage, transhipment, and customs clearance. It also has its own international cargo agencies to provide services to clients. The company is affiliated to S Group, which is one of the key state-owned enterprises under the direct administration of the Chinese central government and is a super-large shipping conglomerate that operates across different regions and countries.

The company was established in 1997 in Shanghai. It was then converted into a joint stock limited company in 2004 and also successfully listed on the Stock Exchange of Hong Kong. With fleet adjustment for nearly eight years, particularly with delivery and putting into operation some new buildings, the company has gradually formed a modern fleet, mainly consisting of container ships over 4000 TEU (twenty-foot equivalent unit) with a better configuration structure and stronger operation capacity. It has emerged as a major global player and has recently been ranked as the sixth world largest container shipping company in terms of operating capacity.

It operates dozens of domestic coastal routes and international container liner services from China to Japan, Korea, Southeast Asia, Australia, Europe, the Mediterranean, America, West Africa and the Persian Gulf. Domestic coastal transportation covers more than 30 ports from South China to North China. With 16 vessels in operation, its Far East-North America lines cover 8 base ports and over 40 inland points of North America. Its Far East-Europe/Mediterranean line is now serving almost all China base ports, with a big capacity compared with other carriers. It is also a dominant player in the Chinese domestic market with a share of over 50% in a significant number of domestic ports. The company has a weekly service sailing between Felixstowe in the UK and main ports in South East Asia, China and the Far East. Another service from Felixstowe operates to Mexico, the US Gulf and East Coast, the Middle East and the Indian Sub Continent.

According to the company website, the total number of employees working for the company's global network exceeds 2200. Among them, the number of foreign employees is over 2000.

Founding of Ctransport UK and the UK Shipping Industry

For two hundred years Britain has been one of the great maritime nations of the world. UK shipping industry benefits from world trade growth and earns over £1.3m for the UK economy every hour of every day. According to *The British Chamber of Shipping Annual Review* 2006-2007, UK shipping is now a comfortable third in the services sector in terms of export earnings – after financial services and travel. The shipping industry in the UK is a dynamic example of globalization, building on a strong national base, but also growing through inward investment by major international companies, such as Maersk and Hanjin.

In October 1998, Ctransport signed a joint venture agreement with a British company, Company J, for the establishment of Ctransport UK as the representative of Ctransport in the UK, with China owing 60% and Company J 40%. The subsidiary reports directly to Ctransport's European headquarters in Hamburg, Germany.

Company J is the largest independent liner agency company in the UK with more than 30 years of experience within the shipping industry. The subsidiary presented Company J with the challenge of raising awareness of a young Chinese shipping company which was unknown within the European container line market. But, the task was not entirely new to Company J, as it used to be a liner agency for major Japanese and Korea shipping companies.

> "You know, Ctransport has been developing extremely fast. So when we came to the UK, we wanted to rely on local resources, for example, information and people. We can get these and benefit from these resources immediately. That's why we had this joint venture… We didn't use too many expatriates, because it would take much longer for them to become familiar with the local market. This way (forming a joint venture) is quicker." (The Managing Director)

Staffing of Marketing Related Managers

In keeping with the above rationale of a joint venture, of more than 80 employees working in Ctransport UK, only two, the managing director and the financial director were expatriates from the parent company. The Chinese managing director was viewed as a "figurehead" who was only to smooth communication between the parent and the subsidiary. All daily operation was organized by the British general manager.

The general manager and many senior marketing managers previously worked in Company J and the rest were recruited locally. The senior management had long associations with the industry. For example, the general manager had more than 40 years experience in the shipping industry. This helped the subsidiary enter the market rapidly.

> "We know who our customers are. We know who has cargos. So what we (the locally recruited marketing team) have done is that we spent a long time on the telephone, ringing all the people we know, to say, hello, we are just about to start Ctransport UK. Would you like to ship with us? And we got a quite lot of business to start off with." (A Marketing Manager)

On the marketing level, the parent company rarely intervened or provided any guidelines.

> "I think probably the way they (the parent company) work is the shipping line runs the ships, if you like, and let their subsidiaries, whether in Europe or China,

get on with getting the business. So they don't get directly involved. It's not their demand and it's we that drive our marketing and sales. That's maybe because they don't want to, or due to lack of experienced staff." (The General Manager)

"They (the parent company) have no overall marketing strategy...Sometimes people even confuse us with another Chinese Shipping company operating in the UK" (The Marketing Director)

"People know it's (Ctransport UK) a new force. But they don't really have a feeling for it. What does it mean for them? So I think we should know who we are. Do we want to be the biggest, or most profitable or most customer-focused? I don't think we know what we want to be. We have to define that first." (The US Trade Director)

Critical Marketing Issues and Events

Both senior and middle marketing-related managers showed frustration for the lack of flexibility in the parent company's marketing approach.

"The influence from China is not that great and it's in a negative or adverse way. We see things should be done in a European way, which may be very different from the way it seems to be done in China. Whether that's a Chinese issue or a company issue, I'm not sure I know the answer." (The General Manager)

No-Frills Service

The parent company's marketing approach was regarded by many managers in the subsidiary as only providing a no-frills service. One issue repeatedly concerned "special deals" for key customers.

> "They (Ctransport) don't offer special rates and they don't offer reduction on UK charges, mainly because it's perceived as giving revenue away. Every time you give somebody a special deal you cost yourself money, one way or another. As a result, they, as a rule, don't have VIPs or big customers." (The Marketing Director)

> "I think the perception of a lot of customers is that (Ctransport) likes to say no. They always put up barriers. While there might be good financial reasons why it doesn't want to do all those things, obviously our customers compare us for all sorts of reasons with other lines. If we don't do things that other lines do, honestly, Ctransport can be left out." (A Marketing Manager)

An example provided was: when a container arrives in the port of Felixstowe, the shipping lines operating in the UK usually give 14 days for customers to pick up their containers, 7 of which are paid by the port and 7 days by the shipping company, but Ctransport only allow its UK subsidiary to give 7 days free to customers to lower costs, which baffles many local managers.

> "I can understand it from a financial point of view, but I can't understand it from a marketing point of view, because by and large, the industry as a whole allows this kind of concession...The shipping industry [in the UK] has always been set

up in this way. It may not be the right way. But it is the way it is." (The General Manager)

"For example, ASDA wants 21 days of free time [to pick up their containers from the port], but Ctransport doesn't allow them to do that. So ASDA wouldn't ship with us. If you are a big supermarket chain, like ASDA, you need additional free time to handle the containers, but Ctransport doesn't do that." (A Marketing Executive)

"At the moment, the Chinese economy is booming. Our business is very good. They (Ctransport) take the opinion that our vessels are fairly full, on many occasions they are very full, so why do we need to give special deals to customers? But the problem is if the market in the UK started to struggle and more and more shipping lines were after the same cargo, we would suffer. The customers would say that they had asked all those things 12 months ago, but you said no. Now they are shipping with company X, Y, Z and they are happy." (The Managing Director)

Imbalance on Import and Export Business

With the Chinese economy booming, there is a huge volume of cargo coming out of Asia and going to Europe, providing a great deal of import business opportunities for Ctransport UK. But the demand for export business is much less because Europe was trades in deficit with Asia.

Ctransport UK is considered more import-focused. It is well established in the top 10 carriers in the UK on the import side, but the export side is relatively low. This was not the intention of the subsidiary's management, rather, this occurred because the parent company controls the import business so closely that it hampered the growth of the export business.

"The import is very big. They (Ctransport) tend to control it very closely in China. The rates are controlled in China and terms and conditions are also controlled in China. So our input is quite small. But we keep in touch with customers to give them the point of contact in the company [in China]." (The General Manager)

"That (controlling tightly the import business) is maybe a Chinese way, but it's not a European or English way. We have a lot of customers who have exports and imports. When we can't actually help them too much on the import business, it's very difficult for us to balance that with trying to ask them to let us serve them on the exports. We're in a market where there is less demand for export, we're all chasing the same customers. And it's very cut-throat. With other lines, who are structured in the same way [in terms of handling imports and exports], they are more able to make things happen. They are looking at the whole picture whereas here we're very much like if you are the local agency, that's your mandate and that's what you need to take care of." (The Marketing Director)

British or Chinese Marketing Model

As Ctransport UK was in effect predominantly run by British managers, all managers, including the Chinese Managing Director, felt the marketing approach within the subsidiary was British.

"By and large, we are like a British company." (The Managing Director)

"Although sometimes they (the Parent Company) have a negative influence, I think our marketing has still been done in a traditional British way. It's just we are not doing it enough. With more support from China, we will be getting to the stage that we are as good as anybody else." (The General Manager)

"I don't think we've done anything in the Chinese way as far as marketing itself...I don't know what a Chinese way would be of doing it. I don't know if you had a Chinese marketing manager here, how he would approach things differently". (The Marketing Director)

Cdirect UK

Background of Company Cdirect

Direct selling is a channel of retail distribution in which, through personal explanation and demonstration by direct sellers, orders for goods and services are obtained in face to face contact with consumers – away from normal retail business premises and normally in the homes of consumers. Although still hampered by government restrictions especially on issues such as multilevel organization structures, and personal selling methods, China has huge potential for direct selling.

Founded in 1995 in Tianjin, China, Cdirect is principally involved in direct selling. It is also engaged in many other sectors including finance, real estate, education and logistics. The company has successfully developed a total of 3 series of quality products comprising 200 items by using advanced bio-technologies and in-depth researches on traditional Chinese herbal medicine and health care. By developing health food, health care, beauty care and home care products, Cdirect strives to offer a high quality lifestyle with health, happiness, beauty and affluence to consumers worldwide.

Cdirect entered the international market in 1998 and was listed on NASDAQ in the US in September 2003. So far, it has established subsidiaries or branches in 110 countries and regions, and has established strategic alliances with many world-class enterprises, such as Loreal.

Following a trial-and-error approach, Cdirect set out to penetrate both developed and developing countries at almost the same time. Until the time that the data was collected, the performance in developing countries had been better than that in developed countries. Nevertheless, the subsidiaries in developed countries plays a strategic role for the whole MNC. On one hand, the subsidiary is to seek profit in the UK; on the other hand, according to the country managers of Cdirect UK, "we are carrying the flag of globalization for the whole company".

> "In developed countries, such as the UK, the US and Germany, our growth is not as fast as that in the developing countries ... But our senior management at the headquarters has never considered withdrawing from those developed countries, though the performance is not satisfactory... The reason is that, I believe, having a presence in the UK, a developed county, lifted the company's profile in the sense that it became a "real" international company. Without having a presence in developed countries, like the US and the UK, we can't say we are a global company." (The Country Manager)

One example demonstrating this "flag effect" occurred in a conference held in Indonesia in April 2006, when distributor (direct seller) representatives from all over the world were introduced country by country: "they realized it was a real global company".

Founding of Cdirect UK and Direct Selling Industry in the UK

According to the UK Direct Selling Association (DSA), £2 billion of goods and services are sold each year through the direct sales channel in the UK. This is achieved by over 400,000 independent direct sellers. Many global direct selling companies, especially from the US, such as Amway and Avon, have been dominant in the UK market.

Cdirect established a wholly owned subsidiary in the UK in 2001 and formally started its direct selling business in 2002. The UK subsidiary reported to the European Headquarters in Germany, as a result of the latest change of the company's global restructure, in which the main responsibility of the global headquarters in China had shifted from directing to providing services and support to the foreign subsidiaries.

> "The HQs have divided the global market into several regions: Europe, Africa, South East Asia, etc. In each region, they have their own management team. The headquarters in China does not usually intervene. It is not China making the decisions directly. They are from [the] European office" (The Country Manager)

> "I'm quite surprised with how much the scope that the UK has to do what it wants to do. I am really pleased with that … At the moment, if we can provide a strategy that we can justify, we are pretty much allowed to do whatever we want to do. That's really good." (The Marketing Director)

Cdirect UK has grown rapidly. Until the time of data collection, Cdirect UK had over 10,700 distributors registered in the business, with an average of 700 new distributors joining every month.

Nonetheless, the country manager admitted that the subsidiary needs to go a long way before catching up with its strong competitors in the UK. The company is actively learning from the major players in the UK direct selling market. One example was that they noticed that other direct selling companies in the UK had a web-based software system that enabled their distributors to manage their own downlines through having their own distributor portal, from where the distributor could access genealogy, real-time sales and registrations, commissions, contact details. Cdirect UK studied the system and developed a similar one in the UK, as the country manager described:

> "Many of our distributors have also been distributors of other direct selling companies. If they find out that we have problems in our products or our management, they are going to leave us for other companies. Therefore, we are not only competing on the quality of products, also on the management system."

With respect to marketing, the whole process of subsidiary establishment is viewed as "basic" and "to learn by doing" compared with the "elaborated and time consuming process" of the Western approach, which would incorporate thorough marketing researches and well targeted pre-launch marketing communication campaigns.

"They (Cdirect) come in and do basic compliance, not much. They talk to a few people. They then start a few training. They don't really worry about anything else. If in six months, its starts to grow, they'll look at the market and start thinking of the market. For Western companies, three months before launch, they'll spend a lot of time on product compliance. And spending money on catalogues and start kit and doing all the things you need once you launch the market, which costs them absolutely a fortune and lots of time. But when they launch, there is already a market." (The Marketing Director)

"I wouldn't say they (Cdirect) have a unique strategy except they have a USP (unique selling point), which is being a Chinese company selling health products based on Chinese Traditional Medicines, but other companies have their own USP as well. In the marketing sense, there is nothing I can think of is unique." (The Marketing Director)

Staffing of Marketing Related Managers

Although Cdirect UK is a wholly owned subsidiary, all of the marketing related staff were recruited locally, except the country manager himself who is an expatriate. Of three middle level marketing managers, two are Chinese but joined the subsidiary in the UK after they graduated from British universities. The other three British senior marketing managers previously worked for long periods at the senior level of Amway and NSA, respectively. The employment of the three British managers was regarded by all managers interviewed as one of the critical events for the subsidiary.

"Their (those three British senior marketing managers) joining is significant for this company because we can learn more about local marketing." (A Marketing Manager)

"Actually, all the marketing work now has been done by them. I don't touch it... I hope we can act as a local company. That's why when they [the British senior managers recruited from Amway and NSA] report to me their decisions about marketing, I rarely disagree. If you want to operate in this market, you ought to rely on local people... I expect that all the staff will be localized in the near future." (The Country Manager)

Critical Marketing Issues and Events

Becoming a Member of UK Direct Selling Association (DSA)

Since 1965, the DSA has been the recognized trade association for the direct selling channel of distribution. The DSA represents businesses with combined sales currently in excess of £2 billion per year, accounting for 80% of total direct sales in the UK.

Cdirect UK became a full member company of DSA in 2006. The importance of joining this association was explained clearly in a newsletter from the subsidiary to its distributors:

"Please understand how important this is in terms of our market positioning and credibility. We will be one of only 39 companies in the UK that have full membership status; we will be able to display both the logos of the DSA and OFT (Office of Fair Trading) on our literature, all of which will add hugely to our credibility and respect in the market place, and make your life easier with presenting the business."

The three British local marketing managers had contributed enormously during the application and approval stage.

"Although we had maintained close contact with DSA [before the three local managers' joining], it was them who helped us to join the DSA quickly through their previous experience and contacts." (The Country Manager)

Holding a Celebration Conference

Holding conferences is one of the most effective marketing tools in direct selling. In general, there are two types of conferences: introductory and demonstrating. Introductory conferences include:

- Open Plan Presentation (OPP): including both an introduction to the company and an overview of the products and compensation plan.

- New Distributor Orientation (NDO): designed to teach the basic techniques of building a network marketing business. All new distributors are encouraged to attend and to use the knowledge to kick-start their new opportunity.

- Product Training (PT): provides a clearer understanding of the products and the principles of "Chinese Traditional Healthcare Culture" linked to modern high technology; the importance of targeted nutritional supplements in supporting a high pressure lifestyle.

Conferences with a demonstration purpose are used to celebrate the success of the company and individual distributors by giving awards to high-performing distributors, inspiring potential distributors who come searching for a business opportunity and revitalising existing distributors.

In June 2006, Cdirect UK held, in London, the first demonstration conference since its establishment in the UK, which was attended by more than 1700 distributors. The management reviewed the subsidiary's performance and laid out the plan of future developments. The director of the UK DSA also attended the conference and delivered a well-received speech. One of the highlights of the conference was presenting two BMW X3 cars as awards to the best distributors of the year.

> "The conference was important because we fulfilled our promise that we will send out two BMWs as a reward for our best distributors. The director of DSA UK also came and delivered a speech which demonstrated our company has been recognized by DSA. It boosted the confidence of our distributors and made a big noise in the industry." (The Country Manager)

Yet, all the managers acknowledged that holding conferences is not a unique marketing approach as "other companies do that as well".

Launching a Global Campaign

In July 2006, Cdirect started a global campaign in an effort to revitalize its old distributors and engage potential distributors. Although all the managers considered it one of the critical events, the launching process was seen by the locally recruited marketing managers as "extraordinary" since there was no pre-communication between the parent and the subsidiary.

> "It was suddenly there and it was just launched... In other Western companies where I worked in, there would have been six months build-up where senior managers [of subsidiaries] would have got involved, planned and strategized more. Also marketing function would be integrated more with other related functions, like IT and training." (The Sales and Training Director)

As a global promotion campaign, it was surprising to the local managers that the subsidiary had received very few marketing guidelines.

> "We've got exactly 21 bullet points of how the promotion should work. We've got the accountancy behind it, but we didn't get anything on the marketing level... There was no central marketing, no central branding. There were no central brochures, flyers or websites, even. The subsidiary was kind of left with it... Then we created our own marketing materials and our own brand and our own interpretation of what the incentive prize should be. To me, I would expect to know that, here is the document defining the brand, here is the central website, here is your communication strategy ... but none of these has been done for us." (The Marketing Director)

The pitfall, as seen by many managers, was duplication of resources. As there were more than 20 different markets in Europe, a distributor in Russia, for example, would have had the same promotion as the distributor in the UK but they may have adopted different, hence inconsistent branding and communication strategies.

British or Chinese Marketing Model

Although the general comment on marketing in Cdirect UK was that it was still "quite primitive", the way in which the marketing had been carried out was regarded as British.

> "I can't tell the difference between our way of doing marketing and other company's way apart from cost of making. In terms of getting the products into the marketplace, I think, it's pretty much exactly the same." (The Sales and Training Manager, previously worked for Amway UK)

There was one marketing method, agent office, which was considered by the country manager as unique. An agent office is a standardized office like a local branch, located in a business centre of a city, used to train distributors too far away to go to London, where the subsidiary resides, and reach out to business opportunities. The main idea of the agent office was not to make money but to aid local distributors in developing business in the local communities. Many other companies in the UK tried to approach those distributors by post. Cdirect UK set up eleven agent offices across the UK, including London, Manchester and Birmingham.

The agent office in fact originated in China, where multi-level direct selling had been banned and the postal service was relatively unreliable. However, since in the UK legislation on multi-level direct selling is much more relaxed and the postal service is more reliable compared with China, the advantages of the agent office, according to most British local managers, have been diminished.

Bservice China

Background of Company Bservice

Bservice is a risk management company providing risk assessment and risk mitigation solutions and management system certification around the world. Its history can be traced back to the 18^{th} century. Originally, it was a specifically maritime organization. In the 1900s it began to apply its expertise developed in the marine industry to other industrial sectors resulting in wide ranging services, including oil and gas, process industries, nuclear and rail. Through one of its subsidiaries, it is also a leading provider of management system certification, such as ISO9001 and ISO14001.

With more than 5,000 employees globally, the company's marine business principally involves classification of ships, which sets standards of quality and reliability during the design, construction and operation of ships. It works closely with ship-owners, operators and builders to provide innovative, value-added solutions that help improve business performance. It also carries out statutory inspections for national administrations. The company also offers a number of consultancy and training services to help clients to assess a ship's condition or extend its life, and to address the risks associated with purchasing or chartering a second-hand vessel.

Starting in 1852, Bservice opened its first overseas office, in Canada, and other offices followed around the world.

"We've got one thing that is always positive, particularly in this industry. We are widely recognized as one of the market leaders. People all over the world associate us with good service quality and market leadership." (Bservice's Country Manager in China)

Founding of Bservice China and Shipbuilding Industry in China

Bservice first opened an office in Shanghai, China in 1869. After many years of dramatic ups and downs, Bservice China found that 21st century China represented its fastest growing market. In October 2006, Bservice's global Board of Directors held a formal board meeting in the Shanghai office. This was the first time such a meeting had been held outside Europe and reflected the growing importance of the Chinese market across all its business sectors. During the meeting, the Board members gained a first-hand perspective of the opportunities and challenges presented by the exceptional growth in the Chinese marine and industrial sectors.

China is making a concerted effort to establish itself as a major maritime power. Statistics from the Shipbuilding Industry Association of China show that, in 2006, Chinese shipyards delivered 14.52M dwt (million deadweight tonnes), and won new orders totalling 42.51M dwt – 150% more than in 2005. With an order book for 68.72M dwt at the end of 2006, out of a world total of 304.26M dwt, China held 22.5 per cent of the world market. It is now the world's third largest shipbuilder in terms of gross tonnage, surpassed only by Japan and South Korea. China State Shipbuilding Corporation (CSSC) maintains that China will take first place by 2015, though the shipbuilding technology, engineering skills, and production know-how in China still lags behind South Korea and Japan.

Bservice China targeted 14 shipyards across the Chinese market, which accounted for 70~80% of the market. Those shipyards were believed to be strategically important for the company.

> "There are a lot of shipyards across China. After research, we found that we are not as strong as we might be in some of the bigger shipyards. So, what we have been doing in the last 12 months is profiling and targeting those bigger shipyards. They [the targeted shipyards] are the ones that are going to have the investment. They are supported by the Chinese government. And they are going to have the R&D and become the big ones. So we will have fewer clients, but they are bigger shipyards." (The Business Development Department Manager)

Outside China, Bservice China also benefited from its global business contacts. Indeed, many Chinese shipyards were building ships for international clients with whom Bservice had business relationships already.

> "If a shipbuilder in China is trying to satisfy a customer in Germany, for example, what we are trying to do is to help the Chinese shipbuilder to understand the needs their clients have. We know this owner [in Germany]. We have people who are having a cup of tea with this owner every week in Hamburg and we know what they are interested in."(The Marketing Director)

Staffing of Marketing Related Managers

In April 2006, Bservice China restructured its marketing system, merging business development, marketing and sales into one integrated system. The business development and marketing managers were responsible for service development and the sales managers were responsible for service delivery.

> "We see there are two sides of marketing. There is a long term business development looking for position yourself in the future and then you got the other side which is more immediate with all the [sales] leads coming in. We think these are linked." (The Business Development Department Director)

In Bservice China the country manager, the business development department director, and the marketing director are expatriates. Under the business development department director, regional marketing teams cover three areas of China: north, central and south. Each regional marketing team was formed by one expatriate and one or two local Chinese marketing managers. The mixture of local and expatriate staff was thought to be beneficial.

> "What we found is the local staff are excellent with dealing with the clients, but the problem they have is communicating internally. The expatriates are good at communicating internally, but are not so good at communicating with clients. So what we do is like a partnership. We have an expatriate with a local staff to make sure they make a successful team." (The Country Manager)

"Information is a critical factor. If you don't have sufficient business information, it's extremely difficult to make a strategic decision. Your marketing or sales team could be misdirected. Relations, different types of culture changes across China and little information available give all companies operating here a bit of headache ... So when we're doing marketing or sales effort, we usually go as a team. It's usually one Chinese and one expat. They (Chinese Clients) respect a foreigner sitting at the table. And the [Chinese] national staff can make sure there isn't anything that has been lost in translation. So the double-act works." (The Business Development Department Director)

Critical Marketing Issues and Events

Transferring the Marketing System from Korea

Most managers interviewed from Bservice China saw the shipbuilding industry in Japan, Korea and China as being at different stages of an evolution, and therefore, a great deal of resources and management know-how are shared across the three countries.

"In terms of shipbuilding business, which is the main focus of our activities here, the three biggest shipbuilding countries are all in Asia: Japan, Korea and China. It's very interesting, they are all in different stages of an evolution. Japan is the first one, the market there is quite mature. Korea is still going through an incredible period of growth. China has got the ambition to be No. 1 in the world before 2015. So there is enormous expansion going on in China. The local companies are moving very fast." (The Country Manager)

> "Korea's been set up as an area where we had a lot of expertise, not only technical expertise, but also knowledge about shipyards and business development. So we're linking with that [expertise in Korea]." (The Business Development Department Director)

> "In Korea and Japan they've got very similar marketing and business development systems. In terms of building up the businesses, it's common between the three countries." (The Marketing Director)

> "We have some people in the [Asia] area who are providing the support. So for example, we have somebody who is spending 100% of his time learning about the change of the regulation of the future. The idea is that that person can help the shipyard understand what regulations are coming in the future. So we can build relationship with the shipyards because we can help them. But that person is shared across the three countries, Japan, Korea and China." (A Marketing Manager)

The marketing system and experience was transferred from Korea to China. The marketing director was relocated from Korea to China in early 2006 to bring in the company's marketing system and experience from Korea.

> "My previous job in Korea is business development. My role was to set up the business development team in Korea. My role now is mentoring and growing those teams across the three countries, Japan, Korea and China. So Y (the business development department director) has an opposite number in Korea

doing exactly the same job in Korea. Y is doing what he is doing here and we have a Japanese manager doing it in Japan." (The Marketing Director)

"My role is to bring in the experience of all this used to work or not work in Korea in the past ... The most concern in Korea several years ago was about the technology. The ship-owners were concerned with whether they could build very large ships with duel fuel systems, for example, so technology concerns. In China now, the ship-owners are concerned with the quality standard, safety in the shipyard, environment standard, and those kinds of things. So my job is to bring in the principle of the business team in Korea to China. But the specific practices are a bit different, as the owners building [ships] here are worried about different things. So my job is helping Y (the business development department director) here with my Korea experience to build relationships with the shipyards in China that we think are really going to do well and expand rapidly. " (The Marketing Director)

Strategic Alliance with China Classification Society

In 2005, Bservice China signed an agreement to establish a joint venture with China Classification Society (CCS) based in Beijing. The joint venture was expected to enable the rapid roll out of a number of key products and services to the benefit of the maritime industry in China. It also enabled the two classification societies to combine their strengths and led to distinct advantages for both parties. Bservice China was keen to introduce more of its established products and services into China, whilst CCS had a large Chinese client base and wished to widen its portfolio outside the Chinese market.

> "One of the partners we found was CCS, China Classification Society. From a distance, it's one of our competitors. But we see CCS as one of our strategic partners. We tend to be operating in a mutually exclusive market. They have a large Chinese market and we have the overseas market. So we've got a joint venture with CCS. We are passing out experience to CCS. They need our help in dealing with many international clients." (The Country Manager)

> "We do a lot of work on international markets, and CCS is doing a lot of work on the domestic market, mainly for some large local companies, like COSCO (China Ocean Shipping Group). Those companies are our targets as well. Sometimes the only way to get into that business is to work with CCS through a joint venture type. That's the only way to do it. I think the Chinese government will support CCS all the way." (The Marketing Director)

But some managers viewed the joint venture only as a marketing tool to gain goodwill from the local government and companies.

> "I think a lot of people, [the local] shipyards and ship-designers, want to see foreign companies working with CCS. They want to feel you're helping their own Classification Society. I've got some doubts in my own mind whether this is only a flow of technology and information, disappearing from our own pockets to someone else. I think at the moment it's just a nice thing to tell everyone that we're cooperating with China Classification Society." (The Business Development Director)

British or Chinese Marketing Model

In general, many managers felt the subsidiary's marketing approach was a centralized European style.

> "We have to deliver the products and services in China as other subsidiaries do around the world hopefully on a globally consistent basis. Actually the modification of our service for local is very little, I'm afraid. For us the consistency of our service delivery is one of the measures that HQ [uses to] measure our performance." (The Country Manager)

> "The development and distribution of our brand and making that brand message work is entirely the responsibility of our London colleagues (where the HQs locate)... Our website is also developed centrally and there hasn't been a Chinese version of it. Ideally we would participate from here (China), because the voice of the customer here is important." (The Marketing Director)

> "We never market ourselves on the basis of pricing. We never have a marketing promotion to win more business by doing something with the price. We don't play those games at all." (The Marketing Director)

Nonetheless, there was a difference between the strategic and operational level in terms of marketing.

> "I think the British bit comes in to strategy and the actions coming in to China, unfortunately. Sometimes when we talk to the local guys (the local marketing managers), although we have this big picture (overall strategy), there are

intermediate steps to get there. There're other little tactics you have to work out. So sometimes we have a very British way of looking at things and it has adverse effects. That's why we want to bring more Chinese local managers into this process. " (The Business Development Department Director)

Bengineering China

Background of Company Bengineering

Bengineering is a dynamic, worldwide company delivering innovative engineering solutions to leading global customers in clearly defined niche markets. The company has five main businesses: severe service, fluid power, indoor climate, beverage dispensing, merchandising systems. While each business platform is predominantly autonomous, they operate in two main areas. The severe service, fluid power and indoor climate business platforms serve fluid controls markets, where the customers are plant operators and original equipment manufacturers. The beverage dispensing and merchandising systems businesses operate in retail dispensing markets, where the customers are brand owners and retailers. Bengineering is the ultimate holding company of the group and has been listed on the London Stock Exchange since 1966. It has more than 14,000 employees in more than 30 countries around the world.

The company has been pursuing a well-defined strategy that has moved its business forward significantly in recent years. Increasingly, the company has focused on the industry or sector where there leading customers in niche markets who themselves have been growing. It is believed that converting industry knowledge and market insight into customized, design-engineered solutions which create advantage and value for customers to improve their performance is the route to sustainable profit growth. Thus, Bengineering endeavours to operate in markets where it already holds or can achieve a market leadership position and where it can clearly differentiate itself from its competitors with end-user insight and the application of innovative technology. Key account management and project management are important disciplines for the effective delivery of bespoke solutions to its leading customers.

Founding of Bengineering China and Industrial Engineering Industry in China

One of the five main businesses, the fluid power business, was the first to enter the Chinese market in 1996. It was soon followed by another three businesses: severe service, indoor climate, and beverage dispensing. In 2006, a country headquarters was established in China.

All the managers interviewed believed the Chinese market has huge potential for the company's business growth, as "it's in accordance with our overall strategy to focus on sectors and economies that are themselves growing". According to its annual report 2006:

> "We are expanding our local resources and continue to invest in the fast-growing markets of Eastern Europe, the Middle East and Asia, particularly China. Sales, manufacturing and procurement opportunities in these territories are all important to us. We support our customers as they enter new markets and ensure that we have the right people 'on the ground' with local knowledge wherever possible. A high-profile advisory board supports our commitment to current and future activities in China."

In line with its global strategy, Bengineering China maintains a strategy of key account focus in China by adopting a carefully targeted approach to the selection of its customer partners and by understanding the drivers of customers' businesses. Clear differentiation is to be achieved through technological innovation or service.

> "In China there are a lot of opportunities out there. But in order to execute, you need to focus. In our case, we have products that are essentially premium products. That means we really have to pick our accounts and grow with them. We can participate in a general market, in some areas, but our business is really about key accounts and focus." (The President)

> "We provide a complete solution. We are much more than just the products. We are trying to help our clients with new ideas and new products, and take the risk away from their decision makers." (The Marketing Director)

The targeted customers of Bengineering China are in general high end customers. In fact, many key accounts of Bengineering China are its global key accounts as well. For example, its beverage dispensing business, whose main products are beverage dispensing machines, entered China about ten years ago as a lot of their global clients who were beer brewery companies, came to China selling draft beer. Its current key accounts are still big international companies' subsidiaries in China, like Coca Cola and McDonalds. The company's merchandising systems business also supports Motorola, one of its most valued global clients, with dramatic new merchandising systems for new stores in Shanghai and Beijing.

"We came to China on the back of our global clients...they are still our priority. We know how to deal with these companies and it makes marketing and sales easier." (The Commercial Director)

"Why are we (the country headquarters) in Shanghai? That's because our key accounts are in Shanghai." (The Marketing Director)

Nonetheless, facing a developing country like China where its local industrial sectors have been upgraded substantially, Bengineering China started to aim at middle end customers. One example was: in 2005 China's investment in process industries had driven demand for the customized products of its severe service business. These products were highly regarded across the world for their ability to protect the critical components of a plant and maintain optimum operating conditions.

Staffing of Marketing Related Managers

The senior marketing-related managers of Bengineering China, including the president, the commercial director and the marketing director, are expatriates. Each of them has more than 10 years experience in mainland China or Hong Kong in the industrial engineering industry. The middle level marketing managers in different businesses are Chinese, but none of them have worked for local companies. Some of them were recruited immediately after they graduated from universities; the rest worked previously for other international companies, such as GE China, Emerson China. Those managers who joined the subsidiaries from other global companies acknowledged that a lot of marketing practices were borrowed from companies where they previously worked.

Critical Marketing Issues and Events

Integration of Marketing across Business Units

For approximately 10 years, from the mid-1990s to 2006, the five businesses of Bengineering China operated relatively independently in China and they reported to their own global headquarters separately. At the time of data collection, the subsidiary was undertaking a major restructuring process: the five businesses were integrated under the umbrella of one country corporate, forming a matrix structure. A corporate president and a corporate marketing director had been installed in China. One of the main reasons, as the new president explained, was "to control more and push more the business in China."

> "We need to have a leadership group to make us do a lot more in China...Because China is strategic for the company. If we just let you keep operating as independent units, who is going to set a huge target for you to grow? So let's put senior leadership here." (The President)

> "If you were the CEO [of Bengineering Global], one voice from a business unit is not enough; it's much better if you could also hear another independent voice from a corporate team in China who oversees the big picture." (The Marketing Director)

In terms of marketing, one of the issues regarded as critical during the integration process was the linkage of brand across the businesses. Before the integration, different businesses had different products and brands. One of the important steps of marketing integration was to harmonize the brands. The key message to be sent out was "we can add more value to the customers."

> "During the integration process, we need to link the five businesses with the corporate brand. It can go forward and backward. If the brand of individual business has been strong, we will associate it with the corporate brand; if it has been weak, the corporate brand can raise its profile by putting it under the corporate brand, like an umbrella." (The Marketing Director)

The benefit of possessing a bigger corporate brand and international background was considered enormous in China. It was discovered that there is a problem of "fear" in large construction projects in the Chinese market. Market and government officials fear that if something goes wrong, they will be held responsible. Therefore, the presence of a country headquarters backed by a global company and covering all its businesses is "reassuring".

> "If we talk to our customers, we can bring to the table, look, we are a global company, and we are not going to disappear. We are going to support you. We do have strong ethic around quality and reliability. " (The President)

> "In the Chinese market, people do care about the size and history of the company. That's why I think we need to talk to our customers more about our international background. And that's one part of my roles here, which is to build up a bigger image of the company. " (The Marketing Director)

"We can say to the customers that we're a global company and we've been involved in many huge projects all over the world. So, our reputation is helpful. We can assure them everything will be OK." (The Commercial Director)

Holding Seminars and Exhibitions

Across the five businesses units, most of the managers regarded holding seminars and exhibitions as essential marketing tools. In the well targeted seminars, customers or clients are pre-selected and only those key accounts or potential key accounts are invited; the relationship with key customers is thus maintained and new products introduced. The main function of exhibitions, on the other hand, is to attract new opportunities via walking visitors and media.

In Bengineering China's fluid power business, holding seminars had not been used until a marketing manager who worked previously for GE China took the practice from GE to the company.

"We didn't have seminars until I came. Holding seminars is quite an effective way of marketing communication in this industry. I have done it in GE and it proved to be very successful." (The Marketing Manager of Fluid Power Business)

Over the years, many local companies adopted this method of marketing as well.

"Actually, in this industry, holding seminars and exhibitions are all introduced from the West. The local Chinese companies have picked them up. Now they are doing similar things." (The Marketing Director)

"5 years or 10 years ago, many local companies did very little marketing or did do marketing, but badly. But now the competition is fierce. They've had to learn from the Western companies." (A Marketing Manager)

British or Chinese Marketing Model

Given the fact that Bengineering acquired several European and American companies, restructured constantly over the years and was joined by many managers that had worked for other international companies, the nationality of the marketing model adopted in the company was not clear. However, all managers acknowledged that marketing had predominantly been done in the Western way with various degrees of local adaptation.

"We are taking a global proposition and localizing it ... We took the alignment from the global [strategy]. But then [in terms of] how do we develop and communicate the brand, we can do it locally." (The President)

"I would say that 80% of what we do in term of marketing is the Western model and 20% is Chinese... Many things we do were introduced from the West...But we have to figure out whether and how the local market can accept them." (The Marketing Director)

> "It (learning of the Western marketing approach) is something to do with the whole economy, not just about an individual company. The Chinese economy hasn't been completely transformed into a market-driven economy. The Western economy has got longer experience on this road." (A Marketing Manager)

Some managers attributed adoption of the Western marketing model to "lack of resources":

> "A lot of what I do in China is about making the most of what you've got. If you're a very big company, you can have a big marketing department. Within that, you can have a lot of [local] marketing experience within your company. We are not in that situation. We only have a small marketing team working with external marketing agencies to come up with something ... So we follow our global marketing model, bring it to China." (The Commercial Director)

Bairlines China

Background of Company Bairlines

Bairlines is one part of G Group, a leading branded venture capital organization, which is also one of the world's most recognized and respected brands. Conceived in 1970 by the renowned entrepreneur, Mr R, G Group has grown successful businesses in sectors ranging from mobile telephones, to transportation, travel, financial services, leisure, music, holidays, publishing and retailing. All of the markets in which the G Group operates tend to have features in common: they are typically markets where the customer has been under-served, where there is confusion and where the competition is complacent. The unique brand of G Group stands for value for money, quality, innovation, fun and a sense of competitive challenge. The Group's brand emphasizes "fun" and "competitively challenging".

Bairlines, formed in 1984, is one of the major British long haul international airlines and operates a fleet of Boeing 747 and Airbus A340 aircraft to New York, Miami, Boston, Los Angeles, Orlando, San Francisco, Hong Kong, Johannesburg, Tokyo, Las Vegas, Delhi, Lagos, Port Harcourt, Shanghai and the Caribbean. The airline is based on the concept of offering a competitive and high quality Upper Class, Premium Economy and Economy service.

In 1999 Bairlines signed an agreement to sell 49% of its stake to Singapore Airlines to form a unique global partnership. Bairlines retains the controlling 51% stake in the airline. The two carriers' route networks do not overlap and are uniquely complementary. Under the terms of the memorandum of understanding, the two carriers have retained their distinctive identities and have continued to develop their own products. The two companies have retained their independent management teams but Singapore Airlines has some representation on Bairlines' Board of Directors.

Founding of Bairlines China and Airline Industry in China

After the lengthy negotiations and procedures, Bairlines opened a new airline route from London to Shanghai in 1999. Shanghai was unique for the airlines in that it was the first time that it had started a new route as the first British carrier. In all previous cases, British Airways had started a new route, and Bairlines had followed in its wake.

> "Two third of our production, i.e. seats in this business, that we offer to passengers are to and from US, which makes us rely too much on the US and UK economy, terrorism situation, etc. So what we're trying to do over the years is to grow away from the US, to other points. Asia, of course, is a key part of that." (The Country Manager)

Bairlines China was not involved in the competition within the Chinese domestic aviation market, but only in the international market from London to Shanghai. The subsidiary did very well with the UK expatriate community, Chinese business passengers and students heading to the UK.

> "We are taking people out of China, that's our business ... It's a generalization to say that our first class has been full of expatriates returning to London on business and leisure and economy [class] has been full of Chinese students, but it broadly reflects the situation."(The Country Manager)

The airline had, at the time of the data collection, two main competitors: China E (a local airline) started flying in 2004, matching Bairlines China with four flights a week, and the following year British Airways, which had been flying to Beijing only, added Shanghai to its roster.

With only around 20 staff, Bairlines China is relatively small in China. However, its marketing strategies are seen as "forward thinking and proactive". By differentiating with a "fun" and "value for money" brand, the company became the market leader in China. The Chinese local competitor was described as "lacking the concept of marketing in their mentality", "inactive in marketing" and only competing on the basis of cheap prices and paying little attention to their brands. So "we are not very frightened by our competitors, to be honest."

> "What we have always tried is to be different. We have to have a unique business proposition. Otherwise, what's the point? We have to deliver a different product, a different style product; and we have to create a brand around that. That's what we have done." (The Country Manager)

> "Our brand stands for 'the right side of wrong', 'a challenge to the normal thinking' and 'fun'. That's the key message. We try to deliver it locally." (The

Client Service Director of Publicis Dialog China, Bairlines China's Marketing Agency)

> "Two years ago, China E (a local airline) came onto the route as well. They overnight halved the average price of the economy ticket. But our idea of value is what you get for the price that we charge." (The Marketing and Sales Director)

> "We are perceived as being all the same things that we are in the UK: fun, innovative, caring, and safe. So the message is getting out there...There is nothing wrong with turning air travel into fun. We make the journey more pleasurable. I think that's why we've been successful here in China." (The Country Manager)

China is a key market for the company, and not just in the airlines sector. Bairlines hopes to branch out into mobile phones, soft drinks, hotels, health clubs and other retail outlets.

Staffing of Marketing Related Managers

The country manager and the marketing and sales director of Bairlines China are expatriates. The rest of the marketing managers are Chinese, who previously either worked for other foreign airlines or related companies in China.

> "We [the expatriates] bring the corporate values from the head office and try to establish them locally and interpret them locally into a Sino-UK style approach." (The Country Manager)

In addition, an international marketing agency, the Chinese arm of Publicis Dialog, is involved extensively with the company's marketing strategies and activities. The team in the agency mirrors the in-house marketing team of Bairlines China, with two British expatriates, a client service director and a senior account manager leading several Chinese local managers.

> "There is not too much that they (the in-house marketing team of Bairlines China) do that doesn't involve us ...I see ourselves as the natural extension of their marketing functions." (The Senior Account Manager)

> "What we've focused on really is international companies coming into China, because we have the local knowledge and we have the local network. Also we have this Western sensibility and we know the Western companies a lot better. We know what they need... We apply logic and discipline here from the West...But we use research to make sure they will work in China." (The Client Service Director of Publicis Dialog China)

Critical Marketing Issues and Events

Launching of the Daily Service

On December 5th 2005, Bairlines China launched a daily return service, flying Shanghai to London.

> "Finally, we could offer our customers – especially business travellers – a choice of being able to fly whichever day they wanted. Business travellers need flights to suit their schedules." (The Country Manager)

Publicis Dialog China was again appointed by the company to create and manage the campaign for their launch event. The launch campaign was a combination of several marketing methods, including press advertising, outdoor media, a launch party, third party alliances, online methods, and a tour of the upper class suite. The challenge was to convey the daily service message to both Chinese and Western audience in an innovative and ultimately Bairlines tone of voice. For the upper class suite, a character similar to a Teddy bear was created, who preferred enjoying all the other benefits of the airline's upper class, rather than sleeping. The character evolved into a soft toy which was given away to passengers and used as competition prizes. A dual-language daily newspaper called "London Daily", published with Bairlines' news was created and distributed each day for 7 days as a supplement in one of Shanghai's most popular newspapers, Oriental Morning Post. 100,000 extra copies of the newspaper were handed out outside metro stations, key office buildings and hotels every day. The launch event was organized for 450 special guests, gold card holders, government officials, travel agents, journalists and friends of the airline. The Museum of Contemporary Arts in China was hired for the launch event. This venue was new to Shanghai and had never been used in this way before. A model of the company's upper class suite, which was claimed to be the longest and most comfortable flat bed and seat in the airline industry, was displayed at Pudong airport for 3 weeks, sitting at gates 13 and 14 which were used by British Airways.

> "This kind of campaign has been done many times in the West, but it's relatively new here [in the Chinese market]. I think because of the level of development, we can reuse a lot of things, recycling what we've done in Britain five years ago. It's quite new and exciting here, whereas if you do it in Britain,

people have seen it a hundred times already … But you have to be very careful to make it work in China. For example, the launch event had to have two different stages. Chinese people as a whole don't party a lot. They don't drink a lot, particularly in what they see as a work event. So the Chinese guests came a lot earlier. They were more interested in the prize draw whereas Western guests are more interested in free champagne. So there were two distinct groups of guests." (The Senior Account Manger of Publicis Dialog)

"The campaign was so successful that it was duplicated in the company's subsidiaries in 7 other countries." (The Country Manager)

PR Marketing

One crucial part of marketing in Bairlines China, and indeed in global Bairlines, is its PR activities. One of the marketing managers was assigned particularly to organize PR activities.

"One of the greatest things about our company is we are perceived as much, much bigger than we actually are. Most people would typically answer we have probably 100 planes, actually we have about 1/3 of that. That reflects the fact that we have a very visible chairman and also the fact that we shout our news very, very loudly to appear bigger. So PR is very important in our company" (The Country Manager)

"A British person would know the company, know its founder. It's a massive, massive company with so many arms. For the Chinese consumers, bigger

> companies carry more trust. If we talk to people how big we are, it does impress people, it works. " (A Marketing Manager)

One example was given: when British Airways China held a party at a lavish hotel in Shanghai, announcing the launch of their own Shanghai to London service in Shanghai in 2005, Bairlines China hired some students to walk around the hotel, wearing red T-shirts with "Bairlines welcomes latecomers" written on them, giving out balloons and other small gifts with the company's logo. So, many people came to BA's party holding a balloon with the Bairlines' logo on it.

> "This was our own (the subsidiary's) idea. But it was typical Bairlines' style" (The Marketing Supervisor).

British or Chinese Marketing Model

What appears to have been duplicated in Bairlines China from its parent company, in respect of marketing, is a well known brand and a strong company culture. All managers interviewed at Bairlines China stressed the fact that its brand was a dynamic and visible brand and in the company there was a distinct style of marketing, which was an important factor in predetermining the marketing model of the subsidiary.

> "Every member of the marketing team feels that we are totally different from other companies. Wherever we go and whatever we do in our marketing, we emphasize creativity, fun and innovation. You need to work under these guidelines." (The Marketing and Sales Manager)

Nonetheless, many managers interviewed readily admitted the company's marketing approach was primarily Western with some Chinese elements. In the local airline industry, it was believed that the Chinese companies were catching up with Western companies in terms of marketing.

> "It's the question of how we locally marry the two together – the Western marketing approach with Chinese culture. That's what we're always trying to do." (The Country Manager)

> "It's a matter of time and it's a matter of different stages of development. Taking TV commercial as an example, advertising hasn't been in China for a long time. If you look at the Chinese translation of advertising, Guang Gao, which means to tell everybody. So, the perception of advertising is introducing a product or telling people about the product whereas in the West it's about playing tricks and making you buy something which you don't really want. This is reflected in our work that local clients are perhaps less demanding or lack sophistication whereas international clients, like Bairlines China, have this sophistication. But China moves very fast, they are learning very quickly." (The Senior Account Manager of Publicis Dialog China)

4.6 Second-order Findings of the Multiple Cases

The second order analysis moved to a more theoretical level, wherein the modified propositions resulting from the two initial cases were examined using the new evidence from the multiple cases. As a result, although the first set of modified propositions, namely modified propositions 1, 2 and 3, were found to closely fit with the new data, some variations and exceptions were noted. The second set of propositions, modified proposition 4, was re-formulated once more. These propositions developed based on the data of the multiple cases are referred to as descriptive propositions. As stated in the introduction of this chapter, these descriptive propositions are open ended, subject to reformulation in other circumstances, but useful at the same time for the new insights they provide.

To illustrate these propositions, representative quotations and other relevant evidence from the first-order analysis and interviews are summarized in tables.

4.6.1 Asymmetrical Institutional Pressures

In general, the data from multiple cases support the first set of modified propositions. Institutional duality concerning marketing practices was asymmetrical between British subsidiaries of Chinese MNCs and Chinese subsidiaries of British MNCs. Subsidiary managers in the two groups of subsidiaries were under greater pressure to adopt the perceived British model of marketing practices rather than the perceived Chinese model of marketing practices.

4.6.1.1 Stereotyped Marketing Practices

4.6.1.1.1 Unclear/Clear Marketing Positioning

Consistent with the findings of Cappliance UK, the data suggest the marketing positioning of the Chinese approach was considered vague in the two new British subsidiaries of Chinese MNCs. Table 4.1 summarizes the representative quotations from the first-order analysis and interviews of Ctransport UK and Cdirect UK.

Managers of Ctransport UK accused the parent company of having no overall marketing strategy. They attributed the reasonably good performance of the company only to the boom in the Chinese economy and the foreign trade with China. There was no mention of marketing differentiation. One manager commented, "They (the parent company) treated every customer in the same way." Another said, "Sometimes people confused us with another Chinese shipping company operating in the UK". The parent company was also criticized for downplaying the importance of marketing intelligence. For instance, there was no system in place to review the revenue from different businesses, hence no information available on the profitability of different businesses for making key marketing decisions. The marketing director complained, "This is something I am not used to, and frankly quite surprising."

Similarly, many of the managers of Cdirect UK described the parent company's way of marketing as "learning by doing". The business development director admitted that a clearer marketing strategy that could differentiate the company from other competitors had not been developed. Instead, the marketing director said, "They (Cdirect) come in and do basic compliance, not much. They talk to a few people.

Table 4.1 Clarity of Strategic Marketing Positioning

Subsidiaries	Clarity of Marketing Positioning	Representative Quotations
Chinese Subsidiaries in the UK		
Ctransport UK	**Less**	"People know it's (Ctransport) a new force. But they don't really have a feeling for it. What does it mean for them? So I think we should know who we are. Do we want to be the biggest, or most profitable or most customer-focused? I don't think we know what we want to be." (The US Trade Director)
Cdirect UK	**Less**	"I wouldn't say they (Cdirect) have a unique strategy except they have a USP (unique selling point, which is being a Chinese company selling health products based on Chinese Traditional Medicine), but other companies have their own USP as well. In the marketing sense, there is nothing I can think of is unique." (The Marketing Director)
		"Our positioning strategy needs to be clear. Even if you ask my colleagues in HQ, I don't think they can give you a direct answer." (A Marketing Executive)
British Subsidiaries in China		
Bservice China	**More**	"There are a lot of shipyards across China. After research, we found that we are not as strong as we might be in some of the bigger shipyards. What we have been doing in the last 12 months is profiling and targeting those bigger shipyards. They are bigger opportunities. So we will have fewer clients, but they are bigger shipyards." (The Business Development Department Manager)
Bengineering China	**More**	"In China there are a lot of opportunities out there. But in order to execute, you need to focus. In our case, we have products that are essentially premium products. That means we really have to pick our accounts and grow with them. We can participate in a general market, in some areas, but our business is really about key accounts and focus." (The President)
Bairlines China	**More**	"What we have always tried to do is be different. We have to have unique business proposition. They [the reasons] are twofold. We have to deliver a different product, a different style product; and we have to create a brand around that. " (The Country Manager)

They then start a few training. They don't really worry anything else. If in six months, it starts to grow, they'll look at a market and start thinking of the market". This was viewed as "too basic" compared with the "elaborate but time consuming process" of the Western approach, which would incorporate thorough marketing researches and well targeted pre-launch marketing communication campaigns.

In contrast, as shown in Table 4.1, the market positioning in the three new Chinese subsidiaries of British MNCs was viewed as clearer and more focused. Although operating in different industries, all of them targeted high- and middle-tier customers in China. In doing so, it was claimed that differentiation would be achieved and resources would be organized more effectively. This was evident in Bservice China where 14 shipyards were targeted based on marketing research, because they were seen as the promising shipyards with resources and support in the future. These shipyards, accounting for 70-80% of the local market, would be strategically important for any company operating in China.

In line with its parent company's global marketing strategy, Bengineering China focused on the industry or sector where leading clients themselves were growing in niche markets. The subsidiary differentiated itself from its local competitors through providing a complete solution. Key account management and project management were regarded as important disciplines for the effective delivery of bespoke solutions to its leading customers.

Differentiation was also considered as being crucial in Bairlines China. "Otherwise, what's the point?" said the country manager. By differentiating itself as a "fun" and "value for money" airline, the subsidiary had become the market leader. The position it had taken was also inherited from its global marketing strategy. As the country managers described, "We are perceived as being all the same things that we are in the UK: fun, innovative, caring, and safe... That's the key message. We try to deliver it locally."

4.6.1.1.2 Low Cost (Price) Focused/Value Added (Brand) Focused

As Table 4.2 suggests, in the two new British subsidiaries of Chinese MNCs, the Chinese marketing model was more concerned with cost and paid little attention to added value. For example, most managers of Ctransport UK described the Chinese approach as only providing a no-frills service. There were rarely special rates or special deals, even for big customers, such as ASDA. The reason was "every time you give somebody a special deal you cost yourself money one way or another." The result was Ctransport had very few VIP or big customers. Typical were the comments of the general manager: "I can understand it from a financial point of view, but I can't understand it from a marketing point of view". The emphasis on cost rather than adding value for customers was also shown by the parent company controlling the import business so closely to the parent company itself that it hampered the growth of the export business of the subsidiary. The marketing director explained, "When we can't actually help them (the local customers) too much on the import business, it's very difficult for us to balance that with trying to ask them to let us serve them on the exports."

Cdirect UK is a special case in respect of contrasting stereotypes of emphasis on cost/brand. Unlike the other two Chinese companies in the UK, it seemed that much work had been done in building up a high profile brand Cdirect UK. Examples given by the managers included: joining the UK Direct Selling Association (DSA) and holding a huge celebration conference in London. All managers believed the brand story behind a company based on Traditional Chinese Medicine (TCM) was "compelling".

This variance might be accounted for when one considers the industry Cdirect UK is in. All managers of Cdirect UK pointed out that building up a brand is an indispensable part of any direct selling business. At a direct selling presentation, for example, no matter whether formal or informal, it usually starts with a compelling brand story associated with the products. In addition, the conflict between investing in the brand and controlling the cost that often exists in conventional business is alleviated in the direct selling industry. That's because the nature of direct selling is marketing a product directly to the consumer with no middleman involved. All costs for conventional marketing tactics, such as advertising, are saved or shared with the distributors and customers. Moreover, many marketing activities, such holding celebration conferences, take place after the products are sold. These unique characteristics of the direct selling industry may explain why Cdirect UK has shown strong commitment in establishing brands. Nonetheless, many managers pointed out that the brand development of Cdirect UK was still "primitive".

In contrast, the stereotype of the British model of marketing is more positive in that they put more emphasis on brand and added value, as illustrated in Table 4.2. Drawing on its extensive experience and international contacts, Bservice China provided value-added solutions to help its clients lower technical and commercial risks throughout the design, construction and operation of ships. There was no mention of the cost or price side of marketing. The marketing director claimed: "We never market ourselves on the basis of pricing. We never have a marketing promotion to win more business by doing something with the price. We don't play those games at all."

In Bengineering China, one of the issues regarded as critical during the integration process was the linkage of brands across the businesses. Before the integration, different businesses had their own products and brands. Thus, an important step of marketing integration was to harmonize the brands. The key message to be sent out was "we can add more value to the customers." Many local companies' products were considered cheaper but generally of lower quality. More than half of the products of Bengineering China were designed and produced in Europe, for example Germany. Moreover, the company provided its clients with a set of tailored solutions rather than a simple product. As the commercial director stated, "We are much more than just the products. We are trying to help our clients with new ideas and new products, and take the risk away from their decision makers."

The focus on value added rather than only on price was also noticeable in Bairlines China, although it was the youngest and smallest of all of the four British companies

Table 4.2 Emphasis on Low Cost/High Brand Awareness

Subsidiaries	Cost / Brand	Representative Quotations
Chinese Subsidiaries in the UK		
Ctransport UK	**Low Cost**	"I think the perception of a lot of customers is that Ctransport likes to say no. They (Ctransport) always put barriers. While there might be good financial reasons why it doesn't want to do all those things, obviously our customers compare us for all sorts of reasons with other lines. If we don't do things that other lines do, honestly Ctransport can be left out." (A Marketing Manager)
		"At the moment, the Chinese economy is booming. Our business is very good. They (Ctransport) take the opinion that our vessels are fairly full, on many occasions they are very full. So why do we need to give special deals to customers? But the problem is when the market in the UK starts to struggle and more and more shipping lines are going to be after the same cargo, we would suffer." (The Managing Director)
Cdirect UK	**Awareness of Brand**	"We need to pay much more attention to build up a brand in the UK." (An Marketing Manager)
British Subsidiaries in China		
Bservice China	**High Brand Awareness**	"We never market ourselves on the basis of pricing. We never have a marketing promotion to win more business by doing something with the price. We don't play those games at all." (The Marketing Director)
Bengineering China	**High Brand Awareness**	"During the integration process, we need to link the five businesses with the corporate brand. It can go forward and backward. If the brand of individual business has been strong, we will associate it with the corporate brand; if it has been weak, the corporate brand can raise its profile by putting it under corporate brand, like an umbrella." (The Marketing Director)
Bairlines China	**High Brand Awareness**	"Two years ago, China E (a local airline) came onto the route as well. They overnight halved the average price of an economy ticket. But our idea of value is what you get for the price that we charge." (The Marketing and Sales Director)

in China. Its unique brand stands for value for money, quality, innovation, fun and a sense of competitive challenge. The country manager described, "There is nothing wrong with turning air travel into fun. We make the journey more pleasurable. I think that's why we've been successful here in China." The Chinese local competitor was regarded as "lacking the concept of marketing in their mentality", "inactive in marketing" and only competing on the basis of cheap prices and paying little attention to their brands. One of the local airlines was seen as not making use of the opportunity to be one of the sponsors of the Beijing Olympic Games in 2008.

In general, the data from the multiple cases confirmed the modified proposition 1. Therefore, the first descriptive proposition is:

Descriptive P1 *Many Chinese marketing practices tend to be stereotyped negatively in the UK whereas many British marketing practices tend to be stereotyped positively in China.*

4.6.1.2 MNC Spill-over

The data from the multiple cases also show a similar pattern concerning MNC spill-over to the two initial cases. Table 4.3 summarizes the evidence on the legitimacy spill-over of the new case companies.

4.6.1.2.1 Gaining/Leveraging International Reputation

The significance of gaining reputation in the UK to Ctransport's international reputation was found to be not as high as that in Cappliance UK. The reason still appears to be related to the industry in which the companies operate. When describing the role the UK subsidiary was playing, the managing director said, "We are just one dot of a global network." For the shipping business, each subsidiary in each different country is playing a more or less equally important role. Connected together by the parent company that provides container liners, these subsidiaries form a global transportation network. So, in the shipping industry it is not clear whether gaining a reputation in one country is more crucial than in another.

But, the supporting data from Cdirect UK is evident. Its huge success in China and the Chinese background helped little when Cdirect came to the UK. Rather, having a presence in the UK, a developed country, lifted the company's profile in the sense that the company became "really" international. The company's performance in developing countries had been better than in developed countries. But, as the country manager explained, "The senior management in the headquarters have never considered withdrawing from those developed countries ... The reason is, I believe, that without having a presence in developed countries, like the US and the UK, we can't say we are a real international company".

In contrast, the British subsidiaries in China often utilized their global reputation to win the Chinese local market. For example, at Bservice China, the managers of the subsidiary actively promoted the business with customers by referring to the company's established global reputation and experience. As the country manager described, "We've got one thing that is always positive, particularly in this industry. We are widely recognized as one of the market leaders. People associate us with good service quality and market leadership."

Table 4.3 Gaining/leveraging International Reputation

Subsidiaries	Gaining / Leveraging Reputation	Representative Quotations
Chinese Subsidiaries in the UK		
Ctransport UK	**N/A**	"We are just one dot of a global network." (The Managing Director)
Cdirect UK	**Inside-Out**	"The role that this subsidiary is playing is, on one hand, seeking profit in the UK market, on the other hand, perhaps more importantly, is carrying a flag of internationalization for the whole company." (The Country Manager)
British Subsidiaries in China		
Bservice China	**Outside-In**	"We've got one thing that is always positive, particularly in this industry. We are wildly recognized as one of the market leaders. People associate us with good service quality and market leadership." (The Country Manager)
Bengineering China	**Outside-In**	"If we talk to our costumers, we can bring to the table, look, we are a global company. We are not going to disappear. We are going to support you. We do have strong ethic around quality and reliability. " (The President)
		"In the Chinese market, people do care about the size and history of the company… And that's one part of my role here, which is to build up a bigger imagine of the company. " (The Marketing Director)
Bairlines China	**Outside-In**	"A British person would know the company, know its founder. It's a massive, massive company with so many arms. For the Chinese consumers, bigger companies carry more trust. If we talk to people how big we are, it does impress people, it works. " (A Marketing Manager)

In Bengineering China, the managers frequently portrayed the subsidiary as one part of a global company with many R&D centres in the US and Germany. As the marketing director explained, "Although the products developed from those centres have never been sold in the Chinese market, this still achieves an excellent marketing effect." Also, the president saw there was the problem of "fear" in large construction projects in the Chinese market, "Chinese market and government officials fear that if something goes wrong, they will be held responsible." So being a global company that has been involved in many huge projects all over the world, as the president explained, "Our reputation is helpful. We can reassure them everything will be OK. "

Although Bairlines was relatively young and small, it used its distinct brand to appeal to its customers in the Chinese market. As most of its passengers were either British expatriates or Chinese teachers or students who more or less knew of its parent group company in the UK, the subsidiary also seized the opportunity to link itself back with its parent company. A marketing manager explained, "A British person would know the company, know its founder.... For the Chinese consumers, bigger companies carry more trust."

Thus, the data seem to suggest that the attraction of the Chinese market as a host country for the British MNCs is mainly from the business perspective. To Bservice and Bengineering, the Chinese market is strategic since it is a fast growing market and could generate a huge amount of revenue in the future. For Bairlines, opening new routes to Asia could help it reduce its reliance on the UK and US markets, hence diversifying risk. However, for the Chinese MNCs, it seems that achieving the status of a global company through establishing a presence in developed countries, like the UK and the US, was the chief appeal. Therefore,

Descriptive P2 *British MNCs tend to utilize the legitimacy accumulated elsewhere in the world to gain legitimacy in China whereas Chinese MNCs tend to utilize the legitimacy accumulated in the UK to increase legitimacy elsewhere in the world.*

4.6.1.3 Stability of Local Institutional Logic

Much evidence from the multiple cases also confirms the proposition generated from the initial cases on local institutional logic. The illustrative quotations are summarized in Table 4.4.

4.6.1.3.1 Established/Transitional Marketing Model

Many managers of Ctransport UK insisted there were many rules that Chinese companies had to conform to in the UK. For example, when a container arrived in the port of Felixstowe, the shipping line usually gave 14 days (7 days paid by the port and 7 days paid by the shipping line) for customers to pick up their containers, but the parent company only allowed the subsidiary to give 7 days free to the customers to lower the cost. The general manager complained, "By and large, the industry as a whole allows this kind of concession. The shipping industry (in the UK) has always been set up in this way. It may not be the right way. But it is the way it is." Other "traditional" British ways of marketing that the Chinese companies should have taken on board, according to the managers of Ctransport UK, included going to pubs with key customers and reserving tables at annual dinners of local associations.

In Cdirect UK, the Chinese country managers were very conscious of the fact that the UK direct selling market was extremely competitive and the subsidiary was facing many global companies with a strong presence in the UK. He described, "Many of our distributors have also been distributors of other direct selling companies...We are not only competing on the quality of products, also on the management system." One example provided was the subsidiary had to develop a web based software system for the distributors to manage their own downlines. The company had a sophisticated IT system with similar features, but the system had only been for internal users, not for distributors. Initially, the country manager thought this was unnecessary and "going too far", but later, he was persuaded by the local marketing managers to develop the system, as "everybody else has it" and "it is beneficial in long term".

In contrast, the managers of all three new Chinese subsidiaries of British MNCs perceived the Chinese market as a market that was evolving from a primitive stage towards more sophistication. At Bservice China, Japan, Korea and China, the three biggest shipbuilding countries were seen as being at different stage of evolution. The implication was that many models that the subsidiary had used in Japan or Korea could be used again in the near future when the Chinese market developed to a certain stage. There was no mention of any local marketing practice the subsidiary had to follow. Rather, the strategic alliance with China Classification Society (CCS) was regarded as passing the company's experience to the Chinese partner.

Similarly, the managers of Bengineering China claimed that local companies had been learning from Western companies. A marketing manager who had worked in the company since its start said, "5 years or 10 years ago, many local companies did very little marketing...But now the competition is fierce. They have learned from the Western companies." A particular example given was in terms of holding exhibitions and seminars. The marketing director said, "Actually, in this industry, holding seminars and exhibitions are all introduced from the West. The local Chinese companies have picked them up. Now they are doing similar things."

The managers of Bairlines China felt that the local companies were only starting to develop marketing sensibility. Regarding advertising, the marketing director commented, "In almost every advertisement used by local airlines, there is always a polite airhostess serving a businessman. So, you can't tell the difference from the advertisements they use." The senior account manager of Publicis Dialog China who provides marketing consultancy services to Bairlines China also pointed out, "It's a matter of time and it's a matter of different stages of development. Taking TV commercials as an example, advertising hasn't been in China for a long time ... This is reflected in our work that local clients are perhaps less demanding or lack sophistication whereas international clients, like Bairlines China, have this sophistication."

Therefore, concerning local institutional logic, the following proposition was developed:

Descriptive P3 *Concerning marketing practices, British MNCs tend to face a transitional, hence relatively unstable, institutional logic in China whereas Chinese MNCs tend to face a relatively established institutional logic in the UK.*

Table 4.4 Established/ Transitional Marketing Model

Subsidiaries	Established/ Transitional Model	Representative Quotations
Chinese Subsidiaries in the UK		
Ctransport UK	**Established**	"By and large, the industry as a whole allows this kind of concession… The shipping industry (in the UK) has always been set up in this way. It may not be the right way. But it is the way it is." (The General Manager)
Cdirect UK	**Established**	"In the short term, many approaches they (local marketing managers) have adopted, I think, are not very useful and necessary. But for longer term I believe that they are right, because that's what they do in this market." (The Country Manager)
British Subsidiaries in China		
Bservice China	**Transitional**	"The three big ship building countries are all in Asia, Japan, Korea and China. Its' very interesting, they are all in different stages of evolution. Japan is the first one, the market there is quite mature. Korea is still going through incredible period of growth. China has got the ambition to be No. 1 in the world before 2015. So there is enormous expansion going on in China. The local companies are moving very fast." (The Country Manager)
Bengineering China	**Transitional**	"Actually, in this industry, holding seminars and exhibitions are all introduced from the West. The local Chinese companies have picked them up. Now they are doing similar things." (The Marketing Director)
		"5 years or 10 years ago, many local companies did very little marketing… But now the competition is fierce. They have to learn from the Western companies." (A Marketing Manager)
Bairlines China	**Transitional**	"Advertising is a relatively new thing in China. The discipline and the technology involved in it, those things are new. They (local companies) can't just learn it over night. They've got to learn it through their experience." (The Senior Account Manager of Publicis Dialog China)
		"Western consumers have been already very, very sophisticated in their viewing of advertising. They are also very untrusting and suspicious. In China, it's very new. People haven't got that sophistication because they haven't got the familiarity of it." (The Client Service Director of Publicis Dialog China)

4.6.2 Interaction between Institutional Duality and the MNC

The second proposition modified from the analysis of the two initial cases was:

Modified Proposition (II) *Under asymmetrical institutional duality, British subsidiaries of Chinese MNCs and Chinese subsidiaries of British MNCs tend to respond differently. Specifically,*

Modified P4 *British MNCs tend to apply and adapt their home marketing practices to their Chinese subsidiaries rather than adopt local practices whereas Chinese MNCs tend to absorb local marketing practices rather than apply and adapt home practices in their British subsidiaries.*

When this proposition was examined using the data from the multiple cases, it was found it did not fit very well. In addition, the evidence indicated there were new dimensions that had not been covered by the above proposition. The new findings suggest that institutional duality influences, and also could be influenced by the MNC. In other words, the MNC and its subsidiaries are not simply responding reactively to institutional duality, they also can actively shape institutional duality. Thus, in responding to these new findings, this proposition was re-formulated a second time and two more sub-propositions were added.

4.6.2.1 Replication of Marketing Practices in MNC Subsidiaries

The data from the multiple cases show that the Chinese MNCs exported very few marketing practices to their subsidiaries in the UK, rather, the subsidiaries acquired local marketing practices through local experienced staff. The British subsidiaries in China did tend to apply existing marketing models within the MNC and adapt them to the local market in China. However, many of the transferred practices in the British MNCs were not formulated in the home country, the UK, but in another subsidiary of a third county, which was usually perceived as institutionally adjacent to China. The illustrative evidence gathered from the interviews is shown in Table 4.5 and 4.6.

4.6.2.1.1 Entry Model and Composition of Market Related Staff

As Table 4.5 shows, the findings of Cappliance UK suggest that it absorbed local marketing practices through a joint venture with local partners and experienced local staff. This seems also to be the case in Ctransport UK. Ctransport also formed a joint venture with Company J, the largest independent liner agency company in the UK, with China owning 60% and Company J 40%. The Chinese managing director, an expatriate from the parent company admitted, "We wanted to rely on local resources, for example, information, people. We can get these and benefit from these resources immediately. That's why we had this joint venture." Like Cappliance, Ctransport tried to avoid despatching expatriates from the parent company wherever possible. "That's maybe because they (the parent company) don't want to, or due to lack of experienced staff", according to the general manager Ctransport UK. Of more than 80 people working in Ctransport UK, only two, the managing director and financial director were expatriates from the parent company. The Chinese managing director was viewed by the most of managers interviewed as a "figurehead", who was only there to smooth communication between the parent and the subsidiary. All daily operation was organized by the British general manager and many other local senior managers, who had long associations with the industry.

Although Cdirect UK was a wholly owned subsidiary, all of the marketing related staff members were recruited locally, except the country manager himself who was an expatriate. The Chinese middle managers joined the company in the UK after they graduated from British universities. The British senior marketing managers had worked at Amway UK and NSA UK. Indeed, the joining of these British managers was regarded by all the managers interviewed as one of the critical events for the subsidiary. As the country manager explained, "Actually, all the marketing work now has done by them [the British senior managers]. I don't touch it… I hope we can act as a local company. That's why when they report to me their decisions about marketing, I rarely disagree." He also mentioned that soon after the joining of these managers, they helped the subsidiary join the UK Direct Selling Association (DSA) through their previous experience and contacts.

On the other hand, similar to Bfmcg China, the three new British subsidiaries in China all set up wholly owned subsidiaries, led by expatriates from the parent companies. At Bservice China, all senior marketing related managers were expatriates. Even at the regional level, where the Chinese market was divided into North, Middle and South, the marketing team was still a combination of expatriates and local staff. The subsidiary did sign a joint venture with the China Classification Society (CCS). Yet, there was no evidence that Bservice China adopted local marketing practices through the joint venture. On the contrary, many managers felt that it was the subsidiary that was passing on the experience and information to the local partner. The joint venture was regarded as more important in a symbolic sense to generate local goodwill.

The situation in Bengineering China and Bairlines China were similar. The senior marketing related managers were expatriates from the parent companies and the middle and junior managers were a mixture of local staff and expatriates. The difference was at the middle level, Bengineering China and Bairlines China recruited local managers who had not worked for local Chinese companies but for the subsidiaries of other foreign MNCs in the same industry. Typical were the comments of the country manager of Bengineering China: "We [the expatriates] bring the corporate values from the head office and try to establish them locally and interpret them locally".

4.6.2.1.2 Transfer of Marketing Practices

As Table 4.6 suggests, at the British subsidiaries of Chinese MNCs, there was either little evidence indicating that any significant marketing model was transferred from China or a few practices were brought into the UK subsidiary, but were considered not as effective as in the Chinese market. For instance, although joint venture often means joint management practices, this was not the case in Ctransport UK. The situation there was very much like that in Cappliance UK. The parent company was rarely involved with marketing in the subsidiary. In addition, as Ctransport UK was predominantly run by British managers, all the managers, including the Chinese managing director, felt the marketing approach within the subsidiary was British. As

Table 4.5 Entry Model and Composition of Marketing Related Staff

Case Company	Entry Model	Composition of Marketing Related Staff
Chinese Subsidiaries in the UK		
Cappliance UK	Joint Venture (Chinese 60%, British 40%)	All were recruited locally
Ctransport UK	Joint Venture (Chinese 60%, British 40%)	All were recruited locally except the country manager was an expatriate ("a figurehead")
Cdirect UK	Wholly Owned Subsidiary	All were recruited locally except the country manager was an expatriate ("a figurehead")
British Subsidiaries in China		
Bfmcg China	Conversion of 14 Joint Ventures into one Wholly Owned Subsidiary	Senior managers were expatriates; middle and junior managers were a mixture of expatriates and local staff
Bservice China	Wholly Owned Subsidiary, but entered into a Joint Venture with a local partner	Senior managers and middle managers were expatriates; junior managers were local
Bengineering China	Integration of five initially independent wholly owned business groups into one corporate	Senior managers were expatriates; middle and junior managers were a mixture of expatriates and local staff
Bairlines China	Wholly Owned Subsidiary	Senior managers were expatriates; middle and junior Managers were local

the marketing director described, "I don't think we've done anything in the Chinese way as far as marketing itself...I don't know what a Chinese way would be of doing it. I don't know if you had a Chinese marketing manager here, how he would approach things differently." The only "Chinese thing" in terms of marketing that the managers could think of was "vessel-visiting", in which vessel tours was organized by the managing director for some of the clients. Many managers did not think of it as helpful and some of them did not understand the idea at all. "The British customers would assume you would have a big and good ship for the shipping business. They wouldn't bother to look at it," a marketing manager said.

As for Cdirect UK, although it was a wholly owned subsidiary, its marketing relied heavily on the several locally recruited managers. Regarding most of its marketing approaches, such as holding celebration conferences, all the managers acknowledged they were not a unique approach in the UK and "other companies do that as well". Like other Chinese companies operating in the UK in this study, the parent company of Cdirect UK only occasionally provided guidelines on marketing. For example, it was astonishing for the subsidiary managers, especially the local staff, that the parent company provided as few as "21 bullet points" as guidelines for a global marketing campaign. So, even though the general feeling on marketing in Cdirect UK was that it was still "quite primitive", the way in which the marketing had been carried out was regarded as "pretty much exactly the same [with other companies in the UK]." The only example considered by the Chinese country manager as "unique because only our company is doing it" was the agent office model. It originated from China to overcome legislation and infrastructure barriers. However, since in the UK legislation is much more relaxed and the infrastructure more reliable, the advantage of the agent office, for most British managers, has diminished.

In contrast, strong evidence from the Chinese subsidiaries of British MNCs, summarized in Table 4.6 suggests expatriate managers carried with them existing marketing models and adapted them to the Chinese market. Many of the extant marketing models were transferred from other markets where the MNC was operating, typically institutionally adjacent to China. Some companies attempted to transfer the company culture into its subsidiary in guiding the marketing activities. The data show that the ways of adapting to the Chinese market in different companies varied as well.

The new findings that the transferred marketing system came from a country institutionally similar to China were not covered in the prior analysis of Bfmcg China. In checking the data of Bfmcg China, it came to the surface that the distribution system transferred was initially from India and Pakistan, and then from Taiwan. The reason for replicating systems from India and Pakistan in the Chinese market was that these countries were "countries of thousands and thousands of small villages and very few big cities" and where General Trade (distributing products mainly through wholesalers) was dominant, which was considered to be similar to China in the early 1990s. With the fast development of hypermarkets and supermarkets in China, this management team was then replaced by another team from its subsidiary in Taiwan to develop Modern Trade capabilities (distributing products mainly through retailers)

Table 4.6 Transfer of Marketing Practices in the MNCs

Subsidiaries	Transfer, from Where	Representative Quotations
Chinese Subsidiaries in the UK		
Cappliance UK	No	"I think that in the way we are visible to the market we are British company" (The Co-Managing Director)
		"I feel it is a very British company. Only the products are Chinese, not the business" (A Non-Executive Director)
Ctransport UK	No	"By and large, we are like a British company." (The Managing Director)
		"I don't' think we've done anything in the Chinese way as far as marketing itself...I don't know what a Chinese way would be doing it. I don't know if you have a Chinese marketing manager here, how would he approach things differently"(The Marketing Director)
Cdirect UK	No	"I hope we can act as a local company...That's why when they [senior managers recruited from Avon and NSA] report to me about marketing decisions, I rarely disagree. If you want to operate in this market, you ought to rely on local people." (The Country Manager)
		"I can't tell the difference of our way of doing marketing and other company's way apart from cost of making. In terms of getting the products into the marketplace, I think, it's pretty much exactly the same." (The Sales and Training Manager, previously worked for Amway UK)
British Subsidiaries in China		
Bfmcg China	Yes, from India, Pakistan and Taiwan	"We thought China would be similar to the Indian and Pakistani markets...but it was not... So I was transferred from Taiwan to China to build up our modern trade capability" (The Chairman)
Bservice China	Yes, from Korea and Japan	"My job now is to bring the principle business team in Korea to China... I am helping the marketing team here with my Korea experience." (The Marketing Director)
		"In terms of operating as an organization we operate solidly as a single global organization...We have the same business development and marketing side of business across Japan, Korea and here in China." (The Marketing Director)
Bengineering China	Yes	"We are taking a global proposition and localizing it...We took the alignment to the Global [strategies]. But then how do we develop and communicate the brand? We can do it locally." (The President)
		"I would say that 80% of what we do in terms of marketing is Western model and 20% is Chinese... Many things we do were introduced from the West...But we have to make sure whether and how the local market can accept them." (The Marketing Director)
Bairlines China	Yes, Brand and Company Culture	"We [the expatriates] bring corporate values from the head office and try to establish them locally and interpret them locally into a Sino-UK style approach." (The Country Manager)
		"Our brand stands for 'the right side of wrong', 'a challenge to the normal thinking' and 'fun'. That's the key message. We try to deliver it locally."(The Client Service Director of Publicis Dialog China, Bairlines China's Marketing Agency)

concentrating on major cities. So, the data of Bfmcg China was found to be consistent with this newly emerging aspect.

In Bservice China, what was transferred to China was a marketing and business development system from Korea, based on the managers' belief that Japan, Korea and China were at different stages of an evolution concerning the shipbuilding industry. The marketing director and his team relocated from Korea to China to bring in the company's marketing system and experience from Korea. He explained, "In Korea and Japan they've got very similar marketing and business development systems… My role is to bring in the experience of all that used to work or not work in Korea in the past." Many supporting resources, such as information about new legislation, were also shared across the three countries.

In terms of the method of adaptation to the host institutional environment, the marketing system of Bservice China was organized at two levels: strategic and operational. At the strategic level, the models that succeeded in institutionally adjacent countries were replicated. These models then were put into practice at the operational level through co-operation between expatriates and local staff. Building up relationships, collecting accurate business information and dealing with the heterogeneity across different regions were seen as three thorny issues to overcome in China. The local Chinese staff were more sensitive and flexible in dealing with these issues. Hence, Bservice China incorporated local elements at the operational level to help it adapt to the host environment.

At Bengineering China, "we follow our global marketing model, bring it to China," as claimed by its commercial director. This was reinforced by the establishment of the country headquarters in Shanghai. Some managers justified their adoption of a Western as opposed to Chinese marketing approach by stressing their shortage of resources, saying "a lot of what I do in China is about making the most of what you've got". This may imply that the managers were conscious of the costs associated with adoption of local marketing models, such as time, financial cost and effort needed to integrate the new models with the existing management system. Furthermore, they saw that as the Chinese market developed, the local companies were learning from the foreign companies' marketing practices, such as holding exhibitions and seminars. Therefore, adopting local models that would be discarded in the foreseeable future did not make much sense.

Among the four British companies operating in China, Bengineering China was the least localized subsidiary in terms of marketing approach. The only evidence indicating that it adapted to the Chinese market was that it tried to share internal marketing experience across its five business units and learnt through newly acquired other MNC subsidiaries in China. This smallest extent of local adaptation was maybe because Bengineering was a global leading engineering company operating in a clearly defined niche market. Most of the key clients themselves were big global companies. Therefore, local adaptation might be not as necessary for Bengineering China as for companies in business to consumer industries.

Instead of tangible marketing models, the factor duplicated in Bairlines China was a well known brand and a strong company culture. All the marketing managers in the company stressed that the fact that the company had such a dynamic and visible brand and a distinct style of marketing had become an important factor in predetermining the marketing model of the subsidiary. Typical were the claims of the marketing and sales manager, "Every member of the marketing team feels that we are totally different from other companies. Wherever we go and whatever we do in our marketing, we emphasize creativity, fun and innovation."

Concerning adaptation to the host environment, a global marketing agency, the Chinese arm of Publicis Dialog, was involved extensively in the company's marketing strategies and activities. Backing by marketing research and experience with both international companies and the Chinese market, the marketing agency helped Bairlines China adapt to the local market.

Therefore, the above findings suggest the following proposition:

Descriptive P4 *British MNCs tend to apply and adapt existing marketing practices within the MNC in their Chinese subsidiaries rather than adopt local practices whereas Chinese MNCs tend to absorb local marketing practices rather than export practices to their British subsidiaries.*

4.6.2.2 Control of MNC Subsidiaries

According to the institutional duality literature, one of the main reasons why a subsidiary is similar to the parent and other subsidiaries is that many practices and routines are applied in the subsidiary through control mechanisms (*Rosenzweig* and *Singh* 1991; *Martinez* and *Jarillo* 1989). The implication is that the tighter the control tie between headquarters and the subsidiary, the more closely the subsidiary will resemble the parent company.

4.6.2.2.1 Having/Not Having Regional Headquarters

As Table 4.7 shows, all three Chinese MNCs had regional headquarters in Europe to co-ordinate European activities rather than control the UK subsidiaries directly from China. Cappliance established its European headquarters in Italy in 2000. Both Ctransport's and Cdirect's European headquarters were set up in Germany in 2004 and 2006 respectively. At the time of the data collection, Cappliance and Cdirect were "sorting out" their European structures. Although the final distribution of responsibility between parent company and European headquarters was still to be developed, senior management claimed that it was clear that marketing and sales in Europe would be co-ordinated by the European headquarters. For instance, the country manager of Cdirect UK explained, "The main responsibility of the [global] headquarters has changed to providing services and support to the subsidiaries. We have divided the global market into several regions: Europe, Africa, South East Asia, etc. In each region, they have their own management team… It is not [global HQs in] China making the decision directly. They are from [the] European office." In Ctransport UK, the European headquarters provided financial support for marketing in the subsidiary. Also, "Hamburg controls all the pricing in Europe."

In contrast to the Chinese subsidiaries in the UK, there were no regional headquarters between the parents and the subsidiaries in the British MNCs. Although this reduced

Table 4.7 The Control of Marketing Practices

Subsidiaries	Regional HQs	Autonomy	Representative Quotations
Chinese Subsidiaries in the UK			
Cappliance UK	Italy	More	"They really don't try to tell us how to run the business. They just say, OK, your business, you run it." (The Co-managing Director)
Ctransport UK	Germany	More	"All the subsidiaries around Europe in each of other regions, we all report to Hamburg and Hamburg controls all the pricing in the Europe. The headquarters in Hamburg is a satellite of the parent company in Shanghai." (A Marketing Director)
			"That how we do it it's up to us. There is no marketing drive, procedures or target from the Head office." (The General Manager)
Cdirect UK	Germany	More	"The main responsibility of the [global] headquarters has changed to providing services and support to the subsidiaries. Then we have divided the global market into several regions: Europe, Africa, South East Asia, etc. In each region, they have their own management team. The [global] headquarters don't often intervene." (The Country Manager)
			"I'm quite surprised with how much the scope that the UK has to do what it wants to do. I am really pleased with that...At the moment, if we can provide a strategy that we can justify, we are pretty much allowed to do whatever we want to do. That's really good." (The Marketing Director)
British Subsidiaries in China			
Bfmcg China	No	Less	"You got many people who are responsible for the brands globally and locally. When you come to say to them that we have to modify this brand, they will get very uncomfortable." (The Chairman)
Bservice China	No	Less	"Actually the modification of our service for locals is very little, I'm afraid. For us the consistency of our service delivery is one of the measures that HQ [uses to] measure our performances." (The Country Manager)
			"The development and distribution of our brand and making that brand message work is entirely the responsibility of our London colleagues. Ideally we would participate from here, because the voice of the customer here is important." (The Marketing Director)
Bengineering China	No	Less	"We need to have a leadership group to make us do a lot more in China...Because China is strategic for the company. If we just let you to keep operating as independent units, who is going to set a huge target for you to grow." (The President)
			"If you were the CEO, one voice from a business unit is not enough; it's much better if could also hear another independent voice from a corporate team in China which oversees the big pictures." (The Marketing Director)
Bairlines China	No	Less	"Every member of the marketing team feels that we are totally different from other companies. Wherever we go and whatever we do in our marketing, we emphasize creativity, fun and innovation. You need to work under these guidelines." (The Marketing and Sales Manager)

the layers of the management structure and aided communication, in the context of this study it also made the subsidiaries more readily influenced by their headquarters and other subsidiaries.

4.6.2.2.2 Autonomy in Deciding Marketing Practices

The data demonstrate that the Chinese subsidiaries in the UK enjoyed more autonomy in deciding marketing practices than their counterparts in China. The evidence also shows the Chinese MNCs used primarily financial mechanisms while the British MNCs controlled subsidiaries even down to the level of individual's behaviour.

Similar to the situation of Cappliance UK, Ctransport UK had a great deal of freedom in deciding how to organize its marketing. When asked how the parent company influenced marketing in the subsidiary, the Chinese country managers only vaguely said, "According to the changes of the market, the parent company will adjust the sales target for the next year. We then try our best to achieve that." The British general manager who actually ran the daily business answered, "I think probably the way they work is the shipping line runs the ships, and let their subsidiaries, whether in Europe or China, get on with getting the business. So they don't get directly involved. It's not their demands but rather it's we that drive our marketing and sales." But the evidence, in that one of the two expatriates from the parent company was the financial director and the local managers' constant complaints of "inflexibility in rates", seems to suggest that financial control was in place.

The managers at Cdirect UK were amazed by the extent of freedom they enjoyed in dealing with marketing issues, even at the strategic level. The marketing director claimed, "I'm quite surprised with how much scope the UK has to do what it wants to do. I am really pleased with that ... At the moment, if we can provide a strategy that we can justify, we are pretty much allowed to do whatever we want to do." In launching a global campaign, many of the local marketing managers felt it was "extraordinary" that the guidelines they received from the parent company only focused on accountancy behind the campaign, and they "didn't get anything on the marketing level".

By contrast, compared with the Chinese subsidiaries in the UK, the data show that the British subsidiaries in China were more tightly controlled by the parent company in respect of marketing. For instance, there was an obvious political struggle between the corporate team and the subsidiaries over issues such as branding in Bfmcg China, as illustrated in the analysis of the initial two cases.

In Bservice China, most of the promotions were "globalized in a more controlled way". The marketing director stated that "the branding, how we are presenting ourselves to the industry is entirely done in London (where the headquarters are)." The company's website was also developed centrally and there had so far not been a Chinese version of the website.

At Bengineering China one of the main purposes of integrating the five businesses was "to control more and push more the business in China." During the integration, a corporate marketing director was installed in the country headquarters to oversee the marketing across the five business units. His main responsibility was to provide more market information on the Chinese market to the parent company for making marketing decisions. He explained the benefits of this matrix structure: "If you were the CEO [of Bengineering Global], one voice from the business unit is not enough; it's much better if you could also hear another independent voice from a corporate team in China who oversees the big picture."

Of the four British subsidiaries in China, the subsidiary that was relatively less controlled by the parent company in terms of marketing was Bairlines China. Other than holding international marketing conferences twice per year in which marketing managers from different subsidiaries shared ideas and experience, Bairlines China usually organized its own marketing activities without help or guidelines from the parent company. This might be due to its relatively younger age and smaller size. However, many of the managers still emphasized the fact that the unique brand and company culture had provided them with "invisible guidelines".

There was also fragmented evidence indicating British MNCs used more behaviour control mechanisms than Chinese MNCs, who seemed to rely solely on financial control. For example, when explaining why its service was modified very little to the local Chinese market, the country managers of Bservice China said, "For us the consistency of our service delivery is one of the measures that HQ [uses to] measures our performance." Also, many managers from both Bservice China and Bengineering China mentioned that sometimes they might not be as flexible as local companies, as "we have to do a lot of marketing research before making a decision." The VP of Bfmcg China pointed out, "A marketing manager in a local company can do what he wants to achieve his sales target. But in our company we have to control even down to the behaviour level."

Thus, in formal terms:

Descriptive P5 *British MNCs tend to tighten the control between headquarters and their subsidiaries in China whereas Chinese MNCs tend to loosen the control between headquarters and their subsidiaries in the UK.*

4.6.2.3 International Network of the MNC

As China becomes more and more deeply engaged with the global economy, many MNCs come to China because their clients who are international companies themselves have entered the Chinese market. Some big consultancy companies, such as accountancy, management consultancy, and marketing and media agencies, also set up a presence in China to enable them to maintain their reputation of providing seamless services globally. Through many years of collaboration, these companies have come to understand the needs of their international clients and developed a certain set of "rules" to work with. However, Chinese MNCs, who have been confined within the Chinese market in the past and only recently started to internationalize, find themselves needing to build up relationships with completely new clients and suppliers outside China. Unfamiliarity between them and global consultancies and agencies also makes them reluctant to pay a high price to use the services.

4.6.2.3.1 International Clients

As table 4.8 shows, there was little mention from the Chinese subsidiaries in the UK of resumption of the networks with other international companies outside the UK. The business relationships between Chinese MNCs and their customers or clients in the UK were established locally. They often obtained these new key customers or clients by utilizing the network of locally recruited staff in the UK. For instance, Cappliance had no contact with Tesco, a supermarket giant, before they came to the UK. But, through the contacts of the British managing director, Cappliance UK managed to secure a deal with Tesco only three months after its establishment. This was also the case in Ctransport UK where the local partner, Company J, helped the company enter the UK market.

In Cdirect UK, the country manager gave an example of how the local marketing managers helped the company join the UK Direct Selling Association (DSA) as a full member company. The UK DSA is the recognized trade association for the Direct Selling channel of distribution, with its member companies accounting for 59% of total direct sales in the UK. Cdirect UK became one of only 39 companies in the UK that has full membership status. "Unlike in China, trade associations are quite important in the UK," said the country manager. The British local marketing managers contributed enormously during the application and approval stage.

In contrast, all four British subsidiaries in China had previous business relationships outside China with many of their clients/customers that also operated in the Chinese domestic market. For Bfmcg China, one of its advantages over local Chinese companies was that it was familiar with dealing with the supermarkets and hypermarkets, like Carrefour and Wal-Mart. As the Chairman said, "We know how to manage them (the supermarkets and hypermarkets) quite well from North America and from Western Europe." So the subsidiary was able to quickly get some expertise within the MNC to help it build up quickly its distribution systems to manage Carrefour and Wal-Mart effectively.

Similarly, Bservice China also enjoyed making full use of its global business contacts to win business within the Chinese market. Many of the ship-owners building ships in China were foreign companies outside China. The marketing director explained, "If a shipbuilder in China is trying to satisfy a customer in Germany, for example, what we are trying to do is to help the Chinese shipbuilder to understand the needs their clients have. We know this owner (in Germany). We have people who are having a cup of tea with this owner every week in Hamburg and we know what they are interested in."

At Bengineering China, "We came to China on the back of our global clients," the commercial director readily admitted. Indeed, many key accounts of Bengineering China were global companies' Chinese subsidiaries. For example, its beverage dispensing business, whose main products were beverage dispensing machines, entered China about ten years ago when a lot of their clients, who were beer brewery companies, came to China selling draft beer. Its current key accounts were still big international companies' subsidiaries in China, such as Coca Cola China and McDonalds China. The subsidiary's merchandising systems business supported Motorola, one of its most valued global clients, with new merchandising systems for

Table 4.8 International Networking of the MNC

Subsidiaries	Global Clients	Global Agencies	Representative Quotations
Chinese Subsidiaries in the UK			
Cappliance UK	None	None	"Cappliance haven't got a brand [in the UK]...It is unknown [in the UK] and it is Mr B and M [the two managing directors] at the moment." (The Managing Director)
Ctransport UK	None	None	"We know who our customers are. We know who has cargos. So what we (locally recruited marketing team) have done is that we spent a long time on the telephone, ringing all the people we know to say, hello, we are just about to start Ctransport. Would you like to ship with us? And we got a quite lot of business to start off with." (A Marketing Manager)
Cdirect UK	None	None	"Although we had maintained close contact with DSA [before the local managers joined the company], it was them (local marketing managers) who helped us to join the DSA quickly through their previous experience and relationships." (The Country Manager)
British Subsidiaries in China			
Bfmcg China	Global Supermarket, e.g. Carrefour and Wal-Mart	Ogilvy & Mather	"We were able to get some expertise from the rest of the company to help us build up quickly our management systems, and to manage effectively Carrefour and Wal-Mart. And this is certainly still a major advantage we have over local Chinese companies. We are familiar with dealing with these companies from North American, from Western Europe, so we know how to manage them quite well." (The Chairman)
Bservice China	Mainly International Ship Owners	ACNielsen	"The ship builder in China is trying to satisfy a customer in Germany, for example. What we are trying to do is to help the Chinese ship builder to understand the needs their clients are. We know this owner (in Germany). We have people who are having a cup of tea with this owner every week in Hamburg and we know what they are interested in."(The Marketing Director)
Bengineering China	Global Clients, e.g. Coca-cola and McDonalds	Publicis Dialog	"We came to China on the back of our global clients...they are still our priority...We know how to deal with these companies and it makes marketing and sales easier" (The Commercial Director).
Bairlines China	Mainly British Expatriates	Publicis Dialog	"We are taking people out of China, that's our business...It's a generalization to say that our first class has been full of expatriates returning to London on business or leisure and economy class has been full of Chinese students, but it broadly reflects the situation."(The Country Manager)

new stores in Shanghai and Beijing.

Bairlines China was not involved in the competition within Chinese domestic aviation market, but focused on operating an international route between Shanghai and London. The subsidiary did very well with the UK expatriate community, since its parent company was well-known in the UK. As the country manager described, "We are taking people out of China, that's our business ... It's a generalization to say that our first class has been full of expatriates returning to London on business or leisure and economy class has been full of Chinese students, but it broadly reflects the situation."

4.6.2.3.2 International Marketing Agencies

There was no evidence indicating that Chinese subsidiaries in the UK bought in services from international marketing agencies. The only company using marketing agencies was Cappliance UK and the agency is a rather small and local one in the UK. In all three companies, financial constraints was given as the explanation as to why services of international marketing agencies had not been bought in.

In contrast, data from the British subsidiaries in China show extensive use of global marketing agencies. Bengineering China and Bairlines China, two companies in entirely different industries, used the same marketing agency, the Chinese arm of Publicis Dialog. As the client service director at Publicis Dialog said, "There is not too much that they (the marketing teams of Bengineering China and Bairlines China) do that doesn't involve us ... I see ourselves as the natural extension of their marketing functions." One detailed example given was the campaign for Bairlines

China's launch of a daily service, flying Shanghai to London return. Publicis Dialog China was appointed by the company to create and manage the campaign for the launch event, which demonstrated a comprehensive combination of several marketing methods, including press advertising, outdoor media, a launch party, third party alliances, online methods, and a tour of the upper class suite. The campaign was so successful that it was duplicated in Bairlines' subsidiaries in 7 other countries.

Bfmcg China and Bservice China also bought in marketing services from international marketing agencies in China, especially in respect of marketing research. Bfmcg China appointed ACNielsen China as its research agency. The Chairman explained, "The marketing research is very, very important to us. It gives you some quantifiable understanding of the market." Bservice China also periodically participate in a marketing research survey along with other international companies, like GE China and Emerson China regarding customers' satisfaction with the service they provided.

Therefore, the following descriptive proposition was developed:

Descriptive P6 *Chinese subsidiaries of British MNCs tend to resume the network with other MNCs that they have outside China whereas British subsidiaries of Chinese MNCs tend to nurture new networks locally in the UK.*

4.7 Summary

As a result of analyzing the data gathered from three British subsidiaries of Chinese MNCs and four Chinese subsidiaries of British MNCs, the findings are organized as two sets of descriptive propositions as follows:

Descriptive Proposition (I) *Institutional duality concerning marketing practices is asymmetrical between British subsidiaries of Chinese MNCs and Chinese subsidiaries of British MNCs, i.e. subsidiary managers in the two groups of subsidiaries are under greater pressure to adopt the perceived British model of marketing practices rather than the perceived Chinese model of marketing practices. Specifically:*

Descriptive P1 *Many Chinese marketing practices tend to be stereotyped negatively in the UK whereas many British marketing practices tend to be stereotyped positively in China.*

Descriptive P2 *British MNCs tend to utilize the legitimacy accumulated elsewhere in the world to gain legitimacy in China whereas Chinese MNCs tend to utilize the legitimacy accumulated in the UK to increase their legitimacy elsewhere in the world.*

Descriptive P3 *Concerning marketing practices, British MNCs tend to face a transitional, hence relatively unstable, institutional logic in China whereas Chinese MNCs tend to face a relatively established institutional logic in the UK.*

Descriptive Proposition (II) *British subsidiaries of Chinese MNCs and Chinese subsidiaries of British MNCs have a certain level of choice to narrow the institutional distance, hence smoothing the confliction. Specifically:*

Descriptive P4 *British MNCs tend to apply and adapt existing marketing practices within the MNC in their Chinese subsidiaries rather than adopt local practices whereas Chinese MNCs tend to absorb local marketing practices rather than export practices to their British subsidiaries.*

Descriptive P5 *British MNCs tend to tighten the control between headquarters and their subsidiaries in China whereas Chinese MNCs tend to loosen the control between headquarters and their subsidiaries in the UK.*

Descriptive P6 *Chinese subsidiaries of British MNCs tend to resume the network with other MNCs that they have outside China whereas British subsidiaries of Chinese MNCs tend to nurture new networks locally in the UK.*

The next chapter, Chapter 5, discusses these findings within the context of the literature reviewed in Chapter 2.

Chapter 5: Discussion and Conclusions

5.1 Introduction

This dissertation has extended institutional-theory explanations of heterogeneity to the global setting. It has concentrated primarily on examining and refining the concept of institutional duality, assisted by evidence from case studies of four Chinese subsidiaries of British MNCs and three British subsidiaries of Chinese MNCs. Viewing MNC subsidiaries through an institutional lens highlights the dynamic relationship between organizations and fragmented institutional environments that they face.

A review of literature on neo-institutional theory and MNC subsidiaries in Chapter 2 led to the contention that MNC subsidiaries is an appropriate research context to help us better understand organizations facing multiple institutional templates. The key concept, institutional duality, was then introduced. This was followed by a survey of existing studies of institutional duality, based on which two initial propositions were developed. Concerned with the assumption of institutional duality – institutional distance – the first initial proposition suggests institutional duality will be symmetrical between two groups of MNC subsidiaries: developing country based MNCs' subsidiaries in developed countries and developed country based MNCs' subsidiaries in developing countries. That is, subsidiary managers in the two groups of subsidiaries will be under pressure to a similar degree to adopt home/host country models of practice. The other initial proposition examines whether the essence of institutional duality is pure conflict by investigating how MNC subsidiaries cope with multiple and potentially contradictory models of management practice, when faced with a long institutional distance, for example, between one developed country and one developing country.

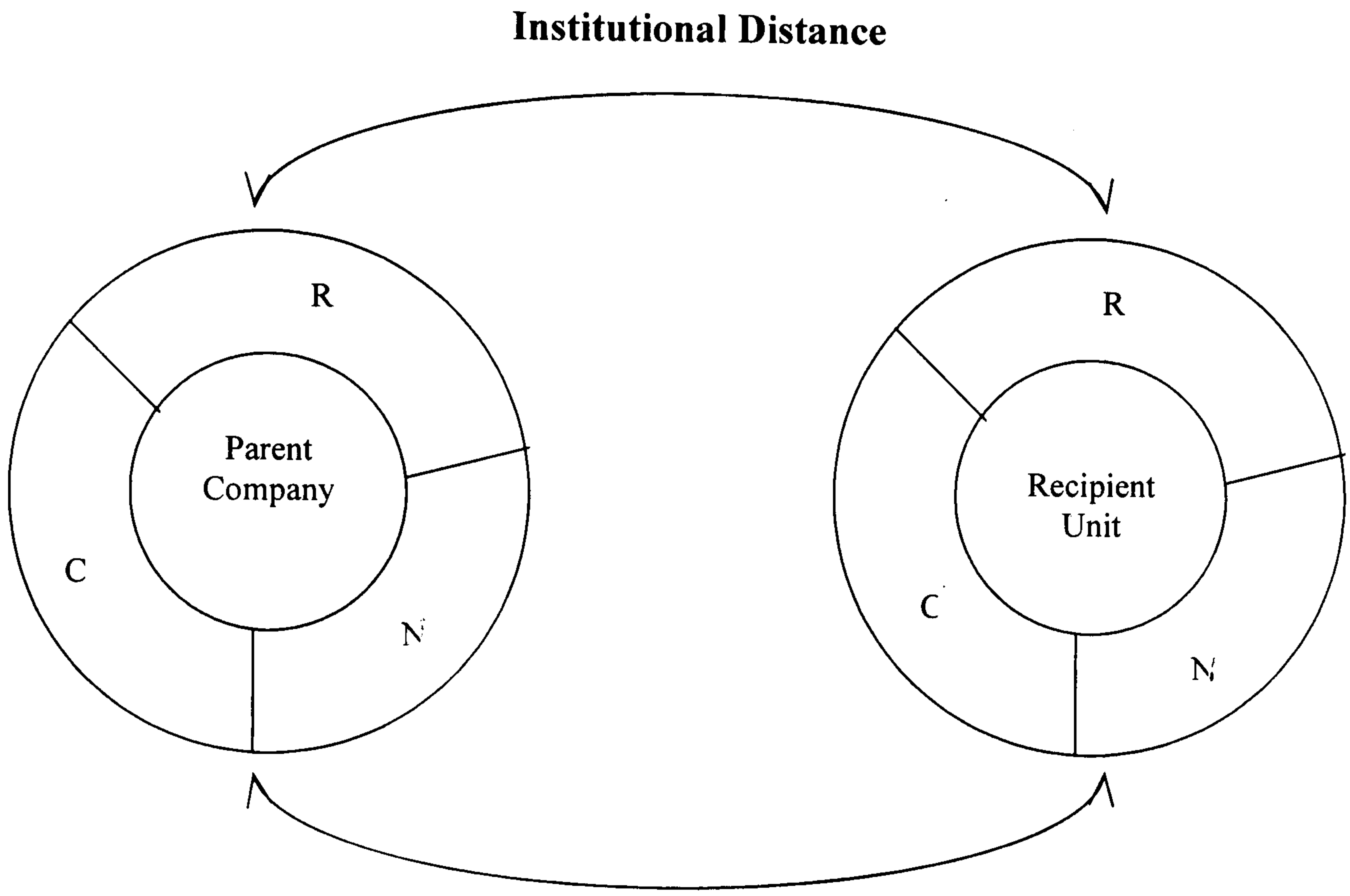
Chapter 3 reported the research methodology adopted in this study. A case study method was deployed to collect and analyze data from four Chinese subsidiaries of British MNCs and three British subsidiaries of Chinese MNCs. The whole research process was guided by the logic of modified analytic induction, which has the defining procedure of proposition modification during the conduct of the study. As a result, the initial two propositions were qualified twice, as presented in Chapter 4, in light of the evidence gathered from the new cases.

In this final chapter, the findings that were organized as two sets of descriptive propositions in Chapter 4 are discussed in the context of prior research. In so doing, the chapter develops clear contributions to research on institutional duality. The implications are then drawn for institutional theory, research on MNC subsidiaries and international management. Finally, after discussing several major limitations that became apparent during the progress of the study, it concludes with some suggestions for future studies.

5.2 Discussion of the First Set of Propositions and Findings

Many recent studies have incorporated the construct of institutional duality or its central assumption, institutional distance (e.g. *Davis*, *Desai*, and *Francis* 2000;

Kostova and *Roth* 2002; *Xu* and *Shenkar* 2002; *Ferner et al* 2005; *Hillman* and *Wan* 2005). When introducing the constructs, *Kostova* (1999, p315) drew a figure (see *Figure 5.1*), this was already shown in section 2.4, Chapter 2, and is re-presented below for the purpose of comparing it with the findings from this study.



Note: R is the regulatory institutional environment, C is the cognitive institutional environment, and N is the normative institutional environment

Figure 5.1 **Institutional Distance and Duality** (*Source: Kostova* 1999, p315)

Based on prior literature on institutional duality (e.g. *Kostova* and *Zaheer* 1999), in particular its primary assumption – institutional distance – the first proposition of this dissertation initially suggests that when two MNCs, one based in a developed country like the UK, the other headquartered in a developing country like mainland China, set up subsidiaries in each other's market, the dual pressures from the host environments and the parent companies will be symmetrical.

In contrast, the findings from Chinese subsidiaries in the UK and British subsidiaries in China studied in this research indicate they both are under greater pressure to adopt the perceived British model of marketing practice. So, the first contribution of this dissertation is that it qualifies the key assumption of institutional duality.

The central underlying assumption of institutional duality is that there is institutional distance between countries. *Kostova* (1996) defined institutional distance of home and host countries as the extent of similarity or dissimilarity between the regulatory, normative, and cognitive institutions of the two countries. The realization stemming from the findings of this study is that, serving as a conduit connecting home and host institutional fields (*Rosenzweig* and *Singh* 1991), a subsidiary introduces a new set of organizational practices both to the MNC and to the host organizational field directly and to the home field indirectly. So a certain subsidiary and the managers within that subsidiary become the very interface of different models of practice. Therefore, talking about "institutional distance" has little meaning until those two sets of institutions actually meet each other in an MNC subsidiary. In simple terms, the notion of institutional duality should not only be practice-specific (*Kostova* and *Roth* 2002), but also home and host country-specific. For example, *Kostova* and *Zaheer* (1999) propose that: "The greater the institutional distance between the home country of an MNC and a particular host country, the greater the challenge an MNC subsidiary will face in establishing and maintaining its legitimacy in that host country" (*Kostova* and *Zaheer* 1999, p72). However, the data fail to support this view. Faced with a long institutional distance, the Chinese MNCs did find it difficult to gain legitimacy in the UK, but faced with the same institutional distance, the British MNCs found it relatively easy to gain legitimacy in China.

When institutional duality becomes reality, that is when a company expands across national borders and operates in a foreign country, it does not only simply change its geographic boundaries, but also significantly re-demarcates its subsidiary managers' cognitive boundaries. This enables subsidiary managers to be partially conscious (*Seo* and *Creed* 2002) of potential contradictions between different ways of managing organizational practices, and hence realizing that there are different models of practice available.

However, the data suggest those subsidiary managers are not completely free. As they widen the search for new practices beyond what has been conventionally defined as their organizational field, they enter another quasi-organizational field, globalization, in which companies aspiring to be major players around the world look to each other to emulate "best" practices, resulting in mimetic isomorphism across national borders (*Meyer* 2000). Thus, subsidiary managers are constrained institutional entrepreneurs, who become conscious of competing home and host models of organizational practice, yet at the same time, are unconscious of an institutional flow of diffusion from developed countries towards developing countries. At the macro level, *Kogut* (1991) suggests that technologies and organizing principles are developed and diffused across countries according to different institutional factors in these countries. The findings of this research lend support to his view and provide empirical evidence at firm-level of why and how the diffusion could take place. As shown in Chapter 4, the Chinese subsidiaries of British MNCs faced a relatively weak institutional logic locally (Descriptive P3) and the companies' marketing practices tended to be stereotyped positively (Descriptive P1) in China, whereas the British subsidiaries of Chinese MNCs faced a relatively established institutional logic locally (Descriptive P3) and the companies' marketing practices tended to be stereotyped negatively (Descriptive P1) in the UK. In addition, gaining legitimacy from the UK market could contribute relatively more to a MNC's global legitimacy than obtaining legitimacy from the Chinese market (Descriptive P2).

Therefore, through managers in MNC subsidiaries, those cognitive elements hinder the diffusion of marketing practices from developing countries to developed countries and accelerate the diffusion in the opposite direction. As a result, the British subsidiaries of Chinese MNCs and the Chinese subsidiaries of British MNCs are faced with an asymmetrical institutional duality.

5.3 Discussion of the Second Set of Proposition and Findings

The second initial proposition examines whether the essence of institutional duality is entirely conflict, as implicitly or explicitly indicated in the existing literature, by concentrating on how MNC subsidiaries cope with potentially contradictory models of management practice.

Once again, contrasting with the present view in the literature, the findings from the Chinese and British subsidiaries in this study demonstrate that MNCs and their subsidiaries actually do have a certain level of choice to influence institutional duality. In other words, how institutional duality finally takes shape depends on the interaction between the global institutional flow, as discussed above, and MNC subsidiaries embedded in various countries. Thus, the second contribution of this study to research on institutional duality is that it suggests MNC subsidiaries are not only affected by institutional duality in transferring practices (e.g. *Kostova* and *Roth* 2002; *Ferner et al* 2005), legitimacy seeking (*Kostova* and *Zaheer* 1999), host country selection and foreign entry strategy (*Xu* and *Shenkar* 2002; *Davis, Desai*, and *Francis* 2000), or other strategically important issues, they in fact, in turn, can influence institutional duality.

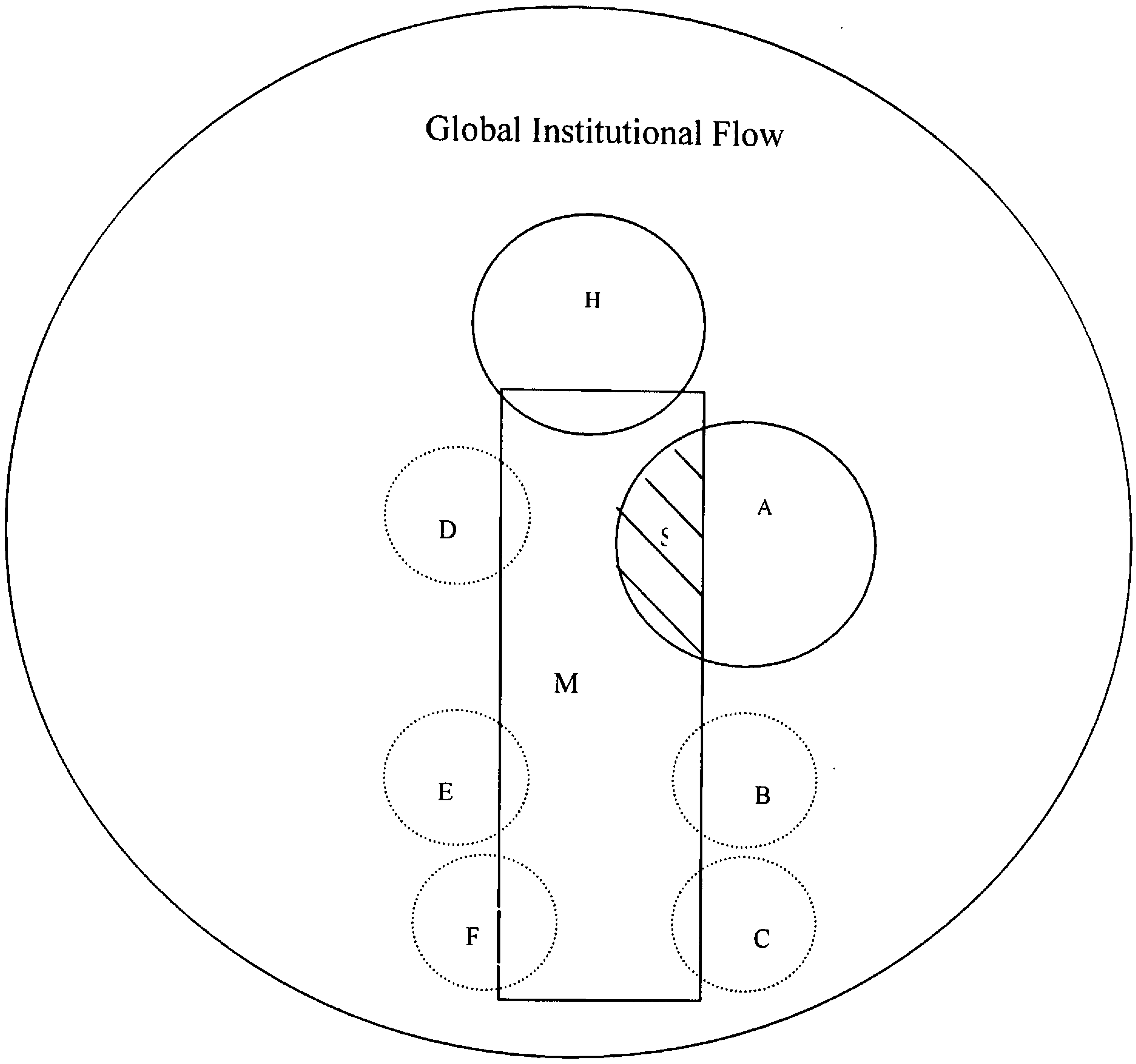
MNCs and their subsidiaries can tone up and down the magnitude of potential institutional confliction to a certain extent by deploying some systems, strategies, structures, and practices to control the level of confrontation between the different models of management practice, even when they are facing a long institutional distance, as between the UK and China. As illustrated in the cases, institutional duality can be affected by an MNC's entry strategy (Descriptive P4), control style (Descriptive P5) and global network (Descriptive P6). For the Chinese MNCs based in a developing country in the downstream of institutional flow, they took the initiative to focus on developed countries, such as the UK and US, quite early on in their internalization process. By either forming joint ventures with local partners or fully empowering local experienced staff in wholly owned subsidiaries, those Chinese MNCs rapidly incorporated local marketing practices. Also, the possible institutional clashes concerning marketing practices were reduced to a lesser extent since the tie between the parent and the subsidiary was loosened and very few expatriates were despatched from the parent company to the UK subsidiaries. On the other side, taking advantage of being in the upstream of institutional flow, the British MNCs actively utilized their global networks and transferred successful marketing practices between institutionally adjacent countries to narrow institutional distance. The transfer of these practices reminds us that MNCs are complex organizations. Prior research on institutional duality seems implicitly to assume lack of variance when it comes to the template of a specific practice in the MNC. This study appears to suggest that the more dispersed across the globe an MNC is, the more versions of a certain practice it tends to have. It is difficult to believe that in a massive MNC like IBM, there is only one version of marketing practice with which every subsidiary, from Asia to America to Africa, must conform. Indeed, some of the British MNCs in this study show that a subsidiary can adopt practices originating from neither the home nor host country, but from a sister subsidiary in a third county, which was institutionally adjacent to the host country. Additionally, in adapting to the Chinese market, many of the British MNCs co-opted local Chinese elements at the operational level.

Overall, the findings indicate the home-host dichotomy may be too limited to explain institutional duality faced by MNC subsidiaries. The British subsidiaries of Chinese MNCs and the Chinese subsidiaries of British MNCs in this research demonstrate that the conflict between different home and host models of practice can be mediated either through acquisition of the host practices or enacting practices originating from other countries which are institutionally in the proximity of the host country.

5.4 Refinement of Institutional Duality

Taken together the discussions on the two sets of propositions, it seems that the dynamic between MNC subsidiaries and the multiple institutional environments they face may be better understood and presented using *Figure 5. 2* (see *Figure 5.2* on p266).

As depicted in *Figure* 5.2, the major modification to the conceptualization of institutional duality, as suggested from the findings of this study, is that the dual institutional pressures that an MNC subsidiary confronts are fundamentally different in nature. The institutional pressures from the host side are embedded in a country while the pressures from the parent side are embedded in a company. The prior research assumes explicitly or implicitly that institutional duality is an immediate result of institutional distance between the home and host country (e.g. *Kostova* and *Roth* 2002; *Xu* and *Shenkar* 2002; *Ferner et al* 2005; *Hillman* and *Wan* 2005). However, this study offers two observations as refinement to this conceptualization. First, to the extent that the two sets of institutional pressures meet largely in a subsidiary, which is part of an MNC, the institutional pressures can be filtered and



Legend: ▭ MNC

◯ Global and National Institutional Environment

Note: H is an multinational corporation, M's home institutional environment; A is one of M's host institutional environments; S is M's subsidiary in country A; B, C, D, E, and F are other host institutional environments where M are operating

Figure 5.2 **Modified Conceptualization of Institutional Distance and Duality**

mediated by the MNC. A focal subsidiary, for example, Subsidiary S in *Figure 5.2*, does not face home institutional pressures directly, but through the parent company. There are at least two types of choices that the MNC can make to tone up and down to a certain extent the magnitude of potential institutional conflict within the subsidiary. One is to control the degree of the MNC's involvement with the host country at the level of the subsidiary. In *Figure 5.2* this means to decrease the overlapping area, S, between the M and A. As shown in this study, the Chinese MNCs decreased their involvement in the UK subsidiaries by forming joint ventures with local partners, or empowering the local managers to run the marketing in wholly owned subsidiaries. The other choice for the MNC is to export practices to subsidiary S, not from the home country H, but from other host countries, for example, country B, which is institutionally adjacent to country A. For instance, in this research some of the British MNCs exported marketing systems to China from Korea or India, where the managers believed the markets to be institutionally similar to the Chinese market in their respective industries.

In comparison of these two types of choices, selecting the first type may diminish the possibility of potential institutional clashes, but at the expense of losing control over the subsidiary. Choosing the other type does not reduce the parent company's control of the subsidiary, yet, it may pose more complex and unexpected challenges to the MNC and the subsidiary. For instance, expatriates sometimes might underestimate differences in relatively similar cultures (*Brewster* 1995; *O'Grady* and *Lane* 1996). This has been also demonstrated in *Ferner et al*'s (2005) research on transfer of workforce diversity policy from US MNCs to their UK subsidiaries. Conceptions of diversity between the US and the UK were found to be not as similar as managers in the parent company expected them to be.

The second observation offered by this study as qualification to the existing conceptualization of institutional duality is that the choices that MNCs and their subsidiaries have are constrained by a supra-national cognitive institution, referred to here as global institutional flow. Scholars have recognized that an MNC straddles in different institutional environments, which are mainly country based (*Westney* 1990, 1993; *Rosenzweig* and *Singh* 1991). This enables managers in MNC subsidiaries to become partially conscious of other available models of practice and makes their horizon broader than the managers in domestic companies. However, the space between different institutional environments of countries is not a vacuum. It is filled with the global institutional flow diffusing management systems, structures, and practices across the countries, as long as these countries are engaged with the global economy (*Kogut* 1991; *Drori*, *Jang*, *Meyer* 2006; *Gooderham*, *Nordhaug*, and *Ringdal* 1999; *Guler*, *Guillén* and *Macpherson* 2002). In the current study, the negatively perceived Chinese model of marketing practices impeded its legitimation in MNC subsidiaries while the positive perception of the British model of marketing practices facilitated its legitimation. While the institutional logic of marketing in the UK is relatively stable resulting from a long association with international markets, the institutional logic in China is still in a dramatic transition state, as the Chinese economy is increasingly linked with the global economy (*Child* and *Tse* 2001). These findings suggest that the home and host institutional environments, the MNC and the subsidiaries are all affected directly or indirectly by this global institutional flow, indeed, all are parts of this global institution. As *Buckley* and *Casson* (1976, p44) stated: "Foreign investment itself is a mechanism for the transfer of social attitudes and social structures, so that similarities between nations not only influence, but are influenced by, foreign investment." This global institution flow is unevenly diffusing across different countries at varying paces, and hence causing asymmetrical institutional pressures to a subsidiary from the MNC and the host, corresponding to the home and host countries' positions in this global institutional environment: the more central the country is, the greater the institutional pressures stemming from this country.

5.5 Implications for Institutional Theory, Research on MNC Subsidiaries and International Management

5.5.1 Implications for Institutional Theory

In reviewing the development in research on institutional change, *Dacin*, *Goodstein* and *Scott* (2002) point out that much attention has been paid to the changes of institutional forms associated with populations, but less attention to the changes of the boundaries of institutional forms. They elaborate this view using two studies that do look at the latter type of changes. One is *Fligstein*'s (1990) research of the shift over time among the largest US corporations from a unified to a multidivisional structure, involving both a change in form and an expansion of domain. Corporations undergoing these changes ceased to operate in and be identified with a specific field or industry, seeing the definition of their field shift from "those based on product lines to industry to the population of the largest firms" (*Fligstein* 1990, p19). In the other example, *Scott*, *Ruef*, *Mendel* and *Caronna* (2000) observed that, over a 50 year period, some functions that had been performed exclusively within hospitals – for example, kidney disease treatment – were "unbundled" and reorganized to operate as free-standing units. At the same time, hospitals themselves were increasingly integrated into larger health care systems.

Similarly, the current study highlights that when a company internationalizes across national borders, especially when subsidiaries have been established in foreign markets, it does not simply change the company's geographic boundary, but also significantly re-demarcates the cognitive boundaries of the managers within the company. The significance of this re-demarcation is that it changes managers' perception of the competitive set – the relevant set of firms in the environment that constitutes the competition (*Lant* and *Baum* 1995). As shown in *Lant* and *Baum*'s (1995) study on the Manhattan hotel industry, the selection of a competitive set requires managers to categorize other firms as relevant to their strategic decisions or not relevant to their strategic decisions. In simple terms, the re-demarcation affects managers' categorization of "which league we are in". The managers consequently need to reconsider which institutional environment they now face. Put another way, MNCs are not only bigger in size or richer in resources than domestic companies, they are a unique "species" of company. Their uniqueness lies in the fact that they are directly coping with, and at the same time influencing, a global institutional field. Most of the constituencies of this field, such as the World Trade Organization (WTO), multinational clients, and multinational consultancy companies, share the similarity of interacting with multinational institutional environments. In this field there is a different set of regulative, normative and cognitive institutional rules. Becoming a MNC, especially becoming one of the leading MNCs globally, such as one of the Fortune 500 companies, has symbolic meaning. This has important implications for institutional theory, in particular the interaction between organizations and their fragmented environments.

One of the theoretical questions asked in this study is: when faced with multiple institutional templates, why do organizations adopt and institutionalize some of them, and not others? The findings seem to indicate that, to the extent that different institutional templates originate from different institutional environmental contexts, the most overarching institutional environment that the organization faces, in the case of this study it is the global institutional flow, can ultimately influence which template is to be diffused. However, this ultimate effect can be mediated by the institutional environments encompassed within the most overarching environment, for example, different national institutional environments. Straddling these multi-level and fragmented institutional environments, organizations like MNCs as a set of differentiated systems, structures, and practices are also able to mediate to a certain extent between these environments, not uniformly at the organizational level but heterogeneously at the sub-organizational level. This perspective provides an answer, at least partially, to an important question raised by *Kostova* (1999) about multiple environments. In developing a model of transfer of strategic practices in an MNC, *Kostova* (1999) identified three contexts at different levels influencing the transfer process: (1) the social context at country level, primarily concerned with the institutional distance between home and host country; (2) the relational context, the context the recipient subsidiary faces within the MNC, consisting mainly of the parent company and other sister subsidiaries; (3) the organizational context at the recipient subsidiary level, including the main attributes of the subsidiary, such as organizational culture towards learning and change. In the discussion of *Kostova* (1999), she asked the question: what is the nature of the interaction between the social, the organizational and relational contexts – additive, multiplicative or nested? This study appears to imply that these multi-level contexts may be nested. Moreover, as argued above, all three contexts identified in *Kostova* (1999) are nested in an overarching institutional contextual environment, global institutional flow. MNCs and their subsidiaries in different countries are heterogeneously embedded in these multi-level and fragmented institutional environments.

The other theoretical question that this study has been wrestling with is: how do organizations cope with the potential conflict between multiple institutional templates? In the relatively limited research on this issue (e.g. *Meyer* and *Rowan* 1977, 1991; *D'Aunno*, *Sutton* and *Price* 1991; *Suchman* 1995; *Kostova* and *Roth* 2002), scholars have proposed two approaches to integrating multiple environments and demonstrating that organizational behaviours would be legitimate under any applicable standard. The two approaches are either to ceremonially adopt the features from the environment and decouple them with daily activity (*Meyer* and *Rowan* 1977, 1991) or to incorporate some features from all environments and hybridize them (*D'Aunno*, *Sutton* and *Price* 1991). However, as noted in the literature review, neither approach has articulated how organizations cope with the potential conflict within the organization resulting from the adoption of features from multiple contradictory institutional templates. The findings of this study imply that organizations may be able to circumvent the possible conflict in two ways, referred to here as localization and approximation.

Localization means to keep the effect of the newly adopted elements as local, marginal, or low level, as possible and not affecting the rest of the organization. For instance, in British MNCs' Chinese subsidiaries, only at the operational level, were local Chinese managers co-opted to implement marketing strategies. The other way, approximation, is to endeavour to enact those existing elements within the organization that are most similar to the elements needed to be adopted from the environment. Localization is an outside-in approach, which occurs when organizations are penetrated by the institutional environment; approximation is an inside-out approach, which takes place when the institutional environment is penetrated by the organizations. Among others, these two ways represent two types of "truces" or resolutions, however temporary, between organizations and the fragmented institutional environments they face.

5.5.2 Implications for Research on MNC Subsidiaries and International Management

One of the developments in research on MNC subsidiaries highlights the fact that the subsidiary is not just an instrument through which to implement the strategies assigned by the parent, rather subsidiary managers have considerable latitude within the imposed constraints to shape a strategy as they see fit (*Birkinshaw* 1997; *Birkinshaw* and *Hood* 1997, 1998; *Birkinshaw* 2001). Yet, many proponents of this view admit that this literature is "lacking in strong theoretical underpinnings" (e.g. *Birkinshaw* 2001). One of the main difficulties in applying organizational theories to MNC subsidiaries, as noted in Chapter 2, is that in most of the theories the level of analysis is at the whole MNC, not the subsidiary. Consequently, many studies are more descriptive than explanatory. For example, in the studies of subsidiary entrepreneurship scholars typically studied only those subsidiaries that had undertaken entrepreneurship. The result is they only describe the characteristics of subsidiary entrepreneurship, but they can say little about why some subsidiaries undertake entrepreneurship while others do not. From an institutional perceptive, the current research provides theoretical explanations to the phenomenon that the subsidiary is constrained rather than completely defined by the parent company. The findings suggest an MNC and its subsidiaries are embedded asymmetrically in various countries. The freedom that a subsidiary enjoys in undertaking entrepreneurship may be the consequence of a subsidiary being situated in a host country that is more central in the global institution than the home country or the other host countries where other sister subsidiaries are located. Conversely, if the MNC's home country is more central in the global institution and its subsidiary is situated in a host country which is comparatively far from the centre of the global institution, the subsidiary may then be imposed more constraints by the parent company.

This argument, therefore, indicates there may be an institutional charter for each subsidiary within a certain MNC. *Birkinshaw* and *Hood* (1998) defined the charter of a subsidiary as "the business – or elements of the business – in which the subsidiary participate and for which the subsidiary is recognized to have responsibility within the MNC" (p782). They also maintain that in the MNC there is internal competition for charters, both for existing charters where one subsidiary "steals" a charter from another, and for new charters where two or more subsidiaries "bid" against one another. Although *Birkinshaw* and *Hood*'s (1998) definition of subsidiary charter focuses on business activities and the underlying capabilities through which the activities are implemented, they hint in a footnote that an institutional definition of the subsidiary's charter will not necessarily be congruent with the activity/capability-based definition. The findings of the current research confirm this view and empirically demonstrate how and why there might be discrepancy between the activity dimension and the institutional dimension of a subsidiary's charter. Building on *Kostova* and *Zaheer*'s (1999) notion of legitimacy spill-over, the institutional dimension of a subsidiary's charter can be defined here as the contributions for which the subsidiary is recognized to the MNC's global legitimacy spill-over. As exhibited in the present study, the activity-based charter of a Chinese MNC's British subsidiary may just cover the UK region, but its institution-based charter may cover far beyond the UK market, extending back to the home country or other host countries. For a newly emerged MNC based in a developing country, if its subsidiaries located in developed countries are hugely successful, undoubtedly the global image of the whole MNC will be boosted. On the other hand, for an MNC based in a developed country, its achievements in a developing host country may be less critical, in terms of global image, for the whole MNC. For example, some British MNCs such as Forster's have withdrawn from China for failing to make any profit in the Chinese market (*Child* 2001), but this has had little impact on their global image elsewhere in the world. But, imagine the news that HSBC had withdrawn from the US market for failing in the competition, this could damage the company's global profile. Like a subsidiary' activity-based charter, its institutional charter may also change over time.

In summary, the findings of this study are consistent with *Lehrer* and *Asakawa*'s (1999) contention that MNC subsidiaries are not just operating units requiring differing levels of global integration and local differentiation, but are bundles of know-how that have to be periodically re-analyzed, disaggregated and strategically reconnected to other parts of the MNC organization as the firms develops.

The current research also has implications for broader literature on international management. To a certain degree, the findings of this study support *Child*'s (2000) argument. He argues that apart from material global forces, such as technological development, there are ideational global forces consisting primarily of the ideas, tastes, and values that are now circulating more widely and freely around the world than ever before. The impact of these global forces upon firms is mediated by institutions at the supra-national level, such as the WTO, the regional level, such as the EU and NAFTA and at the national level. That is, how these global forces impact upon the operations of business within a given context depends importantly on the institutions active in that context.

Within these multiple contexts, one of the most challenging conundrums MNCs face currently is to identify and nurture heterogeneous company resources and capabilities locally, and to share and synergize these resources and capabilities across the countries and regions in response to an increasingly interconnected global market (*Dunning* 1998; *Birkinshaw* 2001). This conundrum is a recent version of the integration-responsiveness framework (*Doz* 1979; *Bartlett* 1979; *Ghoshal* and *Westney* 1993). Based on the present study, predictions might be made as to when a certain type of capability needs to be picked up through a local subsidiary and when the MNC ought to impose more control over the subsidiary for the purpose of integration. It may be suggested that the more significant the institutional charter of a subsidiary is, the more autonomy the subsidiary will tend to have. This outcome might not be consistent with the parent company's intention, but the MNC can not resist and has to compromise with the institutional pressures caused by the global institutional flow. Conversely, when the institutional charter of a subsidiary is relatively less significant within the MNC, the MNC side of institutional pressures may push control and co-ordination mechanisms over to restrict the independence of the subsidiary.

Another important contribution of this study to the field of international management research is that it is one of the first studies looking at how newly raised Chinese MNCs organize their foreign subsidiaries. In a special issue on strategy research in emerging economies, *Wright*, *Filatotchev*, *Hoskisson* and *Peng* (2005) classify the research into four groups: (1) firms from developed economies entering emerging economies; (2) domestic firms competing within emerging economies; (3) firms from emerging economies entering other emerging economies; and (4) firms from emerging economies entering developed economies. After reviewing the literature on these four groups of firms, *Wright et al* (2005) point out the third and fourth group of the firms have not been paid much attention. The present research responds to their call to look at firms based in emerging economies entering developed economies. The emerging economies such as mainland China, have broadly been considered as late development countries (e.g. *Warner*, *Hong* and *Xu* 2004; *Child* and *Rodrigues*

2005). The late development thesis has suggested that the late development countries have to "catch up" with early developed countries in terms of technology and know-how. *Boisot* (2004) also asserts that Chinese companies will move abroad to address a number of competitive disadvantages rather than to exploit their competitive advantages. Focusing on technology transfer, *Young*, *Huang* and *McDermott* (1996) reported case study evidence based on five state-owned Chinese MNCs. They found that the Chinese MNCs were indeed involved in competitive catch-up processes through internationalization, beginning with inward transfers through equipment purchases, inward joint ventures and extending through acquisitions of R&D companies in developed countries. The findings of this study also empirically confirm the late development thesis and *Boisot*'s (2004) assertion. Additionally, it has been shown that in order to compete successfully in global markets, Chinese MNCs not only need to address their disadvantages in technology, they also find it extremely difficult in exporting the managerial know-how developed domestically to their foreign subsidiaries, especially those situated in developed host countries.

In an insightful paper which treats organizations as adaptive systems that have to match the complexity of their environments, *Boisot* and *Child* (1999) link an institutional information-space (I-Space) framework to complexity theory in analyzing how organizations adapt to complex environments. Using China as an illustration, they discuss two adaptation models: complexity reduction and complexity absorption. Complexity reduction entails getting to understand the complexity and reducing it to known proportions and routines, including attempts at reducing it via environmental enactment. Complexity absorption entails creating options and risk-hedging strategies, often through alliances. *Boisot* and *Child* (1999) argue that organizations and other social units in China have cultural preference for the strategy of complexity absorption rather than complexity reduction, which is favoured by organizations in Western industrial countries. Based on this assumption, the authors' discussion centres on a choice that Western companies have to make in China: one is to apply their standard policies and practices, which are well understood and compatible with their world wide activities; the other is to try to co-opt those local partners who can help to anticipate and interpret change and who can suggest a range of alternative actions. Similarly, they also suggest, when Chinese companies go to Western industrial countries, they face the same choice. However, empirical evidence seems to suggest that both Western and Chinese MNCs are constrained when making this choice. As *Child* (2001) describes, many foreign companies have endeavoured to convert their joint ventures into wholly owned subsidiaries, or at least secure a substantial majority of equity ownership. Disappointing levels of profitability and difficulties with local partners have given rise to a conventional wisdom that, in China, it is best to have sole ownership and control (*Vanhonacker* 1997). Regarding the Chinese MNCs, while in earlier phases of internationalization, they evidenced a preference to go to some Asian developing countries where Chinese social networks are present (*Cài* 1999; *Deng* 2004), this seems to have been less evident among the larger recent internationalizing companies entering developed countries (*Child* and *Rodrigues* 2005). Thus, although a number of contingent factors such as the size of the company have already been discussed in their paper, the findings of the current study appear to indicate that *Boisot* and

Child's (1999) contention needs some further qualification to explain the above evidence, taking into account the effect of the global institutional flow.

Both Western companies operating in China and Chinese companies internationalizing in Western industrial countries discussed in *Boisot* and *Child* (1999) are multinational companies, which means their choices between complexity reduction and complexity absorption will be inevitably shaped by the global institutional flow. As a result of this flow, rules and practices linked to prevailing theories of modernity are most likely to diffuse. The sciences and professions are central to this modernity. They are devices for turning local and parochial practices into universally applicable principles that can "rationally" be adopted (*Strang* and *Meyer* 1993; *Meyer* 2000). Practices based on personal trust and loyalty, critical ingredients of the Chinese version of complexity absorption strategies, may be extremely dominant in some parts of the world, but it is complexity reduction strategies – those "rational", impersonal and professional management practices backed up by scientific research – that are in the centre of the global institutional flow. Being constrained directly by this flow, MNCs may have to adopt complexity reduction strategies whenever possible, especially in developed Western industrial countries. Therefore, Chinese MNCs' British subsidiaries may find it challenging to deploy complexity absorption strategies, simply because it is not a legitimate way of managing business locally. British MNCs' Chinese subsidiaries may be forced to adopt complexity reduction strategies, because complexity absorption strategies might be not only seen as incompatible with the rest system of the MNC, but perhaps more importantly, also because complexity absorption strategies may be regarded as the type of practices that are de-legitimating in the current global business world. This has been exhibited, at least partially, in *Child* and *Tsai*'s (2005) comparative study of foreign MNCs' and local companies' strategies in relation to demands for environmental protection in China and Taiwan. They found that the perceived significance among MNCs of safeguarding their global reputations in effect extends the reach of the pressures making for their conformity to high environmental standards. Local institutional agencies that may be of recent origin and uncertain efficacy, as in China, cannot be regarded as the sole or even the main source of institutional constraint for MNCs.

Certainly, this is not to say there is absolutely no value in adopting complexity absorption strategies. In fact, Western developed economies, such as France, Italy, and Sweden, continue to feature substantial elements of network-based business groups (*Fukuyama* 1995). Nevertheless, overall, the networks in emerging economies like China are qualitatively different from those within the Western market system (*Boisot* and *Child* 1996), since the former tends to be embedded in interpersonal ties, whereas the latter tends to be more calculative, with more codification and transparency and supported by more established formal institutions (*Kite* and *Hesterly* 2001). The British MNCs' Chinese subsidiaries in this study indeed adopted a number of complexity absorption strategies to a relatively lesser extent, but these adopted strategies were kept peripheral and local.

5.6 Limitations and Directions for Future Research

This dissertation has several limitations that need to be remedied in future research. An obvious weakness is that it has only focused on a small sample of subsidiaries headquartered in two countries. This limitation may be exacerbated by the fact that the Chinese MNCs have only recently started to internationalize, and the systems and practices within the Chinese MNCs have not been institutionalized enough. Although some scholars have argued that the method of modified analytic induction only has the goal of developing descriptive statements of relationships among concepts and makes no claim of universality (e.g. *Gilgun* 1995), the question of the extent to which these findings can be generalized to other national contexts does merit further empirical research. There are two specific questions to ask: first, do these findings hold if the home and host countries are developing and developed countries, other than China and the UK, for example, Russia and the US? This would be beneficial at least in terms of policy consideration to the MNCs based in other developing countries. For instance, *Child* and *Rodrigues* (2005) mentioned that some aspiring global players among Brazilian companies are watching with interest how Chinese firms succeed in establishing a competitive position within international markets, including the overcoming of a liability of foreignness.

The second, perhaps more intriguing question, is how would these findings be qualified if the home and host countries are both developing or both developed countries? While it is difficult, if not impossible, to predict without a carefully designed survey gathering data more internationally, it may be speculated that there might be multiple centres in the global institutional flow. A central normative assumption of *Hamilton* (1991) and other scholars is that business networks provide Asian firms with a wide range of competitive advantages in the form of social capital based on interlocking connections to local or regional business partners, prominent tycoons, high ranking officials and other members of local power elites, government bodies and so forth to "get things done". So it may be the case that MNCs based in Asian developing countries prefer to expand to foreign territories where it is possible to access ethnically-based social networks, and this appears to be very characteristic of overseas Chinese firms (e.g. *Sikorski* and *Menkhoff* 2000; *Child* and *Rodrigues* 2005, but see counter-arguments in *Gomez* and *Hsiao* 2001). Therefore, Chinese MNCs might adopt complexity absorption strategies in some Asian countries where these strategies are relatively legitimate. But when Chinese MNCs come to Western industrial countries, they may have to adopt complexity reduction strategies. *Zhao, Anand* and *Mitchell* (2005) indeed observed an occasional outflow of knowledge from foreign companies' JVs in China to their JVs in other emerging economies, which they expected to increase as the JVs in China become more established. Likewise, among developed markets, the dominance of the US business model in the world economy may encourage foreign MNCs' subsidiaries in the US to adopt perceived local American practices. For instance, in studying to what extent the human resource management practices in foreign MNCs in the US are isomorphic to local practices, *Rosenzweig* and *Nohria* (1994) found that all 249 American subsidiaries of Canadian, Japanese and European MNCs participating in the research in general closely followed local American practices. Thus, the implication for MNCs is that regional solutions might be better than transnational solutions. The regional solution, according to *Rugman* and *Verbeke* (2001) suggests that within the

MNC, both bounded rationality constraints and value creation objectives require dispersing competencies and capabilities among internal, region-based networks, typically in each leg of the triad, i.e. EU, NAFTA countries and Asia. If future research really finds evidence that there are multiple centres in the global institutional flow, it will lend strong additional support for adopting regional solutions from an institutional perspective.

Another limitation of this study and indeed of most research on institutional duality is the inattention to sub-national institutions. The definition of institutional distance – the difference/similarity between the regulatory, cognitive, and normative institutions of the home and host countries (*Kostova* 1996) – seems to self-evidently indicate it should be compared at the level of country. Yet, there is much anecdotal evidence in this study suggesting that striking heterogeneity exists within the country. Many informants of British companies in China, for example, noticed the strong differences between the various regions in China. Apart from the sharp disparity between East coastal areas and West hinterlands, they felt there was a distinct contrast between the North and South in terms of business norms and values. In the North, "face" was still crucial when interacting with consumers/clients, whereas in the South, financial incentive became increasingly important. There are indeed a few studies reporting evidence that confirms these informants' experiences. Examining differences between two cities in the North and South of China, Beijing and Shanghai, with respect to key factors leading to organizational effectiveness, *Schlevogt* (2001) found government support was the most crucial factor in the North, while private ownership was the most important factor in the South. These differences may relate to deeply embedded sub-national institutions varying between regions within the country. They certainly have implications for foreign companies when making strategic decisions on where and how to set up operations (*Meyer* and *Nguyen* 2005). Similarly, there exists heterogeneity concerning marketing practice across different regions in China. As *Sun* and *Wu* (2004) exhibited, Chinese rural and urban consumers are statistically different regarding their attitudes toward the whole marketing mix. Their lifestyle differences reveal huge marketing potentials as well as challenges for foreign MNCs, who will ultimately move into China's relatively untapped rural regions. In prior research on institutional duality and institutional distance, regional differences within a country have been rarely analyzed and therefore need to be given more consideration.

This study has not examined the relationship between the identified asymmetrical institutional duality and subsidiary performance. It may be too premature to speculate on the performance of the Chinese MNCs in the UK, given their relatively short operating history. As for foreign MNCs in China, on one hand, some studies show that greater delegation of influence over operational matters or the configuration of the subsidiary's operation is unproblematic, but delegation of marketing matters to local staff in a transition economy brings with it a performance risk. For example, *Child, Chung* and *Davis* (2003) found that tight parent control over marketing matters has a positive impact on performance among Hong Kong companies' subsidiaries in mainland China. On the other hand, many foreign MNCs in China have experienced increasing difficulty in making an acceptable return on their investment. Various surveys suggest that one-third to more than one-half of foreign MNCs are losing money in China (*Path to profit* 1998). This seems to indicate that, perhaps counter-intuitively, applying MNCs' existing practices rather than adopting local practices does not necessarily lead to better performance. This may be because expatriates underestimate differences in relatively similar cultures (*Brewster* 1995; *O'Grady* and *Lane* 1996) when they transfer practices from institutionally adjacent countries, as discussed in section 5.4 of this chapter. It may also result from what can be called "future-oriented" adoption of parent companies' practices. Some managers of the British MNCs' Chinese subsidiaries interviewed in this study, both expatriates and locals, appeared to see the institutional development of the Chinese market as passing through several evolutionary stages, and believed it would eventually catch-up with developed countries. This developmental process can be achieved at a dramatic pace in a developing country like China. Therefore, studying and adopting ever-changing local practices is unnecessary to many subsidiary managers of foreign MNCs in China, especially when they expect that ultimately local practices will upgrade and converge with their own current practices within the MNCs. One example showed in the case studies related to the understanding of distribution systems in the Chinese FMCG industry. As reported in Chapter 4, the trade in China was a mixture of general trade (distributing products mainly through wholesalers) in rural areas and modern trade (distributing products mainly through retailers) in big cities. Managers in Bfmcg China believe that as the Chinese economy develops, modern trade will become more and more dominant, like in Western countries. So they believe that currently rural areas are not as important economically and thus focus mainly on big cities. The underlying thought was that they should not invest heavily in rural areas until they develop to a certain point whereupon modern trade will become dominant. Another example showed that many foreign MNCs often deploy a huge amount of resources to gather and analyze marketing intelligence, involving both in-house marketing teams and external marketing research companies. The common belief was that the more marketing information they had, the more likely they would be to make the correct marketing decisions. The marketing decisions made in local Chinese companies who emphasized marketing intelligence comparatively less, were described as less informed and even whimsical. Many managers believed that this was mainly due to lack of financial resources in local companies.

However, in the short-term this "future-oriented adoption" may not immediately enhance performance, indeed it may sometimes impede performance. In many sectors of the Chinese market, local companies that are more familiar with the local market, have grown exceptionally fast and become market leaders in many second- and third- tier cities and rural areas that have been largely neglected by foreign companies. *Child* (2001) cited a survey that revealed that 70 per cent of the top three brands in fifty consumer product markets derive from local companies (*Hong Kong Trade Development Council* 1998). Given the drastic speed of learning among local companies, it might not be easy for foreign companies to challenge their strategic positions when these markets become more mature. Indeed, as reported in the case studies, some of the local companies had already posed serious challenges to Bfmcg in many product categories in the Chinese market. Regarding the other example, marketing intelligence, a limited budget is certainly one of the factors that constrain local Chinese companies from gathering and utilizing more marketing information.

But, there might be other local institutional obstacles to both local companies and foreign companies inhibiting these marketing activities. As *Ellis* (2005) describes, conditions in developing economies are qualitatively unlike those found in mature markets. Consumers have fewer choices, supply chains are unreliable, and practices often do not reflect the true state of supply and demand owing to government intervention in markets. Frequently, market indications are relegated as secondary importance to changes in the regulatory environment. Also, marketing reports will soon be out-dated due to the rapid changes of the market. In China, these difficulties in promoting the dissemination of marketing intelligence can be further aggravated by the limited codification of information (*Boisot* and *Child* 1996). Therefore, companies operating in China, local as well as foreign companies will be severely handicapped by their limited access to reliable information pertaining to emerging trends, sources of supply, competitors' actions, and changing regulations. So why do foreign companies still keep deploying so many resources in collecting and analyzing marketing intelligence? Under many circumstances, marketing managers in those companies may find symbolic value in information that has no great decision relevance (*Feldman* and *March* 1981). They first develop marketing strategies or simply inherit them from the company's global strategy, and later receive requested marketing information. At times, the purpose of conducting marketing research becomes that of providing quantified justification for the decisions that have already been made. As a result, it is not a straightforward task to establish the link between better marketing intelligence and better marketing decisions.

One of the possible alternative explanations for the adoption of a British model of marketing practices in the British subsidiaries of Chinese MNCs may be that it reflected an eagerness to learn "modern" management practices rather than solely reflecting asymmetric institutional pressures.

The importance of organizational learning for the competitiveness of a firm is based on the criticality of knowledge for gaining and sustaining a competitive advantage. Knowledge is the base of firm capabilities and thus, to develop capabilities, firms must acquire the appropriate knowledge stocks and integrate them (*Cohen* and *Levinthal* 1990; *Parkhe* 1991; *Lane* and *Lubatkin* 1998). The results of studies conducted thus far largely indicate that learning by organizations enhances their performance (e.g. *Luo* and *Peng* 1999; *Moingeon* and *Edmondson* 1996). Marketing capabilities require knowledge of markets and consumer behaviour as well as promotional activities. It might well be the case that the Chinese MNCs set up subsidiaries in knowledge-superior host countries to tap into local managerial resources. Therefore, further research can be done through testing to what extent the adoption of local British models of marketing practices was motivated by the Chinese MNCs' desire to learn more advanced management practices in developed host countries, such as the UK. If sufficient evidence is found in the Chinese MNCs that the absorption of local practices was indeed guided by systematic and strategic learning agenda, it will certainly lend strong support to the thesis of asset-seeking FDI (*Wesson* 1999; *Dunning* 1998; *Kogut* 1991). Also, it could be used to explain the asymmetry concerning marketing practices identified in this PhD research by distinguishing two distinct but complementary perspectives of FDI: asset-exploitation and asset-seeking. According to *Makino*, *Lau* and *Yeh* (2002), in the asset-exploitation perspective, FDI is viewed as the transfer of a firm's proprietary assets across borders; in the asset-seeking perspective, FDI is viewed as a means to acquire strategic assets (i.e. technology, marketing, and management expertise) available in a host country. Therefore, whereas the FDI made by the Chinese MNCs to asset-richer (compared with the home country) host countries, such as the UK, can be classified as asset-seeking, the FDI made to asset-scarcer host countries, such as African countries, can be viewed as asset-exploitation.

Another possibility for future research is to explore whether and how Chinese MNCs can transfer adopted local practices from developed countries back home or to other sister subsidiaries. One of few studies addressing this issue is *Zhang* (2003). Drawing on case studies of Chinese MNCs operating in the UK, *Zhang* (2003) shows how the subsidiaries of these MNCs used the advanced environment of a developed country to transfer best practices of HRM into their organizations. She found some HRM practices were transferred back to the parent company or other subsidiaries. In one company, the UK subsidiary provided formal training programmes for the managers from the parent company and other subsidiaries. Another Chinese MNC sent local staff in the UK to parent companies in China to train the managers there. In other case companies, HRM practices were introduced to the parent company and other subsidiaries through conferences or management meetings. Yet, the detailed information on how these practices were selected and transferred and how these transferred practices worked in parent companies and other subsidiaries were not given in *Zhang* (2003). She noted, "These larger training programmes are directly planned and controlled by the parent company, and are found in the subsidiaries that have a long history of operating in the UK" (*Zhang* 2003, p622-623). If these programmes were not simply designed as socializing opportunities but with real intention to transfer "best practices", an interesting question may be asked: how does a knowledge-inferior parent company select and control the transfer of practices from a knowledge-superior subsidiary back to home or other subsidiaries?

Another opportunity for further research is to investigate the developmental process of marketing or other functional practices in MNC subsidiaries by adopting a more evolutionary perspective. Scholars have long recognized that internationalization is a sequential process, whereby the initial investment is followed by waves of additional ones (e.g. *Johanson* and *Wiedersheim-Paul* 1975; *Johanson* and *Vahlne* 1977; *Kogut* 1983; *Chang* 1995). During the last decade, a growing number of studies have paid attention to how this sequential investment can influence the evolution of the subsidiary's role (e.g. *Malnight* 1995; 1996; *Birkinshaw* and *Hood* 1997; 1998). Typically, the evolution of a subsidiary is seen as a function of parent-, subsidiary-, and host country driven resource accumulation and the development of specialized capabilities, coupled with an explicit change in the subsidiary's business charter. However, what has been missing is a further understanding of how this evolution process reflects at the level of function practices. A better appreciation of the change of MNC subsidiaries at the level of functional practices is particularly important. This is because, as *Malnight* (1995) empirically found out, there is often no single objective of "globalizing" the company. Rather, the globalization process is driven by a shifting mix of strategic objectives over time, each of which differed in its impact on various functions. In other words, globalization occurs at the level of the function, rather than the company. If this is the reality, is there a predictable evolution process toward adopting more local management practices as the subsidiary develops over time and becomes more embedded in the host environment? What are the factors promoting and/or suppressing such a shift? Does this process relate to the subsidiary's institutional charter? To what extent can co-evolution concerning functional practices take place between the subsidiary and its dual institutional environments, namely the rest of the MNC and the host country? If co-evolution does take place, what would characterize this change process in such heavily constrained and fragmented institutional environments? To answer these questions, a longitudinal case study looking at the development of functional practices at multiple levels could prove to be fruitful.

This study has focused on the cognitive pillar of institutions. Further research might need to examine the other two pillars of institutions: the regulative pillar and the normative pillar, or replicate and test the propositions developed in this study to all three pillars of institutions, using *Xu* and *Shenkar*'s (2002) approach of decomposing the institutional distance into distance on the regulative, normative and cognitive dimensions of institutions. This would help us understand better two critical questions put forth by *Scott* (1995): (1) how do the differing types of institutions fit together? (2) how do these three types of institutions affect the characteristics of organizational fields, populations, structures and strategies? Whereas it might be argued that the regulative pillar of institutions is primarily concerned with the content of practices, such as regulation on tobacco advertising, it rarely specifies how the practices should be carried out, such as how a marketing campaign should be launched. Is there a clear distinction of the effect between these three pillars of institutions or do all three pillars tend to affect organizational members ultimately through the cognitive pillar? Put another way, are these three types of institutions shaping organizational fields disproportionately? How would the same organization respond to the three types of institutions, differently or similarly?

Future research can also test the propositions of this study in other types of organizations. For example, *Suchman* (1995) suggests that military academies and Catholic universities might offer good case studies of this type. Indeed, back in the 1950s and 1960s, *Parsons* (1953) argues that organizations tend to become differentiated vertically into three somewhat distinctive levels or layers: the technical, concerned with production activities; the managerial, concerned with control and co-ordination activities and with procurement of resources and disposal of products; and the institutional, concerned with relating the organization to the norms and conventions of the community and society. Every organization is a subsystem of "a wider social system which is the source of the 'meaning', legitimation, or higher-level support which makes the implementation of the organizations' goals possible" (*Parsons* 1953, p63-64). In discussing the "points of articulation" between the three system levels, *Parsons* (1960) continues that they are characterized by "a qualitative break in the simple continuity of line authority" because "the functions at each level are qualitatively different" (*Parson* 1960, p65-66). If *Parson*'s (1953, 1960) argument is plausible and the assumption that each of the technical, managerial and institutional system levels is under different internal and external environments, and hence having different sub-archetypal templates (*Greenwood* and *Hinings* 1993; 1996), an extremely bold and tentative assertion may be made here: the majority of modern organizations, in the public or private sector, MNCs or domestic companies, are all actually facing fragmented environments and encompass multiple archetypal templates within different parts of the organization. If this assertion can hold in theoretical and empirical examination, it may become one of the promising new directions for future scholarship.

5.7 Conclusion

In conclusion, this dissertation has made several important contributions. To research on institutional duality, this study has examined and refined the concept of institutional duality, focusing on its assumption and essence. The prior research has assumed explicitly or implicitly that institutional duality is an immediate result of institutional distance between home and host countries. The findings of this research suggest that, to the extent that the dual institutional pressures meet largely in a subsidiary, which is part of an MNC, the institutional pressures can be filtered and mediated by the MNC. Thus, MNCs and their subsidiaries are not only affected by institutional duality, they in fact, in turn, can have a certain level of choice in influencing institutional duality by toning up and down to a certain extent the magnitude of potential institutional conflict. However, the choice that the managers in MNCs and their subsidiaries have is constrained by a supra-national cognitive institution, referred to as the "global institutional flow" in this dissertation. As a consequence of this flow, management systems, structures and practices are diffused across the globe from developed countries towards developing countries, and therefore institutional duality becomes asymmetrical between developing country based MNCs' subsidiaries in developed countries and developed country based MNCs' subsidiaries in developing countries.

As for institutional theory, viewing MNCs as organizations straddling a multi-level and nested institutional environment, this dissertation suggests the most overarching institutional environment faced by the organization can ultimately determine which template to be adopted, among the multiple templates originating from fragmented environments. Yet, this ultimate effect may be mediated by the institutional environments nested within this most overarching environment. Also, organizations are able to mediate to a certain extent between these environments, not uniformly at the organizational level but heterogeneously at the sub-organizational level. In coping with the fragmented environment, this research has implied that organizations may be able to circumvent possible contradictions between multiple institutional templates in two ways: (1) localization, which means to keep the effect of newly adopted elements as peripheral as possible, and not affecting the rest of the organization; (2) approximation, which is to endeavour to enact existing elements within the organization that are most similar to the elements needed to be adopted from the environment.

Finally, in terms of the literature of international management, this dissertation reminds the scholars interested in MNC subsidiaries that more attention needs to be paid to the global institutional context in which MNCs are asymmetrically embedded.

This research is also one of the few studies to investigate how newly raised Chinese MNCs organize their foreign subsidiaries in a developed country.

5.8 Reflection on My PhD Journey

The purpose of this section is not to trace back each step of my PhD process; rather, it is to share my personal experience that I think may be informative to other fellow PhD students. Hence, when writing this section, the question that I ask myself is: what advice on the intellectual experiences of a doctorate, in terms of your own experience, would you give to other PhD students, who follow in your footsteps?

After graduating with my first degree in China, I immediately came to the UK to study a Masters degree, and then a PhD. So one thing I would do differently if I could start again would be to gain several years of work experience before undertaking a PhD as the experience of working in a formal organization can only deepen understanding of many management and organizational issues. During the four years, there are three lessons that I have learned and believe to be beneficial to my research process.

With the benefit of hindsight, I now realize that a PhD is an academic training exercise, and at the same time an exploratory learning process that moves along two tracks. On the one hand, it is a move in search of theories, models and empirical data to explain or describe a phenomenon. On the other, it is a quest to find one's own place within a particular field of knowledge and an academic community. My original expectation about the PhD, I have to confess, did not include too much of the latter. There are certainly many different perspectives when looking at the PhD process. To me four years ago, a PhD was more about finding the answer to a question than looking for the right question to ask. Indeed, I struggled with asking the right question. Initially, I was interested in comparison of strategic planning systems in Chinese and British companies, but found that the passion in academia toward strategic planning was diminishing. Meanwhile, institutional theory became appealing to me through my reading. To identify one common issue that concerned both British and Chinese companies, I sought help from a series of expert witnesses in academia and industry. Internationalization activities then emerged as one of the intriguing issues. In linking institutional theory with internationalization activities, the research scope finally narrowed to institutional duality.

The search for a suitable research question is not as simple as finding a research issue that has not been solved before. It is very much like participating in an ongoing academic conversation. One has to know the context of this conversation, who has been talking and said what, who else agrees or disagrees. One joins in the conversation in the hope of saying something meaningful – that is, making some contribution to the discourse. Therefore, the first valuable lesson I have learned is that fitting into the conversation is as important as what to “say”.

The second lesson worth noting is that when undertaking a PhD, one ought to learn as much as possible from other successful researchers, but ultimately has to be one himself, with all his faults and limitations. During the course of my PhD research, I imitated researchers I thought either had done well in their research or was conducting similar research to mine. For instance, I was very determined to follow one of my supervisor's research interests, without considering whether I was able to gain in-depth access from organizations to generate sufficient data. I once also designed a questionnaire almost entirely based on another well-known study, not thinking through carefully how it related to my theoretical argument. Naturally, they all turned out to be disastrous. Inevitably, learning involves mimicry. A fledgling researcher is bound to model himself upon experienced ones. However, others' ideas and approaches need to be critically analyzed and thoroughly digested before being practiced in one's own research. This can be likened to herbology in Traditional Chinese Medicine (TCM). The key to success in TCM is the treatment of each patient as an individual. Each herbal medicine prescription is a cocktail of many herbs tailored to the individual patient. The balance and interaction of all the ingredients are considered more important than the effect of individual ingredients. Sometimes, ingredients are needed to cancel out toxicity or side-effects of the main ingredients. Some herbs require the use of other ingredients as a catalyst or else are ineffective, even harmful. The practitioner can design a remedy based on written textbooks using one or more main ingredients that target the illness. But only a good Chinese herbal doctor can add or skip some ingredients to adjust the formula to the patient's condition. The same logic applies to PhD research. Following other researchers' opinions, approaches, and techniques does not necessarily mean to copy them without any adjustment. Only when treating these opinions, approaches, and techniques as a means, but not an end, can one create effective remedies for different research problems.

The third lesson, which relates to the previous two, is that I have learned to live comfortably with ambiguity and uncertainty. A PhD is a unique degree in that it is not focused on acquiring more knowledge. A Bachelors or Masters essentially provides more knowledge or more in-depth knowledge in a subject. But a PhD is oriented around research, and by its own definition, a research problem is a problem whose outcomes are not yet known. Facing unknown difficulties on regular basis is similar to undertaking an ill-prepared caving exploration. After the initial excitement and curiosity gradually dissipates, panic attacks take over. One feels his intellectual compass has been lost. When faced with bottlenecks, my experience is that consistency rather than brilliance will get one out of the darkness of confusion and despair. Although PhD research is essentially a lonely business, isolation should be avoided. It is important to call for rescue from PhD supervisors, or at least let them know the issues that one is struggling with. Seeking support from fellow students may also help. Nevertheless, one himself must face the challenge and take action. Development is painful, as things often seem not to move forward, but backward, sometimes even back to square one. However, when one door shuts, another opens. Having confidence in oneself and what one is doing are extremely critical. Keep moving and believe there is always light at the end of the tunnel. I have found that dealing with ambiguity and uncertainty is just like learning anything else: after practising a number of times, you will get used to it and even start to enjoy it. Eventually the excitement about new and emerging thinking will return.

In summary, it is an understatement to say that PhD research is a daunting intellectual experience, as many skills and abilities cannot really be taught but are learned largely through commitment, dedication, and perseverance. Meanwhile, the whole journey can be truly rewarding and satisfying. It equips us with the necessary capabilities and experience to stand independently in the academic community of which we choose to be part.

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Appendix I: A Checklist of Interview Questions Asked in the Two Initial Cases

a) A brief explanation of my own background; a short introduction of my research interest and my emphasis on managers' own views and skills in running the business. To overcome interviewees' reluctance to disclose sensitive information, they will be informed that all data will be treated completely confidential. In addition, his or her remarks will not be passed to other managers in the company. In asking permission to record the interview, I will explain to the interviewee that it is a common method in academic circles and it takes much longer if I have to take notes during the discussion for English is not my first language.

b) The interview will begin with my asking if the interviewee could describe his or her own career background. In doing so, I attempt not only to create a relaxed atmosphere but also identify how his or her previous work experiences might influence the current job. By the end of this part of the interview, the interviewee will be asked how they have chosen to work for the current Chinese or British subsidiary, if they have not mentioned it in his or her introduction.

c) Taking this point as an opportunity, the discussion will focus more on the subsidiary. In particular, the interviewee will be asked:

- to describe the process of funding of the subsidiary and his or her involvement;
- to outline the general structure of the subsidiary and explain how it functions, focusing on his or her main role;
- to describe two or more events he or she has been involved and considers to be important for the subsidiary;
- to express his or her own views as to what sense the subsidiary is a Chinese company and in what sense it is a British company;
- to provide his or her own views on what should be done in the future to make the subsidiary more successful;
- to provide his or her own views about what should be done in the future to make the MNC as a whole more successful.

d) It is believed that the notion of "think globally and act locally" will be a helpful substitute for "institutional duality" in the discussion with subsidiary managers. Thus, the managers' own views on "think globally and act locally" will be asked. Since it is a relatively abstractive issue, it will be raised in the latter stage of the discussion.

e) At the end, the interviewee will be invited to raise other issues that they might be interested to discuss.

Appendix II: A Checklist of Interview Questions Asked in the Multiple Cases (for senior managers)

a) A brief explanation of my own background; a short introduction of my research interest and my emphasis on managers' own views and skills in running the business. To overcome interviewees' reluctance to disclose sensitive information, they will be informed that all data will be treated completely confidentially. In addition, his or her remarks will not be passed to other managers in the company. In asking permission to record the interview, I will explain to the interviewee that it is a common method in academic circles and it takes much longer if I have to take notes during the discussion for English is not my first language.

b) The interview will begin with my asking if the interviewee could describe his or her own career background. In doing so, I attempt not only to create a relaxed atmosphere but also identify how his or her previous work experiences might influence the current job. By the end of this part of the interview, the interviewee will be asked how they have chosen to work for the current Chinese or British subsidiary, if they have not mentioned it in his or her introduction.

c) Taking this point as an opportunity, the discussion will focus more on the subsidiary. The followings are the specific questions to be asked:

1.1 In your opinion, what are the key successful factors in this industry? Why are they so important?

1.2 How would you describe this subsidiary's current position in this industry? Why does it have such a position?

1.3 What are this subsidiary's competitive strategies in China or the UK? Why are they so important?

1.4 Does being a British/Chinese company in China/the UK make your life as a marketing manager easier or harder? Why?

1.5 How would you describe this subsidiary's role in your parent company's global strategy? In what way do you think this subsidiary contributes to your parent company? In what way do you think this subsidiary is influenced by your parent company?

2.1 Could you describe how the marketing function works in this subsidiary?

2.2.1 Could you describe two or three major events that have happened in this subsidiary, which you consider to be important for this subsidiary?

2.2.2 When did it happen?

2.2.3 What happened?

2.2.4 What happened as a result? Why?

3.1 Would you categorize the marketing practices used in this subsidiary as British, Chinese or both? Why?

3.2 In your opinion, what should be done in the future to make this subsidiary's marketing more successful?

4.1 Do you have anything else you would like to discuss?

Appendix III: A Checklist of Interview Questions Asked in the Multiple Cases (for marketing team members)

a) A brief explanation of my own background; a short introduction of my research interest and my emphasis on managers' own views and skills in running the business. To overcome interviewees' reluctance to disclose sensitive information, they will be informed that all data will be treated completely confidential. In addition, his or her remarks will not be passed to other managers in the company. In asking permission to record the interview, I will explain to the interviewee that it is a common method in academic circles and it takes much longer if I have to take notes during the discussion for English is not my first language.

b) The interview will begin with my asking if the interviewee could describe his or her own career background. In doing so, I attempt not only to create a relaxed atmosphere but also identify how his or her previous work experiences might influence the current job. By the end of this part of the interview, the interviewee will be asked how they have chosen to work for the current Chinese or British subsidiary, if they have not mentioned it in his or her introduction.

c) Taking this point as an opportunity, the discussion will focus more on the subsidiary. The followings are the specific questions to be asked:

1.1 How would you describe this subsidiary's current position in the market? Why does it have such a position?

1.2 What are this subsidiary's marketing strategies in China or the UK? Why are they so important?

1.3 Does being a British/Chinese company in China/the UK make your life as a marketing manager easier or harder? Why?

2.1 Could you describe how the marketing function works? What's your role?

2.2 In what way do you think are the marketing practices in this subsidiary influenced by the parent company? Are any of the marketing practices in this subsidiary co-ordinated by your parent company?

2.3.1 I understand that event A and B have happened... (identified by the senior managers in the earlier interviews) Do you think those are important for this subsidiary? Why?

2.3.2 When did it happen?

2.3.3 What happened?

2.3.4 What happened as a result? Why?

2.4 Is there any other event that happened in this subsidiary that you consider to be important for this subsidiary?

3.1 (If the interviewee is an expatriate) Do you feel that the method of marketing used in this subsidiary is similar to that in the parent company? Why?

(If the interviewee is a local staff member) Do you feel that the method of marketing used in this subsidiary is similar to that in local companies? Why?

3.2 In your opinion, what should be done in the future to make the marketing in this subsidiary more successful?

4.1 Do you have anything else you would like to discuss?