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Norwegian University of  
Science and Technology

**Becoming global**  
**- the troublesome integration process -**

Doctoral thesis

by

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## Preface

This study has been conducted at the Norwegian University of Science and Technology (NTNU) between 2000 and 2004, and financed by the Norwegian Research Council. My mentors have been Professor Kristen Ringdal at the Department of Sociology and Political Science, and Professor Morten Levin at the Department of Industrial Economics and Technology Management.

The work has been a part of the project “*Management and organization in the new industry*”<sup>1</sup> including three PhD students at Studio Apertura, NTNU Social Research Ltd., Gudveig Gjørsund, Sigrid Damman and myself. I have very much enjoyed being a part of the research group at Studio Apertura for the past four years. A sincere thanks to great colleagues and to Per Morten Schiefloe who are the sources of an atmosphere which both inspires and comforts. Also very much thanks to the great administrators at NTNU Social Research Ltd. who are always present in times of need.

A particular rewarding part of the dissertation work has been the close cooperation with colleague Sigrid Damman, and our numerous travels abroad to the subsidiaries of Kongsberg Automotive. Our cooperation made this project possible and assured that we had much fun doing it. I also want to thank my mentors Kristen and Morten who have impressed me with the speediness and accuracy of their work. Both have given me valuable feedback and the encouragement I needed throughout the process. The Department of Sociology and Political Science has been very supportive, especially Ola Listhaug who I am grateful to for his efforts to always include me.

This thesis is about the learning processes that the staff and employees at Kongsberg Automotive have experienced through the past years, but also a direct reflection of the learning processes I myself have gone through. To learn and experience so much in an intensive period is one of the most rewarding parts of being a PhD student, and it is very much due to the people at Kongsberg Automotive who openly shared their thoughts, knowledge and experience with us. Thanks especially to Jarle Nymoen and Olav Volldal who gave us access to the organization and who showed an interest in our findings and conclusions.

When coming home from the rounds of interviews abroad, my friends and family

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<sup>1</sup> In Norwegian: ‘Organisasjon og ledelse i den nye industrien’

were always present and ready to listen to newfound ideas and thoughts. They were also there to make sure that I had other interests outside the dissertation work and provided the laughs we have shared so many of the past years. Thanks to each one of you!

Trondheim, January 2005

Tonje C. Osmundsen

## Summary

This study is based on research in Kongsberg Automotive and its foreign subsidiaries in Mexico, U.S.A, Poland and South Korea. The research methods have mainly been open-ended semi-structured interviews and observations during a three-year period. This period has coincided with an intensive internationalization process in the company.

This study has an exploratory character. The purpose is to improve understanding of the challenges involved in internationalization processes in terms of how integration can be achieved among separate organizations. To what extent are cultural, political and social differences factors to consider when creating the international organization? In what way do actors and structures influence the process and the practices that emerge?

A theoretical framework based on new institutionalism and learning is employed to analyze the findings from Kongsberg Automotive. The data is presented focusing on the various organizational entities in the company, the head office and the Scandinavian units, and the local organizations in the U.S., Mexico, Poland and South Korea. It is the development of practices and solutions in these organizations which is the focus of the presentation. The subsequent discussion is structured around three main research questions emphasizing the role of local leadership, the characteristics of governance structures and the understanding of learning as a central part of the internationalization process.

In an international organization cultural, political and social differences may create barriers towards understanding the other. This may be further complicated by different languages, time and geographical distances. These obstacles may create a situation where it is the local manager who becomes the main representative for the local unit and who thus is highly influential in the construction of understanding at the head office as well as in the local unit. His perception of what is appropriate and his ability to make others agree is central to an analysis of the various practices and solutions that emerge in the local organization.

The main motivation and challenge of the central management is to control and coordinate the international organization. While earlier research has focused on explaining why some control mechanisms are used above others, the emphasis here is on the usefulness of different mechanisms and how the organization abroad and at home perceives these attempts for control and coordination. The findings suggests that through time

there was a stronger reliance on mechanisms for socialization and enculturation, and while these are directed towards creating a larger consensus in the organization, they should also be seen as means for decentralized control and self-monitoring.

The various organizational entities in Kongsberg Automotive represent different communities-of-practice and it is the interaction between these communities which is central to an understanding of the learning processes that occur. To what extent these processes are based on an approach which can be described as exploratory and open-ended, is argued to have an influence on the innovativeness of learning experiences. Such a perspective may also confer an understanding of power as a productive element in learning processes.

The implications of this study for theory and future research are in embracing the complex nature of internationalization process. Relevant for understanding internationalization processes are both actors and structures intertwined. Institutional environments are central to an understanding of how different actors perceive practices and structures, and what they see as viable solutions. Neither the international organization nor the learning processes these undertake can be torn loose from the local cultural, political and social context.

# Contents

<b>Preface</b> .....	iii
<b>Summary</b> .....	v
<b>1 Developing the research focus</b> .....	1
1.1 Relevance for earlier research in the field .....	3
1.2 Social and political relevance .....	5
1.3 Research focus .....	6
1.4 The structure of the thesis .....	6
<b>2 Learning within institutional regimes</b> .....	9
2.1 Introduction .....	9
2.2 New institutionalism .....	11
2.2.1 Multiple institutional environments .....	13
2.2.2 Responses to institutional pressure .....	15
2.3 Institutional change .....	20
2.3.1 Learning as a dynamic for institutional change .....	21
2.4 Research questions .....	26
2.4.1 Local solutions and local leadership .....	27
2.4.2 Governance system .....	32
2.4.3 A perspective on learning .....	35
2.5 Becoming global – the troublesome integration process .....	36
<b>3 Kongsberg Automotive ASA</b> .....	39
3.1 Introduction .....	39
3.2 Historical development .....	40
3.2.1 Automotive industry .....	40
3.3 Internal structures .....	41
3.3.1 The Human Resource Department .....	43
3.3.2 The IT - department .....	43
3.4 Internationalization strategy .....	44
3.4.1 The team model .....	46
3.4.2 The SAP system .....	47

---

3.4.3 QS9000 .....	48
3.4.4 "Interdal" course .....	48
3.4.5 Instrumental engineering perspective .....	50
3.5 Kongsberg Automotive within the theoretical framework .....	52
3.5.1 Farmington, U.S. ....	54
3.5.2 Reynosa, Mexico. ....	55
3.5.3 Pruszkow, Poland. ....	56
3.5.4 Buzan, South Korea. ....	57
3.6 Summary .....	57
<b>4 Research method .....</b>	<b>59</b>
4.1 Introduction .....	59
4.2 Research process – Analytical strategies based on grounded theory .....	60
4.2.1 Credibility .....	61
4.2.2 Transferability .....	71
4.2.3 Dependability .....	72
4.2.4 Confirmability .....	73
4.3 Conclusion .....	73
<b>5 The local organizations in Mexico and the U.S. ....</b>	<b>77</b>
5.1 Introduction .....	77
5.2 Kongsberg Automotive Inc. ....	78
5.2.1 Moving production to Mexico .....	79
5.2.2 Developments in the U.S. unit .....	80
5.2.3 Establishing the Mexican unit .....	82
5.2.4 Changes in the Mexican unit .....	86
5.2.5 The expansion of the Mexican plant .....	90
5.2.6 Changes in the U.S. unit .....	92
5.2.7 Relations between the Mexican and the U.S. unit .....	93
5.3 Summary .....	96
<b>6 The local organization in Poland .....</b>	<b>99</b>
6.1 Introduction .....	99
6.2 The project phase .....	101
6.2.1 Establishing the factory .....	103
6.2.2 A closer look at the problems .....	106
6.3 Regular production phase. ....	113
6.3.1 Productivity .....	114
6.3.2 Information .....	118



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6.4 Expansion phase . . . . .	121
6.4.1 Productivity and quality . . . . .	121
6.4.2 Social atmosphere . . . . .	123
6.4.3 Pruszkow – Åmotfors and Kongsberg . . . . .	124
6.5 Summary . . . . .	124
<b>7 The local organization in South Korea.</b> . . . .	<b>127</b>
7.1 Introduction . . . . .	127
7.2 The acquisition of Jung Ang . . . . .	128
7.3 Jung Ang and “the Korean management system” . . . . .	129
7.3.1 Korean management . . . . .	130
7.3.2 Norwegian management. . . . .	131
7.4 Summary . . . . .	145
<b>8 Local solutions and local leadership</b> . . . . .	<b>147</b>
8.1 Introduction . . . . .	147
8.2 Local units and local managers . . . . .	149
8.2.1 The U.S. unit . . . . .	150
8.2.2 The Mexican unit . . . . .	152
8.2.3 The Polish unit . . . . .	155
8.2.4 The South Korean unit . . . . .	158
8.3 Discussion . . . . .	160
8.4 The influential role of the local manager . . . . .	162
8.5 Concluding remarks . . . . .	164
<b>9 Governance structure</b> . . . . .	<b>167</b>
9.1 Introduction . . . . .	167
9.2 Defining control and coordination mechanisms . . . . .	169
9.2.1 Centralization, formalization and socialization . . . . .	170
9.3 Structural explanations . . . . .	172
9.3.1 Characteristics of the parent company . . . . .	172
9.3.2 Characteristics of the subsidiaries . . . . .	174
9.4 Control mechanisms in Kongsberg Automotive . . . . .	176
9.4.1 Centralization . . . . .	176
9.4.2 Formalization . . . . .	181
9.4.3 Socialization . . . . .	186
9.5 Discussion . . . . .	189
9.6 Interrelations between structural and cultural control mechanisms . . . . .	192
9.7 Concluding remarks . . . . .	194

---

<b>10 A perspective on learning</b> .....	197
10.1 Introduction .....	197
10.2 The characteristics of organizational learning processes .....	199
10.3 The learning processes in Kongsberg Automotive .....	203
10.3.1 Creating mutual knowledge .....	205
10.3.2 New organizational rules .....	207
10.4 Discussion .....	209
10.5 A learning perspective for understanding an internationalization process .	211
10.6 Concluding remarks .....	213
<b>11 Theoretical implications</b> .....	215
11.1 Introduction .....	215
11.1.1 A learning perspective emphasizing institutions and actors. ....	216
11.2 A theoretical framework based on new institutionalism .....	223
11.2.1 Multiple environments .....	225
11.2.2 Institutions on different levels .....	225
11.2.3 Multiple stakeholders .....	226
11.2.4 Institutional change .....	227
11.3 Future research .....	229
11.4 Concluding remarks .....	230
<b>References</b> .....	233

# 1 Developing the research focus

Internationalization is a theme that has relevance for many scientific areas as well as for practitioners, and to choose a research focus within such a vast theme is the task and privilege of the researcher. The research focus in this dissertation is one based on both my scientific and personal interests, but also one which, has been developed in cooperation with colleagues and others. While the subject matter interests me greatly, I also believe that it is of interest to others, both within the research community as well as among practitioners.

To study and understand the challenges of internationalization processes is related to what I have always been interested in; international relations. The enigma of how one may create conditions that allow people from different social, cultural and political contexts to live peacefully together has had me wondering for years. It inspired me to live abroad for several years, to travel extensively and to learn different languages. It also inspired me to study political science and international politics. Through these activities and my studies, I acquired some insight into how individuals behave when faced with unknown cultural contexts, and how different political structures both inhibit and promote peaceful interaction among groups of people. A related question was why business companies could be seen to be successful even when they were building organizations across political and cultural divides. Was it merely their shared interests in creating wealth which fuelled these cooperative relationships? Or could it be possible that one could discern other solutions from their experience? My interest in studying internationalization processes was therefore inspired by a desire to understand more of the challenges these companies faced and how these were solved.

When the research project “*Management and organization in the new industry*<sup>1</sup>” was announced, one of the subject areas was internationalization of Norwegian companies. There were two PhD positions available and I applied for one of them. Sigrid Damman, a social anthropologist, and I were hired on the project as PhD students. We were both interested in internationalization as a theme for our studies and we were thus able to cooperate on developing our shared, yet separate research areas. Still, this had to be done in collaboration with the company we were to study, Kongsberg Automotive. To be able

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<sup>1</sup> In Norwegian: ‘Organisasjon og ledelse i den nye industrien’

to gain access to their organization we were dependent on establishing good cooperative relations with representatives from the company. We needed to gain their trust and to prove that through our participation we were able to contribute in a constructive sense to their organization. Through various activities which I will describe later, we were able to do so, and after a time we experienced that the organization was open to us and we were thus able to form our research study much after our own desires.

As I will discuss in more detail later on, my initial question when embarking on the data collection in the organization was 'How do they do it?'. Clearly lacking precision and substance, this question was nonetheless my initial approach to the subject matter. With time, and through our respondents, we were able to understand more about how employees in this organization experienced their own jobs and living situations. We were able to study most of the units in the company, traveling to the U.S., Mexico, Poland, France, South Korea and Sweden. We spoke to people at all levels in the organization and our main concern was to invite these people to tell us how they saw the organization and their own role within it. When visiting countries like Mexico, Poland and South Korea the living conditions for factory workers were a salient issue. Some of the females working in the factory in Mexico were from Vera Cruz in the south, and had left their children with their mothers. They had five days of vacation each year and had to travel 16 hours by bus to the south in order to see their children. Some of these women were only 18 years old. In South Korea discrimination against female workers was an important theme. It was striking to listen to one of the female office workers who was highly educated and who, when we asked whether her male colleagues cooperated with her, laughed and simply said that "*no, they never ask for my opinion*". We were also told many other stories. Unfortunately, it is impossible to present all these stories in this thesis. A selection had to be made of both focus and research questions, which naturally excludes some issues. The exclusion of an emphasis on the factory workers in the different units is perhaps the one I have been most reluctant to make. On the other hand, when describing the development of the various units in chapters 5, 6 and 7 the voices of the factory workers are clearly present.

The focus I finally chose to emphasize in this thesis is one questioning the development of the relationship between head office and the subsidiaries. This allowed me to include cultural, social and political differences between the various countries and how the interaction between the Norwegian management and that of the local units developed. From the outset I was interested in the approach of the Norwegian management since I knew they had limited experience with establishing units abroad. I expected that the question of to what extent they would attempt to 'export' their Norwegian institutional background to the foreign units would be central for understanding their approach.

My research focus has developed from a focus on how differences in cultural, social and political institutional environments are a central factor in explaining the obstacles in the internationalization process, to an acknowledgement that such environments should first and foremost be understood in terms of how they are interpreted and enacted by individuals or groups of individuals. Such an understanding focuses the attention on practices and actions, which is where an analysis of the difference between cultures and local contexts needs to be in order to understand how our interaction may be improved (Morgan 1996).

## **1.1 Relevance for earlier research in the field**

In which aspects is such a focus important in terms of earlier research in this field? While this thesis includes research done in Mexico, U.S.A, South Korea, Poland, Sweden and Norway and the differences in these local contexts are essential, it is the various practices that emerge and the interaction between actors from these units which is the nucleus in this study. Furthermore, I have chosen to emphasize how socio-cultural factors influence these practices and the interaction within the organization. It is not the political, economic or judicial matters which will be given prominence. This is in line with the findings of Cartwright and Cooper (1992) and Datta (1991).

According to these authors the critical issues that in many cases determine the success/failure of integration processes are socio-cultural. According to Datta (1991) about half of all mergers and acquisitions are considered failures, and an important reason is that socio-cultural factors are often ignored or forgotten during the process. Economic and judicial issues take preeminence over issues related to cultural or social differences. It is necessary in order to understand how integration processes can be made more successful to study how companies solve challenges related to such issues .

Within the field of organization studies much of the research on such processes has been focused on finding the normative best solution for business organizations. For instance Finkelstein's (2000) goal was to "*reveal the potential minefield*", in order to provide answers as to how an integration process may be planned. However, little has been said about the actual processes and how these determine the content and result of integration.

One of the reason why interaction has largely been ignored as an important part of the integration process might be that rationalist perspectives have dominated in this field. Traditionally the answer as to why organization structures are as they are has been that they are subject to efficiency and rationality pressures. Pressures resulting from the market, size, complexity and product range. These have been considered determining

forces, which offer only a narrow range of organizational design alternatives that are considered efficient. The rationalist view of organizations has dominated discussion about management and organizational behavior. The rational model of organizations holds that behavior within a company is not random, but that goals are clear and choices are made in a logical way. In making decisions, the objective is defined, alternatives are identified and the option with the greatest chance of achieving the objective is selected. The rationalist model fails to take into account the differences of interests and objectives that exist between individuals and groups within the organization. There has largely been a focus on the integrating qualities of the organizations and how these can be nurtured to create a unitary and more simplistic organization. This has also been due to a conviction that a more homogenous organization is the best and most efficient organizational design (Thompson 1967).

Increasingly, current organization theory offers a larger variety of perspectives that take into account that organizations are under constant change and that the pressure for change derives from forces both internally and externally. For instance, according to Clegg (1989; 1990), the answer as to how organizational forms come about is likely to be far more complex than what the rationalists advocate. He argues that the evidence seems to suggest that organizational forms are less a result of size, product markets and technology structure, but more a result of “*culturally defined criteria of what a ‘dispositional good’ might be in terms of organizational structuring and the ability of certain strategic actors to constitute these in ways which reproduce their own strategicality*”. (Clegg 1990: 106) Clegg advocates here a perspective on agency and power as well as institutional structures as explanations for practices that emerge in organizations.

A comprehensive understanding of internationalization processes should include both structure and agency, and seek to overcome the false separation between these concepts. The study of how organizations internationalize by attempting to integrate new units should therefore incorporate an understanding of how interaction among individuals in the organizations is a major force in shaping the organization. Interaction among groups and individuals can take the form of both cooperation and conflict in a manner which produces new practices and organizational forms which are considered appropriate by the members involved and the means of the organization. How interaction is a central dimension in understanding change has rarely been applied to an analysis of internationalization processes. However, interaction should not be understood as disembodied from either structures (including cultural structures) nor agency which is considered boundedly rational.

Scott (2001) calls for more research on organizations within the framework of new-institutionalism which is theoretically informed and cross-cultural comparative. This

study answers such a call. Furthermore, it also approaches the study of organizations within a relational and process based view whereas the tendency within new-institutionalist research has been an entity-based view of social systems (Scott 2001: 213). To apply a learning perspective to the development of an international organization may increase our understanding of how relations and interaction affect the emergence of practices and solutions. As I will discuss in this thesis, it might be that creating a common understanding of reality through interaction is essential for the integration process. That is, when the goal of the integration process is not merely to create a local unit abroad which needs to be strictly controlled by the parent company, but rather a unit integrated with the company at large.

## **1.2 Social and political relevance**

A growing number of Norwegian companies are establishing production and sales units abroad, whether it is through acquisitions, new establishments or joint ventures. One of the strong reasons for such a trend is increased competition in a globalized market and the need to have the same competitive advantages as their international competitors. While there is much discussion among politicians and in the media as to the reasons why Norwegian industry is moving abroad, little is said about the actual process of internationalization these companies are undertaking and how this affects their organization and employees at home and abroad.

There are significant challenges related to creating successful integration between the foreign units and the parent company in an internationalization process. One of the salient issues in these integration processes is the encounter between the culture of the parent company and that of the local unit. Lack of knowledge, language skills and perhaps also lack of experience as to working abroad are some important reasons why business organizations find internationalization challenging. Much of the management literature on these issues attempts to amend the lack of knowledge by providing quick descriptions of the main traits of a specific culture. To approach a new country and context with a belief that such descriptions are valid for all members of a specific culture is at best misleading.

To study how actual internationalization processes proceeds and the challenges that occur may increase our knowledge and understanding of how we may improve such processes. This is not only important for the success of the Norwegian companies that move abroad, but also for other international companies, and not least, for the foreign employees who deserve to have employers who are capable of acting professionally.

While judicial and financial questions are to some extent predetermined by laws or

regulations, socio-cultural issues are to a larger degree open for choice. How companies cope with such issues is important for the employees in the organization but also for the prosperity of the company. There has been limited research on such issues and internationalization processes. This is something this thesis will attempt to amend.

### **1.3 Research focus**

The research focus is thus on how companies internationalize and the challenges involved in developing an integrated organization of local units spread across the globe. The research questions I will discuss throughout this thesis are therefore focused on two main issues for negotiations between the head office and the local subsidiaries; how do local units attempt to create solutions adapted to their local needs and how does the parent company attempt to control and coordinate the organization and each unit. The third question focuses on the implications of this study for using a learning perspective to create fruitful theoretical explanations for internationalization processes. A preview of the research questions posed in this thesis is offered below:

- *Why is local leadership crucial for creating local solutions?*
- *Why are governance systems built both upon structural and cultural control mechanisms?*
- *Why is a perspective on learning important for understanding the internationalization process?*

### **1.4 The structure of the thesis**

The theoretical framework for analyzing the data material from Kongsberg Automotive will be described and discussed in the subsequent chapter. Since my point of departure is institutionalism and this is a vast theoretical domain, I will specify my understanding of how and in what manner institutionalism is relevant for analyzing the data. I will include perspectives both on power and learning and explain why these are central to my theoretical framework. I will thereafter present my research questions and discuss how these issues have been analyzed in earlier theory. Former theory has to a great extent relied on structural variables for explaining local solutions in subsidiaries and the shape of governance structures in international companies. I will therefore include the most central variables from earlier research and discuss how these may be seen as relevant. I will not discuss how these variables relate to the case of Kongsberg Auto-



motive, because first it is necessary to present some background information on the company.

Chapter 3 is therefore a presentation of Kongsberg Automotive and provides the reader with information on the company and its internationalization process. This is necessary in order to end this chapter with a discussion of how the organization of Kongsberg Automotive may be understood within the theoretical framework and those explanatory variables discussed earlier. When presenting the U.S., Mexican, Polish and South Korean units I will specify my expectations as to how these explanatory variables affect these units.

Chapter 4 is a discussion of my methodological approach and to what extent the material collected and the process of analysis can be said to have truth value for the research questions in this thesis. Details of the data material and a description of both data collection and research analysis will be provided. This will enable the reader to assess the subsequent chapters presenting the empirical cases of the organizations in the U.S., Mexico, Poland and South Korea.

Chapter 5 presents the development of the units in the U.S. and in Mexico. These units are presented together since their development is largely intertwined. Chapter 6 is a presentation of the establishment and development of the Polish unit, while chapter 7 considers the South Korean unit.

Chapter 8 is a discussion of the first research question focusing on the extent of local solutions created in the different foreign units. While the status of the various units may affect the extent of local solutions, it is explanations as to the role of the local manager which are central to the discussion in this chapter.

Chapter 9 considers the second research question emphasizing the shape of governance structure in Kongsberg Automotive. The use of control mechanisms in the company may be seen to evolve through time and explanations as why these developments occur are provided.

In chapter 10 I will elaborate on the final research question emphasizing why a perspective on learning is important for understanding an internationalization process. The developments that have occurred in Kongsberg Automotive are highlighted and a perspective emphasizing learning and power is brought to bear on explaining these developments.

The final chapter returns to a discussion of the theoretical framework applied in this thesis. I will discuss the theoretical implications my research questions may be seen to have on both research on head office – subsidiary relations and on institutionalism as a perspective for understanding the development of internationalization processes.



## 2 Learning within institutional regimes

### 2.1 Introduction

With the growing interdependence of the world economy, the organizational landscape is increasingly populated by companies that own and manage activities in more than one country. To become a successful multinational company (MNC) there are numerous challenges to overcome, and one of the most important concerns how to control and organize activities across geographical, social, political and cultural borders. A part of this challenge is to coordinate and integrate activities which take place in a number of different locations across the globe. The other part is how to best organize and structure the activities at each local site.

According to new institutionalism a company needs to comply with local cultural-cognitive systems as well as with regulatory and normative systems (Scott 2001). The most compelling reason for the company to adapt is to achieve legitimacy, to be accepted by both internal and external actors. Hence, the more varied the types of environment confronted by an organization, the more differentiated its structure needs to be. A MNC will therefore consist of a set of differentiated structures and practices and each of these will exist in the different sub-units of the organization. And the more local sites a MNC consists of, the more differences will there be within the totality of the organization.

On the other hand, there are also forces that draw towards consistency and similarity within the MNC. It has been argued that the ongoing global industrialization produces a convergence of management practices across countries (Kerr, Dunlop, Harbison and Myers 1960). It is assumed that the 'logic of industrialism' creates uniformities. In the past decade it has also been argued that standardization and convergence of practices worldwide is a central feature of globalization. In addition there are forces for consistency within the MNC itself. These are seen to stem from two factors: imperative for control and organizational replication (Rosenzweig and Singh 1991). The necessity to control its sub-units is a compelling reason for the head office to create uniform and comparable systems for production and finance. There is a tendency to establish foreign subsidiaries by means of replicating structures and practices existent in other units. This tendency is considered especially high in a MNC be-

cause of the uncertainty establishing a unit in a foreign country represents (DiMaggio 1983).

Within organization studies there has been a lack of research investigating the relationship between the conflicting pressures for consistency and conformity that MNCs face (Rosenzweig and Singh 1991; Szulanski 1996; Zaheer 1995). And while new institutionalism is the theoretical strand most developed in terms of research on the relationship between an organization and its environment, there have been few studies investigating the relationship between a MNC and its multiple environments (*ibid.*). So while the argument for conformity with the local environment has received prominence in the literature, there is little research to contradict these findings when it concerns the characteristics of a MNC. Furthermore, the few studies investigating the MNC within an institutionalist perspective have emphasized the impact of the mother-company/head office on its subsidiaries, and not the influence that subsidiaries may exert on the head office or other subsidiaries.

During the internationalization process of a Norwegian MNC I expect to find that the various local environments affect how the local unit is organized. I also expect to find that the individuals involved at the subsidiary and the headquarters influence the development through both processes of power and learning. In the case of one MNC, a Norwegian parent company with sub-units in South Korea, Poland, USA, Mexico, Sweden and Brazil, the development of the local units is best understood by applying a multidimensional and heterogeneous perspective. Multidimensional in the sense that one needs to take into account the various geographical sites and the multiple perspectives on choices and solutions existent in the organization. Heterogeneous in the sense that one cannot expect to find the same structure between headquarters and subsidiaries at all the units or that one function is structured in the same manner across all units. This also implies that a perspective emphasizing change throughout the internationalization process needs to be applied.

A number of authors (Czarniawska, Sevón, Sahlin-Andersson, Rottenburg and Røvik) describing themselves as ‘Scandinavian Institutionalists’ emphasize the social process by which organizational practices and structures are incorporated in organizations, and how such social processes are contingent upon the ‘translator’ as well as the institutional environment. This perspective allows for an understanding of organizational change as simultaneously dependent on institutional formative forces as well as on the impact of individual actors who, as decision makers, attempt to shape the practices and structures of the organization. Such a model acknowledges that organizations change and develop, and that individuals within an organization learn and adapt their behavior according to their increased knowledge. These organizational actors consequently affect the structures

and practices of the organization. In the following I will adopt a perspective focusing on the role of learning (Argyris and Schön 1996) in the development of the MNC and its subsidiaries.

On the following pages I will outline a theoretical framework based on new institutionalism for analyzing the development of organizational structures and practices in a MNC. I will include the role of boundedly rational actors by emphasizing perspectives allowing for power and learning as important aspects of the organizational development process.

## **2.2 New institutionalism**

In organization studies new institutional approaches emerged in the mid-1970s. With the advent of open system theory it was becoming increasingly recognized that the wider environment or context was shaping and forming organizations. Early institutionalists within organization studies focused primarily on the significance of the organization's technical environment; resource- and task related information (Litwak 1961; Woodward 1965; Perrow 1970; Pugh and Hickson 1976). The understanding of organizations as societal systems influenced by social and cultural forces emerged later, and was refined with the advent of new institutionalism.

New institutionalism is an interesting framework for understanding the influences of larger societal forces on actors such as individuals, organizations and states. The theory asserts that individuals as well as their collective structures are shaped by rules, norms and beliefs surging from their environment, which, combined with enforcement mechanisms, constrain their choices and actions. Actors relate to different environments simultaneously, and the number and variety in environments multiply through time and geographical locations. Variety in geographical locations is the focus of this thesis, as new institutionalism is brought to bear on understanding the variety and similarity in organizations in Mexico, U.S.A., South Korea, Poland, Norway and Sweden. These organizations (and the individuals within) all have a local environment they relate to which is expected to influence and constrain their choices. Simultaneously, as these organizations are parts of a larger multinational corporation in the automotive industry, one can expect that there are other environments and institutions which also exert an influence on their behavior. The main questions I will address in the following are how institutions are seen to affect the choices and actions of organizational actors, how these actors handle conflicting institutional pressures and whether handling such pressures may have a longer term effect on their behavior.

It is the emphasis on what Scott calls the cultural-cognitive pillar which distinguishes

new institutionalist approaches from earlier forms of institutionalism (Scott 2001). Scott provides a definition of institutional environment emphasizing the different elements the environment consists of: “*Institutions are composed of cultural-cognitive, normative, and regulative elements that, together with associated activities and resources, provide stability and meaning to social behavior*” (2001: 48). These elements may also be seen as rules of more or less stringent character. Institutional environments can therefore be seen to be “*characterized by the elaboration of rules and requirements to which individual organizations must conform if they are to receive support and legitimacy...*” (Meyer and Scott 1983: 149). Institutions are effective in constraining the behavior of actors because actors need to be perceived as legitimate. The reward for organizations that conform to the institutional environment is increased legitimacy, as well as resources and survival capabilities (Di Maggio and Powell 1983; Meyer and Scott 1983; Scott 1987; Zucker 1987).

The institutional environment for any organization is complex, but a useful categorization is to describe the environment as consisting of three pillars; the regulative, normative and cultural-cognitive systems (Scott 2001).

The regulative pillar constrains and regularizes behavior through rule setting, monitoring and sanctioning activities. Regulative systems are expressed in rules or laws that regularize how the organization and its members are to behave. These rules or laws may be found both within the organization and in the external environment. Compliance to regulative systems is achieved through inducement, sanctions, and authority. According to Scott, authority is the most common strategy, involving coercive power which is legitimated by a normative framework. Hence, the regulative and normative pillar may be mutually reinforcing.

Normative systems consist of elements that shape behavior through norms and values. Norms specify how things should be done, what the socially accepted manner of pursuing an end is. Values may be defined as “*conceptions of the preferred or the desirable, together with the construction of standards to which existing structures or behaviors can be compared and assessed*” (Scott 2001: 54-55). Normative systems define both the ways of how to pursue a specific goal as well as what the appropriate goals are. The appropriate goal of a private enterprise is commonly defined as ‘making a profit’, and the accepted way of achieving this goal is restricted by conceptions of fair business practices. The mechanisms of compliance to normative systems functions in a prescriptive, evaluative and obligatory manner.

The cognitive-cultural pillar consists of the shared conceptions that individuals in a group have, the nature of their social reality and the frames through which they create meaning to behavior. The cultural external environment shapes internal interpretative

processes so that a group of actors who share the same environment will have a similar understanding of appropriate behavior. An important distinction between the normative pillar and the cognitive-cultural is the extent to which the beliefs and standards for behavior are internalized in the individual and taken for granted as appropriate.

The mechanisms of compliance mentioned above are means of enforcing institutional rules and hence restricting behavior. As seen above, means of sanctions can take a variety of forms, both economic and non-economic (Ingram and Clay 2000). Possible economic sanctions include fines and penalties which may for example restrict the economic activity of an organization. Non-economic sanctions may include loss of interaction with other actors, or of certain rights and benefits, status and authority. Much emphasis has been given to the manner in which institutions constrain and control behavior, however, institutions also enable and support activities that are considered legitimate and hence function as resources for actors who comply with them.

### **2.2.1 Multiple institutional environments**

When analyzing a MNC within an institutionalist framework, the different institutional environments the organization needs to face should be specified. Because of the variety in institutional environments one may expect that sub-units or individuals are faced with conflicting institutional pressures. Before I move on to discuss the manner in which actors may respond to institutional pressures, I will first have a closer look at the various environments a MNC might face.

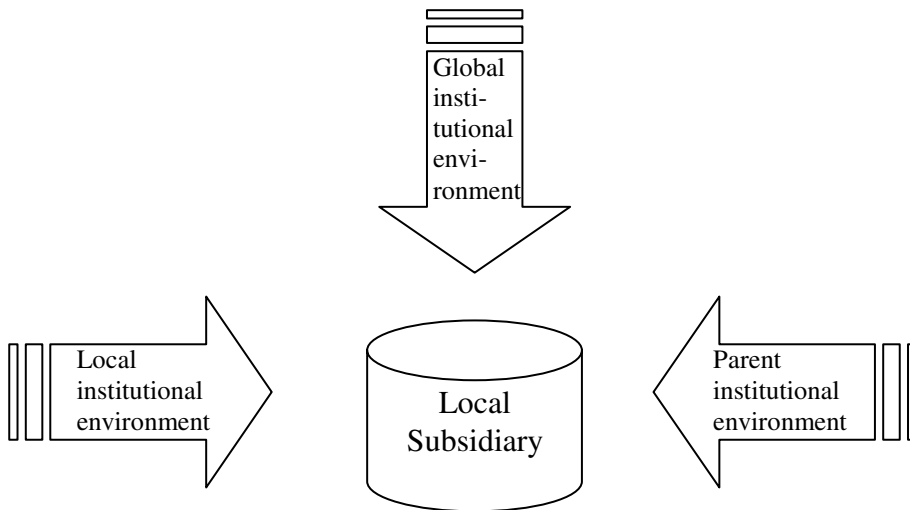
What I will refer to as the local environment is in line with how new institutionalism defines an institutional environment. The local environment consists of regulatory, normative and cultural-cognitive systems. In the case of a MNC each subsidiary relates to an institutional environment both on a national and more local level. Important institutions are national legislation, local laws, social and cultural norms as well as beliefs and shared understanding within locally defined groups.

In a MNC the institutional environment of the parent organization is also likely to influence the local subsidiaries abroad. The parent organization is engrained in its own local environment, and rules, norms and beliefs originating from this environment may be diffused from the headquarters to the various sub-units. This institutional environment I will refer to as the parent environment.

The various global industries, such as the automotive industry, are also seen to be increasingly institutionalized. Organizational recipes, production processes and regulatory systems, such as certification systems are seen to be institutionalized as they reach widespread acknowledgment across countries (Røvik 1998). These ideas are recipes for how parts of the organization should be structured, and are considered legitimate and

appropriate by those who constitute the industry. In the automotive industry there is increasingly a direct demand from customers to their suppliers for implementation of specific processes and practices. It is not uncommon that the customer oversees the implementation of such practices at the supplier's sites and evaluates whether the work processes have changed accordingly. Glimstedt and Lange (1998) argue that there has been a 'Japanization' of production methods in the world automotive industry. The global institutionalized environment of the automotive industry is thus one of multiple environments a local organization will face.

However, the categorization above does not pretend to include all possible environments faced by the organizations in a MNC. Such a discussion would bear too far into both delimiting the borders of an environment and to a complex analysis of the origin and effect of a great number of institutional forces. The discussion above can be summarized in the following figure.



**Figure 2-1**

**Conflicting pressures for consistency within the MNC and for local conformity**

The organization structures and processes in the local subsidiary are shaped by different pressures surging from multiple institutional environments. New institutionalism has had a tendency to merely focus on the local institutional environment arguing that the legitimacy of the local unit is achieved by complying locally. In a MNC it is also to



be expected that the parent company will exert pressure, pressure which is influenced by the institutional environment of the head office. And finally, the global automotive industry is also seen to be increasingly institutionalized, incorporating rules, norms and shared beliefs that an organization within the environment is expected to comply with. However, the discussion above and this figure do not address the relationship between these conflicting pressures, and how the local unit may respond.

### **2.2.2 Responses to institutional pressure**

By according to the rules, norms or common beliefs of the local environment, an organization may become socially accepted and viewed as credible by its members and other actors. The regulative systems allow the organization to be viewed as legally sanctioned, while accordance to normative elements provides credibility as being morally governed. Complying with cognitive-cultural systems allows the organization to be culturally supported by its environment. In the case of a MNC this picture becomes more complex. A local subsidiary in a MNC will need to attempt to achieve legitimacy in the eyes of actors in the local environment and in the parent organization as well as with customers, suppliers and competitors in the global industry. The local unit will be under formal and informal pressure from multiple sources to adopt certain structures and practices. A multinational company needs to coordinate its various subsidiaries and will therefore apply pressure to obtain a minimum level of consistency among the units. New institutionalism has not adequately addressed how the encounter between different institutional environments is resolved. How do such organizations behave when attempting to reconcile various institutional pressures, and especially when these conflict?

Oliver (1991) has suggested a broad array of potential responses to institutional pressures by individual organizations. She labels these responses as conformity, compromise, avoidance, defiance and manipulation. Avoidance incorporates the widely recognized response of decoupling as argued by Meyer and Rowan (1977). Decision makers may consciously try to increase the legitimacy of their organizations by adhering to the institutionalized patterns, that is, on the surface. Scott (2001) argues that it is important to acknowledge that organizations themselves respond to their environment, be it groups or individuals within the organization. These responses are sources of diversity within the organization. How the organization responds depends on a number of issues like the size of the organization, its power in the environment and whether its values or norms are concurrent with institutional forces. He also acknowledges that even though there is evidence of isomorphism between organizations within the same sector or the same geographical area, the same institutional forces will not have the same effect on all organizations. Organizations exhibit various means of responding to institutional pressure,

dependent on their capabilities to do so (Abzug and Mezas 1993; Alexander 1996; Oliver 1991). However, how organizations respond to institutional pressures has not been analyzed in the case of a MNC which confronts a number of institutional environments. This is a context where one may readily expect a greater variation in institutional regimes as they extend across different countries and cultures (Scott 2001).

To discuss the potential responses of a MNC to different institutional pressures the level of analysis needs to be explicit. That institutional regimes exert similar pressures on organizations has been supported by numerous studies demonstrating isomorphism between organizations subject to the same institutional forces. On the other hand, other studies also show that while organizations may reveal a striking homogeneity, there is also a strong degree of heterogeneity between apparently similar organizations. This heterogeneity becomes visible above all when scrutinizing the content and practices of organizational solutions. Even though a group of organizations may have all introduced well-known solutions like 'quality improvement' or 'team structures' there is a remarkable variation in the actual practices of such ideas. The level of analysis in these studies is on the organization or organizational sub-systems. This is also the level which will be analyzed in this thesis. It is the development of practices and structure in the various units of one organization which will be the focus.

To better understand how the various sub-systems of one organization respond to institutional pressures, a fruitful approach may be to include Ingram and Clay's (2000) distinctions of centralized – decentralized and public – private institutions. The centralized – decentralized dimension encompasses the degree to which institutions are enforced by identifiable functionaries. The public – private dimension refers to who makes the institutions, with public indicating the state and private indicating organizations or individuals. This will allow for a perspective where the responses of organizational units to institutional pressures are linked to the individuals within these organizations. These individuals may be seen as actors who create and transform institutions.

Ingram and Clay distinguish between three forms of institutional constraints each linked to a specific actor who produces them. Individuals are seen to produce private-decentralized institutions, organizations create private centralized institutions, while states produce public-centralized institutions. In this perspective, actors pursue their own interests constrained by institutions while at the same time creating new constraints for other actors. The interplay between these actors and institutions can be seen as a three-layered hierarchy, with states constraining organizations which in turn constrain individuals. However, there is also upward influence in this hierarchy with individuals and organizations attempting to affect the institutions which constrain them. There is interdependence between these institutions in that public or private-centralized institutions

may not have their desired effect unless they are supported by private-decentralized institutions which encourage individuals to support them (Nee and Ingram 1998).

This interdependency among forms of institutions acknowledges that actors produce institutions and that they do so in interplay with other institutional orders. Institutions are no longer seen as constants and out of reach from the influence of individuals or organizations. This perspective also gives more room for acknowledging that institutional systems consist of a myriad of institutional orders including the economy, the community, the societal spheres of politics, the family as well as culture, science and religion. Each of these incorporates its own definitions of reality-systems based on classification, symbols and action systems that give meaning to practice. And they are not necessarily correspondent, meaning that practice in line with one institutional order is not necessarily coherent with practice in another, even though the geographical location is the same. But there is an interdependence which demands some sort of correspondence between institutional logics for them to be effective. Rottenburg (1996) argues that the practices which do materialize are related to the institutional environment in the sense that they are coherent with the notions and interests of the actors concerned, or put differently, they do not contradict the institutional orders deemed relevant by these actors. The interplay and interdependence among forms of institutional orders will allow for a perspective on the behavior of actors within institutional constraints.

### **2.2.2.1 Behavioral assumptions**

When new institutionalism acknowledges that organizations respond to institutional pressure instead of merely adapting passively, the organization has been viewed as one coherent entity and the impact of groups with divergent opinions has rarely been an issue. When internal actors (groups or individuals within the organization) have been a focus, it has been expected that the encounter between different institutional environments will cause higher levels of conflict within the organization (Meyer and Scott 1983). Be it within the local organization or between the subsidiary and the headquarters. It is an “*ever present state of tension*” which prevails (Prahalad and Doz 1981: 191). The behavioral assumption in new institutionalism is that “*actors pursue their interest by making choices within constraints*” (Ingram and Clay 2000: 527). Individuals are boundedly rational (Coase 1937; Simon 1957).

Based on these assumptions, the cooperative climate between a subsidiary and the head office in a MNC has been viewed as conflictual. The leader of a local subsidiary has been seen to be heeding local needs foremost, protecting his own interests. Viewed in an institutionalist perspective the local manager will consider his own familiar frames of rules, norms and beliefs as institutions one should comply with. Local managers are

therefore expected to have a natural resistance to the imposition of externally mandated solutions and practices. It has been acknowledged by a number of authors that the failure to adapt to institutional pressure may cause problems within the organization (Sharma and Wallström-Pan 1997; Oliver 1991). The main priority of the head office is to exercise control and coordination throughout the organization. In MNCs the establishment of a foreign subsidiary often follows the process of organizational replication. A common assumption among managers is that with the same type of production, the same organizational structures and practices will suffice (Bartlett and Ghoshal 1989). Furthermore, it has been shown that control and coordination becomes easier across borders when sub-units have similar organization structures and processes (Flaherty 1986). The need for control and coordination is also expressed in the use of a wide array of control mechanisms. Formalized and standardized mechanisms are used across the different sub-units, creating consistency among the units. Centralized mechanisms such as a hierarchy of authority allows for dominance and for power to be vested in the top-management. An emphasis on these motives and interests of the involved actors makes for a relationship between subsidiary and head office based on constant negotiations and power plays. On the other hand, there are a number of shortcomings with this perspective which I will address below.

#### **2.2.2.2 Actors and institutions**

The interests of a boundedly rational actor are in new institutionalism defined broadly. This is a definition which includes material rewards, as well as ideology, values, norms and social rewards such as status. Despite this definition, Ingram and Clay (2000) argue that ideology and preferences have been given a too small role in research conducted within a new institutionalist perspective.

The interdependence between levels of institutional orders, discussed above, implies that the operation of both public- and private centralized institutions is dependent on private-decentralized institutions. These institutions may also be termed the mental constructs of individuals, their shared belief and understanding. As Levin (1997) has shown, technology transfer is not merely a matter of moving equipment from one place to another, but the skills, knowledgebase and culture of the recipient unit is essential in terms of how the new technology will be received and put into operation. North (1993), studying variance in performance between public institutions in Western economies to those economies making the transition from state socialism, attributes variance in performance to differences in the mental constructs of individuals in these societies. Cognitive frames may determine what institutional alternatives are accepted or rejected. According to Rottenburg (1996), in order to bring an idea successfully into a local

context it is necessary to adapt it to the local cultural code. However, as he argues, the assumption that there is only one culture code present does not hold. Rather there is much to support the assumption that each culture has several mutually contradictory codes and hence multiple explanations as to how the world is ordered. These codes are available to people in much the same way as alternative repertoires for thought. The workings of private – decentralized cognitive institutions may therefore be seen to be fundamental to the workings of the institutional framework, a different role from what has been postulated by new institutionalism. And the institutional assumption that it is possible to find the right ‘fit’ between an organization and its environment is hence questionable.

New institutionalism has also been criticized for its perspective on the effect of interpersonal relationships in strategic choice situations. Ingram and Clay (2000) argue that new institutionalists hold the assumption that interpersonal relationships are important because they strengthen institutional norms by creating social sanctions. A different perspective is to acknowledge that actors are embedded in social networks, and that socially constructed interpretations influence what they perceive as rational choices. Social networks add other influences on the immediate action frame of self-interested actors. Lysgaard’s study on organizations shows how workers in order to belong to the social community at work, comply with other rules than those guiding individual gain (Lysgaard 1961). The need to achieve respect among co-workers is important in order to be socially integrated. The choice within institutional constraints can therefore be seen as encompassing more than the weighing of competing interests. The choice of an individual actor is also dependent on his membership in social networks and the shared interpretations that prevail within this network. The analysis of boundedly rational actors must acknowledge that social embeddedness exerts an influence on the individual’s rational choice of benefits and gains. However, this is also related to how changes in private – decentralized institutions emerge.

Ingram and Clay hold that a fundamental problem in new institutionalism and its behavioral assumptions is the failure to explain what they refer to as ‘the origin of preferences’. How do individual actors change and create beliefs and shared understandings? New institutionalism has had a tendency to view the institutional framework as a complete and constant set of rules, norms and beliefs, and hence given less attention to the question of how changes in private – decentralized institutions come about. Preferences are related to social structure as Veblen argued (1899). Giddens (1987) shows how preferences are created in interaction with other, also across time and space in interaction with “*absent others*” (p. 146). More recently, DiMaggio, Friedland and Alford discuss how preferences are socially constructed by boundedly rational actors in social

networks (DiMaggio 1990; Friedland and Alford 1991). Accepting that private – decentralized institutions may be seen as fundamental to the workings of other institutional levels, it is becoming apparent that a theoretical framework attempting to cast light on the development of a MNC also needs to include perspectives on how actors change their preferences and what effect this may have on the private – centralized institutions of the organization.

### **2.3 Institutional change**

Organizations have in earlier research been viewed as motors for institutional change. That is, change would come about when the need arose and the timing was optimal for economic gains (Davis and North 1971; North 1981; Williamson 1975; 1985). This view has been contested in that organizations are seen to strive for institutional change for other reasons than economic ones (Simons and Ingram 1997). On the other hand, other studies have shown that organizations are inert structures which are more likely to resist institutional change than to promote them (Hannan and Freeman 1984). As Stinchcombe (1965) argued, organizations reflect the conditions of their founding even decades later. In the same vein, Bartlett and Ghoshal (1998) hold that the administrative heritage of an organization is essential in understanding the workings of that particular organization. It is therefore argued that the influences exerted by organizations on institutional frameworks are incremental and limited to their familiar institutional environment.

These researchers have been concerned with explaining institutional change on a higher level than the emphasis in this thesis. The focus of this study is not change in centralized – public institutions on a state level. Rather I am concerned with how individuals may be seen to change the centralized – private institutions of their organizations. On the other hand, change in institutions on whichever level, as argued earlier, is dependent on support in institutions on lower levels. Institutional orders created and enforced by organizations and states are dependent on acceptance on the private –decentralized level. Private – decentralized institutions such as values and norms shared by a group of people need to endorse institutions on a higher level.

How are institutions created on a private- decentralized level? The behavior of individual actors is not merely contingent upon calculated self-interest, but, as argued above, individuals are themselves parts of social networks which influence their behavior. Individuals as boundedly rational actors change their preferences in social interaction with others, and their preferences exert an influence on institutional orders in an organization, or for that matter on a state level.

New institutionalism has not addressed what occurs when the organization consists

of actors familiar with different institutional environments, and who can be seen to be capable of acting to change the private – centralized institutions of their own organization. Knight (1992) argues that institutional outcomes are dependent on bargaining between interested parties. As Ingram and Clay state; “*the process of institutional change [ ] appears to be as much a comparison of rhetorical claims, the outcome of which depends on deep social values of the audience*” (2000: 541). The bargaining process changes centralized institutions such as when political parties discuss introducing new laws, but is also relevant when understanding how changes in norms and beliefs are produced. As Kalleberg (2001: 43) holds, it is not an expression of being out of touch with real life to insist that rational conversations are a form of influence in organizations.

### **2.3.1 Learning as a dynamic for institutional change**

The internationalization process can be expected to yield learning processes because the actors who are involved acquire trust and knowledge of each other, and create behavioral rules which make their future interaction more effective. Argyris and Schön (1996) define organizational learning as an organization’s acquisition of understandings, know-how, techniques and practices of any kind and by whatever means. Others define organizational learning as processes of translation (producing and re-producing organizational rules) through individual bargaining, compromising and negotiations (Huber 1991; Levitt and March 1988). Experiences are central in both these definitions; organizations learn particular behaviors based on individual bargaining over specific experiences which are encountered in a variety of situations.

A definition of learning which is central to the perspective taken in this thesis is that of collective learning. An important distinction between individual learning and collective learning is that the latter depends on changes in the interaction among individuals (Levin and Klev 2002). So while individuals in the organization may develop their knowledge and know-how this does not constitute collective learning before this knowledge affects the collective action of a group of individuals. Organizational or collective learning signifies a change in shared interpretations, interpretations which are constituted in relations and interaction within a community (ibid.). This definition of learning also implies an emphasis on the actual practices within a group rather than a focus on the abstract knowledge of its members. As discussed by Brown and Duguid (1991) it is the actual practices that determine the success or failure of organizations. And insightful practices are created in collaboration among individuals building on their individual experiences. Brown and Duguid (ibid.) elaborate on how communities-of-practice are essential for understanding how learning develops at the work place. Communities-of-practice should be understood as consisting of individuals who work and

practice together as well as the site where these practices take place. When applying such a perspective on a MNC the organization can be seen to consist of a multitude of communities-of-practice and both the individual experiences of those participating and the particularities of the site where these practices take place are important elements.

Power is important for understanding how learning develops. Actors may have differing capabilities (based on status, gender and age) to effectively define reality so that other organizational actors accept them. A common characteristic of learning processes is that they often reflect asymmetrical bargaining. A dominant individual or group of individuals typically acts as “*writers of scripts and providers of cues and prompts*” (March 1994: 72). The authority of various individuals (or groups) in the bargaining process is seen to be crucial to whether such negotiations result in outcomes with longer-term effects than the immediate negotiated solution. As Holmquist (2003) holds, any domination of whatever kind is always grounded in the dominating party’s simplified understanding of experiences, thus limiting the amount of attention paid to the full complexity of any situation. Even though domination by one of the actors in a negotiation process is seen as a barrier to change and new solutions, there is reason to expect that the variety of resources that are available to the actors make for nuances in their relative power. In the case of a MNC, even one with a strong centralized authority structure, the knowledge of the local environment of the subsidiary is a resource for the local representative.

In addition to relative power, there are other factors which influence learning processes. Ostrom (1998) holds that trust obtained through communication and substantiated by a reputation for being trustworthy, may significantly alter a previous situation characterized by tension and conflict. Trust is contingent upon communication between the actors and is thus something that can increase with time. Through negotiations the actors also become more skilled negotiators as their knowledge and understanding of the cognitive and socially embedded foundation of the other increases. And finally learning is dependent on the production of standard operating procedures, routines and other ‘behavioral rules’ (Holmquist 1999; Zollo, Reuer and Singh 2002). These rules generate certain couplings between otherwise independent behaviors and can be seen as templates for interactions with one another and interactions with others.

The development process of establishing new subsidiaries and creating a coordinated MNC is to a large extent a learning process for the members in the organization. As an accumulative process, the organization builds knowledge through successful and failed experiments and will with time become increasingly competent in its endeavor. While I do not argue that the organization will learn more readily from failure than from success, I do expect that the awareness of the need for learning may more readily be triggered by problematic situations, here viewed as tension and conflict within the organization,



than when organizational life is considered harmonious. This is in line with what Argyris and Schön define as productive learning;

*It is the detection of error, which we define as the mismatch of outcomes to expectations, that triggers awareness of a problematic situation and sets in motion the inquiry aimed at correcting the error. When the outcomes of our action are mismatched to expectations, the inquirer gets an experience of surprise – an experience essential, as Israel Scheffler wrote (1987), to the process of coming to think and act in a new way (1996: 31).*

An illustrative example is presented by Lindsey and Braithwaite (1996) who found that U.S. expatriates working in Mexican companies tended to learn intercultural competence through norm violations. That it is when an expatriate breaks a local norm that he starts to reflect on his own cultural understanding and will attempt to adapt his behavior to the local expectations. This is, by Ochs (1991), seen to be similar to what happens in early childhood processes where norm violations serve a positive function in enculturation.

Learning may be seen to occur on two levels. Through negotiating appropriate solutions the actors learn what the correct behavior and effective arguments are, and how their disagreements are solved. At a different level one may say that the organization as such learns when these negotiated solutions are transferred to new situations. Bargaining between organization members, which is typically informal and arising in ordinary daily talk, discourse, conversation and other activities produces sets of incomplete agreements. These agreements impose constraints on the behavior of organization members, but also provide them with resources to perform specific activities (Giddens 1984; March 1994). The agreements that at any one time prevail over other potential agreements can be called ‘organizational rules’ and they include standard operating procedures, routines, codes, programs etc. that generate couplings between otherwise independent behaviors. In future negotiations the cognition and behavior of the members are organized with varying force by existing organizational rules, which thus serve as templates for interactions with one another and with others.

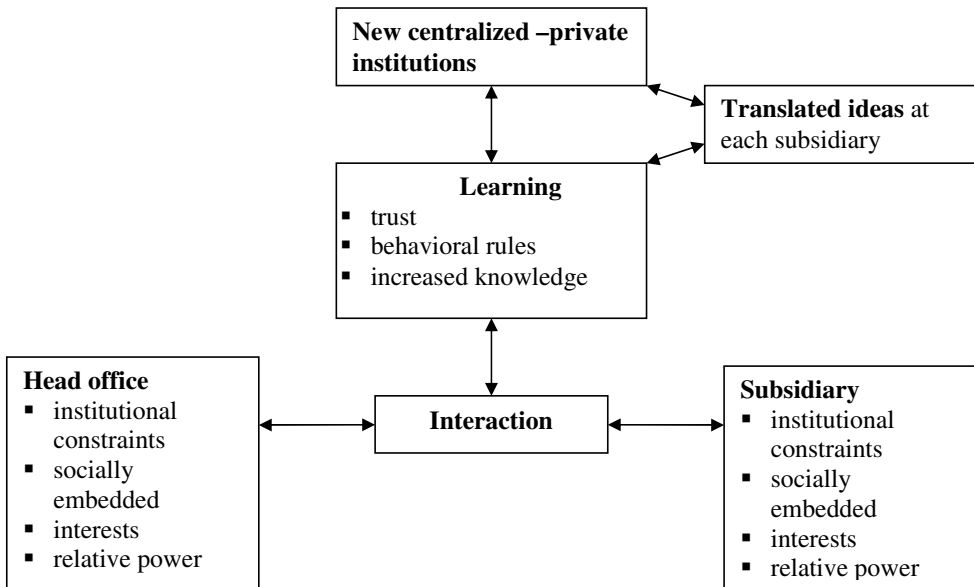
What is characteristic for the ‘organizational rules’ that emerge? Scandinavian institutionalists, such as Czarniawska, Sevón, Sahlin-Andersson and Røvik, discuss in more detail the practices and structures that are negotiated in organizations. Czarniawska argues that *all ideas can be proven to fit most problems*, and it is the success of the presentation that matters (1996: 25). It is the social processes where actors discuss, interpret, advice, suggest and certify some ideas as more appropriate than others which determine the organizational practices and structures that materialize. However, this is not to say that ‘anything goes everywhere’. The process of translation is defined by Latour (1986) in

contrast to a more traditional diffusion model (Rogers 1962; Levitt and March 1988). Translation in Latour's terms is "*displacement, drift, invention, mediation, creation of a new link that did not exist before and modifies in part the two agents, those who translated and that which is translated*" (1993: 6). The translation process is an ongoing process where structures and practices are renegotiated and reinvented constantly. This is because all organizations contain elements which are considered illegitimate, contrary to the interests or ethical principles of some actors, and these will engage in a constant renegotiation to change or reinterpret these elements. This is also due to an encompassing vision of progress where the possibility of constant improvement is unquestioned. Organizational actors constantly attempt to change elements of their organizations to find better solutions.

Translation processes do not happen haphazardly. The purpose of such a process is to tie meaningfully the arrival of an idea to present problems experienced by people in the organization or attributed to the organizations themselves. And organizational actors do not attempt to translate whichever idea they first come across. Foremost they are restricted by their span of attention. An actor will not grasp at whichever solution he comes across, he is restricted by his former knowledge and experience. We approach an idea in terms of what we already know. Sevón speaks of how our identities inhibit us to accept whichever solution as appropriate and rational (Czarniawska and Sevón 1996). We apply a logic of appropriateness which allows us to make a judgment of what is rational or appropriate action. And in accordance with new institutionalism as advocated by Scott, an organization imitates other organizations that are perceived to be similar. The organizational field an organization perceives itself to be a part of functions as a source of ideas and solutions that, when considered successful, might be the subject of imitation. That organizational fields often become the focus is a result of a match based on identity. Organizational change is thus a process of learning from the experience and performance of other organizations. The change process is contingent on a match between situation and identity, based on a logic of appropriateness and rationality.

The reason why organizations within the same organizational field do not become clones of each other is due to the above mentioned translation process. Sevón labels this "*imitative action in a performative perspective*" (Czarniawska and Sevón 1996: 50). Imitation is not the copying of a stable feature, but a translation process which alters the original idea to correspond with a new context and the interests of the imitators. Translators or imitators are however restricted by their social embeddedness, institutional environments and their above-mentioned span of attention. In order to translate an idea so that other relevant organizational actors deem it as appropriate, the translation process needs to accommodate contingencies resulting from the institutional environment. This

is similar to what Ingram and Clay refer to as private – decentralized institutions, which are seen to support the functioning of institutions on more aggregate levels. Solutions and ideas which run counter to legitimate norms and beliefs will not be accepted by individuals, but need to be translated to fit the particular institutional environment.



**Figure 2-2 Theoretical framework**

The figure above summarizes the theoretical framework that will be applied in the further analysis. The actors – head office and subsidiary - are seen to be constrained by institutions (regulative, normative and cultural-cognitive) and are also embedded in social networks. In their encounter with other actors their behavior and actions will be influenced by these factors as well as their own interests and negotiating power. These resources and constraints may be seen to limit the attention span of an actor, but in repeated interactions with other actors which result in learning, the attention span can be enlarged. This occurs because the actor is able to acquire new knowledge of the constraints and resources of the other actors as well as how appropriate solutions can be negotiated despite these differences. To arrive at new solutions and practices is dependent on the resources and constrains of the actors, but also on arenas for communication. It is through communication that the actors are able to convince each other and where rules and knowledge for their future interaction is articulated. That increased interaction

results in learning is facilitated by such knowledge as well as increased trust between the actors. When learning results in new solutions which in turn become institutionalized within the organization, change has occurred, that is changes in the centralized – private institutions of the organization.

To include the role of boundedly rational actors to the extent that this model portrays, goes counter to traditional research on the relationship head office – subsidiary. Earlier research has emphasized structural explanations for how the dichotomy centralization vs. decentralization in a MNC is solved. The ultimate goal in such research has often been to find the appropriate ‘fit’ between the local needs for flexibility and the needs of the head office for consistency and control across the subsidiaries (Doz and Prahalad 1984). The focus of the following thesis will be less on the ultimate outcome of such processes, and more on the processes themselves. However, I will not disregard that structural explanations do have value, and I will include such variables in the following chapters.

According to Ostrom (1997), a behavioral theory of rational choice allows for structural explanations of human behavior as well as an inclusion of the effect of individual choice. It is thus possible to do both; include both structural explanations as well as the role of actors. Her argument is that when actors are seen as central in how a situation is solved, it also follows that the effect of their interaction is included. Trust among the participants is one such effect, and this is a factor which may significantly alter the outcome of the interaction. The social dilemma situation that Ostrom discusses is similar to what has been identified as the decentralization vs. centralization dilemma that MNCs are seen to face. Or put in a different way, it is the dilemma of cooperating with the head office and accepting centralized decisions while heeding local needs and pressures for consistency with the local environment. Ostrom defines social dilemmas as “*a large number of situations in which individuals make independent choices in an interdependent relationship*” (Ostrom 1997: 3). The model depicted above illustrates a behavioral approach to rational choice theory, including both structural explanations and the role of individual actors.

## **2.4 Research questions**

I will approach the following analysis focusing on the role and motivations of the two main actors – head office and subsidiary, and the process by which these interact.

Since heeding local interests has been identified as one of the main interests of the local unit, I expect to find that adapting to the local environment is an important theme in the negotiations between the subsidiary and the head office. The local manager who

is the representative for the local subsidiary is the actor who most immediately can push for local solutions in negotiations with the head office. The first research question is therefore: *Why is local leadership crucial for creating local solutions?*

The main motivation of the head office in relation to the subsidiaries is to create consistency in order to control and coordinate the various units, and I expect that forms of control and coordination are central in their communication with the units. While former theory has emphasized the use of centralized and formalized control mechanisms I will also include a focus on socialization mechanisms. When creating an appropriate governance structure for the international organization, I expect to find that they build upon both structural means for control as well as more cultural ones. The second question posed in this study will thus be: *Why are governance systems built both upon structural and cultural control mechanisms?*

The final research question I will address is related to the learning model discussed earlier. I expect to find that over time the actors involved will learn how to negotiate through increased knowledge of each other, increased trust and by constructing behavioral rules. The various sites the organization consists of can be understood as incorporating different communities-of-practice, and to understand the learning processes that occur the encounter between such communities are important. Furthermore, I expect that learning does not only have an effect on isolated practices and solutions at each subsidiary, but will over time also have an effect on solutions and practices employed in the totality of the organization. The final question is thus: *Why is a perspective on learning important for understanding an internationalization process?*

Below I will discuss how these issues have been approached in former research. The tendency has been to rely on structural explanations for variance on these issues among MNCs. These variables will be included in the discussion below.

#### **2.4.1 Local solutions and local leadership**

The first research question I will address is: *why is local leadership crucial for creating local solutions?* The role of the local manager has rarely been emphasized in earlier research analyzing the structures and practices of local organizations within MNCs. While I will include other explanatory factors as identified in earlier research, it is the role of the local leader which will be given prominence below.

Establishing a foreign subsidiary often follows the process of organizational replication. When setting up a new unit existing practices and structures which are deemed successful in other places are replicated because this is perceived as less uncertain than to establish new ones. This tendency has been reported to be especially great in MNCs because the establishment of a local unit in a foreign and unknown country represents

a high level of uncertainty and ambiguity (DiMaggio and Powell 1983; March and Olsen 1976). Technology transfers from the parent to the subsidiary further accentuate the motivation for organizational replication. An underlying assumption when transferring technology is that the same type of production will need the same type of structures and practices in the organization. While this has been contested by empirical research, it is nonetheless a common assumption among managers (Bartlett and Ghoshal 1998). Studies have shown that transferring technology is not a matter of moving equipment from one place to another, but that the skills, knowledgebase and culture of the recipient unit is essential in terms of how the new technology will be received and put into operation (Levin 1997). However, it is still a common assumption in organizations that it is possible to merely replicate structures and practices from the parent company when developing a new organization with similar technology and production. Expatriates or others from the parent organization often functions as carriers of organizational practices and structures from the parent to the new organization. And if they are able to affect the initial form and practices of the new organization, there is reason to expect that later modification of these structures and practices will only be moderate (Rosenzweig and Singh 1991). Faced with these assumptions is the local organization which for different reasons may have both the interest and power to alter these initial forms and practices. Their capability to do so depends on a number of structural variables which I will discuss below, as well as the role of the local manager.

The local manager is the representative for the local subsidiary and is therefore the one who negotiates with the head office. The geographical distances as well as language barriers often make the local manager the sole negotiator with the head office, even though it can also be expected that he represents views and opinions of others at the local unit. In new institutionalism he has been viewed as the antagonist who fights for the independence of the local unit in opposition to the head office. The relationship between the local manager and the head office has been viewed as one of ever-present tension (Prahalad and Doz 1981). This emphasis on a relationship based on conflict and power also implies that subsidiaries are not equally vulnerable to pressure from the head office. Structural explanations for their varying degrees of autonomy have been the focus of much research (Rosenzweig and Nohria 1994; Egelhoff 1988; Porter 1986; Prahalad and Doz 1987). These structural variables may readily be seen as operationalization of the concepts I introduced above: interest, power and institutional constraints. Factors related to social embeddedness have rarely been used as explanations in earlier research. The relative power of the local subsidiary to push for local adaptation is shaped by its dependency on the local institutional environment, its dependency on the head office and which resources the local leader as a representative for the unit holds. The relevant variables are:

- Local manager
- Method of founding of the subsidiary
- Age of subsidiary
- Size of subsidiary
- Local dependency
- Dependency on parent company

The local manager is the main representative for the local unit in negotiations with the head office. Earlier research has ignored the role of such individual actors, but I will argue that since the head office in most cases needs to rely on the interpretation of the local manager on local conditions, his role is central in the subsidiary – head office relationship. The capabilities of the local manager to understand the resources and constraints of the local institutional environment and his own role in the socially embedded networks at the local plant, are expected to affect his ability to behave as a representative on behalf of the local unit. Simple assets as having the same language as the employees at the plant and an upbringing in the same institutional environments may be essential in how he is able to understand and exploit<sup>1</sup> the local conditions. Further, his understanding of the institutional constraints of the global industry and its requirements is important in order to negotiate within the same framework as the head office.

It is argued that the method of the founding of the local unit will affect the degree of local embeddedness. Gates and Egelhoff (1986) hold that foreign acquisitions generate internal complexity. The acquisition has well-established organizational structures and processes in place, and these are likely to differ from greenfield establishments where the parent company has had a significant role from the beginning. The parent company may encounter difficulties in gaining control over a subsidiary with an independent history and structure, and the head office may also decide to not interfere with a foreign unit which is already adapted to suit its local context. This hypothesis has been supported by empirical findings in various studies (Hedlund 1981; Garnier 1982; Gates and Egelhoff 1986). There may thus be less pressure for change from the head office in the case of an acquired unit, and in a similar vein, a pressure for change in an acquired unit may also be met with more resistance locally. It can be expected that if the MNC employs institutional pressures for change towards certain practices these will be met with more resistance in an already established organization than a greenfield establishment. Greenfield operations are often founded by employees of the parent

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<sup>1</sup>) Exploit, is here given a positive significance, meaning to find room to manoeuvre within the constraints of the institutional environment and to value its resources.

company who will tend to replicate characteristics of the parent company in the new organization.

It is expected that the age of the subsidiary will affect the extent to which the unit adheres to the local environment. As Rosenzweig and Nohria (1994) argue, the subsidiary will over time increasingly adapt to the local environment thereby causing a greater extent of autonomy in the local unit. This assumption is questionable though, as other factors such as the international experience of the parent company may be an equally plausible explanation. In fact, Gates and Egelhoff (1986) found no support for age as an explanatory variable when controlling for international experience.

The size of the subsidiary has been expected to affect the relative power of the subsidiary. It has been theorized that the larger the subsidiary relative to the parent company, the better bargaining position would the subsidiary have towards the headquarters, and hence, would be able to gain more autonomy (Garnier 1982). In the same vein, Picard (1977) argued that the parent company would grant more autonomy to larger subsidiaries as they have the resources to support a full management staff. However, findings by Gates and Egelhoff contradicted Garnier's findings, and other studies have been inconclusive or to the contrary for Picard's hypothesis (Hedlund 1981; Garnier 1982; Gates and Egelhoff 1986).

If the subsidiary is highly dependent on local resources it may be expected that the unit will adhere to the local environment to a greater extent. Rosenzweig and Nohria (1994) restrict the definition of resources to physical products like raw materials, tools, intermediate parts etc. But there is reason to believe that other resources such as employees also matter, especially if there is a scarcity of manpower in the local area. The local unit may also be dependent on complying with external actors such as customers, competitors and suppliers, and local and national authorities who might place divergent demands on the local units. A high dependency on local resources may cause the local unit to be less vulnerable to pressure from the head office as they have a higher stake in preserving their autonomy.

In their survey Rosenzweig and Nohria (1994) argue that their cases will vary based on the degree of dependence on the parent company. If there is a high degree of dependence on the parent company know-how and expertise, the parent company will have a greater chance of influencing the local unit. This has also been confirmed in other studies (Jarillo and Martinez 1990; Gupta and Govindarajan 1991; Egelhoff 1988; Ghoshal and Nohria 1989). In their study of MNCs Ghoshal and Nohria argue that resource dependency is the key determinant of internal exchange relationships within complex



organizations<sup>2</sup>. It is in other words, the internal distribution of organizational resources which is expected to most strongly affect organizational processes and structures. It is expected that when the subsidiary is highly dependent on the headquarters for resources the subsidiary will be more willing to comply with the authority of the headquarters and have little autonomy of their own. A strong dependency on the head office is related to issues such as shared technology and infrastructure, reliance on funding and capital originating from the head office, allocation of orders, available channels for sales and marketing etc. As discussed earlier, a common assumption among managers is that if the production is the same the organizational solutions and practices also need to be similar. Shared technology between the parent company and the subsidiaries can therefore be expected to create less autonomy on behalf of the local unit, as diffusing technology is also related to patterns of organizational structure.

The variables discussed above (method of founding, age, size, local dependency, dependency on the parent company and the local leader) have been seen to affect the relative power of subsidiaries, their interests in preserving their autonomy and their need to comply with the local institutional environment. The role of the local leader also allows for including the effect of social embeddedness as he, in his dealing with the head office, is expected to also be influenced by social networks at the plant and his own role within it. A local manager with knowledge of local conditions, who speaks the language and who also understands the global automotive industry will be more capable in negotiations with the head office to push for local adaptation. If the subsidiary in addition is older and fairly big compared to other units, has organization structures in place through being an acquired unit, have a high local dependency and a low dependency on the parent company, then it is to be expected that it will have more autonomy compared to other subsidiaries in the company.

Assuming that these variables will affect the vulnerability of the local subsidiary and their interests, I will discuss how Kongsberg Automotive and its subsidiaries can be described according to these factors in the next chapter. Variance on these variables may ultimately affect my first research question. I will now specify how also structural variables are seen to affect the shape of the governance structure the head office is creating, the second question of this thesis.

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<sup>2)</sup> See also, Pfeffer and Salancik 1978.

### **2.4.2 Governance system**

The second research question I will discuss is: *why are governance systems built both upon structural and cultural control mechanisms?* To be able to coordinate and control activities across geographical, social and cultural distances, a MNC faces considerable challenges. Earlier research has had quite a narrow approach to control and coordination issues in organizations. Agency theory has for instance emphasized control in terms of either ‘outcome’ or ‘behavioral’ models (Eisenhardt 1989). Such a dichotomy hinders a greater understanding of more non-economic dimensions of control and coordination, such as socialization and normative measures. However, there is a stronger focus on such control mechanisms today both in research and in the organizations.

In a literature review of research on coordination mechanisms in multinational corporations, Martinez and Jarillo (1989) report that there are essentially two categories of mechanisms in use by these companies. While structural and formal mechanisms have been commonplace in most companies for decades, there has in recent times been an increased emphasis on more informal and subtler mechanisms. It is argued that the international competitive environment induces companies to implement more multidimensional coordination. Fleming and Søborg argue that “*hierarchical control is conceptually outdated*”, and that it no longer works in complex organizations (1998: 121). Instead companies are increasingly emphasizing training and socialization of their employees in order to implement company goals. Human Resource Management has become an important mechanism for MNCs to integrate and control the organization (ibid.). In new institutionalism the use of informal mechanisms has been explained as a result of a failure to solve conflicts. Meyer and Rowan (1977) hold that when it is not possible to solve inconsistencies by formal structures the organization will turn to conflict resolution by individuals and informal structures.

When Rosenzweig and Singh (1991) argue that the need for control and coordination is one of the main dynamics in pushing for consistency within the MNC, their underlying assumption is that control and coordination mechanisms are centralized and formalized and restrict the autonomy in the subsidiaries. Normative mechanisms such as socialization allow for more flexibility and differentiation in subsidiary – headquarter relationships. Employing such control mechanisms may therefore have the effect of allowing for more autonomy at local units. These mechanisms will be further specified in Chapter 9. For now it is sufficient to state that control and coordination mechanisms have in earlier research been seen as a central dynamic in shaping the relationship between the local subsidiary and the headquarters. The implicit assumption is that such mechanisms are employed top-down – it is the sole decision of the head office of how to control and coordinate the subsidiaries. However, former research has also attempted to predict the

use of control and coordination mechanisms based on a number of structural variables. The relevant variables are:

- Global vs. multidomestic industry
- Nationality of the company
- International experience

Porter (1986) distinguishes between multidomestic and global industry. Global industries are defined as where a firm's competitive position in one country is affected by competition in other countries, while multidomestic industries are independent of competition in other countries<sup>3</sup>. Local subsidiaries in a global industry, such as the automotive industry, will be able to depend on the resources within the MNC organization. They are less dependent on the local environment and will be under less pressure to conform to institutional norms. Thus their organizational structure and managerial practices may resemble more fully those found elsewhere in the MNC and there will be less need for local autonomy. It is also held that companies in global industries are more prone towards centralization than companies in multidomestic industries (Rosenzweig and Singh 1991). Gates and Egelhoff (1986) found that the automotive industry could be characterized as more centralized than other industries when it came to marketing centralization. The observation is that some industries must consider local market receptivity more than others. Customers in the automotive industry are not as strongly linked to the local market as in for example the food industry. The automotive industry operates to a greater extent with regional markets, which leaves the different subsidiaries more room for standardization within larger markets.

Hedlund (1981) and Egelhoff (1984) measured control mechanisms across companies of different national origins. Their findings are similar, that European MNC, and in Hedlund's case, Swedish MNCs, have a tendency to allow more autonomy to their subsidiaries. In terms of control and coordination mechanisms they use less centralized mechanisms and employ more flexible and informal mechanisms than MNC from other geographical regions. In a similar vein, Bartlett and Ghoshal (1998) argue that the administrative heritage of a company influences which coordination and control mechanisms it relies on, also when the organization has become international. The administrative heritage is influenced by amongst other things the national and local culture, and represents 'our way of doing things'.

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<sup>3</sup>) Examples of global industries are automobile and electronic equipment, while multidomestic industries include retailing and consumer goods.

Another characteristic of the parent company that is expected to affect the degree of autonomy across the units is the 'international experience of the parent'. As discussed above, a MNC that establishes a subsidiary abroad may at first attempt to replicate its home country practices (Franko 1976; Bartlett and Ghoshal 1989). With greater international experience however, it is expected that a MNC develops a more cosmopolitan perspective (Stopford and Wells 1972). Gates and Egelhoff (1986) found that control and coordination with time became less centralized and formalized and were increasingly based on more informal and subtler mechanisms. Rosenzweig and Nohria (1994) followed the same argument, and held that a cosmopolitan perspective may lead to a greater acceptance for local varieties in practices and structures at the subsidiaries. However, in an empirical survey of 249 subsidiaries of foreign-based MNCs in the United States, they found that the international experience of the parent had no significant effect (*ibid.*). I will argue that how time and increased experience may be thought to affect the relationship between the head office and the subsidiary may be more readily addressed in a perspective emphasizing how repeated negotiations may result in learning which affects the two groups of actors and their approach.

The structural variables discussed above are found in earlier research to be affecting the relative power and interests of the head office to allow for different degrees of autonomy at the subsidiaries. A reliance on centralized control mechanisms is seen as equivalent to restricted local autonomy. In a global industry like the automotive industry, the MNC is expected to have less need for local receptivity, as customers can rarely be considered local, but operates in regional and international markets. The national origin and administrative heritage of a MNC is expected to affect their tendency to allow for autonomy on a local level. European and Scandinavian MNCs are seen to be more willing to allow for local autonomy than e.g. US MNCs. Increased international experience in a MNC is expected to affect the extent of centralized control. With increased experience the head office is seen to accept more local autonomy. One may expect that the central managers of a MNC are affected by these variables as they are pushing for consistency across the subsidiaries. While the empirical case in this thesis does not allow for measuring how such variables affect different MNC, I do expect that the explanatory value of these variables will be identifiable in my material when respondents discuss and argue for the rational behind various practices.

I expect to find that these structural explanations for the extent of consistency through centralized and formalized mechanisms also will have explanatory value for Kongsberg Automotive. This may affect my second research question: Why are governance systems built both upon structural and cultural factors?

### 2.4.3 A perspective on learning

The third main question I will address in this thesis is as earlier specified: *Why is a perspective on learning important for understanding the internationalization process?* As discussed, repeated negotiations may develop into learning processes in the organization. Processes which on one level cause new ideas to develop and be implemented at the local units, may at a second level allow for changes in the institutions of the organization – the private-centralized institutions. To be able to address whether this is an appropriate explanation of these processes, I will in the subsequent analysis identify how change is observable in the relationship between the head office and the subsidiary, and how these changes are reflected in the totality of the organization. I will thus concentrate on the production and re-production of organizational rules.

Earlier research studying how the relationship between the head office and the subsidiary evolves through time has mainly operationalized the contact between these actors in terms of flows of communication and the presence of expatriates at the local unit. I will rather rely on indications of trust, the creation of behavioral rules and increased knowledge as factors which may affect the relationship. Trust can be inferred from how the actors perceive the other and their relationship through time. Indications of trust are statements expressing positive expectations to the others' actions. However, trust may also be lost, and loss of trust may have negative consequences for the relationship between the unit and the head office. Increased knowledge is inferred from statements of agreement and understanding of the other actor's motives and interests, as well as to how other actors are constrained by social networks and institutional environment. Behavioral rules are templates for interaction between the subsidiary and the head office which is related to how they negotiate and reach solutions. These may be informal agreements as to how and where issues are discussed, or the creation of new alliances between actors in the organization. It may also include practices which are created to make negotiations easier.

I expect that through time repeated negotiations between head office and subsidiary become more effective as mutual knowledge has been established.

When more respondents express agreement on some basic sets of organizational rules, learning has taken place and negotiations become more effective as the focus will be more on the problem area than on how such issues are solved within the organization or on which alternatives are viewed as legitimate. I expect that learning which results in changes in private-centralized institutions will be observable. Levitt and March (1988) refer to private – centralized institutions as 'routines'. According to them, "*organizations are seen as learning by encoding inferences from history into routines that guide behavior*" (1988: 320). This perspective stems from the view that behavior in an or-

ganization is based on routines. ‘Routines’ include the organization’s procedures, rules, forms, strategies and technologies as well as more informal routines like structures of beliefs, culture, codes and knowledge. Routines are seen as recorded in the collective memory of the organization and transmitted to its members through socialization and education. It is independent of each individual member and can survive considerable turnover in the organization. I expect that through the internationalization process such routines or organizational rules are created and these may be seen to change the former characteristics of the organization.

## **2.5 Becoming global – the troublesome integration process**

The theoretical framework discussed above builds strongly on new institutionalism as a perspective for understanding how actors and organizations may be seen to be influenced by institutional environments. Such a perspective is important for understanding the differences between the various units in Kongsberg Automotive which are situated in countries like Norway, Sweden, U.S.A., Poland, South Korea and Mexico. The different institutional constraints that influence members of these units are expected to be important when these actors meet and attempt to create one single international organization.

However, it is also discussed above that through social interaction individuals may be seen to change private – decentralized institutions, that is norms and values shared by a group of individuals. The internationalization process creates encounters between actors familiar with diverse institutional environments and one may expect that through negotiations and interaction these actors create new practices in their organization. These are changes that create new practices in the various local units, but which ultimately may also be seen to change the private – centralized institutions of the organization.

In this thesis I will focus on two issue areas where one may expect to find that practices are changed throughout the internationalization process. The dichotomy of decentralization vs. centralization has been the focus of earlier research. The local units are seen to strive to create local solutions which allows for more autonomy locally and a more decentralized organization. The head office’s main priority is to control and coordinate the organization and a common assumption has been that this is done by creating a centralized organization through structural and formalized control mechanisms. The opposite interests of the head office and the subsidiary have earlier led to characterizations of their relationship as one of “*ever present tension*” (Prahalad and Doz 1981: 191).

The learning perspective included above allows me to have a closer look at the relationship between the head office and the subsidiaries. I expect to find that through

repeated negotiations actors from these units learn to cooperate more efficiently and that compromises are developed. On the other hand, this depends on whether the actors are able to create trust, knowledge of each others and behavioral rules which guide their learning experiences. Relative power is also an important element in such learning processes.

These issues will be discussed later in this thesis, but first I will present some background information on Kongsberg Automotive ASA and their internationalization process.

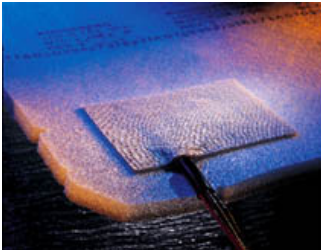




## 3 Kongsberg Automotive ASA

### 3.1 Introduction

Kongsberg Automotive ASA is a Norwegian based company in the automotive industry. The head office is in Kongsberg, Norway. The production units are in Norway, Sweden, Poland, Mexico, Brazil, England and South Korea. The company also has sales offices in England, Germany, Japan and France, and a sales and R&D centre in the United States. The company develops, manufactures and markets systems for gearshift, clutch actuation, seat comfort, stabilizing rods, and electronic components. Their leading customers include Volvo, Saab, Scania, GM, DaimlerChrysler, MAN, DAF, Renault, PSA, and Toyota. Today the company delivers to the following markets: Argentina, Austria, Belgium, Brazil, Canada, China, England, Finland, France, Germany, Italy, Japan, Korea, the Netherlands, Norway, Peru, Spain, Sweden, and the USA. The company employs 1900 people and had in 2003 operating revenues of approximately 1.6 billion NOK.



Seat heater



Head restraints



Gears



Stabilizing rods

**Figure 3-1 Products of Kongsberg Automotive**

## **3.2 Historical development**

Kongsberg Automotive was established in 1987 as a continuation of the activities in the Automotive Parts Division of Kongsberg Våpenfabrikk. Here production for the automotive market had commenced in 1957, when a major contract for producing brakes for Volvo was signed. During the 1970s as a part of a governmental strategy to increase industry in the rural districts, two factories were established, one in Hvitvingfoss and one in Rollag, close to Kongsberg. In 1987 employees and managers in the company took over the auto division and founded Kongsberg Automotive. The company expanded in 1996, buying one of the world's leading suppliers in seat heating, Scandmec. Scandmec was a major industrial company in Sweden, dating back to 1946. From 1996 and onwards, Kongsberg Automotive has established themselves in ten different countries with production facilities and sales offices. A future establishment in China is being planned at this moment. Despite increased internationalization and lower labor costs abroad, the company has maintained production in their five Norwegian and Swedish factories. One of these factories was acquired as late as 2004 (Raufoss Automotive ASA). The labor costs in their different production units vary greatly. A Norwegian assembly worker costs the company 175 NOK per hour (incl. social costs) while a Swedish worker costs 156 NOK. Both of these work 37.5 hours per week. In contrast a Korean assembly worker costs 55 NOK an hour and works 44 hours per week, while a Polish worker costs 26 NOK per hour and works 40 hours per week. Among the units discussed in this thesis the lowest labour costs are in Mexico. A Mexican assembly worker costs 21 NOK per hour and works 45 hours per week.

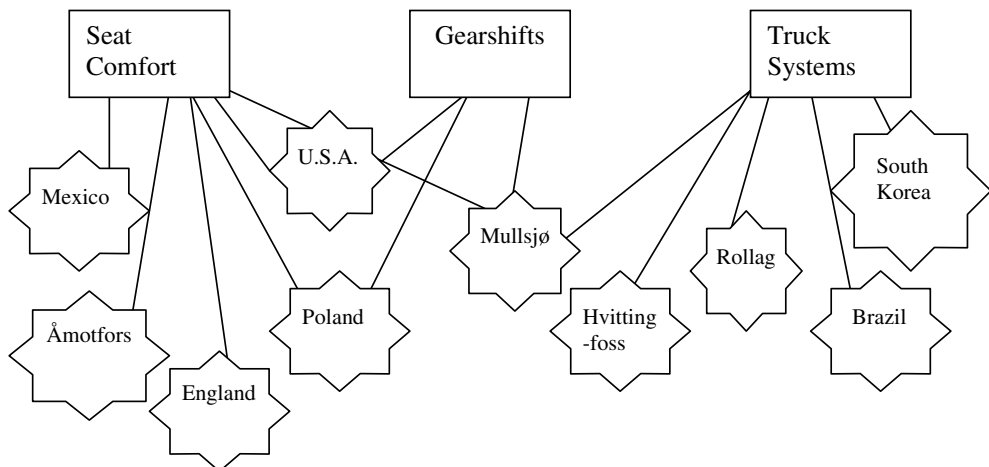
### **3.2.1 Automotive industry**

The international automotive industry has changed considerably during the last decade. The focus of the industry is structural rationalization on both the supplier and customer side where larger units, constant quality improvements, greater standardization, higher volumes and demands for substantial cost reductions prevail. The prices for raw materials such as aluminum, steel, plastic and electronic components have increased significantly. To an increasing degree, car manufacturers are attempting to transfer their guarantee costs to suppliers as well as to expand the guarantee period. For suppliers it therefore becomes increasingly important to supply products with no defects. Improvement programs to ensure zero-defect deliveries are emphasized at all factories in the company, as well as the development of robust technical solutions and testing. Kongsberg Automotive is highly aware of the demand from the global auto-

motive industry and attempts to comply with these when they are considered useful or necessary<sup>1</sup>.

### 3.3 Internal structures

The company is split into three separate Business Areas, and each local subsidiary relates to one or more of these business areas. These three distinct operational units all relate to the same centralized functions located in Sweden and Norway; purchasing, R&D, finance, IT and Human Resources. The R&D centre comprises approx. 120 employees, and has a smaller centre located in the U.S. as well. In the figure below the different production units and business areas are illustrated.



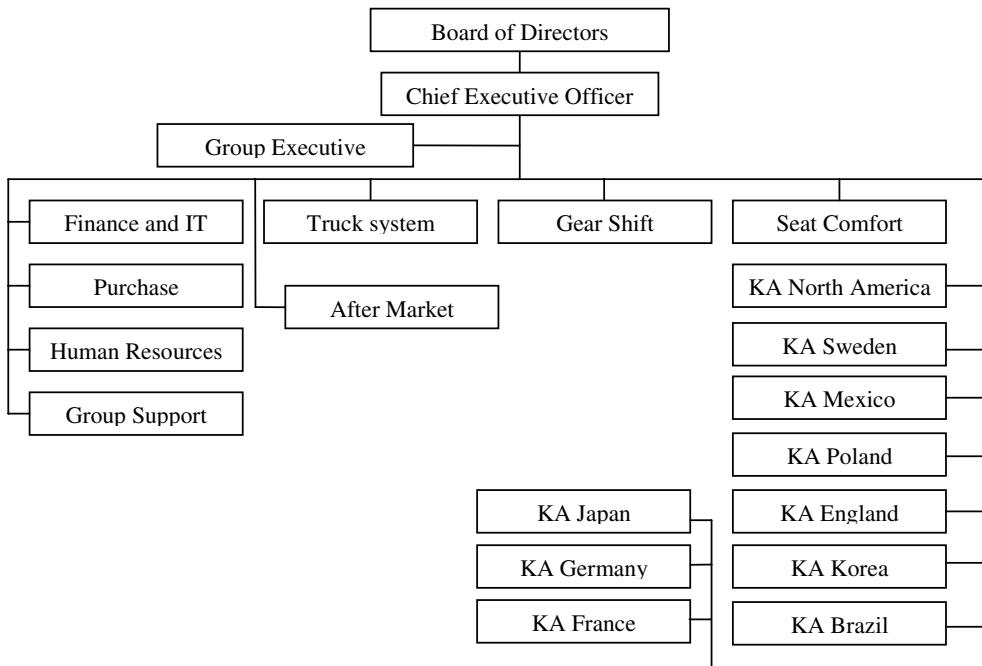
**Figure 3-2 Business areas and production sites**

The Business area managing directors have team-reviews regularly with the subsidiaries, following up on their results and looking for improvement potentials. While traveling extensively, the Business area managing directors have their home offices in either Sweden or Norway. Although the three Business Areas are to be rather independent in theory, they are under considerable central control. This can both be seen as a result of the small size of the company, employing 1900 people and of a strongly engaged central management. In addition the owners of the company are strongly in-

<sup>1</sup> <http://www.logistikk-ledelse.no/2000/it/it3-09.htm>

volved. The chairman of the board of directors represents the largest owner, FSN Capital, and is involved in all major decisions. As the president of the company himself says, the owners are on the phone every day to discuss goal achievement and future development<sup>2</sup>.

The various subsidiaries are directly supervised by the Business Area Managing Director. The directors of the different Business Areas visit the plants and review the reports and the latest figures. Last month's figures are discussed and the subsequent targets for the next weeks. There are at times improvement projects which are initialized and then followed up. At each review there is also a 'walk-talk', which is a tour throughout the factory. The managing director comments on issues for improvement and expects these to be sought out.



**Figure 3-3 Organization Structure**

At the Mullsjø plant in Sweden, the Purchasing and R & D departments service the totality of the local subsidiaries. The Mullsjø plant has been named a “*Center of Excellence*” emphasizing that the best expertise in production and logistics are to be

<sup>2)</sup> Dagens Næringsliv, 14 September, 2004, p. 28–29.

found here. All the material for the units in Kongsberg Automotive Inc. is supplied from Europe, and the suppliers are managed by the central purchasing department. This is also the case for machinery and most technical equipment. The R&D center is responsible for developing new products and altering the designs of already existent ones. While the design department in the U.S. received more resources during 2002-2003, the main responsibility for design is located in Sweden and alterations in the U.S. needs to be approved by the center in Mullsjø. All the foreign subsidiaries relate to a financial controller in Scandinavia who is responsible to follow up on their assigned units.

### **3.3.1 The Human Resource Department**

The company established a Human Resource department in 1995 at the head office. The HR department exists alongside a more traditional personnel department. The HR Manager is today assisted by two people, one in Sweden and another in Norway. The HR department is small and the central management at the head office as well as board members are closely involved with decisions and implementation of ideas and projects related to the HR area. The HR Manager implements projects and activities related mostly to training and recruitment throughout the company. Main activities are for example, an international management course that the company initiated in 2001, various management courses at different levels for staff both home and abroad, a trainee program and strategies related to recruitment at the local subsidiaries at management level. A central policy of the HR department is that solutions and activities implemented in the organization should also be created in the company to make sure the focus fits with the company's own challenges.

### **3.3.2 The IT - department**

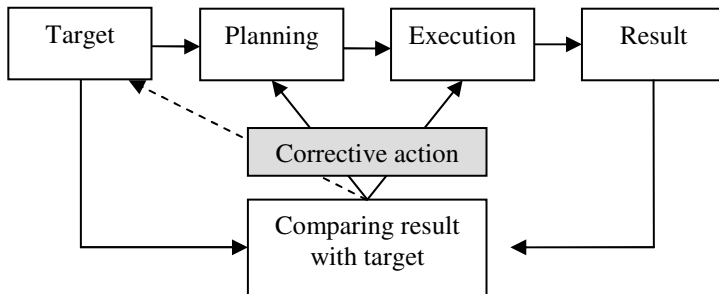
Also situated at the head office in Norway, is the IT department which services the various subsidiaries of the company. A policy in Kongsberg Automotive is to not use the latest versions of software. While common programs such as Word, Excel, Power Point and so forth are provided to all the units, the company heeds a certain parsimonious policy of not spending money on the newest software. The argument is that upgrading should be based on usefulness and not simply because the software is new. It has been argued that this has made them avoid many of the initial weaknesses of early software releases. The e-mail system is often brought forward as an example where the company has suffered few problems, such as virus attacks, compared to other companies. Use of hardware or software that has not been pre-approved is restricted. This has been done in order to hinder the spread of viruses by alien programs, as

well as having to service solutions which are unknown to the central IT-department in Norway.

### 3.4 Internationalization strategy

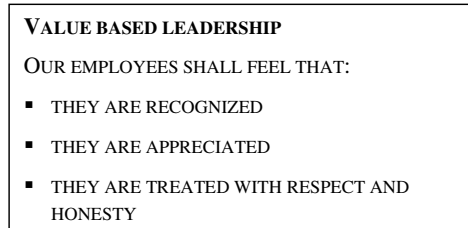
The extensive internationalization period from 1996 up to today has been pursued through an internationalization strategy including a number of principles for establishing and following up the various foreign subsidiaries. The company describes itself as a “*global company with a strong corporate culture that combines goal achievement, positive values, discipline and best practice with respect for local conditions*” (Kongsberg Automotive Annual Report 2003). The above quotation illustrates the main characteristics of the company’s approach towards internationalization.

The strong corporate culture stemming from Norway is the foundation for a number of principles such as lean organizations, standardized production processes and infrastructures, avoidance of overtime in production etc. The emphasis in the quotation above concerning goal achievement and discipline is also characteristic for the company. There is a strong focus on reporting routines as well as how negative results are followed up. The picture below illustrates how the process of goal achievement and discipline is presented throughout the company.



**Figure 3-4 Goal achievement**

The emphasis on positive values in the quotation above illustrates a discussion within the company during the past years. With the increasing numbers of foreign subsidiaries it became less certain that the company’s model for principles on how employees should be treated was appropriate in all local contexts. The picture below represents the model most widely used when discussing such issues within the company.



**Figure 3-5 Values**

There is an understanding in the company that local conditions need to be respected. Local regulations are heeded, such as systems for pensions, transportation to work, canteen facilities etc. Kongsberg Automotive has a strong emphasis on company integration, and demands that local subsidiaries apply a number of standard procedures as well as computer systems allowing for standard accounting and report systems. While the central management argues that it is necessary to adapt to local conditions on one hand, on the other disintegration of the company is seen as a possible threat. The establishment and follow-up of foreign subsidiaries has been discussed related to this dilemma the past years.

While the main focus of the planning and implementation phases of the overall establishment processes abroad has been on economic and technological issues, increasingly there are more discussions and more activities related to organization and management issues. This has also caused a debate within the company about the degree of standardization between the foreign units and the mother company. When it comes to machines, equipment, computer software, logistics and production systems the company has aimed for standardization throughout the company. However, with the larger number of foreign subsidiaries, it has become increasingly clear that technical production systems may have consequences for internal management styles and treatment of employees.

The process of establishing a unit abroad has followed a principle of copying the production systems and organization structures from more established units. When establishing units abroad the policy has been to “*run the work processes through the Xerox machine.*” This is supported by arguments that it is the technology that they have tested and gained experience with and no extra time is to be spent by trying out new equipment or machinery. Furthermore, it is argued by the central management that by using the same technology in all subsidiaries it will be easier to close down a plant and open it elsewhere should it be necessary. The most visible aspects of the standardization in

production are in the physical work environment, which is characterized by the same look, material standards, and rules of order and cleanliness everywhere. It is the same machines, tools and equipment which are used in all plants which have the same production. And all units receive their machinery from the same supplier in Sweden. The use of “*kanban*”-cards, quality controls and improvement techniques inspired by the so-called ‘Japanism’ within the modern automotive industry is present in all the factories. Also routines and procedures are, as far as possible, exported to the foreign units, as well as the IT-infrastructure as mentioned above. While there are openings for adaptation to local conditions when it concerns organization structures, a lean organization is a prevailing principle in Kongsberg Automotive.

The organization is to be as small as possible and no unnecessary resources are to be spent on administration and other functions which are not directly linked to the production. The idea is that there should be no intermediary positions between the plant manager and the various production teams. People in high management positions are not supposed to have assistants or a staff of their own. The layout of the plant at the different locations is similar. It is expected that the plant manager has an office in the production hall in order to be close to the operators and the production. Also, managers as well as workers need to be prepared to step out of their own area of responsibility and take on menial tasks when needed, for example to book airplane tickets themselves, brew coffee or other tasks.

#### **3.4.1 The team model**

The production workers in factories in Norway and Sweden are organized in teams, each being responsible for one production line, e.g. orders belonging to one specific car model. The team is coordinated by a team leader who is also a regular production worker within the team. The advantage of having a team leader who is recruited amongst the workers and who is considered by the team as one of them, is increased cooperation within the team as well as with management at the factory. Most team leaders will function as a representative for workers who feel uncomfortable approaching the management. The team leader may have different responsibilities depending on the factory. Main responsibilities often include:

- following up production in accordance with specifications
- supplying materials for the team
- making sure the production is in line with standards of quality
- planning the manning of the production line with regard to absentees and production plans



- following-up plans and routines for maintenance
- acting as a representative on behalf of the workers
- following-up workers who are absent or who are not complying with expectations

In Norway and Sweden the responsibilities of the team leaders vary according to the factory and their own capabilities. When team leaders take on full responsibility the former position of foreman is normally no longer in use.

The workdays for production workers are in line with Norwegian and Swedish regulations in these countries. Working hours, vacations as well as breaks during the day are regulated through national legislation. Dependent on the volume of production there are sometimes two or three shifts in a factory, but the norm is one. The policy of the company is to be manned sufficiently, hence, avoiding use of overtime which requires higher payroll costs. In these factories there is often also an emphasis from both workers and management on ergonomics and variety of work tasks. Much of the sick leave at these factories is due to physical strain from work. Programs for improving the safety of the work place are therefore emphasized. Training and courses at the factory are offered which may give the workers increased competence and thus renewed responsibility and higher salaries.

In the foreign units, all but one has introduced the team model including recruiting team leaders from amongst the workers. The responsibilities of the team leaders vary, but are less than those of the team leaders in Scandinavia. The Polish factory has preserved a foreman position in addition to the teams. While the policy of not using overtime is heeded, the structure of the workday is in accordance with local regulations or norms. None of the foreign unit has an emphasis on ergonomics or on variety of work tasks. However, there are actions taken to avoid physical injuries and to increase safety at the work place. In some of the foreign units there are possibilities for workers to increase their competence through courses and in-house training.

### **3.4.2 The SAP system**

The IT department has chosen a certain number of programs which are implemented throughout the company. The most important of these is the SAP system. The SAP system is based on a portal infrastructure which allows the various subsidiaries and departments as well as external actors such as customers and suppliers to view information in the same system only restricted by their role-based access as users. The portal makes it possible to integrate a number of different software programs so that the same role-based access can be used for a number of programs. The software solutions that Kongsberg Automotive

have chosen to integrate is the financial system allowing for functions for accounting, financial reporting and performance management. Supply chain management solutions have been included allowing for planning of supplies across the various units. Solutions for customer management are included, allowing for contract and billing management, availability checks and order tracking across the company.

The centralized IT-department is responsible for implementing the SAP system in the different local units. As a part of the implementations some training was offered to key-personnel at the local units. These people were also able to rely on support from the SAP personnel in Sweden, and could call when problems arose. Because of geographical distances and time differences it was at times difficult to get help at the moment it was needed. All the units were, on different occasions, in need of support from Sweden, as it was not available in other places. However, with time employees in the different units became more experienced and could increasingly fix the problems themselves.

### **3.4.3 QS9000**

The QS9000 quality system is to be implemented in all the units of the organization in addition to other types of quality systems. As an international accepted solution in the automotive industry, companies are expected to have certification in accordance with the QS9000 standard. Customers demand, to an increasing degree, that their suppliers are accredited in accordance with the standard, and furthermore that the supplier also proves that their own suppliers adhere to it as well. The system is subject to regular evaluation on the basis of a set of standardized procedures and rules. The quality system regulates internal processes related to production, training of employees, career development, information within the organization amongst other processes. It also provides procedures and routines for external processes related to contracts and implementation of customer orders.

### **3.4.4 "Interdal" course**

A central part in the internationalization strategy has been internal courses for managers and trainees. Two main programs were initiated during 1999 and 2000, a trainee program for new employees and a course for young 'high potentials', called "Interdal". Both programs aimed to provide the participants with international experience. They were initiated and defined by managers within the company as a response to the challenges the company was facing in their internationalization process. The focus in the trainee program was on experience and the trainees were therefore sent to various locations for both short and long-term assignments, home and abroad. The Interdal course consisted of 5 week-long seminars with lectures on international negotiations, business strategies,

cultural awareness and financial issues. These seminars were held at the localities where the company had their subsidiaries, both home and abroad. While the content of the trainee program relies on the individual experiences of its participants, the central management decided upon the scope and content of the training program. The fundamental principles of the program were to focus on the company's own strategies, challenges, and business models, there was to be limited involvement from external parties, an active role for central management, all participants should be willing to undertake international assignments in the future and the participants were preferably young and viewed as 'high potential' by their leaders. For the first Interdal course only two of 23 participants were from other countries than Sweden and Norway. These two were both older and had more experience from the automobile industry than the other participants.

While the official aim of the training program was to create a new generation of managers eligible for international job assignments, early-on it became clear that the program also served to socialize these young managers in the company. In addition, through the involvement of the top management, the participants were also evaluated throughout the program. This was not clearly specified at the beginning of the program, but is much in line with prevalent attitudes and working methods at the company. On most occasions there is an atmosphere of monitoring and evaluation that often is expressed through feedback, not necessarily in private.

In defining and prioritizing themes for the various seminars the central management in Kongsberg Automotive made some choices as to what they considered important for a future international leader to learn. The majority of the issues included were based on the company's own business strategy and policies. Most of the issues were company specific and presented by central person in the company. External speakers held seminars on teamwork, negotiations, and culture. The themes of the seminars were predominantly fact-oriented and related to issues relevant for the company. The program gave an overview of central issues for the company, focusing on existent business strategies and the expectations from the owners. An instrumental engineering perspective prevailed, and as a program to prepare for international job assignments one may say that other more intangible issues were not emphasized. The seminar on culture for instance was 'fact'-oriented, attempting to provide the participants with quick answers as to what they could expect to face in a certain culture. Discussions as to approach, relational skills or communication abilities received limited focus. However, the second Interdal course initiated in 2003 included more participants from the foreign subsidiaries and had more focus on socio-cultural issues.

### 3.4.5 Instrumental engineering perspective

Kongsberg Automotive is a male-dominated company, and the most common educational background for managers is engineering. This makes for a strong instrumental perspective. Despite recent attempts to counterbalance such trends, one may say that a ‘tough guy attitude’ is visible in the company, but perhaps more so in Scandinavia than in the units abroad. This is for instance exemplified by expression like “*lean and mean*”, which is humorously used by employees to describe the nature of the company. It is also expressed through the types of feedback given to subordinates, emphasizing the qualities of hard work, challenges and being tough. The dominance of engineers may account for the strong instrumental perspective. In this context an instrumental perspective implies that there is more attention paid to the physical sides of the process, like the moving of machines, the logistical process, and the material side of production. Little attention is paid to less tangible issues. This is for instance exemplified through the process of establishing the new plant in Poland. The general assessment of this process was that not enough attention had been paid to issues related to socio-cultural factors. This resulted, for some time, in a level of anxiety and stress among the workers at the plant, as well as problems related to the move of production from Sweden to Poland. In general there was too little emphasis put on the recruitment of new employees, the knowledge transfer from Sweden to Poland and on the development of the organizational structure at the new plant. The instrumental perspective may also be illustrated by the strong appreciation of formalization and standardization where the fallibility of such mechanisms has rarely been questioned.

The development of the company hinges on a closely-knit central management team. As a result of years of experience working together and the small size of the company, the central management team and others at the head office have been able to become united in their views of the overarching principles of how the company should be managed. Some employees have criticized the head office for reserving access and career possibilities to those who are considered insiders. Insiders are here seen as those who share the same views on management as the head office, and perhaps more importantly agree with the central management.

#### 3.4.5.1 Rhetoric

Between 1999 and 2002, the central management heeded phrases like “*thrifty house-keeping*”, “*focused innovation*” and “*Kongsberg Automotive’s way*”. However, based on reactions from the different foreign units who were not familiar with the history of the company, from 2002 and onwards several from the central management stated that these phrases were perhaps not suitable anymore. While deemphasizing these phrases,

the central management has maintained a strong emphasis on a rational-analytic orientation, and on a culture characterized by individual responsibility and straight-to-the-point communication. The attempts the company has made to implement such policies and norms in the foreign units include the management courses discussed above, the use of expatriates who have long experience within the company, as well as through an intranet website and the Kongsberg Automotive's internal newspaper.

The internationalization process in the company has been presented as an integration process. Integration is by the central management presented both as necessary in terms of control and as a cause of standardized production. Integration is at times presented as a goal in itself. Disintegration of the organization is viewed as a danger in that it will cause difficulties for control and coordination. In some situations the company is presented as an almost idealistic project. The president of the company has used the phrase "*International companies are peace keeping forces*", suggesting that the value of integration is associated with a mission that goes beyond regular business purposes. The argument is that cross-cultural communication within the company is important for wider purposes than merely coordination of resources and deliveries. Underlying this policy, and stressed on various occasions, is the view that human beings are essentially equal, emphasizing the equalness rather than the differences. This has been presented as: "*do not accept that 'we are different'*", stressing that cultural difference may be used as an 'excuse'.

Alongside these efforts to identify a universal approach which could be shared by all the units, there are also efforts to "*let local stuff be local responsibility*". This is related to the understanding that it is important to allow for a certain diversity, and to the view that "*differences are assets, not problems.*" However, this is a focus which surged after some years of experience with establishing the different foreign units, in 2002. These views received increased focus during the summer of 2003 through an encompassing survey attempting to find certain basic values that all the units in Kongsberg Automotive may identify with. The efforts to maintain a closely integrated organization and construct a shared identity around common values is further reflected in the "family"-metaphor, which is used extensively - not only within local units, but also regarding the relations between various parts of the organization.

### **3.5 Kongsberg Automotive within the theoretical framework**

In the presentation above I have identified how Kongsberg Automotive may be characterized according to the variables discussed in chapter 2. The company is in a global industry – the automotive industry - which in earlier research has been identified as more prone towards centralization than other industries. In the automotive industry there are few narrow local markets, car manufacturers relate to large regional markets such as North and South America, Asia and Europe. It is therefore to be expected that the subsidiaries in Kongsberg Automotive are less dependent on local resources, and that the head office exerts a pressure for standardization across the units. The nationality of the company and its administrative heritage is that of a small company founded by former employees and managers at Kongsberg Våpenfabrikk. The ‘family’ metaphor which is used extensively by the central management illustrates a company which has relied on personalized responsibility and close informal contacts. This has been combined with a rational analytic approach with a strong focus on goals and results. The family metaphor is also extended to include the production workers, emphasizing participation at all levels and the restricted use of unnecessary positions which may provide status to some and not others, e.g. the foreman position. The international experience of the company is limited. Even though the first foreign unit was acquired in 1996, the extensive internationalization process may be said to commence in 1999, only five years ago. See Table 3-1 below. Earlier research has been inconclusive as to the effect of international experience, and I expect that if time is a relevant factor, this can more readily be said to affect how the bilateral relationships between the head office and each local unit has developed in the past years. This, more so, than the approach of the company towards internationalization as such.

Below I will move on to the different local units which have been a part of this study, that is; the units in the U.S., Mexico, Poland and South Korea. I will identify their differences on the structural variables discussed in the last chapter, and further specify what I expect to find in terms of local adaptation and the use of control and coordination mechanisms. First, a table showing some of the characteristics of the different units in the company.

**Table 3-1 Key numbers of units in Kongsberg Automotive, 31.12.2003<sup>3</sup>.**

<b>Locations</b>	<b>Country</b>	<b>Business Area</b>	<b># Em- ployees</b>	<b>Type of establishment</b>	<b>From date</b>
<b>Kongsberg</b>	Norway	Head office	99		
<b>Reynosa</b>	Mexico	Seat Comfort	304	New establishment	1999
<b>Detroit</b>	USA	Sales / Seat comfort	16	Acquisition	1996
<b>Buzan</b>	South Korea	Truck systems	33	Merger - acquisition	2001
<b>Hvittingfoss</b>	Norway	Truck systems	325		1957
<b>Rollag</b>	Norway	Truck systems			1957
<b>Mullsjö</b>	Sweden	Gearshifts Seat Comfort	707	Acquisition	1996
<b>Åmotfors</b>	Sweden	Seat Comfort		Acquisition	1996
<b>Pruszkow</b>	Poland	Seat Comfort	287	New establishment	2000
<b>Jundai</b>	Brazil	Truck systems Gear shifts	11	New establishment	1998
<b>Aldershot</b>	England	Seat Comfort	50	Acquisition	1996-2002
<b>Burton</b>	England	Seat Comfort	224	Acquisition	2003
	Germany	Sales	6	New establishment	1998
	France	Sales	3	Acquisition	1996
<b>Total</b>			1897		

<sup>3)</sup> Annual Report 2003. <http://www.ka-group.com>

The characteristics of the U.S., Mexican, Polish and South Korean units will be discussed below according to the variables identified in chapter 2. The variables were:

- Local manager
- Method of founding of the subsidiary
- Age of subsidiary
- Size of subsidiary
- Local dependency
- Dependency on parent company

Recapturing the discussion in chapter 2, these variables may be seen as an operationalization of the interest, power and institutional dependency that affect the vulnerability of the local subsidiaries to push for local dependency, and to resist centralized control and standardization from the head office. These have in earlier research been seen to affect the extent of differentiation and isomorphism in local subsidiaries (Rosenzweig and Nohria 1994; Egelhoff 1988; Porter 1986; Prahalad and Doz 1987).

### **3.5.1 Farmington, U.S.**

The U.S. unit was an acquisition from Scandmec, bought by Kongsberg Automotive in 1996. At the time it was a unit with 115 employees, but one which was struggling because of a high cost level development in the U.S. The production was thus moved to Mexico in 1999, and only 16 people remained in a prototype, design and sales division. Age, size and method of founding have been theorized to affect the vulnerability of local units to pressure from the head office, and their own interest in pushing for local adaptation. As an acquired unit it is to be expected that the U.S. subsidiary will have the power and interest to push for local adaptation. However, the fact that the organization was significantly changed in 1999 – 2000, and their size was reduced to being the smallest of the production units, makes it plausible that the method of founding and its age have little effect today. However, their local dependency may be said to be high as the unit is in close contact with customers in the North American market, and as far as there are differences between customer preferences in the U.S. vs. Europe, it is to be expected that the unit will have a high interest in complying with its local environment. On the other hand, the dependency on the parent company is also high; supplies, machines, infrastructure and support are provided by the head office and the Mullsjø plant in Sweden. Furthermore, alterations on designs in the U.S. need to be approved in Sweden before put into production. The local leaders of the unit have varied. As I will have a closer look at below, in chapters 5 and 8, there have been three different managers in the unit,



first a Scandinavian with little experience from the U.S., second a Belgian with long experience of the U.S. and in the automotive industry, and finally a Scandinavian with long experience in Kongsberg Automotive but with less experience in the U.S.

It is expected that the U.S. unit will have a high interest in adapting to their local environment. This is a local environment which may be said to concur with the institutions of the automotive industry. The ability to comply with the expectations of the customers has a significant effect on the unit's ability to perform; in sales, design and in prototype production. On the other hand, there is less reason to expect that the unit will have much power to push for local adaptation faced with the head office. It is a small unit and its former local embeddedness as an acquired and older unit was significantly changed when production was moved to Mexico. None of the local managers were from the U.S., but all spoke the language, and the Belgian manager was highly familiar with the local environment both in terms of expectations from employees as well as external actors. To assess how these managers affected the unit's interest and ability to push for local adaptation demands a more extensive discussion and will be addressed in chapter 8.

### **3.5.2 Reynosa, Mexico.**

The production unit in Mexico is a greenfield establishment from 1999. The establishment took the form of a move of equipment from the former factory in the U.S., while employees and managers were mostly hired in the local area. The Mexican subsidiary is fairly large, counting today 304 employees. Their age is fairly similar to other units, such as the one in Poland. Their local dependency is low, while producing for the same customers as the U.S. unit, the only other factor affecting their need to be locally embedded is the employees recruited in the Reynosa – Rio Grande area. On the other hand, there is an abundance of workers in this area. Furthermore, the unit was set up under the so-called “*maquila*” program, which demands compliance with a number of regulatory measures, that is, standard contracts and specifications as to wage levels, health and safety requirements and reporting to the Mexican authorities, if the company is to profit from the duty free access to Mexico. These requirements however, can be seen as highly international requirements and not specific for the local environment in Mexico. The U.S. unit provides the Mexican unit with technical specifications and prototypes, as well as customer's specifications and orders. The unit receives their material, machinery and support through the head office and the Mullsjø unit in Sweden. The Mexican unit has had two different local managers; the first production manager was Swedish, while the one employed since 2001 is Mexican. The former had experience from Kongsberg Automotive, but did not speak the local language nor had experience from the area. The second has a lot of experience from the area, speaks the language and is familiar with the automotive industry.

It is expected that the Mexican unit, in alliance with the U.S. unit, will have an interest in complying with the requirements of their customers in the U.S. market. They also have an interest in complying with the local environment in terms of expectations from employees and the *maquila* program. Their size is relatively big compared to other units and they may therefore be expected to have more relative power in relations with the head office. On the other hand, they are highly dependent on the head office and its resources in the form of supplies, machinery, infrastructure and support. The two managers who have led the unit are remarkably different. One may expect that the latter manager have more resources to understand and exploit the local environment, and therefore also more power and interest for pushing for local adaptation. However, this is a discussion which deserves a more thorough analysis in chapter 8.

#### **3.5.3 Pruszkow, Poland.**

The Polish unit was established greenfield in 2000, and is a fairly large unit counting 287 employees. Its local dependency is low as it produces to customers in Europe, the same as the units in Scandinavia, and has no local suppliers of much importance. The other factors affecting its local embeddedness are expectations from local employees and the need to comply with Polish regulations. Polish regulations can be said to divert some from those in Western Europe. The availability of manpower in the area is abundant; however, there is a lack of employees with the technical skills and know-how needed at the plant. The dependency on the parent company is high as most supplies, machinery, infrastructure as well as support is provided by the head office and the Mulsjø plant in Sweden. The Polish unit has had two different managers, a Swede during the project phase of establishment and a Pole who took over when regular production started. The Swedish manager lacked knowledge of local conditions as well as the language, but had long experience within Kongsberg Automotive. The Polish manager lacked experience from the company, but had substantial experience from the automotive industry through working for U.S. companies in Poland. He also knows the language and is familiar with the local institutional environment.

While its size may affect the unit's ability to push for local adaptation in a positive direction, its local dependency is low, and its dependence on the parent company is high. The unit does have an interest in pushing for local adaptation because of the need to comply with the expectations from local employees and Polish authorities, but these are also the only reasons why local adaptation may be seen as important. I expect that the differences between the two managers will affect their interest and power in pushing for local solutions. The Polish manager who knows the local conditions and speaks the language I expect will have more power and interest in seeking local adaptation.

#### **3.5.4 Buzan, South Korea.**

The South Korean unit was established in 2001. It is a small unit counting 33 employees. The unit is the former automotive division of Jung Ang, and while a move to new facilities occurred in 2002, no other major changes have been undertaken. Its local dependency is high. The unit still produces mainly the same products as earlier, to the same customers in the Asian market. Supplies and machinery are mostly provided locally, and the specifications from former customers are the same. There is an abundance of manpower in the area, also of people with the technical skill and know-how for higher positions. The local institutional environment also affects the local dependency as South Korean traditions and norms are strongly coupled with structures and processes in work organizations. Because of the many differences between the norms and ways of a Korean organization and that of a Western organization, one may speak of a distinct *Korean Management System* (Chang and Chang 1994). The unit's dependency on the parent company is lower than for the other units discussed above. It relies on the parent mainly for investment and to some extent for its technological infrastructure. The unit also depends on the parent company for future development as new products and increased competitiveness are expected to be supplied from the head office. There have been two different local managers in the unit. First, a Korean who was very familiar with local conditions and the automotive industry in Asia, and second, a Norwegian with experience from Kongsberg Automotive, but with no experience from South Korea or Asia and who did not speak the language.

As an acquired unit which is highly dependent on the local environment, it is to be expected that the interest and power to maintain local adaptation is high. Also their relatively low dependence on the parent supports this. The approach of the two managers is expected to be very different. The Norwegian manager is expected to be less capable of and interested in preserving local adaptation.

### **3.6 Summary**

The history and development of Kongsberg Automotive is important for an understanding of how a fairly small company embarked on an intensive internationalization process. The fact that the company may be said to have been re-established in 1987, by former employees and managers in the auto division of Kongsberg Våpenfabrikk has influenced the organization up to today. It is a closely-knit company where personalized and informal relations have been important. Most managers in Scandinavia who have taken part in the internationalization process of the company have many years of experience in the company, and depend on close social networks in their daily work. When the pro-

cess of internationalization began this was still the main manner of how Scandinavian managers worked together. However, this became increasingly difficult as the organization grew from 469 employees in 1995 to 1900 in 2003. With time, a policy for the internationalization process was developed and some important principles were established. These were for example, the replication of structures and production processes from Scandinavia, and a need for swift decision making. The presentation of Kongsberg Automotive made it possible to discuss this empirical case within the theoretical framework presented earlier.

The various foreign units were discussed, and while there are differences among them it is mainly the South Korean unit which distinguishes itself. This is because it is an acquired unit and it is situated in a cultural context largely unfamiliar to the company. I will later in this thesis present these units in greater detail, and discuss the variance between them.

## 4 Research method

### 4.1 Introduction

The following thesis is based on empirical studies carried out in Kongsberg Automotive ASA and its different subsidiaries from 2000 to 2004. In close cooperation with a fellow Ph.D. student, Sigrid Damman, I have followed the company's internationalization process at home and abroad during this period. We have been given free access to the organization and its employees and have participated in and contributed to different projects in the company. The data material we have gathered during this period is extensive.

The methodological approach I have applied in this study is based on constructivist grounded theory (Strauss and Corbin 1994; Glaser 1992; Charmaz 2000; Guba and Lincoln 1985, 1989; Silverman 2001; Seale 1999). I found it appealing when venturing into a subject matter as complex as an internationalization process, to choose a method which allowed and even recommended to approach the research subject without detailed preconceptions and expectations. It was appropriate to employ such an approach as my initial focus was on understanding and learning as much as possible about the challenges involved. To be able to gain a comprehensive understanding it was essential to allow my respondents and observations explore the subject matter without a rigid research plan which could eliminate issues deemed important by those concerned.

To gain access to an organization such as Kongsberg Automotive one is also dependent on establishing trust and cooperative relationships. In order to do so I found it crucial to have an approach demonstrating a willingness to learn from their experience. This implied that I attempted to approach the research with an open mind, limiting my own preconceived ideas and expectations as to the research findings. Silverman (2001) holds such an approach to be fruitful in moving from what he calls 'how'-questions to 'why' questions. Research which first explores how respondents experience their realities and which, grounded in these data, develops explanations as to why these realities are constructed is seen as the most appropriate method for understanding and explaining real life phenomena. On the other hand, I also made it clear to the company that my interest was on understanding the organization as a social system and how institutional

and cultural constraints affect the integration of the different separate organizations. To establish this focus as a boundary was important in preserving the integrity of the research study when faced with the demands and interests of stakeholders in the organization.

I will below specify in closer detail the collected material and how the simultaneous research process proceeded. I will include discussions as to the credibility of this study and specify the various techniques I have used to fulfill the research criteria applied within a constructionist grounded theory approach. Detailed specifications of my data material are below included in a discussion about the qualities of both the data collection and theoretical analysis. This is done to reflect that the data collection process and the development of a theoretical framework occurred simultaneously, as advocated in grounded theory (Charmaz 2000).

## **4.2 Research process – Analytical strategies based on grounded theory**

My ontological position in this thesis is one of ‘constructed realities’ as discussed by amongst others Guba and Lincoln (1985), and Charmaz (2000). It is a position which emphasizes that it is dubious whether reality exists and can be described as an objective truth. Realities are rather seen as constructed in the minds of individuals and in the social interaction between these (Berger and Luckmann 1966). As there are numerous individuals there is also an infinite number of constructed realities, and hence multiple realities. None of these realities are exactly similar to one another. For the researcher to be able to explain a phenomenon which has truth value for herself and others a theory of consensus needs to be approximated (Hesse 1980). It is intersubjective agreement as to the constructed reality presented by the researcher which determines the extent of ‘truth’. Such an ontological position also holds that objectivity in its true form is unattainable. Not only do the subjects of the inquiry hold multiple constructed realities, but reality is also constructed in the interaction between the investigator and the investigated. The interaction between these may cause a biased version of the research findings. How may the researcher employ analytical strategies and techniques in order to produce a valid interpretation?

In grounded theory Charmaz (2000) and Guba and Lincoln’s naturalistic inquiry (1985; 1989), the development of the theoretical framework and subsequent analysis is viewed as an interplay between the collected data and theory. Within this tradition the researcher approaches the inquiry with a minimum of preconceived ideas and questions to allow the analysis and theoretical framework to emerge and develop in accordance with the collected data (Glaser 1992). This stands in contrast to a more traditional approach

where the theoretical framework, research questions and categories are to be specified as much as possible before embarking on the data collection. Within grounded theory the criteria for deeming research findings as trustworthy are credibility, transferability, dependability and confirmability (Guba and Lincoln 1985; 1989). Guba and Lincoln see these as corresponding to more conventional criteria such as internal validity, external validity, reliability and objectivity.

According to Guba and Lincoln, in order to demonstrate credibility I will need to show that I have represented the multiple constructions of reality in my material adequately. That is, they need to be credible to those who constructed the reality in the first place; my respondents. The criterion of transferability has two aspects, that of generalizability and applicability. I need to discuss how the findings in this study are generalizable to larger populations. My burden of proof as to applicability is limited to providing thick descriptions (Geertz 1973) of my material and of the time, context and place of the study. The extent to which this study is applicable and similar to a new future research setting is then judged by future investigators attempting to replicate the study. The dependability criterion is met by demonstrating that my research findings are consistent, that is, that other researcher would arrive at the same conclusions when conducting the same analysis and data collection. The final criterion of confirmability is met by providing accounts so that both the source of the data itself and the logic used to analyze them can be inspected and confirmed by outside reviewers of the study. Below I will describe how these criteria apply to the research presented in this thesis. In order to meet these criteria different techniques for data collection and analytical strategies have been applied.

#### **4.2.1 Credibility**

I have sought to increase the likelihood that my findings and interpretations are found to be credible by applying different techniques in the data collection. I have also attempted to control for credibility during the process of data collection and analysis. Below I will discuss the various techniques I have employed and how these may be seen to affect the credibility of my research. When doing so I will specify in detail both the research process and the collected data material. I will base the discussion on Guba and Lincoln 1985; 1989, Charmaz 2000 and Seale 1999.

##### **4.2.1.1 Persistent observation**

Persistent observation is one of the techniques advocated by Guba and Lincoln (1985; 1989). It involves making sufficient observation and gathering of data to identify the salient issues which are relevant for the focus of the research. Charmaz (2000) discusses

the data collection in more detail, emphasizing the usefulness of coding, comparisons and theoretical sampling. Before I move on to discuss how we applied these techniques, I will describe in more specific terms the material collected.

### Data material

The basic method for our data collection was semi-structured interviews. From December 2000 – September 2003 we<sup>1</sup> conducted interviews in Mexico, South Korea, USA, Poland, Sweden (2 production units) and Norway (2 production units and head office). We also conducted a survey based on questionnaires in the South Korean unit in September 2003. We have completed a total of 165 interviews in these units at various levels of the organization, ranging from the president of the company to production workers in the different units. In all units we were given unrestricted access to those respondents we wished to interview. The table below provides an overview of the number of interviews and the units where they took place.

Most interviews lasted from one to one and a half hours. Each interview began with an ethics statement which informed the participants of the purpose of the study, assured them that their participation was voluntary, and provided a guarantee of individual anonymity. We also told the respondents that they were free to refuse to answer any questions they were uncomfortable with. As we were two people present on most interviews, we were careful to not appear intimidating to the respondent, and we felt that most interviews were conducted in a relaxed atmosphere. We had predefined roles and took turns in who led the interview while the other observed and sometimes supplied additional questions at the end. Since we were able to conduct interviews at most units several times, the data reflects the development at the plant since the initial interviews.

The interviews were conducted in English, Norwegian/Swedish and Spanish. In Mexico, South Korea and Poland some of the interviews were conducted with the aid of an external translator. The translator was given information about the company and the study beforehand so she would understand the context and aim of the interviews. However, we stressed that her purpose was to translate and asked her to be conscious not to include interpretations on her own. During the two rounds of interview in Mexico I was able to understand the conversation between the respondent and the translator and became assured that the work of at least these two translators was highly satisfactory.

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<sup>1)</sup> Sigrid Damman, social anthropologist, and Gudveig Gjørund, sociologist, who participated at some of the interviews in Norway and Sweden.



**Table 4-1 Interviews and questionnaires.**

<b>Respondents</b>	<b>Norway<sup>1</sup></b>	<b>Sweden<sup>2</sup></b>	<b>Mexico</b>	<b>USA</b>	<b>Poland</b>	<b>South Korea</b>
Interviews	Dec 2000	Febr 2001	June 2002	Jun 2002	Oct 2001	July 2002
Office workers	7	6	8	5	5	8
Prod. workers	9	11	11	3	12	5
Total	16	17	19	8	17	13
	Jun 2001	Aug 2001	Aug 2003	Aug 2003	Jun 2003	
Office workers	2	3	7	4	9	
Prod. workers		2	4	1	10	
Total	2	5	12	5	19	
	Mar 2002	Jun 2003				
Office workers	2	7				
Prod. workers		4				
Total	2	11				
	Aug 2003					
Office workers	6					
Prod. workers	6					
Total	12					
Questionnaires						Sept 2003
Office workers						7
Prod. workers						8
Total						15
Management survey	57	50	2	2	1	1
<b>Total interviews (165)</b>	<b>24</b>	<b>33</b>	<b>31</b>	<b>13</b>	<b>36</b>	<b>28</b>
<b>Total respondents in questionnaires and survey (113 + 15)</b>	<b>57</b>	<b>50</b>	<b>2</b>	<b>2</b>	<b>1</b>	<b>16</b>

<sup>1)</sup> Norway includes 2 factories as well as headquarters.

<sup>2)</sup> Sweden includes 2 factories.

#### **4.2.1.2 Coding and comparing**

Charmaz (2000) recommends that data is coded and compared as it is gathered, and through these techniques the process of analysis and development of a theoretical framework begins. Within grounded theory one should be prepared to change one's conceptions and research questions throughout the process and attempt for a continual cycling back and forth between theory construction and examination of data. As recommended, we attempted to approach the research with an open stance as to what we would find and what our respondents would tell us. On the other hand, it is unavoidable to have some expectations. The test of the matter is whether such preconceptions may be seen to be altered during the data collection and analysis. The goal is to allow the data to speak for itself and have the respondents identify what is significant.

At the outset of our investigations my research focus was simple. I wanted to understand how a Norwegian company went about internationalizing and establishing local units abroad. I expected that there would be challenges involved as they were establishing organizations in areas unknown to them, socially, culturally and politically. However, even with such an open focus I also had some expectations as to what our findings would be. I expected that the company would have difficulties at establishing themselves abroad as they lacked knowledge about local conditions. I further expected that they would have a fairly narrow focus on production related issues, and that other more intangible issues such as culture, social conditions and communication with the local unit would receive less focus. Such issues would cause difficulties as the company lacked experience and focus to handle them. I expected that categories such as local culture, political situation, national laws and regulations would be significant in ordering the challenges the company faced.

These expectations were to some extent altered as we engaged in the data collection. The difficulties the organization faced as they established new units abroad were smaller than I had expected at the outset. The lack of knowledge about local conditions was a smaller obstacle than I had believed beforehand. And while lack of communication was a problem in the organization, they found means of increasing their communication through time. And when respondents identified what they found to be most difficult in the establishment process, the categories they used were related to internal conditions in the organization such as autonomy, control mechanisms, local initiative, training, lack of procedures and so forth. This was a different set of categories than what I had expected to find.

These alterations in my original expectations came forth as a result of coding and comparing the data. During each round of data collection in a unit we found ourselves including and omitting issues in the interviews as a result of the emphasis our respon-

dents had. We discussed and compared the interviews in the afternoons, and sometimes made alterations the next day in order to follow to a greater extent what the respondents themselves found significant. The coding and comparing of the data occurred simultaneously with the data gathering. After each round of interviews at the various units, the interviews were transcribed and a more systematic comparison and coding were done.

The coding was then based on what Charmaz call selective or focused coding. We identified issues which appeared frequently in the material. We also included issues which only a few people spoke about, but which were considered important either because of the issue itself or because of the respondents. Some respondents had more experience of certain areas than others and their statements were therefore considered to be of greater significance. The comparison of the data was done between the respondents (organizational positions, functional position, time working in the company, gender and statements), and situations and incidents (e.g. frequent, seldom, internal to the organization locally, related to the relationship with head office). The coding of the data was conceptual and did not include line by line coding which we found to be too detailed considering the final data collection of 165 interviews.

When concluding a study in one unit, the data was compared across the different units, identifying issues which had relevance for more than one unit. We were also able to compare across time as we did interviews at four of the units (Poland, U.S., Mexico and the head office) more than once. In South Korea we did a questionnaire survey which allowed us to compare some of the issues across time. The second round of interviews made it possible to interview some of the respondents twice, and allowed for comparing their statements across time. This also allowed for what Charmaz (2000) calls theoretical sampling. We were able to go back to refine the data on issues which were unclear to us or which we suspected might change through time. As Charmaz holds, a grounded theory perspective cannot be produced in one-shot interviews. We were also able to rely on central people in the company (HR Manager and others) to clarify issues for us both during the data collection and the analysis process. Considering my initial focus for the research study; understanding the challenges involved in an internationalization process, the techniques and activities described above allowed for a refinement of this focus grounded in the actual experiences of the respondents. It is the categories which our respondents used which I have attempted to represent in the narrative stories presented later in this thesis. However, there are also limitations in our approach which should be acknowledged.

We collected data over a period of three years, and we were able to be present in the various units at different stages of their development. This gave us an opportunity to study the development of the company during this time and to gain a greater understanding

of the challenges the units faced at different stages. I am reluctant to characterize the research project as longitudinal since three years is a limited time period. To study the company for a longer time could have revealed more as to how the organization developed in a longer term perspective. The problematic aspect of studying the local units at different stages in their development is that our respondents may have been influenced by the present situation and challenges, and were thus less able to make reflections unbiased by present concerns. A comparison between the units may suffer to some extent because of this. We were not able to analyze and compare the units in terms of categorizing the different stages they went through and whether there were similarities or differences between the units on certain stages.

A different limitation concerning the comparison between the different units is that we did not distinguish between functional areas in the organization. In former research on the use of control mechanisms in companies, a finding has been related to differences between functions and departments within the organization. Gates and Egelhoff (1986) found that the extent of centralization varied across functions. In particular, it was marketing that was found to be centralized in the automotive industry. I have omitted a comparison between departments and functions in this thesis as the focus has been on a more general level: headquarters – subsidiary relationship. However, a closer comparison between departments could have revealed more as to how the use of control mechanisms differed between functional areas within the company. This could also have suggested whether the development of control mechanisms varied between departments in the organization and whether the use of certain mechanisms was favored in some functional areas while not in others.

#### 4.2.1.3 Prolonged engagement

Guba and Lincoln (1985) recommend prolonged engagement at the research site. This is to increase the likelihood that the researcher understands the context of the research subject and builds trust between herself and the respondents. It is also a means to test for misinformation induced by the researcher herself or the respondents.

My involvement in the Kongsberg Automotive organization was not merely restricted to conducting interviews at specific times. Before embarking on collecting the data which is applied in this thesis, we conducted a separate study which involved visiting the head office and two production units in Norway and Sweden. While the subject matter – work situation and training needs among production workers<sup>2</sup> – was not directly

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<sup>2)</sup> Damman, Sigrid, Gudveig Gjørund and Tonje Osmundsen (2001): *Arbeidssituasjon og opplæringsbehov hos førstelinjeledere i Kongsberg Automotive*. Arbeidsrapport nr. 2/2001, Studio Apertura, NTNU. 50 p.

relevant for this thesis, it allowed us to gain knowledge about the organization and to become familiar with people who later became central to our investigations.

Also after we started on the data collection for the thesis, we continuously participated on other arenas. Our participation at the management course 'Interdal' allowed us to meet with the various Business Area managers, the manager of the Finance Department, the owners (FSN Capital), representatives from other functional departments (Purchasing and After-Market) as well as the different participants in the course. Some of these gave presentations which I have been able to use to supply my data. During the course we were able to spend time with the participants both in the sessions, in the groups they formed and after hours. We observed the different discussion these participants had, and were also able to pose questions and initiate discussions ourselves. During the five weeklong seminars we also visited five of the units in the company (Head office, Rollag, Hvittingfoss, Pruzkow and the Sales Department in France). Included in these seminars were also presentations and visits to suppliers and customers in France and Poland. The observations made during this course have been kept as field notes.

Within the project "*Organization and management within the new industry*", (*Organisasjon og ledelse i den nye industrien*) we have organized a number of seminars where Kongsberg Automotive and other companies have participated. The agenda in these seminars have been these companies' challenges related to organization and management issues. The seminars have allowed us to discuss our findings and interpretations in a larger forum, and allowed the representatives from the companies to put their interests on the agenda.

In relation to the investigations in South Korea, we conducted interviews in five other Scandinavian owned companies. The aim of these interviews was to assert whether Kongsberg Automotive's local solutions could be considered standard for other companies in the area. The material from these companies allows me to have a wider comprehension of the challenges of foreign companies when faced with South Korean culture and society (Osmundsen and Damman 2003; Damman and Osmundsen 2003).

Through these activities we gained considerable information about the company and its organization, and about contextual factors such as the local sites, industry, market and history of the company. We were also able to build trust with a large number of people both in Scandinavia and abroad. These people later helped us in our investigations either directly as respondents or in vouching for us in the different units. When arriving at new units or meeting with new people, we were at times told that they had heard about us from others, and we found that our role and research study was viewed positively.

However, despite this, it is impossible to provide a guarantee that our material is

not flawed with misinformation. Our respondents may have distorted the information they gave us both intentionally or unintentionally. They may have tried to please us by giving answers they felt we were searching for, or they may have deliberately tried to conceal information. It may also be that we ourselves had expectations, values and preconceptions which introduce distortions in the material and analysis. We have attempted to check for such distortions through other techniques which will be described below.

#### **4.2.1.4 Triangulation**

Triangulation is another technique recommended by Guba and Lincoln (1985), even though its usefulness for guaranteeing credibility also is disputed (e.g. Seale 1999: 56 – 61). To use various sources, methods or investigators does not make truth any less constructed within a constructionist approach, and the technique of triangulation may therefore not serve as a guarantee for a more truthful approach. On the other hand, to use different sources, methods and investigators in the research study may help to avoid systematic biases resulting from one type of method, investigator or source.

While I have relied strongly on respondents as sources in this study, I have also based the analysis on various informal discussions, telephone conversations, and plenary discussion. Most of these have been recorded as notes. I have had access to a number of relevant documents such as implementation plans, internal newsletters, reports, and to a certain extent, minutes from board meetings and other gatherings. Kongsberg Automotive is a company which has been in the focus of the media in recent years and I include various newspaper articles as background information. Surveys concerning employee job-satisfaction conducted in 2002 and 2003 encompassing most units in the company are also included. These surveys were created and conducted by internal employees in the organization. In March 2003, a Bachelors student from Studio Apertura (Allforsk<sup>3</sup>), Roar Bovim, conducted a quantitative survey among 113 managers in the company in March 2003. The subject area was communication and reporting routines in the company worldwide. This material will serve as background information for the following empirical analysis.

The methods for collecting the data have been mainly based on interviews and observations as described earlier. In a thesis emphasizing negotiation-processes between

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<sup>3</sup>) Allforsk is today a part of NTNU Social Research Ltd., a research center owned by the Norwegian University of Science and Technology.

the central management and the local managers, closer observations of actual negotiations could have been in order. The data material employed provides statements and descriptions of negotiations rather than actual conversations between representatives from the head office and subsidiaries. Observing the situations where negotiations took place could have revealed more as to the arguments and approach of the actors. On the other hand, this would have brought the analysis on a too-detailed level as my perspective has been on results of the negotiations and development over time.

I have mainly relied on qualitative data in this study. The analysis and the conclusions I draw could have benefited from additional quantitative data. The different structural variables included in this thesis could have been measured more accurately. The units' dependency on the parent company for instance could have been measured by including amounts of investment, goods transferred and time spent on support from Scandinavia. However, limitations in time and funds hindered the collection of such data. Also, the great similarities between the subsidiaries in Kongsberg Automotive suggest that even more accurate measurements would not have revealed much difference between the units. However, in a similar study including a comparison between different MNCs such data would have been necessary in order to compare more accurately.

We were two investigators who did most of the interviews and parts of the data analysis together. This collaboration allowed for discussions continuously during the data collection and analysis which revealed misunderstandings, preconceptions and our different interpretations. An important aspect of the usefulness of these discussions was our different theoretical background from social anthropology and political science. To collaborate with a peer in such a manner has similarities to a different technique which Guba and Lincoln call 'peer debriefing'. This allows for testing out the findings and for making explicit the tacit and implicit information the researcher may possess. Even though these authors hold that the peer used for such debriefing needs to be a person who is not involved in the research, I will still argue that such cooperation is important for testing out different interpretations and for arriving at a more mature understanding of the research findings. On the other hand, Guba and Lincoln warn against emphasizing too much the usefulness of different investigators as the findings are produced in interaction between the investigators and the investigated. One may therefore not expect that two or more researchers can serve as a validation for each other. However, using different investigators may increase the credibility of the findings as the researchers keep one another 'honest' (Guba and Lincoln 1985: 307). And as argued above, collaborating

with a peer allows for testing out a greater variety of interpretations and theoretical perspectives.

#### Member checks

The most crucial technique for establishing credibility is held to be member checks (Guba and Lincoln 1985). Member checks allow the respondents to react to the analytical categories, interpretations, and conclusions which emerge during the research process. We have applied this technique on a number of occasions.

My colleague, Sigrid Damman, and I wrote internal reports to the company after each round of interviews. These reports are aggregated summaries of the interviews, written to provide the head office in Norway and other units in the company with more information about challenges and problems in the organization while protecting the identity of our respondents. In addition to a presentation of the interviews and the statements of our respondents, we have also provided the company with suggestions for improvements and our interpretations as to the challenges they face. The reports are considered confidential reports. While these 230 pages of summaries and quotes from the interviews will serve as background material in this thesis, they will not be made public without prior consent from Kongsberg Automotive. The reports produced are:

Damman, Sigrid, Gudveig Gjørund and Tonje Osmundsen (2003): *KA's verdiprosjekt. En studie av bedriftsinterne verdier og forventninger innen Kongsberg Automotive i Norge, Sverige, Polen, Sør-Korea, Mexico og USA*. Arbeidsrapport 1/2003, Studio Apertura, NTNU. 43 p.

Damman, Sigrid and Tonje Osmundsen (2002): *Culture, Cooperation and Job Satisfaction. Preliminary findings from a study in Kongsberg Automotive, Korea*. Arbeidsrapport nr. 4/2002 Studio Apertura, NTNU. 27 p.

Damman, Sigrid and Tonje Osmundsen (2002): *A cultural encounter between Scandinavians and Koreans*. Arbeidsrapport nr. 3/2002, Studio Apertura, NTNU. 16 p.

Damman, Sigrid and Tonje Osmundsen (2002): *Local, global, or...glocal? Report from a study of current organizational challenges within Kongsberg Automotive Inc.* Arbeidsrapport nr. 2/2002, Studio Apertura, NTNU. 37p.

Damman, Sigrid and Tonje Osmundsen (2002): *Kongsberg Automotive's establishment in Poland – a process evaluation*. Arbeidsrapport nr. 1/2002, Studio Apertura, NTNU. 58 p.



Damman, Sigrid, Gudveig Gjøvsund and Tonje Osmundsen (2001): *Arbeidssituasjon og opplæringsbehov hos førstelinjeledere i Kongsberg Automotive*. Arbeidsrapport nr. 2/2001, Studio Apertura, NTNU. 50 p.

All the reports were presented to Kongsberg Automotive. On most occasions this involved the HR Manager, the President of the company and representatives from the local unit where we did the study. On other occasions, a larger audience received the presentation as was the case when we presented the first report on the Polish unit to the Interdal participants at the seminar in Poland. We received comments on the reports which concerned both factual mistakes and disagreements as to our interpretations. Factual mistakes were corrected and in some cases we made some changes as to how a situation or incident was presented.

This thesis has also been presented to representatives from the company and been approved as a credible construction and representation of their realities. In addition to these formal member checks, we were also able to use more immediate and informal checks during the course of the interviews and while we were visiting the different units. This allowed us to test our interpretations, and gave the respondents opportunities to offer additional information or to correct errors.

#### **4.2.2 Transferability**

The discussion of qualitative case studies and their generalizability is extensive, see Seale 1999 for an overview. I follow Guba and Lincoln (1985) in arguing that I need to provide as thick descriptions of my material as necessary to ensure transferability to other research settings. This is according to Seale (1999: 108) sufficient to meet threats to the 'transferability' of research findings. Chapters 3, 5, 6 and 7 in this thesis provide detailed descriptions of the context of my research.

Even though the material is collected from seven different units in the organization and these units are compared in the analysis, I have not been able to compare with other international companies. The organization of Kongsberg Automotive may therefore have certain particularities which have affected both material and subsequent conclusions. The applicability of my conclusions to a greater population may be questioned. On the other hand, the research focus I apply in this thesis is concerned with the relationship between each unit and the head office and is as such a comparative study between the four different foreign units.

In a more conventional tradition, conditions for randomization and sampling are seen as central to a discussion of external validity, or what Guba and Lincoln refer to as transferability. Following these principles in our choice of respondents we aimed for a

representative sample based on organizational positions, gender, functional area and experience working for the company. This was seen as essential since the research focus was to uncover the challenges various internal actors experienced during the internationalization process. The perspectives our respondents had were also strongly dependent on these characteristics. Production workers had much to tell us about challenges related to the local unit and how they experienced the various organizational structures and solutions in their local work setting. Respondents on a managerial level were in addition able to offer perspectives related to the cooperation with other units and the head office.

The selection of respondents was based on us choosing who we wished to speak from a chart of the organization. Administrative personnel then helped us in contacting these people and asked whether they wished to participate. At the end of each round of interviews we supplied our sample with additional respondents if we found that we were lacking respondents of certain characteristics (organizational position, functional area, gender or experience).

### **4.2.3 Dependability**

The dependability criterion has, according to Guba and Lincoln, other properties than the more conventional criterion of reliability. Their argument is that while alterations in methodology and design during the research process would render reliability suspect, such changes are not seen as threats to dependability. While research in the quantitative tradition relies on standardization in order to produce reliable results, standardization is not necessarily a part of the method in qualitative research. Guba and Lincoln choose to introduce “dependability” as a concept replacing “reliability” because this latter concept is associated with standardization of tools and methods, an approach which these authors are sceptical towards. In fact, within this methodological tradition alterations in design and methods during the research process are expected as the researcher develops her inquiry in an interplay with the data. On the other hand, to ensure that the data may be judged as dependable the logic of the research process and the decisions I made underway needs to be accessible for others. I’ve already described some of these changes above, see “Coding and Comparing”.

Another manner of improving the dependability of my research is, as advocated by Silverman (2001), to have the original raw data available for future replications of my study. All interviews were thus tape recorded, and these were carefully transcribed. Most interviews were transcribed by ourselves, but some were done by audio-typists who we hired. The transcripts were checked afterwards against the original tape recording. Both tapes and transcripts have been archived to allow for replications. Even though Silverman (2001) argues that the presentation of my material should include extracts

of the data, such as statements, I have in this thesis limited the use of statements from respondents. This has been done to economize the text. On the other hand, the reports we have earlier produced will be available upon request, even though this will depend on authorization from Kongsberg Automotive. In addition to this documentation of my material I have kept field notes when visiting the different units and when engaged in observations such as during the management course, Interdal.

A different technique proposed by Guba and Lincoln (1985) is that of an inquiry audit. This has not been applied in this thesis, as this is deemed as too comprehensive and time consuming for the resources available.

#### **4.2.4 Confirmability**

The confirmability criterion concerns the research process and the conclusions I have drawn. This to assure that my interpretations and findings are results from the research context and respondents, and not from my own imagination. While replication of the research has been seen as a plausible assessment in other methodological traditions, it is viewed as unrealistic in a constructionist paradigm. As this study is concerned with the development of the internationalization process of an organization it is unrealistic to go back in time and conduct the same research process over again. It is most unlikely that the research setting would be same if one were to conduct a new study in Kongsberg Automotive.

As argued by Seale (1999) a more realistic alternative in order to make sure my research is confirmable, is to provide an account of procedures and methods. As Seale holds, this “*enables readers imaginatively to ‘replicate’ studies and also helps to ensure that claims are supported by adequate evidence*” (1999: 157 – 158). The descriptions provided so far in this thesis as to the ideas and theories that informed the study and of the context of Kongsberg Automotive should make it possible for my readers to ‘imaginatively’ replicate this study.

### **4.3 Conclusion**

Based on the discussion above I will argue that I have met the criteria of credibility, transferability, dependability and confirmability as advocated within grounded theory (Guba and Lincoln 1985; 1989; Charmaz 2000). These have been met by relying on a number of techniques.

I have increased the credibility of my findings through persistent observations which included a large number of interviews as well as other methods of data collection. Persistent observations allowed me to study the organization in-depth while the use of

prolonged engagement in the organization allowed for a comprehensive understanding of the organization and its context. Triangulation was applied in terms of using different methods, sources and investigators. While this increases the credibility of my findings it should also be seen as a way of improving the objectivity of the research as it is also included as one of Guba and Lincoln's techniques for achieving confirmability (p. 319). Member checks are seen as the most crucial technique to produce credible findings within grounded theory. While not all my respondents were given the opportunity to respond to my interpretations, a large number of respondents were, and I was able to make alterations based on their reactions. Based on the discussion above I may safely conclude that the research finding and analysis produced in this thesis may be seen as highly credible.

Transferability is another of the criteria proposed within grounded theory (Guba and Lincoln 1985; 1989). It may be discussed to what extent I as an author am responsible to prove that my material is transferable to a different, new, and for me, unknown research setting, but I will follow Seale (1999) in arguing that to provide thick descriptions is sufficient to meet threats of transferability. Through this chapter, and especially chapters 3, 5, 6, and 7 my research material is described in detail. In addition, I have presented the material in a number of reports and even if these are considered confidential, they may be made available upon request. I have also adhered to more conventional traditions following conditions for randomization and sampling in the choice of respondents. Based on these characteristics of both process and data material I hold that there my material is sufficiently generalizable and transferable.

The dependability criterion has similarities to what is earlier termed reliability. While reliability in conventional research is seen as dependent on the stability of the research design over time, the dependability criterion is rather met by making explicit the changes occurring during the research process. These have been discussed above. To strengthen the dependability of my research also involves making the raw data available for future replications, in this case; tapes, transcripts, field notes and other documents. Having followed these techniques I may conclude that my research presented in this thesis meets the criterion of dependability.

The final criterion of confirmability is met by providing accounts of the research process and methods so that my readers may be able to imaginatively replicate this study. I have through this chapter and to some extent also elsewhere in this thesis, provided such an account to ensure that my research may be confirmable.

Are my research findings trustworthy? I will argue that both the material which has been collected and the manner in which it has been analyzed and presented should be deemed as having truth value for the research questions posed in this thesis. It has truth

value for the context of Kongsberg Automotive during its period of internationalization and for a theoretical understanding of how the relationship between head office and subsidiaries develop in international companies. The criteria for making such an assessment have here been specified in accordance with grounded theory. These criteria correspond to more conventional measurements such as internal and external validity, reliability and objectivity. On the other hand, one may still argue that there is room for improvement. As discussed above, an inclusion of more quantitative data could have improved the comparability of this study to earlier research on head office – subsidiary relations. It may have allowed for stronger assessments as to the implications of my findings on prevalent theories. Also, if I had been able to study the company for a longer time and included other companies undertaking an internationalization process, my research could have revealed more as to internationalization processes and how such developments affect different types of organizations. This could have allowed for a comparison between stages of internationalization and its effect on head office – subsidiary relations. As it is, these are shortcomings which should be amended in future studies as I have been limited by funds and time to do so here.



## **5 The local organizations in Mexico and the U.S.**

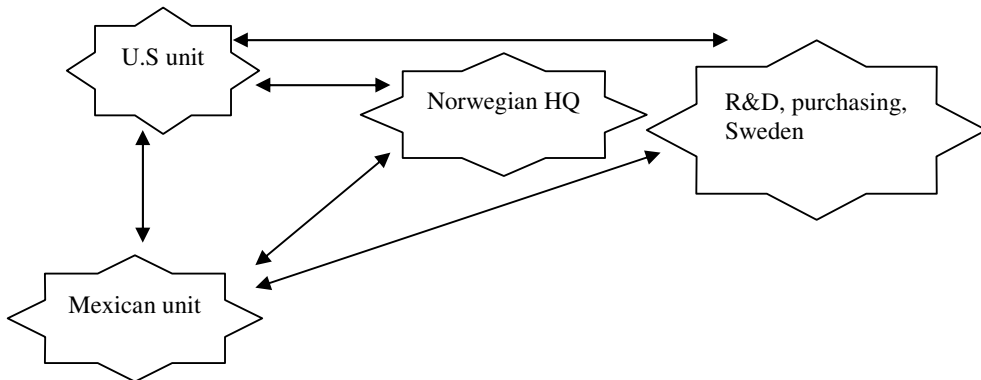
### **5.1 Introduction**

The proceeding chapter will focus on the U.S. and Mexican unit in Kongsberg Automotive. In order to do so, I will present the organizations in Mexico and the U.S. as distinct entities, but their development is intertwined and needs to be seen in a larger picture involving the relationship between these two units, as well as to the Norwegian headquarters and the R&D and Purchasing departments in Sweden. The U.S. and the Mexican units together form Kongsberg Automotive's North American operations, here referred to as Kongsberg Automotive Inc. The following material is based on two visits to both units, in 2002 and 2003, as well as discussions with representatives from these sites on other occasions. Representatives from the head office in Norway have also been interviewed.

While the US unit was earlier part of Scandmec which Kongsberg Automotive bought in 1996, the Mexican unit was established greenfield in 1999. The US unit which had formerly employed 115 people was in 1999 – 2000 reduced to 15, and the Mexican unit has increased from approx. 80 employees to over 300 in 2003. The strategy for establishing the Mexican unit was to carbon copy production processes and organization structures from the US unit and well-established units in Scandinavia. However, attempts were also made to adapt these processes and structures to a local context. Both units have been headed by different managers through the past years and they have demonstrated different approaches towards the local employees and in their relations with the head office. While the main emphasis in both units have been to manage the daily business at the local site, there have also been important challenges related to coordination of supplies from Europe, technical support from Sweden and the cooperation between the US and Mexico. Below, I will outline the development of both units in terms of how internal conditions have changed, and how their relationship to other units in the company has evolved.

## 5.2 Kongsberg Automotive Inc.

The U.S. unit of Kongsberg Automotive Inc. includes a design department, prototype department, sales and accounting functions which support those existent in Mexico. The sales department relates mainly to the Business Area Seat Comfort, but also to a certain extent to Gearshifts. Sales to the North American market amounted to 164 million NOK in 2003, a growth of 84% from the previous year. This is mostly due to increased market share in the US for seat heating. The Mexican unit is a production facility for seat heaters. The plant is situated in the Rio Grande area on the border between the US and Mexico, profiting from the duty free customs regime in the area. The plant receives its orders, as well as prototypes and designs from the U.S. Both units cooperate closely with the central purchasing department and R&D centre situated in Mullsj , Sweden. The main suppliers for both units are situated in Europe, while the main customers are US car manufacturers in Mexico or the US.



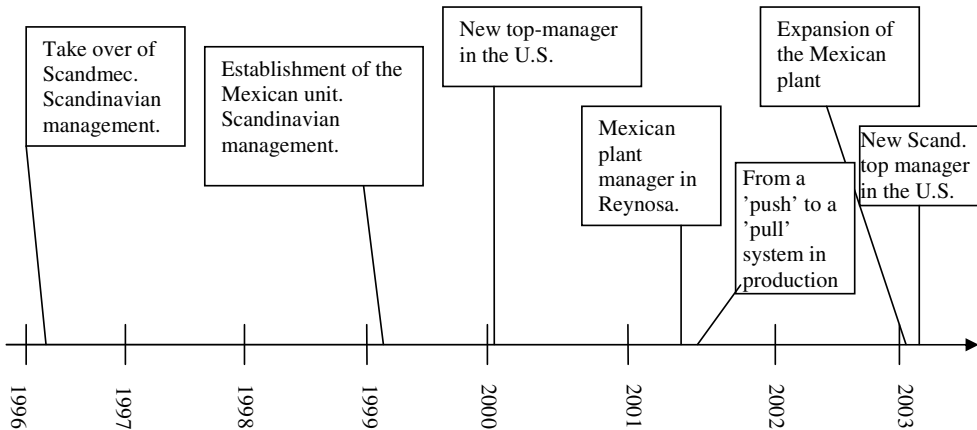
**Figure 5-1 Kongsberg Automotive Inc.**

The U.S. unit was acquired in 1996, when Kongsberg Automotive decided to buy one of its competitors, Scandmec, who had established themselves in Sweden and the U.S. The U.S. unit had been established six years prior to the acquisition. The prospects for the unit were promising at the time of the takeover, but after three years the plant was running at a loss. This situation continued up to 1999, when Kongsberg Automotive got new owners, Industri Kapital, who were prepared to make significant changes in the organization. In 1999, Kongsberg Automotive Inc. had lost US\$1.4, and the central management in Norway decided that some radical change would have to be made; otherwise they were prepared to close down the US business.

The Mexican unit was thus established in 1999. The production in the U.S. was transferred to the Rio Grande area, leaving design, prototype development and sales in



the U.S. The manager of the U.S. unit retained the main responsibility for the Mexican operations and the Scandinavian plant manager in Mexico reported directly to him.



**Figure 5-2 Timeline of development in Kongsberg Automotive Inc.**

### 5.2.1 Moving production to Mexico

The major reason why production was moved to Mexico was the cost level development in the United States. Workers' wages had been steadily increasing. This was creating difficulties for the whole automotive industry, and increasingly companies were forced to either close down or shift their production to cheaper areas.

However, the losses were not caused by external factors alone. Respondents claimed that there was a level of mismanagement within the U.S. unit, which was seriously aggravating its problems. The top management was mainly recruited from Sweden, and was seen to have only limited knowledge about how to do business "the American way". Some respondents also indicated that the US had been a "dumping ground" for Scandinavian managers who were of limited success, but who could not be fired due to Swedish work legislation<sup>1</sup>. According to the respondents, the conditions in the U.S. plant before 2000 were somewhat chaotic. While the management was enjoying extensive personal privileges, they failed to follow up, both when it came to customers and to internal conditions. We were told that parts of the management came in late in the morning and left early, and failed to give proper supervision to their subordinates.

<sup>1</sup> Our respondents are here describing the time-period where Scandmec owned the local unit, and to some extent conditions after the take over of Kongsberg Automotive.

Differences in customer expectations and the manner of doing business in the U.S. vs. Europe were also seen as plausible explanations as to why the Scandinavian managers had limited success. Several respondents described the “U.S. way” of doing business as less ethical and less trustworthy than in Europe. Payment terms was used as one example where American customers would look for excuses for not paying on time, and that they would seize on anything – make unreasonable complaints about e.g. quality and delivery time – as a reason to delay while Scandinavians would tend to respect their contracts. According to the respondents the Scandinavian managers failed to recognize this difference and it had affected their customer relations negatively - sometimes with loss of opportunities and unnecessary problems as an end result. It was also indicated that American customers often expect a different kind of “*packaging*” than their European counterparts. Image and major goals were seen as more important than exact details. Some respondents felt that this was something the Scandinavians should pay closer attention to, both when it came to face-to-face interaction and production of brochures like the annual report. Furthermore, it was claimed that because Scandinavian managers were used to follow-up with customers through the internet and on the phone due to the distances in Europe, they did not realize that since the U.S. customers were in relative proximity in the Detroit area, these customers expected interaction in the form of meetings and visits at their plants.

### **5.2.2 Developments in the U.S. unit**

In 1999, one of Kongsberg Automotive’ most important suppliers, TRW<sup>2</sup>, had moved their production to Mexico, with promising results. And as soon as the new owners of Kongsberg Automotive were in position to give the go, the transfer process started. Initial decisions and contracts were made in April, and by August-September the company started its production in Mexico. The production in the U.S. was gradually reduced, and at the beginning of 2001 it was closed down. Only prototype production remained. A unit which once counted as many as 115 people was reduced to 15, whereas 4 remained as production workers in the prototype department.

The move to Mexico also entailed larger changes in the U.S. unit in terms of management. A new manager for Kongsberg Automotive Inc. was hired, this time from outside of the company through a recruitment agency. This was unusual as the company normally relies on internal resources. The new manager was a person with long experience from the automotive industry and from earlier turn-around operations in other companies

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<sup>2)</sup> TRW Automotive is a North American company supplying electronic components. See also: <http://www.trw.com>

around the world. He was by birth Belgian but had lived and worked in the US for many years. With the shutdown of production, the management group was naturally reduced. In addition the new local manager found it necessary to replace certain people, because of the alleged lack of discipline. New managers were hired, all with experience from the U.S. automotive business. They were also seen to have the ambitions and discipline their predecessors had been lacking. Four to five months after these changes Kongsberg Automotive Inc. started breaking even.

According to the respondents, the change in management had an important influence on the internal environment at the U.S. unit. The new top-manager brought in a more visible leadership style than earlier and the former complaints as to a larger emphasis on customer relations seemed to have been resolved. Even though, the respondents maintained that they felt their colleagues in Scandinavia and the central management in Norway did not fully understand the differences of doing business in the US. Since the Scandinavians were no longer a part of the internal organization in the U.S. the continuous barrier towards “*an American way*” to do business was now seen to come from the Norwegian headquarters. The argument was that Kongsberg Automotive was still too “*Scandinavian*” in their strategies, meaning too cautious and not willing to recognize the potential in the North American market. The management group in the U.S. could be seen to engage in a unison mission to bring their message across to the head office, pushing for company growth in the U.S. As stated earlier the new local manager in the unit had brought more visible leadership and this was followed by increased commitment to the company in the U.S. management group. This was a commitment which was visible both in terms of a common perception of the challenges the unit faced in relation to the Norwegian management and owners, but also in terms of a personal engagement and ownership in the future of the U.S. unit.

Regarding internal relations, several of our respondents described themselves as a “*family*” and referred to the informal atmosphere and a sense of togetherness among the employees. However, there were also visible conflicts especially between the small group of prototype workers and the managers. The new emphasis and focus on customer and external relations seemed to have been followed by a neglect of the internal environment in the organization. Specifically the prototype workers felt ignored by the local manager in the sense that he did not show involvement in their work, and they did not feel free to approach him. There had been cases where employees felt decisions concerning their jobs had been made without due consultation or notice, and where they felt that their opinions and suggestions were not valued. The local manager emphasized customer relations and was engaged in the establishment of the new production unit in Mexico. However, this was time consuming

and problems with internal communication and internal relations in the U.S. unit ensued.

### **5.2.3 Establishing the Mexican unit**

The establishment of the Mexican unit was a parallel process to the changes within the U.S. unit. The transfer of production from the U.S. to Mexico was undertaken by North Americans and Scandinavians, and the main strategy was to *carbon copy* the production processes and structures from the unit in the U.S. and those in Scandinavia. The new unit was set up under the so-called “*maquila*” program.

#### **5.2.3.1 Maquila-program**

The *maquila* program is a special customs regime which allows the participating company – the *maquiladora* – to temporarily import into Mexico on a duty-free basis machinery, materials, parts and other items needed for the assembly or manufacture of goods for subsequent export. The original purpose of the *maquiladoras* was to absorb excess labor along the US-Mexican border, and to encourage Mexican exports. Today, the foreign-funded *maquila* industry is considered to be the most important factor in the Mexican economy, with an annual growth rate that has been sustained at 10% for the past 10 years. In 2001, there were as many as 3450 *maquila* companies, employing several hundred thousand workers. Top *maquiladoras* include major electronics companies, like Sony, Philips, and Samsung, as well as key actors in the automotive business, such as Delphi, Lear and Ford. For most of the foreign parent companies it is a framework whereby they can take advantage of relatively inexpensive Mexican labor, while remaining in close proximity to the US market. In order to take advantage of the duty-free access to Mexico the *maquiladora* needs to comply with a number of regulatory measures. The *maquila* program includes standard contracts and specifications as to wage levels, health and safety requirements, reporting to the Mexican authorities etc. Kongsberg Automotive established themselves in short distance from one of their most important supplier, TRW, and was in some areas able to draw from their experience.

#### **5.2.3.2 Transferring production**

Interviewed in retrospect, members of the management both in Norway and Mexico indicated that several fundamental mistakes were made during the transfer. This was in part attributed to the Scandinavian in charge of the move who did not follow advice from the head office, as well as other mistakes related to the attempt to *carbon copy* the production system. Still, the overall impression was that the transfer of production to Mexico was relatively smooth and occurred without major delays with orders. The

Scandinavian in charge of the move and of the Mexican unit after establishment had limited knowledge about Mexico. On the other hand, he was supported by the advice of TRW situated close by. The central management in Norway stated that they felt confident that local conditions were well handled. In addition the *maquila* program provided standards and contracts which reduced the uncertainty in terms of salaries, health and safety and other requirements.

The establishment of the Mexican plant was to a large extent viewed as a move of production from the U.S. unit, and the strategy was to use the same machines and production processes as earlier. Also, the technical infrastructure was copied, mainly based on the SAP system that is in use in the totality of the company. The system allows for standardized reports on a number of areas in production and accounting, and provides information to the individual subsidiary about the other units.

### **5.2.3.3 SAP and administration systems.**

Few problems seemed to be associated with the implementation and use of SAP in Mexico. While several respondents held that the formal training they had received on the system had been inadequate, the system was still seen as an efficient and useful tool. All respondents said they were able to utilize the system for their everyday tasks without much problem. None of the respondents felt the system hindered or complicated in an unduly manner how they performed their tasks, but rather they argued that the system saved time as it could easily provide them with the information they were in search of. However, they also held that when they had questions regarding the functioning of the system, no one in the Mexican organization had sufficient knowledge to provide support. At times they were able to solve the problems by consulting people in the U.S. organization, but the employees in the U.S. was also seen to be lacking in-depth knowledge of the system. They were therefore dependent on consulting colleagues in the Scandinavian units, and in particular those working with the SAP system in Mulsjø. However, time differences could at times complicate the matter as these people were not necessarily available when the difficulties arose.

While SAP was used to improve the communication flow between the Mexican and U.S. unit, it was not seen as sufficient for their interaction as later events illustrates. It could not replace the usefulness of an intranet which employees in both units argued they were in need of. An intranet was therefore later implemented without the knowledge of the central management, but I will get back to these issues farther below.

#### **5.2.3.4 The local organization.**

During the first months of establishing the plant, resources for technical support and training were provided from U.S. engineers and operators who went to Mexico on several occasions and stayed for weeks at a time. The initial training of the production workers took place in groups. Since one of the operators from the U.S. was Mexican-American this reduced some of the language problems.

In line with a well established policy in the company, production in Mexico started under a manager with ample experience within the company, and with close relations to the central management in Norway. The central management argued that it was necessary to have an initial leadership who could exert a certain control and secure that Kongsberg Automotive's policies were well established in the subsidiary. In the case of the unit in Mexico this meant that both the plant manager and the controller were Swedes. The production workers were mostly female, young and uneducated Mexicans who had moved from poorer regions in the south to find work in the north. Neither the plant manager nor the controller was able to speak Spanish. Hence, there was a serious language barrier. This limited the Swedish manager's ability to oversee and control the work, and hindered the communication between the management and the production workers, who hardly spoke any English.

The structure of the new organization was less 'lean' than what the central management in Norway had wanted, but it was considered a necessary adjustment to local conditions to have more of a "*hierarchy*" than in Norwegian or Swedish plants. The Scandinavian plant manager had two production managers answering to him. These, in turn, were in charge of four supervisors, who also were considered parts of the management group. While the transfer of production was considered to run fairly smoothly, allowing for an initial period of adjustment, with time it became clear that the productivity and quality was not reaching the expected level.

Explanations that were given for this situation centered on communication problems between the foreign managers and the Mexican employees, as well as on how certain middle managers handled their responsibilities. The language barrier between the local manager and the rest of the employees caused problems. The failure to speak Spanish was seen as a part of the reason for why examples of mismanagement were not discovered early enough. These examples include embezzlement by a middle manager and a bad working relationship between workers and managers. Both Scandinavian and Mexican respondents stated that certain middle managers had been reluctant to do tasks they considered below their position, and this caused difficult relations between the managers and production workers. However, the argument presented to the central management in Norway was that managers in Mexico would lose authority if they got too involved in

production and did menial tasks. On the other hand, most of the Mexican respondents we interviewed stated that they lacked trust in the capability of these managers and argued that their attitudes created a gap between the workers and the management.

To the central management, the failure to reach expected results had been explained by referring to the production workers. Most were unskilled women, with limited education. Many were also migrant workers, who had traveled to the border area from poorer regions, like that of Vera Cruz in the south. Because of their background, they were considered to lack socialization into an “*industrial culture*”, and to be of limited capacity when it came to training and the need for quality improvements.

In addition, the company experienced very high turnover, a problem well known in the *maquiladoras*. People would quit on a very short notice and many would not show up after major holidays. As the central management saw it, there was a high turnover because many of the women were migrant workers who were firmly tied to their home communities which they visited on holidays. It was also argued that these workers did not feel loyalty to their contracts or to the company as such. In the eyes of the local Mexican management, workers also had attempted to hide mistakes and scrap in production and that a focus on production improvement did not have the desired results. In response to these problems the local manager decided to consult the workers and simply ask what they felt could improve the situation. The suggestions from the workers concerned welfare arrangements and internal communication at the plant. In direct response to these suggestions free transportation to work was provided, the canteen facilities improved and more men were hired (!). However, little was done to address the communication problems and the social relations at the plant.

The high turnover continued, but as argued by several respondents this is a common problem to all *maquiladoras*. There is an abundance of work in the Rio Grande area as most *maquiladoras* are situated here, and while the standards are set by the *maquila* program, there are some differences in salaries and welfare arrangements. The introduction of the welfare arrangements mentioned above brought the company in line with other *maquiladoras* but there were no major advantages of working in Kongsberg Automotive Inc. that distinguished the company from others in the area. There are few advancement opportunities for workers in most of these companies, and workers may gain a slightly higher salary or better benefits by shopping around in the different *maquiladoras*. Furthermore, many workers in the Rio Grande area have migrated from Vera Cruz, one of Mexico’s poorer regions in the south. Several of our respondents were young girls who had left their children behind with their mother, and migrated 15- 16 hours to the north to find work. As most workers had only 5 days of vacation each year they were seldom able to see their families, and when they did go home some were of course reluctant to go back.

In addition, it was argued by the production workers that the company did not seem like a proper *maquiladora*. There were few employees compared to other companies, and the physical premises were small and untidy. It seems that some of the workers doubted the seriousness of the company and preferred to find one which they believed would be around for a longer time.

#### **5.2.4 Changes in the Mexican unit**

When the new manager was hired in the U.S. unit he also initiated changes in the local management of the Mexican unit. A Mexican plant manager was hired, replacing the Swedish manager. The new plant manager had ample background from the automotive business and was considered an expert when it came to quality and improvement techniques. Other middle managers were also replaced.

##### **5.2.4.1 Altering the production processes and organization structures**

The local management who were in place at the time of our study had other explanations for the initial problems with productivity, quality and turnover. The above mentioned attitude of certain managers was considered a plausible explanation, as well as the language barrier between the Mexicans and the foreigners. Still, the most important explanation according to these respondents was that the organization structure and the production system did not accommodate the education level and social situation of the production workers. The organization structure had two levels of managers between the production workers and the plant manager. The Mexican local manager argued that this hierarchical structure had complicated communication and the flow of information in the organization. Neither did the production system imported from the U.S. and Scandinavia as a *carbon copy* have the desired effects in the Mexican context.

The system copied was a so-called “*push*”-system. The machines situated at the beginning of the production line were set on the basis of abstract calculations as to what and how many parts one must produce per hour in order to achieve the target. Hence, the pace set by the initial machines is supposed to determine the tempo further down the line, where operators and equipment adjust to follow up and present the right amount of high-quality products in the other end. There is a relatively high amount of work-in-progress, since you have to be on the ‘safe side’ vis-à-vis problems that may crop up as the unfinished part is received down the line. In contrast, a so-called “*pull*”-system is one wherein the production schedule is the customer requirement itself, which is given to the final process supervisors in the assembly. This group, then, will somehow act on the customer’s behalf, ordering for ‘supplies’ from their lines. These orders are carried ‘backwards’ in such a way that each operator must request a certain number of



approved items from the prior station, in order to be answerable to the ‘customer’ who is next to him or her along the line. This requires less administration, in that orders are passed directly from each chain in the production to the next. According to our Mexican respondents it may make for better quality, in that the end producers set the time and numbers, and it is associated with the concept of “*just-in-time*”, since you are likely to have less work-in-progress than in a regular “*push*”-system.

According to the local manager, the “*push*”-system had been less effective in the new unit in Mexico, because it required more administration and made for less ownership and participation from the workers than a “*pull*”-system would do. The language barrier and the lack of education and work experience within the Mexican organization made the introduction of a “*push*”-system extra difficult. And the lower degree of ownership and participation that followed was to no advantage when it came to turnover reduction. The poor living conditions and poverty among the production workers made it difficult to implement the same procedures and production system as in Scandinavia. As the top manager explained, Mexican workers had difficulties concentrating on their job because they would worry about how they would get money for food for the family the same day, while Scandinavian workers would not have the same basic concerns. Hence, the production system and the procedures in Mexico would be better adapted to these conditions if one were able to prevent mistakes from happening than relying on documentation and training that would demand full concentration from each worker. Hence, quality issues needed to be handled in a different manner than in Scandinavia.

In cooperation with the local manager in the U.S. unit, the new manager in Mexico introduced the “*pull*”-system and changed the organizational structure. Two of the former organization levels were eliminated and team leaders recruited from the production workers themselves replaced the former supervisors. According to the production workers these were positive changes, which also entailed improved communication and social relations at the plant. Furthermore, the small size of the organization was now viewed as an advantage in that it allowed for advancement opportunities for the workers, something uncommon in most *maquiladoras*.

#### **5.2.4.2 A different management style**

The new local manager also introduced a different management style. The Mexican respondents, production workers as well as managers, stated that the fact that the plant manager was Mexican had improved the situation. He not only spoke their language but was also familiar with local cultural codes. In addition some respondents stressed that other factors such as personality and use of different communication forms also were a part of the picture. In contrast to the previous manager, he was often seen in the

production hall following up on production. He advocated an open door policy encouraging the employees to come with positive or negative feedback directly to him. As mentioned above, new practices when it came to participation and responsibility from the workers were also introduced, both through the “pull” system and the recruitment of team leaders. Also, opportunities to increase their salaries by passing exams or tests were introduced. Other, more symbolic efforts included a photogram of the organization with pictures of all the employees, and improved ‘canteen’ facilities with free lunch for the workers. Several respondents also made reference to a mutual “flexibility”, whereby workers accepted to work extra hours when the need arose, and the management in turn was flexible when it came to advance payment in times of need, sick leave, and the like. This implicit agreement which developed as the communication and trust between managers and workers gradually improved, allowed for more time allocated to quality improvement, and amongst other things, the development of a new testing machine. This machine was locally developed and according to our respondents able to detect more quality errors than its Swedish forerunner, and better suited to the conditions at this particular plant. However, the head office did not approve of such locally developed solutions as more variations in technical solutions made it difficult to provide support and service to the various subsidiaries.

#### **5.2.4.3 Cooperation with other units**

At the time of the second study, fourteen months later, drastic changes had occurred in the Mexican unit. Six months earlier they had expanded the plant facilities to double size, and hired 150 new employees. This happened as a result of increased orders from customers and was considered necessary to meet these orders. However, it had been a chaotic time period where too much had happened at once. Because of the war in the Middle East, customers in North America increased their orders to have a buffer in case of anticipated logistical problems. This came on top of already high volumes. The war also affected transportation of supplies to the Mexican plant and caused delays in shipments from Europe. There was no time to train the new employees above a minimum level, and quality issues ensued with delayed deliveries to important customers. At the same time both the Mexican and the U.S. unit underwent an audit in relation to the certification of the QS9000 with a disappointing result. They failed in the contract review, the auditor discovered incomplete specifications on several customer contracts. At the time of our study, Kongsberg Automotive Inc. was on probation with the QS9000. These problems had seriously put the relationship between the U.S. and the Mexican unit at a test, and the central management in Norway had intervened by replacing the local manager in the U.S. unit.

Our second study took place after the major summer holidays in Scandinavia and for most of the respondents in Mexico and the U.S. this had caused severe delays in their own work. They stated that when the plant in Sweden is to be the “*center of excellence*” and they have to rely on them for support, it became difficult when this ‘center’ is practically shut down for four weeks. Besides the problems with summer holidays in Scandinavia, most respondents said that the logistics between the various units were not too difficult. However, because of the high orders and the following challenges during the first half of 2003, earlier problems with logistics now came more to the fore. Some respondents held that there were wrong specifications on orders and problems as to shipments. We were told that because the different people who were involved in making the orders were situated in Mexico, U.S. and Sweden, the coordination was not always at its best and that this could cause misunderstandings and wrong orders. These problems were made worse by the fact that when materials arrived it was often too late to take corrective actions as new supplies would take too long to get.

There had been initiatives to search for North American suppliers. These initiatives were motivated by the need to reduce the costs of production in Mexico. Use of local suppliers would reduce the transportation costs, as well as time and risk of delays, so that one could run the plant with smaller inventories. While the policy was to use the same suppliers for all units this was considered more important in terms of materials for production than for example for tools or machine parts which were bought in smaller quantities. Even so, at the time of our second study, there had not been much progress in this area. Still, notwithstanding the improvement potential when it came to inventories and supplies, most respondents claimed that the most serious coordination challenges evolved around deliveries. Here, too, lack of updated specifications seemed to form part of the problem. Although some of this responsibility had been transferred to the US, most major revisions were still to be handled in Sweden. From there, we were told that they are not always communicated on to Mexico in time.

Some respondents, both in Mexico and the US, held that it was at times difficult to attain the support they needed from Sweden. It took time to get the support and they used too much effort to obtain it. Some felt that internal politics was the main reason for this. According to one respondent, there had been a marked change in attitude: In the past, the unit in the U.S. was not perceived as a competitor to the Swedish production plants, but as a unit established mainly to serve the American market. Now, the expansions in Poland and other parts of the world, and the success in Mexico could appear threatening for the Swedish employees. Hence according to some respondents there was a tendency to push foreign subsidiaries towards the lower end of the priority list, and serve domestic needs first.

It is important to note, however, that others did not agree. While indicating that a trace of protectionism might be present among the production workers in Sweden, other respondents stated that support might be more difficult to obtain for foreign subsidiaries simply because the Swedes, like all people, would prioritize those who were physically present and that it was easier to ignore an e-mail than someone standing in your office. Another result of what was seen as internal politics was that the “*Center of Excellence*” status of the plant in Sweden positioned this production unit as the best, and conferring the message to the other plants that they “*have to follow*” Sweden and “*cannot act without their approval*”.

Several respondents felt that the problems of coordination and communication between the units could be alleviated if there was more interaction between the respective departments, for instance if a representative from purchasing could spend more time in the US and/or Mexico. This way, prospective local suppliers could also have been evaluated more effectively. A recently established “*core manufacturing team*” was by the respondents considered a more promising development than the “*Center of Excellence*”. The core manufacturing team is a forum where the respective plant managers within the business area meet every six months, with the purpose of exchanging ideas and experiences. This forum is considered promising precisely because it can allow for exchange on more equal terms, while also facilitating exchange on a more informal basis, so that problems and ideas may be dealt with at the very moment they arise. On the other hand, at the time of our first study some respondents also related the supply and delivery problems to an acknowledged lack of resources in the Mexican materials department. This department had been strengthened by one more person only a few weeks prior to our first visit, but at the time of the second study the problems seemed to have continued. Now, our respondents had other explanations for the problems than what they had offered earlier and they were now emphasizing cultural differences as the main explanation. I will describe these problems as I later discuss the relationship between these two units, first some additional notes on the development of the internal organizations in Mexico and the U.S.

### **5.2.5 The expansion of the Mexican plant**

While denied by the management, there were indications from production workers that the very high increase in new employees has caused a larger distance between workers and management. Whether this was only a result of the high increase in new employees is hard to assess. But the expansion of the plant facilities, the high orders and the short time left for training of new employees had demanded full efforts from both workers and managers. And according to both production workers and managers, there were

some employees among the white collars who did not fulfill their responsibilities and in a time period with much stress this had become more visible. Indirectly referring to these people, the plant manager said that in the *maquila* industry many people had been trained by U.S. companies whose tendency is to provide specified directives to the Mexican managers, leaving little room for initiative. According to him, it was less interesting for a company like Kongsberg Automotive to hire such people because they were dependent on having people who had initiative and could work independently.

A few weeks prior to the second study, a Swede had been employed as logistics manager and logistics were the one department who had had the greatest difficulties during the last months. He had already employed a new manager who was going to replace one of the people who allegedly did not fulfill his job. So at the time of our study, measures had already been taken to improve the situation internally, and we were told other changes were also on the way. According to the Swedish logistic manager and others among the white collars, the time when the local plant manager could have complete overview over production and be involved in most decisions had changed. The unit and the production were now too large and there had to be changes involving better coordination through scheduled meetings and more delegation of responsibility to lower level managers.

Despite the difficult period which had passed there were few complaints among the production workers, most of them were positive to the enlargement of the plant and the fact that it increasingly seemed as more of a 'proper' *maquiladora*, indicating that the company had a serious and long-term perspective. Discussing the high increase in new employees most of the production workers were concerned about the lack of training, but this was a problem also acknowledged by the local management who were prepared to provide more training as soon as it was possible. According to the local manager, earlier new employees had been trained by the team leaders, but during the expansion period their capacity was not sufficient so operators who were considered good and experienced had been promoted to trainers. On the positive side, the expansion had led to a strengthened focus on HSE<sup>3</sup> and a nurse had been employed at the plant. While lack of time and resources had characterized the last half a year, the former 'open door' policy between workers and managers had been preserved. Like before, the team leaders would approach the management on behalf of workers in their team and our respondents agreed that they were taken seriously and that the management would listen to them. Despite having gone through several months of high orders and turmoil at the plant there were no major complaints about internal conditions. However, several stated that a major reason

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<sup>3</sup>) HSE; health, safety and environment.

for the problems during this time period had been lack of resources and time, but this had mostly affected the relationship between the U.S. unit and the Mexican plant.

### **5.2.6 Changes in the U.S. unit**

The local manager in the U.S. unit left his job a couple of months prior to our second study. This was due to communication problems and divergent opinions between him and the central management in Norway. These problems concerned especially what was referred to as an “*extreme customer orientation*”. After the period of expansion and the problems that ensued, he was now considered the wrong man on the job. He lost the responsibility of the Mexican plant in November 2002, and the Mexican unit thereafter reported directly to the Business Area Manager in Sweden. Only a few days prior to our study a new local manager had arrived to the U.S. unit. He was a Norwegian with long experience within Kongsberg Automotive. He had until recently had the responsibility for the Business Area Truck and was considered to have more strength in terms of technical expertise than the former manager.

There had been other changes in the U.S. unit as well, the design department had been strengthened in terms of two new employees and some other employees had been replaced. This is a change which can be seen as a result of the ongoing pressure from the U.S. unit that the products demanded by North American customers needs to be different than those in Europe. The design department had more resources to accommodate the specifications from their North American customers and was less dependent on the R&D department in Sweden. The six months prior to our second study had been a difficult period for both the Mexican and the U.S. unit. There had been delays and mistakes on the deliveries to the customers, and in both units a part of this problem was explained by lack of procedures and work instructions. As a result there had been efforts to translate and adapt instructions from Sweden to a North American context. However, our respondents recognized that this had taken a lot of effort as much of the instructions and procedures needed much adaptation before they could function properly in the new context.

Few of the employees had been able to talk to the new Norwegian local manager yet, but were positive to the change and seemed to have high expectations. One of the issues the production workers in particular, were focusing on was that they hoped that internal relations in the plant could now be improved. As mentioned above, this was an area that had been partly neglected by the last local manager in the U.S. This was a neglect which according to our respondent had deteriorated and was now also seen to affect the quality of the design of the products. While the design department had been strengthened, the communication between the prototype workers and the designers had

deteriorated, and was seen as one of the reasons as to the problems between the Mexican and the U.S. unit. The production workers hoped that the technical expertise of the new manager was going to be helpful in improving the communication between them and the designers because, as they argued, an important reason for the problems the past half a year were related to designs that were too difficult or impossible to mass produce. Also other employees, who were not part of sales or design, felt that the internal relations at the plant could improve. These people felt that they were not involved enough or did not receive adequate information. However, also according to these respondents the most difficult issues the past months were related to communication and the passing of information between the Mexican and the U.S. unit.

### **5.2.7 Relations between the Mexican and the U.S. unit**

At the time of our first study, the respondents in the US unit saw difficulties with shipments from Mexico as a major problem. According to these respondents shipments from Mexico to customers were delayed, sent to wrong customers, with wrong parts and wrong specifications. As mentioned above, several respondents from the US unit felt that lack of support from Sweden attributed to this problem, but a majority still indicated that the root of the problem was to be found in Mexico. This was explained by too few resources in the Mexican unit and that time pressure and stress caused these errors. At this time nobody questioned neither the competence of the Mexican employees nor their willingness to cooperate. Rather the argument was that if the Mexican unit had more resources and hence, also time to visit customers and build relations directly with the customers, the situation would improve. A desire to get more in touch with the customers was also expressed by people from the Mexican materials department themselves.

In the Mexican unit, most respondents felt that limited coordination between the U.S. and the Mexican unit was the major cause of the problem. People in the different places were responsible for different tasks, and many of them felt that they were lacking time and/or means to link together, to create a well-functioning totality and meet customer demands. In general it seemed that because the coordination was based on impersonal communication through e-mail or phone there were a number of misunderstandings, and that lack of time and resources further deteriorated these problems. Language differences were also considered an explanation for the misunderstandings. Several said that it was only when they had a chance to meet in person that they really felt they reached a complete understanding. The attitude of most respondents was that this would improve in time and that it was a learning process where they gradually would find solutions to their problems. Although it sometimes complicated the workdays, especially for management in higher positions, most respondents felt that these challenges were manageable.

One attempt to improve the communication between the units was the development of an intranet. A project initialized by the head office to develop an intranet for the whole company had long been delayed. In secrecy, the US unit had develop their own intranet to be used in the coordination between the US and Mexico, as they felt they could not wait any longer for the project from Norway.

### **5.2.7.1 Cultural differences**

At the time of our first study few respondents indicated that cultural differences between the units were an explanation for the coordination problems. Although some US respondents felt that it was difficult to get clear answers from their Mexican colleagues, this was not presented as a major problem. According to these people's statements, Mexican colleagues repeatedly gave the impression that they agreed to do things, like to return phone calls or to send stuff, but in the end they often failed "*to work as they are asked.*" On the Mexican side, there was a feeling that Americans from time to time were too harsh in their way of approaching people. While Swedes were described as "*quiet*" and "*soft*", "*nice people, but not too active*", some respondents described their colleagues from America as people who "*talk fast and too much*". Despite these attitudes cultural differences did not seem to be applied as the main explanation for their coordination problems. However, at the time of the second study this had become a common explanation for most respondents. As mentioned above, the second study took place after six months of difficulties in the company. It was apparent that what had earlier been referred to as minor coordination problems, were now seen by both units as the main cause of their problems. In both units the problems were attributed to lack of competence, and to a lack of understanding in the other unit. Cultural differences where the U.S. employees were described as too willing to give in to the customer, and where Mexican employees were described as failing to understand the need to accommodate the customers was now a recurrent theme in the interviews. However, respondents still discussed lack of resources and of interaction between the two units as a cause of the problems. The division between the tasks undertaken in the U.S. and those in the Mexican plant was, by both units, associated with frustration. The social, cultural and geographical distances between designs and sales in the U.S. and production in Mexico were now perceived as large obstacles towards cooperation and coordination. In both units there was a call to get more engineering resources in the Mexican plant, but this had not happened and was according to our respondents not likely to happen in the near future.



### **5.2.7.2 Support from Scandinavia**

As seen above, the central management decided that the Mexican unit was to report directly to the Business Manager in Norway from November 2002, and the manager in the U.S. unit was fired in the beginning of the summer 2003. In addition, at the time of our second study, new procedures imported from Sweden were introduced. These were directed towards coordination of customer orders. The new local manager brought in from Norway was also seen to have more of a technical understanding of the production process than his predecessor, as well as a tougher attitude towards the demands of the customers.

On the other hand, for many respondents neither the central management nor the business area manager were very visible. Several felt that the business area management did little for their cause; that they showed limited enthusiasm for ideas and suggestions from the U.S. and Mexican units and took a relatively passive stance vis-à-vis problems and conflicts which arose. When problems occurred between the U.S. and the Mexican unit the first half of 2003, several respondents said they had expected a more active approach from the business area management to attempt to solve these problems, but were disappointed. The meetings with the business area manager during this time period were described as superficial. On the other hand, as described above, the central management did intervene by first removing the responsibilities of the local manager in the U.S. unit for Mexico and later replacing him. According to some respondents, the central management did react, but stated that the reaction came late, and was followed by too few resources to aid the situation. According to one respondent, they only caught the attention of the central management when they needed to rent planes to fly in supplies from Scandinavia to Mexico in order to fulfill their obligations to the customers.

One of the new procedures which was imported from Sweden, the AR 147, was expected by several respondents to better define the responsibility between the two units, and improve the communication. Most respondents found that the difficulties they had experienced prior to our second study had been frustrating because the same problems were seen to be reoccurring time and time again. Respondents in both units stated that they felt the reasons for the problems they had experienced the last half a year had not really been solved. Everybody had improvised to fix problems on a short-term basis, but nobody had been able to remove the “*root cause of the problem*” as one said. Most respondents agreed that there was a need to implement better procedures for coordination between the units. However, there were complaints that the head office had not provided them with the procedures, and that the manuals they recently had received were difficult to adapt to their needs. The respondents stated that they felt there had been a lack of support from the central management on these issues.

### 5.3 Summary

When Kongsberg Automotive bought the U.S. unit from Scandmec AB in 1996, the cost level development in the USA made it difficult to have profitable production in the area. The situation was worsened by what has been implied to be a level of mismanagement at the unit at the time, so when the new owners of the company were in a position to decide the establishment of a factory in Mexico, the U.S. unit was downsized from 115 to 15 people in less than a year. The new factory in Mexico, situated in the Rio Grande area, profits from the duty free customs regime of the *maquila* industry. Supplies are imported to Mexico without tax, manufactured by cheap Mexican labor, and exported to the USA again without any additional costs.

When Kongsberg Automotive established the Mexican plant the main strategy was to *carbon copy* the production processes and organization structures from the U.S. and Scandinavia. The first attempt to adapt to local conditions involved a more hierarchical organization than what was considered the norm in Scandinavia. The distribution of tasks and responsibilities in Mexico also allowed middle managers to demonstrate that their positions had a higher status than employees on lower levels. However, after a while it became clear that neither the Mexican nor the U.S. unit was meeting expectations, and managers in both units were replaced. Instead of relying on managers who had experience from Kongsberg Automotive, two managers who were familiar with local conditions and had experience from the global automotive industry were hired.

Both of these approached their tasks and local organization differently than their predecessors. The manager in the US gave a new boost to the local employees who for a long time had called for an increased customer focus. The local Mexican manager altered the production system which had been copied from the U.S. and Scandinavia. It was changed towards a different logic which demanded less training and concentration from the local employees. He also initiated the development of a new testing machine that was better adapted to the local conditions and local employees than alternative solutions within the company. Both were considered successful in their endeavor, and had achieved positive results at the units. However, the U.S. manager had an approach which some called "*extreme customer orientation*", which finally led to his departure from the company.

While having extensive communication with the head office in Norway, the units of the U.S. and Mexico are highly interdependent and need to maintain a high level of coordination and communication between them. During the winter of 2003, their orders and production volumes increased and both units came under a higher pressure than earlier. The next months revealed flaws in their coordination, and an audit for the QS9000 demonstrated incomplete specifications on customer contracts. During the summer of

2003 employees at both units were blaming each other for the problems, and cultural issues had now come to the fore as explanations for the other's behavior. While the head office intervened in this situation by replacing the manager in the U.S. and the reporting channels for the Mexican manager, several respondents said they had expected a more active and interested approach from the head office. The new top-manager in the U.S. is a Scandinavian with long experience within the company, and who is expected to have a better chance of balancing between the demands of production and that of the customer. This is a focus which respondents in the Mexican unit also asked for.



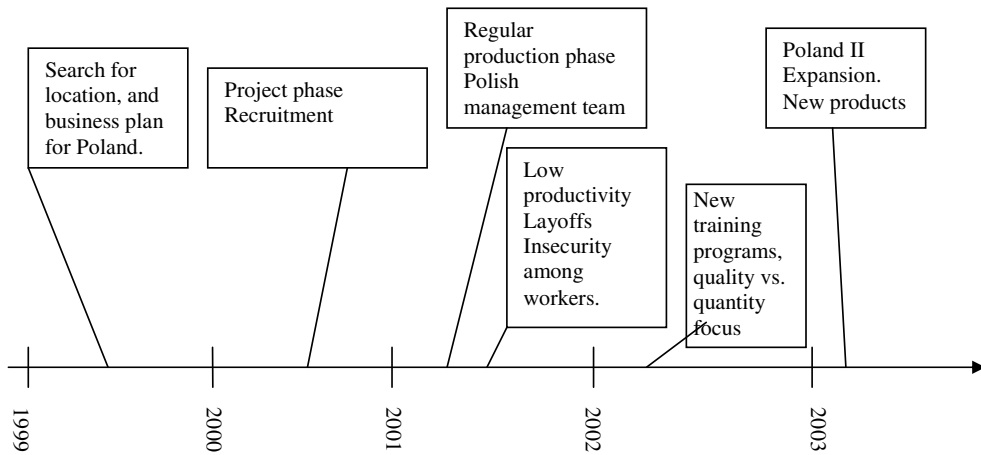
## 6 The local organization in Poland

### 6.1 Introduction

The following chapter will focus on the establishment of the Polish factory, from the early planning phase to the regular production phase. This chapter is based on three visits to the factory, in October 2001, April 2002, and again in June 2003. During the first and last visits we conducted interviews, while during the second one we were able to have informal talks with managers who had been involved in the establishment in Norway, Sweden and Poland. During the autumn of 2001 we also interviewed members of the project management, Swedish trainers, and other involved personnel in Åmotfors, as well as at the head office in Norway.

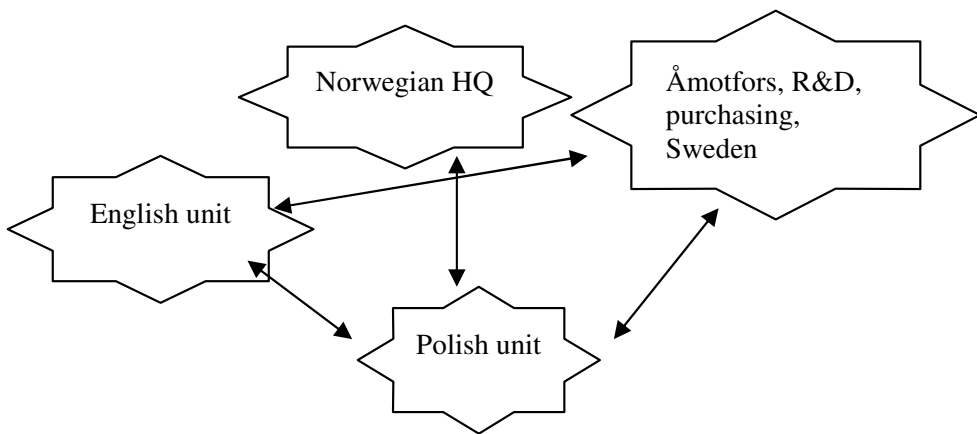
The factory was established in Pruszkow, Poland in 2000. Kongsberg Automotive leased a building in Millennium Park, an industrial park outside Warsaw, and refurbished the building to make it suitable for the production of seat heaters. The establishment of the Polish factory can be described in three phases; the project phase, the regular production phase and an expansion phase. The project phase was under the leadership of a Swedish manager, the regular production phase started in March – April 2001 when production had moved to the permanent factory and the Polish managers took over, and finally the expansion phase was initialized with the construction of a new factory and the recruitment of approx. 100 new workers.

The internal conditions at the plant in Poland became strongly characterized by the differences in approach between the first Swedish manager, and the later Polish management team. The workers interviewed in 2001 and 2003 described an internal atmosphere which was tense and where information and communication lacked between the management and the production workers. The development in Poland was also largely dependent on cooperation with Åmotfors, the Swedish plant producing seat heaters, and with the Norwegian head office. As I will look at below, the cooperation between these units had a large bearing on the results.



**Figure 6-1 Development of Kongsberg Automotive Sp. zo.o., Poland**

The figure above posits the main events of the development in Poland at different points in time. As the discussion below will reveal, the development may be seen as a process where both the internal organization as well as the cooperating units in the company have needed to adjust to find workable solutions. The main units which were central to the development of the Polish unit are illustrated below.



**Figure 6-2 Units cooperating with the Polish plant**

## **6.2 The project phase**

Kongsberg Automotive started the first investigations to find a suitable place to establish a factory in Eastern Europe during the first half of 1999. A desire to lower production costs and to be close to the markets in France and Germany were the main reasons why the company wanted to establish themselves in Eastern Europe. Most of their competitors in the German market had established themselves in the region and were able to benefit from the low labor costs in the area. In addition, because of increased orders there was a need to increase the total production capacity in seat heaters. The existent factory in Sweden was already running at its fullest capacity and the factory in England was not meeting expectations and was running at a loss. When Industri Kapital bought the company in 1999, they also brought the decision-making power to move forwards with establishments abroad.

A project group was established which investigated a number of different sites in Eastern Europe. It was headed by a Swedish manager who had previous experience from establishing production units abroad, both within KA and from other companies. The other project members had less international experience, but were key personnel in their respective fields.

The different locations that were considered most closely were Poland, Slovakia, the Czech Republic and Hungary. These sites were considered based on a number of criteria such as labor costs, infrastructure, unemployment, education level, proximity to the German market and whether there were other companies they could cooperate with and draw experience from. Suitable sites and buildings were located and contacts established, but some of these contacts were opting for a joint venture, which KA wanted to avoid. Other areas could offer lower costs like the economic zones in Poland, and for example Slovakia because of its salaries.

The most promising alternative, however, was finally Pruszkow on the outskirts of Warsaw. A major supplier to KA, TRW Automotive<sup>1</sup> was already established in Millennium Park in Pruszkow, outside Warsaw, and was ready to share their experience with KA. Millennium Park is an industrial park, but also a historical site that was used by the Nazis during the Second World War to detain Jews before they were sent to concentration camps. Production facilities were available in the park, even though some refurbishment was necessary and that due to its history, the building was under restrictions as to outside changes. It was also considered easier to recruit management in this area of Poland.

The final decision was taken by the company's board and was based on information

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<sup>1</sup>) TRW is a North American company supplying electronic components. See also: <http://www.trw.com>

gathered by the project manager, who had consulted the Swedish Trade Council, the Swedish Embassy and other companies such as Volvo and Scania who were present in Poland. The criteria mentioned above were considered, as well as national legislation. The decision was based on economic calculations as well as access to suitable facilities. The board was presented with a business plan for the establishment and approved it in June 2000.

During our interviews in September – November 2001 some of our respondents criticized the planning phase for not being detailed enough and for relying too much on the information from one person, the project manager. These respondents argued that a more informed decision could have been taken if there had been closer cooperation with Poles who had knowledge of the region and the automotive industry in the area. The business plan was also seen to be lacking detailed plans of how the factory was to be set up. Especially our Polish respondents who were frustrated over what they saw as unnecessary problems, which they believed could have been avoided with a more thorough planning process. However, the central management found it more important to get started and rather be prepared to handle the problems as they appeared. As one argued, even if you have a detailed and expensive planning phase you will never be able to avoid problems. Rather it was considered important to be flexible and be prepared to change. Other respondents recognized that a more thorough planning process would have been advantageous, but doubted that it could have been possible because of the relative small size of the company and its limited resources. It would have been too expensive to conduct a more detailed planning process.

The establishment in Poland consisted both of transfers of production lines from the factory in England as well as the Åmotfors plant in Sweden. The production lines transferred from Sweden were those requiring the most manual labor. It was their so-called Flex production which was difficult to run economically in Sweden. The Flex production is labor intensive and the machines are old. In addition to the Flex production, several products named Sinus were moved. The Sinus production requires other machines and production processes than the Flex – products. Not all the Sinus products were moved and this caused split production chains between Åmotfors and Pruzkow. After some time the Polish factory also started to produce cable mats for other units in the company. During the first year over a hundred different products were moved from England and Sweden to the Polish factory.



### **6.2.1 Establishing the factory**

As in the case of the establishment in Mexico, the company was able to rely on the advice of one of their most important suppliers, TRW, when establishing the plant in Poland. TRW who was already established in the industrial park in Pruszkow provided copies of their contracts and in various areas Kongsberg Automotive was thus able to blueprint their work. Kongsberg Automotive relied heavily on the support and advice from TRW. With the aid of a Polish lawyer, the building was rented through Millennium Park. In retrospect, the Polish respondents, however, were critical to the advice and support provided by TRW and the Polish lawyer. It was argued that the lawyer had not acted independently as she also had Millennium Park as clients and TRW's advice was criticized for being misleading because they were seen to be deliberately concealing information and because the situation in the two companies was not comparable. There was speculation as to whether TRW were trying to avoid pushing up the salaries in the area and therefore provided smaller figures than what they themselves were paying. The important conclusion for the Polish management was that they believed the head office in Norway should have been more reluctant to copy the advice from TRW, and been more open to make modifications more suited to their own needs.

#### **6.2.1.1 Recruitment**

The recruitment process started in July 2000. The managerial positions were advertised in a Polish newspaper, and a local agency was hired to aid with the recruitment of operators. The Swedish manager of the project group was leading the recruitment process, but was soon assisted by the first Polish employee, the present administration manager. She came recommended by the local city council in Pruszkow, where she was a member. The HR-Department at the head office was also involved in these processes, both when it came to selection criteria and in interviews for the managerial positions. Also managers in corresponding positions in Norway and Sweden were acting as advisors when selecting appropriate candidates in Poland.

As it turned out, Kongsberg Automotive had advertised the managerial positions at a very fortunate time. General Motors had shortly before decided to move from the central region around Warsaw to the southern part of Poland, and managers who were not interested in moving to the south were now looking for new positions in the Warsaw region. The three candidates who were selected for the positions as plant-, logistics- and quality-manager had extensive experience from the automotive business and from international companies. In addition we were told that they also were selected on the following criteria:

- Good knowledge of English
- Experience with SAP
- Interpersonal skills
- Knowledge about continuous improvement techniques in production

It was also argued that they expressed a willingness to personally dedicate themselves to creating the new factory in Poland. The plant manager was later described to us as a particularly strong and goal-oriented person, who could achieve things with a strict discipline. Together with his background, he was considered likely to fulfill the enormous task of establishing the factory and to reach the expected goal of profitable production within less than a year. However, it was acknowledged that he was perhaps not so strong when it came to personal warmth and closeness. As we will see later, his interpersonal skills became a problem in regards to the employees later in the process. The three managers started working in September - October 2000.

By this time 15-16 operators had already started working. The Swedish project manager participated in some of the interviews with candidates provided by the local agency, but it was mostly the administration manager who was in charge of these recruitments because of the language barrier. Most of the regular operators who were hired were unskilled, with no educational background above elementary school and most were women. In the fields of maintenance, repairs and electricity skilled workers were employed. The aim was to find people with backgrounds from industrial work even though they did not have the formal schooling. Another criterion was that a workforce from the local community would provide a more stable work force. Few of the candidates had former experience from industrial work, and experience with handicrafts, like embroidery, was therefore sought after. This was considered appropriate experience since the work consists of assembly work requiring a certain handiness. There were few other requirements, and because of the high unemployment rate in the area it was relatively easy to find suitable people.

According to the Polish respondents, the wages offered were low, but the promise of a raise after six months was considered an important incentive. The majority of these female workers had been unemployed, in school or at home before they took the job, and had been desperately looking for a source of income. Their expectations towards their new job were simply to earn money, but they had thought it would be physically lighter and less stressful than what it turned out to be.

### **6.2.1.2 Scandinavian living-room<sup>2</sup>**

When these operators started working, the factory building was being refurbished and an intermediate workshop had been put up in a nearby building. The operators started practicing soldering and assembly tasks, and their work was being led by the Swedish project manager. Workers from the Åmotfors factory in Sweden were brought down and functioned as trainers for the Polish operators.

The respondents involved at the time described the initial phase as a very positive period. There was a feeling that everybody was cooperating and that managers and workers were equally important in creating something new. Several said they had been personally involved and committed to the task, and felt they had an equal say in how things were to be. The rooms had been crammed, and the gas heating had created smoke and unpleasant fumes, but it was the physical closeness within the group that the respondents emphasized. The Swedish project manager was referred to by the workers as a friend, and there had been an informal and friendly atmosphere. This feeling of equalness and warmth was by these workers contrasted to the later phases when production moved to the permanent building, the Polish managers were in place and more people had been employed. On the other hand, respondents from management in Norway referred to this period with disdain and said the Swedish manager had created an atmosphere which was too relaxed and friendly, referring to the intermediate workshop and the mentality the manager had created as a “*Scandinavian living-room*”.

Production was moved to the permanent building during December – January 2001, and the production of large series began. However, the plant lacked material and the production almost stopped for two weeks after the transfer to the permanent facility. Shortly after, the plant received a lot of materials and was expected to produce high volumes of very many different article numbers. The organization was not prepared for this. According to the respondents the friendly atmosphere was also somewhat lost in the move, and employees at every level of the organization felt an increased pressure from the customers and central management in Norway. During the first months at the permanent building, productivity was lower than expected. According to the respondents there were different reasons for the problems. The orders were higher than earlier expected, the range of products transferred to Poland was wider, and there were problems with material supplies from Åmotfors. Some respondents also explained the low productivity by referring to the competence level of the Polish operators. They had limited experience with industrial work and were therefore perceived to lack an understanding of how important quality was. In addition, these respondents stated that there was

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<sup>2)</sup> The term used by the respondent was in Norwegian ‘Skandinavisk varmestue’.

confusion because of the different approaches of the Swedish project manager and the Polish management. While the Swedish project manager aimed to motivate the workers through participation and friendliness, the Polish management emphasized a stricter authority, discipline, clear expectations and demands. Because of these contradictory signals it was claimed that the workers were confused and did not know how to behave.

More people were hired to aid the low productivity, but this did not have the expected results. Rather, it aggravated the problem since experienced workers now became occupied as trainers for newcomers and did not have time to produce themselves.

### **6.2.2 A closer look at the problems**

Both the transfer of products, materials and machines from England and Sweden, and the transition between the project management and the Polish management resulted in unforeseen problems. According to the respondents these were mostly related to the competence level of the workers and their training, the product range that was transferred, the logistics involved, the communication between Sweden and Poland, and the Polish organization.

#### **6.2.2.1 Competence level**

Even though the workers who were recruited at the first stage had little or no experience of industrial work, there were no complaints as to their competence level in the beginning. They were described as highly motivated and fast learners. But when new employees were hired during the fall of 2001 our respondents seem to agree that these had lower competence than the first group. Several workers stated that they lacked motivation and understanding of how to do their work during this period. They were also described as somewhat passive and subservient in comparison with their Scandinavian colleagues. The workers recruited at this time were younger, had little work experience and fewer had family obligations. These might be some of the reasons why they were less motivated and less disciplined than the first group of employees. On the other hand, they also received less training and were employed at a time when many new products were introduced in the factory.

#### **Training**

The first group of workers who were recruited were able to train in the intermediate workshop. Trainers from the factories in England, USA and Sweden came over and there was time set aside for practice. During this period, the different products were introduced one by one. To alleviate language problems an English language course was offered, which most of the Polish workers participated in and said they appreciated. Still,

the training was complicated by language problems. No translators were hired, and even though managers helped from time to time, there were frequent misunderstandings. In addition, it turned out that the English, US and Swedish trainers had different opinions as to what the quality standards were. The various units had different quality standards based on variation in customer demands. The result for the Polish workers who were under training was confusion and increased insecurity as to the quality of their work.

Few of the trainers who were in Poland had any experience with teaching, and in addition not all had much experience from the production line. In Sweden for example, the workers with most experience had not been willing to go to Poland because they were not offered compensation or help with child care and other family obligation. Hence, several of the trainers were young and fairly inexperienced. The trainers were in Poland to demonstrate how they themselves performed the tasks, but it was difficult to explain and communicate the practical skills they themselves took for granted. There had not been any discussion nor preparation for the trainers before they left which could have helped prepare them for their roles as teachers.

These problems were acknowledged in retrospect both by the trainers themselves and by people in the project group. In addition, the specifications and technical drawings transferred from England and Sweden were not updated or detailed enough. The trainers did not have authorization to change the drawings, even though they could identify the mistakes and lack of updated information. The middle managers in Poland, who were also attempting to learn the production, were therefore constantly checking with colleagues in Åmotfors to confirm changes or investigate mistakes.

As more and more workers were employed and the expectations to reach an acceptable level of productivity rose, the time left for training was drastically reduced. Respondents hired in February – March 2002 stated that they had received two-three hours of training and were thereafter expected to produce.

Respondents in Sweden and Norway stated that one of the major problems at the factory in Poland was that the workers lacked an understanding of the industrial culture and the demands of the automotive industry. However, there were no attempts at explaining or introducing the workers to these issues during this period. According to the Polish workers we interviewed, one of the issues they were insecure about was what the company expected of them. The product range introduced to Poland aggravated these problems, as a great variety in products made training even more difficult.

### **6.2.2.2 Product range**

Many of the products transferred to Poland were ‘problem products’ to begin with. They were based on old technology and the demand for them was so small that it was hard to make a profitable production. In addition, a very high number of products were transferred, which resulted in a great variety in supplies, technical drawings, machines, spare parts, assembly operations, production lines and so forth. While the Flex- production was old and hard to make profitable, another concept, the Sinus, caused a split in production chains and required close cooperation between Pruszkow and Åmotfors. The logistical challenges involved brought additional problems. Furthermore, the computer system, SAP, which was to support the production and the interdependency between Sweden and Poland were not adapted to the Polish language or to local regulations and laws.

While the transfer of these products caused problems in Pruszkow it was considered a necessity for the company to move this production. Åmotfors had no longer the capacity to produce these products and if they had not been transferred to Poland, an intermediate factory in Sweden would have been necessary to establish. What further complicated the transfer was that the some of the same products had earlier been moved within the factories in Sweden, and those people who had the most experience with the products were not working in Åmotfors. According to the central management in Norway, the transfer of these products was necessary considering the company as a whole, even though it complicated the start up in Pruszkow.

### **6.2.2.3 Logistics**

The production in Pruszkow was to a great part dependent on cooperation with Åmotfors also after the machines and products had been transferred. Pruszkow received much of their supplies from Åmotfors, mostly materials but also half-made products for production. In addition, the factory in Poland and its production had not yet been approved by the customers, so products produced in Poland had to be sent back to Åmotfors for quality checks before they were shipped to customers. This complicated the administration and made for logistical challenges. According to the local management in Poland the fact that they were not able to take full advantage of the SAP complicated the coordination further.

### **6.2.2.4 Flow of materials**

One of the major problems during this period was a delay in materials from Åmotfors. Even though products had been moved to Poland, Åmotfors had high orders and were behind schedule to complete their own orders to customers. Because their customers ex-

perienced delays, the customers further increased their orders to make sure they would have enough supplies for their own production. In the original plans a safety stock was supposed to have been produced in Sweden in order to avoid these problems, but this had not happened at least not to the extent it was supposed to have been.

On the other hand, several respondents stated that the problems with the flow of materials from Åmotfors could not be explained by external pressure alone. Deliveries from Åmotfors to Pruszkow were at times late, of poor quality and incomplete. According to the respondents in Sweden there had been a lack of procedures and responsibilities as to the deliveries to Poland. In addition, as several had observed, the products sent from Poland to Sweden underwent a tougher quality inspection than what was customary at the plant. As some said, the employees in Åmotfors perhaps did not mind if the factory in Poland had problems. Even though the capacity in Åmotfors had been at a bursting point before the move and there had not been any layoffs, there was still a fear that local jobs could disappear to a cheaper country such as Poland. After some time, one of the production managers in Åmotfors was put in charge of the deliveries to Poland, and Pruszkow was also able to receive the customer approval for production. These two factors made for improvement in the coordination between the units.

#### **6.2.2.5 Documentation**

Another problem, as mentioned above, was lack of proper documentation. This concerned technical product drawings in particular, but also manuals for machines and production processes. The major reasons for these problems were that the factories in Sweden had produced the products for years, and when customers had demanded changes in the products the respective drawings had not been updated. This had not been a problem in Sweden as those responsible knew the changes, but it resulted in difficulties in Pruszkow when this knowledge was lost. It complicated production and training of the workers, as well as the customs handling of the products when sent across the Polish border.

Many Scandinavian respondents confirmed this, but some also attributed this problem to the Polish culture and history. Some described the Poles as bureaucrats who were not willing to be flexible and who demanded too many specifications before they were willing to start production. This attitude, by these respondents, was attributed to their history of communism.

#### **6.2.2.6 SAP and administration systems**

As mentioned above, the computer systems which were to support the production in Pruszkow as well as the cooperation between Poland and Sweden, were not working properly during this period. The most serious challenges were related to the use of SAP.

Polish laws and regulations required several types of reports that the SAP could not provide, and some of these reports had to be provided in Polish, which contains letters that cannot be run on the same platform as the Roman alphabet. However, these problems were gradually resolved. Polish authorities offered a dispensation whereby all reports could be provided in English, whereas SAP was adapted to other of the local requirements. For some time there were two parallel systems in use, one which accommodated the company's requirements and another for Polish authorities.

While the SAP was not adapted to the Polish language and requirements, there were also problems related to coordination of logistics between Sweden and Poland. While some respondents claimed that this was caused by the SAP system itself, others said this was due to lack of experience and knowledge among the Polish staff who did not know how to use the SAP. It was argued that the Polish managers had claimed they knew how to use the system when they were hired, but that this did not hold true. Others, on the other hand, said the use of SAP had caused problems in other units as well, especially in the implementation phase.

When the SAP complicated the logistics between Åmotfors and Pruszkow this was further aggravated by lack of communication lines between the two units and frequent misunderstandings. The period of transition between the Polish management and the Swedish project leader also involved its difficulties.

### **6.2.2.7 Communication**

One of the difficulties was the lack of a coordinator in Åmotfors, as already mentioned above. When someone in the Polish management called Sweden for help it was often difficult to find the correct person to talk to, mostly because they lacked knowledge of the organization in Åmotfors. When the Swedish project manager called, he knew who to talk to, but would sometimes call subordinates in the organization and hence step outside the established hierarchy. This caused problems because the managers in Sweden would not receive the information they were in need of. There was a lack of proper communication channels between Poland and Sweden in the sense that they may either have been poorly defined, or may have been inefficient so that people chose to ignore them.

There were also different opinions between the Poles and the Scandinavians as to problem definition and the correct way of solving these issues. In general, the Scandinavians had a more informal approach and resorted to solving problems as they occurred. The Poles, on the other hand, were asking for procedures and said they felt the company should be organized better. From their point of view, there was a lack of defined responsibilities and authorities.



Educational and cultural background was partly used as an explanation for this. As mentioned above, the Poles were characterized as bureaucrats because of their history of communism. The Polish respondents themselves related their concern with procedures and documentations to their experience in the international automotive industry. The education level among the Polish managers was higher than the average of their Scandinavian colleagues, and the three most central managers had all worked for large U.S. automotive companies. The Scandinavians had long experience within the automotive industry as well, but from European automotive companies and Kongsberg Automotive itself.

In the eyes of the Polish workers there was a big contrast between the high degree of informality the Swedish project manager handled things with and the ways of the Polish management. As mentioned earlier, the social climate at the plant deteriorated when the Polish management took over. These problems came more to the fore as the regular production phase was initiated in March – April 2001.

#### **6.2.2.8 Organization**

The organization in the Polish factory was initially set up similar to other organizations within the company. As presented earlier, a ‘lean’ organization is a prevailing principle within the company, avoiding a tall hierarchy and personnel in assistant positions.

##### **Production teams**

In Poland, teams for organizing the production workers created initially. These were led by a team leader who answered directly to the local manager. The team leader were responsible for providing materials for his team, planning production for the team together with the plant manager, and for making sure that the team members are cooperating well and for acting as their spokesperson towards the management. The teams functioned well initially. However, when all the products had been introduced and when they were expected to take full responsibility with less aid from managers, the situation became difficult. According to respondents from the management, the tasks became too complex, and they had expected too much of the teams. The explanation given was that the workers were not competent and experienced enough to work as independently as the team model requires. On the other hand, another explanation might be that the changed management style brought in by the Polish management perhaps did not provide the necessary preconditions for such a model. As I will have a closer look at below, the atmosphere at the plant became less characterized by participation, openness and trust after the Polish management took over.

In order to help the teams, a traditional foreman position for the different shifts was

introduced. By the Scandinavian respondents this was seen as an intermediate solution, whereas the Polish managers argued that it was necessary in Poland to have one person present all the time who was qualified to be responsible for the production. When the management finished their workday it was considered necessary to have a person in place during the evening that could be legally responsible for the plant, and authorized to make decisions about the production. Even so, the Polish management also stated that in time they were hoping to make the teams more independent so that the task of the foremen would be to support, rather than to direct.

### **Hierarchy**

Considering the organizational level above the teams, our Scandinavian respondents felt that there was an unnecessarily large organization developing in Poland. In their view there were too many middle managers employed. According to the Polish, there were other tasks that demanded more resources in Poland. One example was the administration of the payrolls which were seen to be more complicated in Poland due to complex laws and regulations. They also supported their arguments by referring to the wage differences between Poland and the Scandinavian countries. On this background they argued that it was simply not cost effective in Poland to have the managers do secretarial work and in general, use time for tasks that was less important. This argument was countered by the head office that held that too many people would also demand more resources for coordination, and that there are important signals involved related to what one accepts to spend money on.

### **Kongsberg Automotive representative**

Another of the company's principles has been to employ somebody with large experience from the company at each new site. This person is to make sure that the company's standards are implemented and understood, and function as a link between the new unit and the rest of the organization. However, in the case of Poland it proved difficult to find such a representative. There were no available candidates at the time.

By some respondents and the central management in Norway this was viewed as the cause of some of the problems they had encountered. It was viewed as limitation of the plant in Pruszkow that they lacked a clear understanding and knowledge of the company. This was one of the reasons why the plant manager in Poland was later included in the Interdal course which attempted to increase the participants' knowledge about the company and its goals. The Polish respondents also wanted the presence of such a representative in Poland, as they saw the usefulness of having somebody who knew the organization and who could function as an intermediary between the Polish

unit and others. On the other hand, they also stated that it was important with time that such positions are available for all experienced personnel in the company and not be reserved for Scandinavians alone.

### **6.3 Regular production phase.**

According to the business plan, the project phase was to end on 1<sup>st</sup> of March 2001, but there ended up being a transition period from the project phase to regular production which started in the beginning of April. The Swedish project manager left Poland, and the Polish management was now in charge of the plant. Even though this can be considered the time where the regular production started, the plant and the organization were still very new. As I will outline below, there were still many things that needed to change or to come into place.

As mentioned above, there was high pressure during this period due to high orders, introduction and transfer of many new products, and incomplete or lacking deliveries from Åmotfors. According to respondents there were also very high expectations from the central management as to productivity and quality. The result was that there was little time left for information, communication, training, technical support and coordination. The development in production was considered very fast by the respondents, and they were able to produce at a certain level. The fast development of the factory and the high pressure had its consequences though, the productivity was low, the quality was not as expected and the social atmosphere at the plant grew increasingly tense. In May 2001, the central management in Norway intervened and gave orders to reduce the workforce by 20-30 workers. A smaller workforce with fewer newcomers had the desired effects and productivity rose.

The Polish management also had a different management style, emphasizing discipline and clear orders. This change, together with the layoffs seems to have caused greater job insecurity among the workers, and a social climate which deteriorated drastically. Echoing his colleagues, one worker stated that when the Polish management took charge they changed the former atmosphere of equality and cooperation. The workers now felt they were considered as less valuable and viewed simply as manual labor. Their former participation in decisions related to the development of the factory was no longer asked for.

### **6.3.1 Productivity**

According to respondents from all levels in the organization, the productivity at this time was very poor and far from the original expectations. The Polish management were concerned and focused very strongly on increasing the productivity. The workers we interviewed stated that they were nervous and felt insecure about their jobs. Among the workers there was confusion as to what the standard time of production was and what was considered a 'good' performance. They said they lacked information about what the expectations were and that they were not able to measure whether they were going to reach the expectations or not. The management changed the expected level of productivity every month, in accordance with an expectation that the factory would improve. But the workers were not able to keep themselves updated on these changes. It was important for the workers to reach the level of productivity because this was also linked to a salary bonus.

#### **6.3.1.1 Money incentives**

The bonus was introduced to motivate the workers to work harder and to reach the expected goals. However, it did not fulfill its intentions. The bonus was subject to heated debate among the workers. One of the reasons was that there was confusion as to what was required in order to attain the bonus. Another was that the bonus was attained only if the productivity of the whole plant reached the goal. Some of the workers stated that they felt they themselves worked hard to attain it, but that other colleagues would not make an effort. These respondents therefore felt that the bonus was unjust, and that it should apply to either the teams themselves or to individuals.

According to the Polish respondents the wages offered to the workers were too low <sup>3</sup>, this was compared to other industrial workers in the area. According to the respondents the low wages made them feel less appreciated and also less focused on their jobs as they were worried about how to make ends meet. The wages offered at the plant were similar to the figures Kongsberg Automotive had obtained through TRW when they first established the plant. However, according to the Polish management these figures had not been correct, and they criticized TRW for not having been honest. The management also held that they considered it wrong to expect so much from their workers who were only paid 6 zlotych (14 NOK) an hour. The Polish management at the time of our interviews was planning to attempt to improve the salaries, but said they had not had time

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<sup>3</sup>) According to the Business Area director, the wages that were offered to regular operators when the Polish factory was established was about 2600 zlotych per month. Later, in the latter half of 2001, a 3% increase was added, to compensate for price inflation. 2600 zlotych is approximately 4900 NOK, or 590 Euros.

for it yet, as they felt they had to be well prepared before they started the discussion with the Norwegian management. In addition, they foresaw higher competition for the local workforce as new companies established themselves in area, a development which could help improve the salaries.

All the workers we talked to spoke about their feeling of insecurity in relation to their job. Many were afraid to lose their work, and extended use of temporary contracts as well as the layoffs that occurred in May 2001 added to this insecurity.

### **6.3.1.2 Work processes and proper use of equipment**

According to the respondents, even though it had been decided initially to transfer the work processes from Sweden to Poland wholesale, the project group had decided to do things differently. This was explained by the limited time frame and the lack of industrial experience among the workers. However, in retrospect several respondents stated that this had been partly an act of misunderstood ‘kindness’, to leave these decisions to the Polish management and partly due to the fact that there had been many people involved in the transfer and that they had not agreed as to how the work processes should be. The result was that it was not until the Polish management was in place that the question of work processes was addressed in a disciplined and uniform way.

Some of the trainers we interviewed in Sweden told us they had been asked not to mention their salaries or other benefits like “group exercise” during work hours. Later, when confronting the Norwegian management with this, we were told this was not the policy of the company, and that such comments were the responsibility of the individual who had expressed them. However, in Pruszkow, even though it was argued that the production processes had been carbon copied and transferred from Sweden, subjects such as ergonomics, physical training or the amount of breaks during the shift had not been transferred. We were told that such issues were not for the Scandinavians to decide but something the Poles would decide themselves eventually. However, according to the workers we interviewed several said they had physical problems from their work, and that there had not been a focus on such issues. One of the respondents said they had been shown a movie of Swedish operators who exercised, but that Polish workers would laugh if this was introduced in Poland.

There were many differences between Poland and Sweden when it came to working conditions for the workers. The Polish workers were allowed two 25-minute breaks during the day, and were required to follow strict rules at work. Social talk during working hours was not permitted neither was coffee nor other refreshments in the production hall. They had not been taught how to use some of the equipment, and were not given advice

as to working positions, which is considered commonplace in Åmotfors. According to one of the Swedish trainers, there were a number of simple things that should have been introduced in Poland which could have improved both the productivity and the working conditions for the workers.

However, half a year later some of these things had been introduced in Poland e.g. a turning table which allows the worker to work on two pieces at the same time. But there had not been an increased focus on ergonomics and there was still a big difference in how the workdays of Polish and Swedish workers were structured.

### **6.3.1.3 Focus on standard times**

The lack of proper work processes was a cause for frustration among the Polish management as well in relation to productivity. According to these, the productivity is to be calculated in the SAP based on a standard amount of time. However, as these stated, the standard time is based on a standard process which was never transferred to Poland. One of the major tasks for the Polish management during this period therefore became to attempt to identify the standard process, or more correctly, to create a process which could accommodate the time set in the SAP. According to the Polish management, however, most of their time during this period was spent trying to fix reoccurring problems and they lacked the time to train people, to find the correct work processes and other issues which could have prevented some of the problems that occurred.

While the Polish management continued to emphasize productivity during the summer of 2001, a shift came in autumn when the management decided to put a greater focus on quality. The workers agreed with the management and felt this could allow for more training and increased understanding as to what was considered a 'good' performance.

### **6.3.1.4 Quality control**

During the project phase as well as the first months after the Polish management took over the overriding concern had been to increase the productivity. Workers and management alike considered the call for higher productivity as priority number one. However, to improve the product quality became a more important issue after a while.

Initially, all quality inspections were to be made by inspectors among the production workers themselves. What the Polish management gradually found, however, was that this solution was not optimal. When all the inspectors belonged to the production it was difficult for the quality department to oversee their work. In addition, respondents from both management and workers maintained that it was difficult for many of the women to hold a position where they had to correct the work of their colleagues.

A new solution was therefore established. Most of the inspections were still carried

out by people from the production, but the final containment inspection was to be handled by three inspectors who were organized under the quality department. They received specific training for this job from the quality manager and his auditor, and they were recruited based on their experience and whether they were respected by the other production workers. Hence, it was considered important that they were able to give negative feedback to other production workers.

The Polish management also attempted to consult and encourage the workers to make suggestions as to how the quality could be improved. However, according to the management they did not receive many constructive suggestions. A common answer was to put the blame on a different team or a different shift. The management therefore introduced individual stamps so that pieces could be tracked back to the operator who had done the job. This was done to avoid a situation where everyone attempted to blame someone else. The workers on the other hand resisted these changes as they felt the management was controlling and supervising them too much and they felt increasingly insecure as to their jobs. According to the Polish management the quality was rising after these measures, but there was still much to improve.

### **6.3.1.5 Training**

The Polish management also systematized the training of the production workers. The training of the workers had been seriously delayed. New products had been introduced frequently and the workers had to learn these products in short time and with short intervals. Both management and workers confirmed that training was a great challenge and that stress among the workers was a well-known problem. An additional explanation as to why this situation became so stressful was that the workers lacked former work experience and had little confidence in themselves and their learning abilities. Several of the Polish respondents said that learning abilities should have been emphasized in the recruitment process.

The Polish management introduced a more comprehensive training program. This program consisted of a theoretical introduction, which lasted for 4 hours, and a manual training period over 2 weeks. Naturally, only Polish instructors were used, so that the communication challenges that characterized the training in the project phase were eliminated. The workers were positive to the training, and many said they only wished they could have received it earlier. Fewer of the workers were positive to the tests the management also introduced. The workers had to pass both a theoretical and a manual test after finishing the course. According to several respondents the workers had difficulties understanding the technical parts of the course, and to pass the subsequent theoretical test.

As mentioned earlier, the workers in Poland had been criticized for not understanding the industrial culture and the demands of the automotive business. The management in Poland was well aware that they needed to improve their understanding on these areas. This included both training related to the safety risks involved for the end customer if they sent bad quality products, and related to Kongsberg Automotive's goals and policies. This need was confirmed by the workers as well.

### **6.3.2 Information**

#### **6.3.2.1 Within the Pruszkow plant**

In contrast to the descriptions they made of the early project phase, most of the workers said they now had the information they needed in order to do their job. On the other hand, they were lacking information about the company in general, something they earlier used to receive. They held that this was because there was not enough time to be used on information meetings.

The relationship between different groups within the plant deteriorated during the first months of regular production. Several of the workers said that when they had questions about production, machines, or materials, it took very long for them to get an answer. Several workers presented this as mostly a problem between themselves and the technicians. The workers doubted the expertise of the technicians and suspected that they did not know the production well enough. They also felt that the blame for the low productivity and the quality issues was laid on them solely, and not on the technicians. The management partly confirmed the problem and stated that the technicians should have received more extensive training, and gained experience by visiting the plant in Sweden. Or technicians from Sweden could have been in Poland to train them. It was acknowledged that because of lack of time in Sweden this had not happened.

Also between the workers and the management there were problems. There was little direct communication between the two groups. The management confirmed this and regretted it, but said there had not been enough time. The workers on the other hand, argued that this was the management style the Poles had introduced. According to what they called an unwritten rule, information was to pass up and down the hierarchy and that the management consequently used technicians or others to pass the information on.

Workers stated that there were no relationship between themselves and the management, and that they felt they were treated with lack of respect and as 'robots' by several of the managers. Some of the workers said they had gotten accustomed in the beginning to speak directly to the managers and this was a practice they had continued with.



However, they acknowledged that many of their co-workers were afraid to speak to the management and felt badly treated. According to the managers themselves however, it was argued that they had an open door policy towards the workers. Few of the workers confirmed this.

According to respondents in Scandinavia as well as among members of the Polish management, one of the major difficulties was that the Polish plant manager was not very strong as regards to relational skills. After some time, this became an issue which was discussed openly with us, and where concrete actions were taken to help the manager improve his communication skills. The administration manager had frequent discussions with him in order to explain for him the reaction of the workers to his behavior in different situations. The central management in Norway thought it important that he was enrolled in the Interdal course emphasizing cooperation and feedback skills.

The consequences at the plant at this time were that the social climate was tense. The workers were clearly nervous for their jobs and none of those we talked with were confident that this was a permanent, stable job. To lose the job was considered a very serious problem as unemployment was high, and locally in Pruszkow there were few other alternatives at the time.

Still, when they were asked about unions several people said that this would not help matters. One respondent said that “*Our historical Solidarity killed solidarity.*” However, few of the workers we spoke to were opposed to unions as such, but held that people were afraid to propose it. The Polish plant manager confirmed what some of the workers said, recognizing that unions were not an issue in Poland anymore after the corruption scandals of the former labor union “*Solidarinoise*”.

Many of the workers at this time spoke of how the management used threats of being fired as a means of motivation at the plant. Most of the workers we spoke to feared that they would face serious consequences if they made too many mistakes. That the workers were afraid was also confirmed by Scandinavian respondents. Other respondents said that this was merely the culture in Poland, and that this was due to a high respect for authority.

During the course of the interviews we heard many stories about the various consequences people feared if they made too many mistakes or did not produce enough. However, we also came to understand that some of the stories we were told were myths, believed by some, but denied by others. It was a situation where limited communication at the plant allowed for many rumors which nourished an atmosphere of distrust and insecurity.

### **6.3.2.2 Between Pruszkow and Kongsberg Automotive**

Lack of information and having to wait for decisions was not only an issue within the plant in Pruszkow, but also between Pruszkow and Åmotfors. Time pressure was considered to influence the relationship between Pruszkow and Åmotfors to a significant degree. The management at the Polish plant themselves felt this, and indicated that they saw time pressure as an important reason why the information and communication between the two units was not too good. The issue of having to wait for decisions and information is linked to questions of authority. For most of the respondents in the Polish management there was confusion as to the authority structure in Sweden and Norway, and to what they considered their own lack of authority. They were also wondering why decisions took so long to be achieved, and to the rational behind decisions they did not agree with. They felt that it would be more rational if they had more authority to make decisions and said that they did not think the Scandinavians trusted them.

They were also not pleased with some of the information they had received earlier. The Polish management had been told to recruit people for simple assembly work, with no mention of technical competence or ability to read technical drawings. This was strongly regretted, as the Polish management felt that a more suitable workforce could have been established if the present expectations of the operators had been spelled out prior to their recruitment.

On a number of issues the Polish respondents expressed that they had been frustrated with what they perceived as little knowledge about Polish reality from the Scandinavians. One of the topics several mentioned was that they had not investigated well enough before starting the plant. Several respondents said that their situation would have been easier if the company had involved more Polish people earlier in decision-making processes and to a greater degree. Even though they now were in charge of the plant they still felt they had little say in terms of decisions and that it was difficult to explain their point of view. In their view most decisions were taken in Scandinavia, and they felt they did not understand the reasoning behind some of the decisions. In communication with their Scandinavian colleagues, the Poles said they felt the answers to their questions and suggestions were discouraging at times, and that sometimes they would receive blunt refusals with no further explanations.

## **6.4 Expansion phase**

The expansion phase took place during spring 2003. A new factory was built close to the old one and the Polish administration was now able to partake in the planning and had decision making authority to make the adjustments they felt necessary. Because of its historical value, the first building was under restrictions as to outside changes, and the company was not allowed to install a ventilation system which functioned well. The lack of such a system led to high temperatures in the production hall during the summer. In the new building these conditions improved. The number of workers was doubled and in June 2003, at the time of our visit, 164 workers were employed, with an additional 60 workers on temporary contracts hired through a local agency. New products had been introduced, which was a consequence of the factory in Aldershot, England being closed. The production volumes had increased and according to the respondent, as before, there was a heavy workload on both production workers and management.

Despite the rapid expansion, the conditions at the plant were perceived as more stable at this time. Workers were more aware of what was expected of them, and the social climate had improved some. Also the relationship between the management and other units in the company had improved and there was a greater understanding of the company's policies and guidelines. However, there were still problems related to internal communication at the plant, especially between the workers and the technicians.

### **6.4.1 Productivity and quality**

The productivity at the plant had been steadily increasing, together with the quality. All the production workers we spoke to were clearly emphasizing the importance of quality, and seemed to have received much information as to why this was important. Several spoke of customer requirements and seemed to have a different focus on what a 'good' performance was and how to achieve it. The expectations for increased productivity was still perceived as harsh, but seemed to be less of a concern at this time than it had been earlier.

The Polish management had taken concrete action to emphasize the importance of quality. They had developed detailed descriptions of the work processes and made these available to the workers. They also had time to develop many of those things they earlier had argued were lacking in the transfer process. They had kept their focus on the need for clear specifications, defined methods, standard procedures, and had developed these themselves.

In one specific area, training, the development was substantial. For some posts in the production, training and exams were repeated every six months. The production workers said they felt more confident in their work. Also, all new employees received adequate

training when they started, and were defined as ‘trainees’ until they had received enough experience and passed their exams. For the management it was a key issue to make everybody fully aware of their tasks and responsibilities, and to provide the resources people needed. Even though there were constant changes and new products to learn frequently, the workers we spoke to knew more about their job, and seemed to tackle new tasks easier now than before.

On the other hand, the technical support the workers received in production was a cause for complaint. Like earlier, the technicians were blamed for not having enough time, and some suspected, for lacking competence. This was also related to the relationship between the workers and the technicians which I will return to below.

There was also more emphasis on information than before. There were regular meetings for team leaders, and plenary meetings every month. At these meetings the production workers received information as to future plans for productions, complaints from customers, the current level of productivity and general quality issues. In addition, the level of absenteeism was presented, and the names of the five people who had been most absent were posted. Among the workers, the latter information was not appreciated, and they felt it was not right to name these workers. The meetings in general were appreciated, even though both workers and management acknowledged that the meetings consisted of presentations and lacked dialogue.

The administration manager in Pruszkow perceived herself as the employees’ representative, and had pushed for changes which could improve their working conditions. A social and health representative had been appointed among the workers. This representative mostly received applications for loans from individual workers which she presented to the management. While the management made the final decisions there was a social fund available for these applicants. However, many of the workers we spoke to doubted that this representative was able to make much difference at the plant. A suggestion box had also been posted which allowed the workers to complain or propose ideas.

The central management in Norway had arranged an internal management course for the management in Pruszkow during which the emphasis was cooperation and team work. This had been appreciated by the participants, and some argued that closer cooperation within the management could also improve the relations in general at the plant.

Even though many new employees had been recruited, the teams seemed to be more integrated and autonomous than earlier. The positions of foremen had been preserved, but the teams were working more independently now with increased experience. While most of the workers we spoke to said there was good cooperation within their team,

some said the cooperation was bad and it was due to many new members who were not well acquainted with their colleagues or their work. Apart from this, there had not been other changes in the organization structure.

In general, conditions at the plant seemed to be perceived as more predictable than earlier. The work load was heavy, there were long working hours and the salary was low, but workers stressed that they were paid on time, the environment was nice and clean and there was more emphasis on safety than in other Polish factories. The numbers also confirm the positive development at the plant. From 2002 – 2003 the productivity in the Polish unit increased by 20%, while the staff grew by 60% and the variety in number of articles produced by 63%. In 2003 the unit was producing all the cable mats for internal production in Europe.

#### **6.4.2 Social atmosphere**

The majority of the workers we spoke to seemed more at ease with their job, and felt more secure and confident. However, there were still a number of complaints as to the social atmosphere at the plant. The management also seemed to be more aware of these problems now, and had attempted to improve the situation. Some of the members of the management had explicitly worked on their personal approach, attempting to make the workers more comfortable relating to them. According to the management, the subject of internal communication was also more challenging now because of the expansion and the many new employees. But, like before, this area tended not to be prioritized due to time pressure and the need to consider the daily business first.

The relationship between the workers and the technicians was still problematic. According to the workers, the technicians were supposed to instruct them every time a new part was to be produced, but the technicians were not always available. When they were not available, the production still needed to proceed, but if there were mistakes, it was the production workers who were blamed. Several complaints had been made about several of the technicians but few changes had occurred. Some of the technicians as well as members of the management were criticized for treating the employees with a lack of respect and disdain. This was also confirmed by the administration manager who said some members of management did not consider the workers as “*human beings*”, but saw them foremost as a an asset for production. The workers suspected that they were viewed as less valuable than people higher up in the organization, and that their opinions counted for less. For many, it was considered important that managers greeted them and spoke directly to them. But a number of workers said this rarely occurred. In addition, they stated that their work was rarely appreciated. In summary, most of the workers we spoke to claimed that they were not recognized by members of the management. Their

opinions were rarely asked for, their good performances rarely recognized and they felt they were treated with less respect.

### **6.4.3 Pruszkow – Åmotfors and Kongsberg**

With time the Polish management seemed to feel more integrated and involved with other parts of Kongsberg Automotive. There were also indications that the level of trust between the local management and the company's central management had grown. The Polish management argued that since they had proven themselves now they also received more trust and authority from the top-management. The flow of information had improved and the top-management were perceived as more open than earlier. This was partly explained by more familiarity with procedures and routines so that more information was readily available to them. Also, some of the former contacts in Sweden and Norway had been replaced with people with a more open attitude.

Several said they felt the general attitude towards the Polish unit had improved. They felt they were more respected now than earlier, and that their advice was sought after to a greater extent. However, even though they felt they had the authority they needed now, they still felt left out in the planning phases, and that they were not included early enough in the decision-making processes. As earlier, they still felt they needed to be very well prepared if they were to argue for changes. Detailed plans or long lists of arguments were developed when they wanted to address a problem that needed to be solved. In summary, the Polish management still expressed a desire for increased involvement or participation as to the decisions taken in Scandinavia.

## **6.5 Summary**

As early as June 2001, a member of the steering committee and central management in Norway described the production in the Polish factory as normal. Some products were still sent to Sweden for inspection before reaching the customer, but the quality was reported to be good. In other words, it took about one year from the decision was made until the Polish factory was operating on a full scale. However, this fast development had its costs.

Limited resources and a desire for a fast establishment led to a planning phase which was restricted in time and scope. The view of the central management was that it was better to be prepared to handle the problems as or if they occurred later, than to prepare for everything in minute detail. As shown above, the Polish management in particular opposed this view. They had expected to find detailed plans, specifications, correct documentation etc., but this was lacking in the transfer to Poland.

The planning phase was mostly focused on economic and logistical factors, and lacked a focus on work processes, training and social conditions. These areas needed to be resolved eventually as they were causing low productivity, bad quality and a tense social atmosphere at the plant. When it came to information about the local context, the central management relied heavily on other companies. As a consequence, challenges related to internal conditions at the plant ensued. The company's practice of "lean production" was not immediately adaptable to conditions in Pruszkow and the Polish management changed the organization somewhat after a while. The project phase had an emphasis on participation and involvement of the workers. This stood in contrast to the management style introduced in the regular production phase, emphasizing discipline, hierarchy and clear orders. While this change was heavily criticized by the workers, they also became more confident in the end as to what was expected of them. The differences between the management style in the Swedish-run project group and the Polish management created problems that had long-term consequences for the social climate in the Polish unit.

Likewise, difficulties arose when it came to logistics and implementation of the administrative system SAP. To operate in a new country involved challenges in itself, and at times these were aggravated by lack of resources and dedicated personnel. Formal communication channels did not work properly, and areas of responsibility were not always clearly defined. In addition, limited documentation and a lack of specifications from the parent company created problems, as did a lack of support and suspicions of passive resistance from the units the production was transferred from.





## 7 The local organization in South Korea.

### 7.1 Introduction

This chapter will focus on the establishment of Kongsberg Automotive's factory in Buzan, South Korea. The plant was bought by the company in 2001, and the following material is based on interviews conducted in June-July 2002. We also had the chance to discuss the development of the unit with representatives from other units who had been involved with the establishment in South Korea. The material was later supplemented by a survey study conducted at the plant in August 2003.

The following pages will describe the development at the plant in Buzan from the time of the Korean owners, through the take-over process and finally to the present situation with two Scandinavian managers present in South Korea. I will emphasize the experiences of the local employees when faced with the changes introduced by the new owners, and see how the organization developed as a cause of these changes and subsequent adaptation by local employees and foreign management. A timeline for the historical development is presented below.

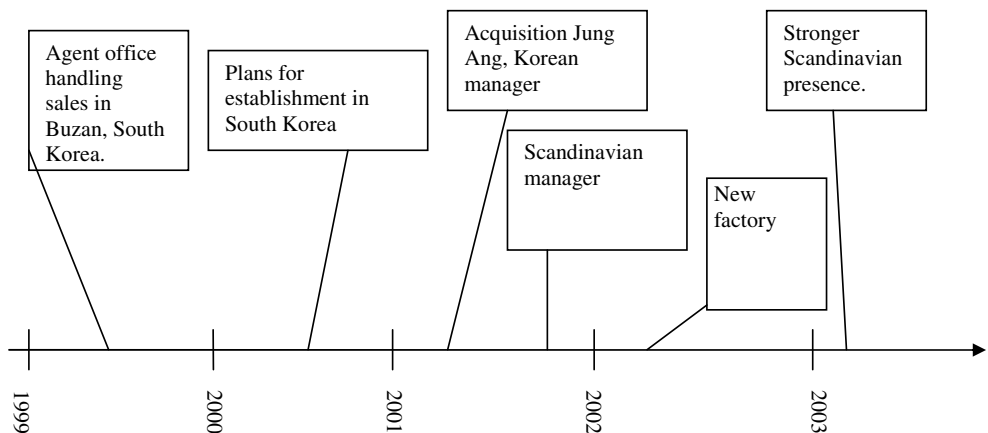
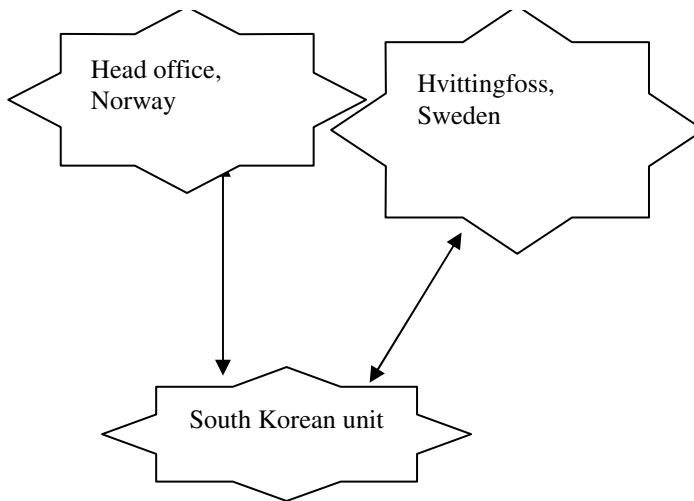


Figure 7-1 Development of Kongsberg Automotive Ltd., Korea

The plant in Yangsan is controlled and supervised by the head office in Norway. Even though the South Korean plant is to produce its own Korean products for the first years, and is therefore less dependent on centralized functions such as purchasing and R&D, the unit is still dependent on maintaining close relations to the head office and the unit in Mullsjø, Sweden. When it comes to computerized coordination and control systems, the Yangsan plant is expected to implement the same systems as elsewhere in the company. The central IT-department is situated in Kongsberg, and the SAP administrator in Mullsjø. To implement these systems and adapt them to the local Korean conditions there is close contact between personnel from these units and the Korean factory. In daily activities there is also close contact with the finance department at the head office.



**Figure 7-2 Units cooperating with the South Korean plant**

## **7.2 The acquisition of Jung Ang**

Kongsberg Automotive was present in South Korea through a local sales agency for a number of years. The agency handled sales contracts and dealt directly with the customers on behalf of the company. However, in 2000 it was decided that they needed a stronger presence in Asia and establishing production in South Korea was seen as a feasible alternative. Two representatives from the sales agency were given the respon-

sibility of exploring options in the area. In Yangsan City outside Buzan in the south of the country, a well-established Korean factory, Jung Ang, was for sale. Jung Ang was a steel manufacturer established in 1972 as Yangji Metal Co. Ltd. and had been producing clutch servos since the middle of the 1970s. The main item was a clutch booster especially designed for the Korean market. In 2001, the automotive division of the company stood for around 80% of the company’s production, while the remaining 20% consisted of military production, where foreign ownership was not wanted. The two agents from the agency handled most of the negotiations and paperwork prior to the acquisition, and Kongsberg Automotive bought the automotive division of Jung Ang in April 2001.

Our respondents estimated that Jung Ang had a market share of about 70% for the clutch booster, and that they were highly competitive on other products as well. On the other hand the respondents also stated that while it was a main actor in the market, the company was running with low productivity, the profits were meager and the owners lacked capital for the necessary investments. Both Jung Ang and Kongsberg Automotive were producing clutch actuation systems, but they had different products and were not in competition. Most of Jung Ang’s products were copies of former Japanese products. According to the respondents, the basis for the Korean economy had been to copy Japanese products. The problem was that the Koreans had rarely invested to further develop these products and were now suffering in competition with more up-to-date Western products.

Most of the Korean employees viewed the acquisition of Jung Ang by Kongsberg Automotive in a positive light. Even though it was foreign ownership it was seen to represent more capital and more opportunities for the future. In addition, most of the employees had high expectations as to improvements in working conditions, salaries etc. as a consequence of new ownership.

### **7.3 Jung Ang and “the Korean management system”**

Jung Ang was a Korean company, and its organization was based on a traditional Korean system. The organizational hierarchy, its remuneration systems, and the production system were in line with a traditional Korean company. Several of the respondents described Jung Ang as old-fashioned and rigid, but also as an organization where there had been a sense of mutual responsibility among the employees. The working conditions had been bad and some of the tasks hard, but on the other hand, there had not been too much pressure on the individual worker.

The organization had been based on a strict hierarchy, where all employees were

ranked in terms of super and sub-ordination. The criteria for advancement were based on education, age, experience and gender. Performance based remuneration was not applied in Jung Ang. Apart from two production workers, all employees had been males. The system of seniority had been upheld, in terms of authority, salaries and hierarchical positions. The organizational hierarchy as well as a detailed system of titles offered guidelines for proper behavior. Proper professional behavior was to maintain order and harmony in the organization, and was based on respect, obedience and patience. Parallel to these behavioral norms was also a sense of collectivism and the management was expected to treat the workers with consideration. The relationship between super and subordinate was based on patriarchy. In the same vein, the company organized a number of activities for the employees outside working hours. On these occasions management and workers could meet on more equal terms in social contexts. These were considered important events because they allowed for improved contact and relationships between workers as well as management. As such Jung Ang represented a traditional and familiar organization for the Korean employees. Many aspects of this organization changed when Kongsberg Automotive took over, but not at once. The plant was led by a Korean manager the first six months.

When it came to the products the factory was to produce, no changes were anticipated for the first few years. Jung Ang's former products were still sought after in the Korean market, and while Kongsberg Automotive's products were included alongside Jung Ang's former products these were still to be produced in Norway. During the first few years the already existent production was to be improved, but the introduction of new products was not to happen for some time yet.

### **7.3.1 Korean management**

After the acquisition, Kongsberg Automotive hired one of the before mentioned agents as the local plant manager. It was argued that he knew Korea, the customers and the local conditions, and that he was familiar with the company. With foreign ownership, the local employees expected to see changes in terms of renovation of the facilities, salary increases and improved working conditions. Also the young and well-educated employees anticipated improved career opportunities and a greater disregard for the seniority system. However, none such changes came about during the first months. Furthermore, the changes that occurred were mostly perceived as negative by the local employees. By his former colleagues, the Korean manager was criticized for not cooperating with the rest of the management, and was described as reluctant to listen to advice. The production workers expected improvements, but the results were layoffs. In the production, it was decided to outsource some smelting

tasks which were too expensive. This resulted in lay-offs of 7-8% of the production workers.

Kongsberg Automotive had hired the Korean manager because he was seen to be familiar with the company, but it turned out that his knowledge was limited. In addition, he did not receive much training or introduction when he started. As a consequence, many of the company's routines, procedures and guidelines were not followed. Also, the central management in Norway had limited knowledge of the details of business in Korea, and had thus limited control over the unit. The development of the plant did not meet expectations. Some of the problems at the plant were also due to Jung Ang's former customers, who had difficulties accepting that their supplier had changed name and was under foreign ownership. Because of this, it was decided that Jung Ang's former logo would be used for some time together with Kongsberg Automotive's. Considerable efforts were used towards maintaining the existent customer relations, stressing continuity, and that the producers and the products were the same as earlier.

In addition to these challenges, it was discovered that the Korean manager had made a 'private loan' on behalf of the company. This was possible because the manager had the stamps of the president of the company, and Korean banks did not demand any personal signatures beyond the stamps. The Korean manager was thus fired due to attempts of embezzlement and soon replaced by a Norwegian manager.

### **7.3.2 Norwegian management.**

In October 2001, the Korean manager was replaced by a Norwegian who had experience from the company in Norway and Sweden. He was already prepared to move to South Korea as a production supervisor, but received instead the position of plant manager. He was regarded as one who could ensure that the company's policies were followed. Even though he was young, he had a lot of experience within the company and was seen to have the right attitude to work in Korea possessing both humbleness and decisiveness.

Putting a young man in charge of the plant was a breach with the Korean seniority system, but it seems to have been accepted by both managers and workers. This was also because the former sales manager now received the Korean title of *isa* – director, and could thus be perceived as the 'Korean plant manager'. He had ample local knowledge.

The Norwegian manager approached his task with a humble stance, explicitly stressing that he had much to learn of Korean culture and from the local employees. He saw cultural knowledge as the key to successful leadership in Korea, and spent the first months learning as much as possible before he effected too many changes. This was appreciated by the Koreans who acknowledged his eagerness to learn about Korean culture. The Norwegian manager established a close cooperative relationship with the Korean

*isa* and other managers. When changes were to be introduced these were included in the discussions. He also attempted to approach the production workers, but this proved more difficult because of language barriers and due to the seniority system. Proper behavior from the workers in a seniority system is to speak directly to their own superior and complaints should not be expressed to someone above the immediate superior.

### **7.3.2.1 Organization structure**

One of the first changes the Norwegian manager made was in the organization structure. As seen earlier, according to the policy of the company, the organization must be lean, avoiding unnecessary resources for administration or other tasks. In addition, managers as well as workers needed to be prepared to step out of their own area of responsibility and take on menial tasks when needed, for example to book airplane tickets themselves or other secretarial tasks. At the plant in Yangsan, the management were relatively few individuals and were, in this sense, lean already. But there was a need to make for a more flexible organization. The Norwegian manager conducted interviews with the employees and based on these as well as discussions, he drew a new organization chart. The traditional hierarchy was broken in the sense that individual managers were given more autonomy in their respective areas. This also meant that information and decisions did not need to pass through the whole hierarchy, from top to bottom of the organization. On the other hand, other aspects of the seniority system were preserved. Older managers were not surpassed by younger and less experienced ones. Above the different managers was the Korean who held the title of *isa*, and he was thus second in command to the Norwegian manager who was plant manager. Other people also kept their Korean titles, even if their area of responsibility and the internal authority structure diverted some from the Korean organization model.

It was considered important to maintain the Korean system of titles<sup>1</sup> in the organization, even though changes to the traditional hierarchy were implemented. This was especially important in relation to customers and others. The Korean - *isa* - had earlier been in charge of the sales department, and still had an important role to play with regards to the customers. There was disagreement between the Norwegian and the Koreans about the relationships to the customers. While the Norwegian was arguing that they needed better payment terms, and renegotiation of some parts of the contracts, the Koreans were reluctant to do something which they perceived could jeopardize close customer relations. As the Koreans saw it, it was considered normal to quarrel with your customers in the West, but not in Korea, here, a good friendly relationship was

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<sup>1</sup> In a traditional Korean organization the system of titles may have as many as 18 different levels.

preserved through politeness and harmony. However, the Norwegian manager engaged in renegotiation with one customer together with the Korean managers and was able to change the terms in the contract. After this successful negotiation, there seemed to be more openness between the Koreans and the Norwegian about the company's strategies with regards to the customers. In fact, the Koreans realized that in negotiations it could be advantageous to have a foreign manager they could blame the strategy on whenever they needed to play tough.

### **7.3.2.2 Communication and formality**

The Norwegian manager attempted to decrease the level of formality in the organization. As he saw it, the high level of formality hindered the flow of information and cooperation between the different parts of the organization. One of the principles in lean manufacturing is participation. It was therefore considered important to increase communication, especially between the different managers and the production workers. He attempted to initialize projects where these would work together. He addressed people by their first names, omitting titles. And he asked that all employees were equally responsible to do menial tasks, such as preparing coffee. Older managers had earlier left this to younger or female employees.

An English interpreter was hired, to help with translation tasks between those who did not speak English and the Norwegian manager, as well as the head office in Norway. The interpreter was also supposed to hold English courses every morning for employees on the management level to try to bridge the language barriers on a longer-term perspective. Only three people on management level could speak English in the company. The Norwegian manager had made some attempts to learn Korean on his own, but with little success. The English courses were not followed through though, as more immediate business was prioritized. Most participants said their progress in English was slow. In addition, the interpreter was trained as neither an interpreter nor teacher, and her English skills were not impressive. There were many translation tasks needed to be done during the working day, and it was sometimes difficult to arrange for time with the interpreter. For the reasons above, most of the communication at the plant was in Korean.

For the Norwegian manager himself, the interpreter also functioned as one who could explain things related to the organization, the culture or Korea in general. He would ask her for information about issues in the organization that was hard for him to obtain and she would function as an interpreter of the organization as well as the language. On the other hand, this was a difficult situation for the interpreter as she came in situations where conflicting loyalties were at play. After about a year in the job, she resigned, this mostly due to difficulties related to who she was to report to, and the conflicting

expectations towards her from different people. She was replaced by a new interpreter/teacher shortly after.

Another change made by the plant manager was to make regular rounds in the production hall, either together with a Korean manager who could speak English or with the interpreter. This was an attempt to make himself visible for the production workers, and to be open for suggestions and complaints from the workers themselves. The Norwegian manager had experience with the production from the factories in Scandinavian, and engaged himself in the details of the production at the plant in Korea. However, few of the production workers engaged in dialogue with the manager, and the manager himself was unsure as to how they felt about his initiative. Another step he took to increase the communication with the production workers was increased efforts to present visual information. These were graphs and figures posted in the production hall, representing information about the production, the products, and future plans. He also arranged plenary meetings with all the staff. In these meetings issues like production levels, orders, and quality problems were addressed, and the staff was encouraged to voice suggestions, complaints or other ideas.

In order to increase cooperation between the management level and the production workers, he also attempted to initialize projects groups consisting of both workers and managers, on specific areas. Several managers were reluctant as to these groups, but the Norwegian manager stated that future and pending projects would have to include both workers and managers if they were to be approved. The argument from the managers was that the production workers were not ready to participate in a group with open discussions where they would be expected to raise their opinions freely and perhaps in opposition to a super-ordinate.

The cooperation between the Norwegian manager and his colleagues on the management level was more substantial, despite the language barrier and the constraints evoked by the seniority system. The Norwegian manager was repeatedly stressing the need for constructive feedback and critical debate. Some, but not all of the managers were ready to openly voice their opinions. He used different strategies in order to provoke debates. He consciously held back his own opinion and suggestions, so that his managers would not feel obliged to follow the ideas of their super-ordinate. Sometimes, he would also propose the impossible in order to provoke reactions. Another attempt was to have personnel from other parts of the company evaluate processes in the Yangsan plant, and to initiate discussions between the Koreans and the foreigners over the results after on. While most of the Koreans were reluctant towards these processes, the Norwegian manager felt they made for useful ideas and solutions.



### **7.3.2.3 Relations Korea - Scandinavia**

Another, important part of the responsibility of the Norwegian manager was to bridge the information and communication gap between the Korean plant and the head office. Kongsberg Automotive's principles of lean manufacturing and just-in-time production were attempted introduced step by step. To a large extent this consisted of introducing the company's procedures for budgeting, reporting and planning. To the Koreans the new procedures were more detailed than earlier and involved much more documentation. The formalization and standardization of the new procedures was a cause for frustration among the Korean managers. Standard reports to the Korean government and others were kept in the same format as earlier, and the new reports to the Norwegian head office came in addition as they also involved other ways of allocating expenses.

While the Norwegian manager had authority to a certain extent, many of the decisions regarding the plant in Korea were now taken by the management in Norway. Decisions were therefore not taken as quickly as earlier, and the Korean managers felt they lacked autonomy. The new procedures were also seen to diverge somewhat from the local needs, and the strict standards that were posed was perceived as a limitation. On the other hand it was acknowledged that the increased systematization allowed for improved control in terms of quality, finances or other issues. The other side of the plant manager's responsibility was to pass the local Korean knowledge to the Scandinavian management, and to explain differences and local needs. Two of the Korean managers were also on visits to their respective departments in Scandinavia in order to get training and be introduced to the company's policies and systems. One of the problems the Korean unit experienced during this period was the timeframes they were expected to adhere to in the budget- and other processes. While many of these processes were mere routine in the units in Scandinavia, the Korean unit needed a longer time to create the process and obtain the results as this was the first time it was done here. This was one of the issues the Norwegian manager discussed with his superiors in Scandinavia, in order to create a greater understanding for the specific situation at the plant in Yangsan.

### **7.3.2.4 SAP and administration systems**

During the first year, the company's SAP system was not introduced at the plant in Korea. The implementation of SAP started in June-July 2002. Up to that point, reports, budgets and plans were prepared in Excel and sent by e-mail to the Norwegian head office. The work on adapting and implementing SAP was initiated with introductory courses to the various managers at the plant, and with visits from the Swedish SAP-manager. Also discussions with Korean managers about the specifics of Korean law and regulations were initiated. In addition to the SAP, the Norwegian manager felt that a tool

like CEDAC<sup>2</sup> was needed, to introduce a more systematic way of working with projects related to improvements. CEDAC is a tool for improving quality and productivity which may aid in formulating the important elements of a project and how it should proceed. CEDAC training for managers and some of the production workers started in August 2002 and by October, four CEDAC projects had been initiated. These projects involved both managers and production workers, like the Norwegian manager had asked. In line with the strengthened emphasis on quality, there were also plans to certify the plant in accordance with the QS9000 quality system. The system was introduced during the fall of 2002.

### **7.3.2.5 New facilities**

In April 2002 the factory was moved to new facilities within the same town. It was in an industrial park which offered amongst other things a shared canteen for the various industrial companies. The new building improved the working conditions in the production hall and the office area. There was also a meeting room which previously had been lacking. Some of the area was renovated before the move. However, the bathroom facilities were cause for complaints among the production workers after the move<sup>3</sup>. The layout of the plant was based on the same principles as in other factories in Kongsberg Automotive. The production manager had an office in the production hall, and the rest of the management group was also close by. Based on the principle of just-in-time production, the stocks of materials and the size of the warehouse were reduced.

Kongsberg Automotive and the new manager emphasized increased productivity to a greater extent than before. The changes in the production system were focused on introducing the so-called 'one-piece-flow' and 'just-in-time' principles. Each operating position was scrutinized to find ways of making them more effective and profitable. Changes were made which altered the production flow and tasks. Production workers, who earlier had waiting time between the various items they produced, were now instructed to change their working processes in order to limit the passive periods. Whereas the production earlier had been based on traditional assembly work, where the items passed from one operator to the next, the new system involved operators doing larger parts of the production process. As a part of these efforts, some machines were moved

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<sup>2</sup>) 'Cause-and-Effect Diagram with the Addition of Cards'

<sup>3</sup>) The bathroom facilities for the production workers and the office personnel were in different locations. The office personnel had separate facilities for both genders, while the male and female production workers shared the same bathroom. Neither of the bathrooms was particularly clean. Even though it has been common in Korea that men and women share the same public bathroom, the employees had expected that a foreign Western company would provide improved facilities for both genders.

closer to each other, and tools were placed in close proximity to the operating position. The idea was that there would be only one operator on each machine and they therefore needed less space around each machine. However, to some extent the production workers continued to work as they had earlier. In the case of a mounting cell on the line for clutch actuators, there could at times be as many as five people trying to do the operations, and at other times the cell would not be in use. Because the production workers did not adhere to the 'one man – one machine' principle the new production area was perceived as cramped. The reduction of inventories and stocks along the production lines were introduced, but according to the respondents the most common problem in production was that they were lacking materials. The changes introduced by the new owners involved a completely different way of thinking, according to our Korean respondents. The employees in Yangsan demonstrated a willingness to change, but it was difficult at times to understand the rationale behind the changes. Some efforts had been made to explain the logic behind the changes, but during the first year there was still confusion and some changes remained halfheartedly introduced.

The Norwegian manager emphasized quality to a greater extent than had earlier been done. The customers in South Korea were seen to be less demanding compared to customers elsewhere. When customers received damaged parts they saw little problem in returning these to have them fixed, whereas customers of other parts of Kongsberg Automotive would demand changes at the plant in order to avoid such problems occurring in the future. The new manager introduced control systems and improvement techniques which were aimed at avoiding the recurring quality problems. Among other things, an electronic control system was put to use which allowed for better control than the previous system.

In other areas related to production there were few changes in the first months. Some of the workers suffered from strain injuries from many years of production work, and they had expected that improvement in this area would come with foreign ownership. As the workers saw it, while there were changes in the production tasks, little was done to make the operations lighter or less harmful. On the other hand, the changes that had occurred in terms of 'one-piece-flow' production did allow for more variations in work operations, something which would help on strain injuries. But the production workers did not see it like this in the beginning. In addition, the management had plans to introduce other changes directed towards preventing injuries, but these did not occur during this first period as investments were necessary. Even though Kongsberg Automotive also had plans for changing the product range and machinery at the factory, this was viewed in a long-term perspective. The plan was to introduce the company's own products to replace some of Jung Ang's old products which were of lesser quality. However,

the head office found that such a change needed to be done slowly and in a long-term perspective, also dependent on building a customer base in the area for these products.

As a result of the various changes aimed at increasing the productivity, the production workers experienced an increase in work- and time pressure. To a greater extent, the pressure for productivity was now placed on each individual worker whereas earlier this had been placed more on the workers collectively.

### **7.3.2.6 Remuneration system**

The Norwegian manager also wanted to change the remuneration system towards rewarding the performance of individual employees. The change introduced at this time was seen as a gradual change of practice, and more was foreseen to change during the next years. A new model was included in the salary system where employees would be evaluated annually, and be measured by a certain number of points. These points were thus the basis for the subsequent wage development and advancement opportunities. The new model did not disregard completely the former criteria of gender, experience and age, but still involved a radical change in terms of rewarding performance. In addition, there were changes introduced in regards to the women's salaries. The women had been underpaid compared to men in Jung Ang, as in Korean working life in general. Women and also some of the young men therefore received a relatively higher increase in their salaries compared to the older, more experienced workers. The new model also included negotiations which were followed by individual meetings with the production manager, and a written appraisal signed by the Norwegian manager. The appraisal included the reasons for the wage that was offered, as well as advice for further improvement. At this time the appraisal was based on an evaluation done by the production manager, however, during the next months they were planning to introduce appraisal interviews with each worker to be able to discuss with each person how improvements could be reached. This had never been done at the plant earlier, and diverged from former practices.

The first wage settlement based on the new model was undertaken in May 2002. Most of the Koreans were positive to the changes, but there were also some negative opinions. While the wages of each worker earlier had been posted for everybody to see, this information was now left for each person to disclose in line with principles for wage settlements in Scandinavia. Some reacted to this and felt the social atmosphere was poisoned by the secrecy. The move towards rewarding individual achievements was by some seen to complicate the relations among the workers and made for more competition. The former collective feeling based on order and harmony in Jung Ang was seen to be challenged by these changes.

Other changes also affected the salaries. During the Jung Ang period, the work-

ing week was six days, but with foreign ownership and changes advocated by Korean authorities, Saturday was no longer considered a working day. The Norwegian manager also reduced the use of overtime in line with the company’s policy. Most of the workers felt they were required to work harder and produce more than earlier, they had reduced opportunities to earn extra money through overtime and felt the wage settlement did not compensate for these changes.

### **7.3.2.7 Labor unions**

The Korean labor unions had not been present at Jung Ang and were not at the present plant either. South Korean labor unions have a reputation for being militant and politically radical movements, and their presence is not appreciated by Korean or foreign owners. Neither Jung Ang nor the present plant in Yangsan was large enough to attract the attention of the labor unions and according to both workers and managers this was good. Neither missed the presence of unions. On the other hand, the Norwegian manager had decided that he wanted to establish a forum with elected representatives from the production and the office workers in order to enhance the cooperation with the employees. Starting from July 2002, regular meetings would be held and the company’s finances, suggestions for improvements and employee’s comments and complaints would be on the agenda.

### **7.3.2.8 Symbolism**

A large difference between the practices of the traditional Korean firm and a Scandinavian one is the emphasis on social gatherings, gifts and other such benefits. The Norwegian manager, in line with the policy of the head office, wanted to limit this practice. The head office was much aware that gifts to customers, suppliers, employees and so forth could be mistaken for bribery. It was also seen to involve considerable costs for the company. While there was a tradition for using gifts to strengthen the alliances between people in South Korea, the Norwegian management wanted to limit the practice as much as was deemed possible.

The number of social arrangements and use of gifts at the Yangsan plant was reduced. The budget proposal for 2002 was 20 million KRW, or 130.000 NOK. This was by the head office still viewed as a fairly large amount for a company such as Kongsberg Automotive, but represented a drastic reduction from earlier. Gifts were offered to employees at important life events such as weddings or on the death of close family members, and at major holidays. Compared to other foreign companies in South Korea, the gifts offered at Kongsberg Automotive were still considered quite generous. Also gifts to employees in other, cooperating companies are quite common in South Korea. For example, if the

man who negotiated the sales contract on behalf of his company experiences a loss in his family it is expected those who received the contract pays their respect by giving money to the funeral. Kongsberg Automotive heeded these practices, but limited instead gifts related to holidays or other events which could easier be understood as attempts of bribery or corruption.

Most of the employees at the plant expected a certain number of social events to be arranged by the management. This was viewed as something they were entitled to. Earlier there had been one-two dinners a month for the various departments, and two picnics a year for the whole company. So far, under foreign ownership this had been reduced drastically. One joint picnic for all employees had been arranged, in addition to some dinners arranged by different managers for their respective groups of employees. The Norwegian manager was ambivalent about these gatherings as he saw them involving excessive drinking, and wanted to have such events only on special occasions or when it meant to reward an extraordinary performance. The Koreans on the other hand, placed a different value on these events. Social gatherings outside of work meant a great deal for building relationships within the company. The strict hierarchy of super- and subordinate could be disregarded to a certain extent at such events, and these were thus seen as an occasion to talk to someone more freely than you could at work.

A recent trend in Korea at this time was to limit social events which involved alcohol, as hiking in the mountains or to go golfing was becoming increasingly popular. The Norwegian manager was aware of these changes, and attempted to introduce these at the Yangsan plant as well. Even though such changes were appreciated by the employees, the Norwegian manager and others from head office were also criticized for being reluctant to get drunk and in this manner establish friendships with their Korean colleagues.

The social events were important functions in maintaining and building relationships among the employees, and the use of gifts was also important in other aspects than what the Norwegian manager was accustomed to from his home context. While gifts were used as means to recognize the other, it has a larger significance in Korea, in that the gift shows your family, friends and others that the company appreciates you. The exchange of gifts is also means to confirm the obligations that two parties have towards each other. On this background, the Koreans in Kongsberg Automotive were skeptical to the Norwegian manager's attempt to reduce social events and gifts, and especially in relationships to customers or suppliers.

The Norwegian manager wanted to replace traditional means of appraisals, like gifts, titles and promotions with remuneration systems acknowledging individual performance. This also involved a move away from the use of symbols which had been important at

the plant during the Jung Ang period. Titles, promotions, and gifts, from money to the company’s t-shirts, were means of demonstrating to the outside world that the company appreciated you as an employee. Many of the Koreans were especially concerned about what they called the visual effect, that the appreciation was something one could show to others, also outside the company.

Because of the visual aspect of symbols, the Koreans were concerned about the clothes the company offered them, and that these should be clean when they walked outside the factory. Working conditions, like the standard of the bathroom facilities were also important in this respect. Others would acknowledge that the company appreciated its workers if the working conditions were up-to-date, and this was perceived as an important part of the company’s image.

Even though the foreign owners and management attempted to change certain aspects of the organization at the plant in Yangsan, much also remained the same. Some things were not changed as it was considered important to heed local customs and needs, e.g. the system of titles which customers in particular expected to be in place. Other practices which were attempted to be changed, proved difficult to alter. The result was that one year after the Norwegian manager started in Korea, two organizational structures existed alongside at the Yangsan plant.

### **7.3.2.9 Two organizational structures**

One year after the Norwegian manager had arrived, many changes had taken place, but much also remained the same. Many practices from the Jung Ang period had been preserved despite concrete attempts for change. This was still the case in August 2003, as much of the below was reconfirmed in questionnaires. While young males and female employees embraced many of the new changes brought in, the majority, who were older males were more skeptical and resisted some of the changes. Also, the company’s employees still related to the same customers and suppliers as earlier, who had certain expectations towards stability. Alongside the changes introduced by the Norwegian manager and the foreign owners, the former traditional systems of hierarchy, harmony and etiquette were preserved by the employees. Some of the new changes were therefore not very substantial as former practices were still heeded.

### **7.3.2.10 Generation and gender differences**

The changes that had been introduced had been received in a variety of ways depending on a person’s former position in the organization. Some experienced the changes as advantageous, while others had their former positions and privileges to defend. The employees at the plant were to a certain extent divided in two groups. The younger em-

ployees seemed to thrive under foreign leadership, as their efforts were acknowledged and their initiatives encouraged. They had more opportunities than earlier to develop and increase their competence, and saw that they were not as inhibited as earlier by a traditional hierarchic system of promotions. Older employees on the other hand were more skeptical to the changes and concerned about preserving the traditional Korean ways. The emphasis on individual achievements and individual responsibility was by these seen to cause conflict and competition at the plant. This was something which they feared could destroy the earlier sense of collectivity, order and harmony. The changes brought in by the foreign management also affected the production workers and office workers differently.

The production workers had to a greater extent than other groups felt the pressure for individual achievements, and were the group who were most disappointed with the new foreign owners. The production workers had harbored great expectations towards the new owners in terms of improvements of the working conditions and the salaries. Instead, the great majority of production workers saw little improvement beside the new renovated facilities. It was the minority of women and younger operators who had received the largest salary increase, the use of overtime was reduced, and so were social events and other compensations. Decisions took longer time than earlier, as the management in Norway needed to be involved. The distance to Norway, the language barrier and the cultural differences hindered the communication between the production workers and the management, and made for an impression among the workers that their influence within the company was reduced.

#### **7.3.2.11 Distorted information**

The foreign ownership had made for new challenges related to communication. The language barrier meant that most needed to articulate themselves in a foreign language they knew poorly, or to speak through a third person. Even though a translator could be used, many were concerned that their message would get distorted if they spoke through a third person. This was also the case for the production workers who felt that their managers were reluctant to pass their messages up the organizational hierarchy. Several suggested that certain managers would consciously filter the information. It could be because they did not want to present their super-ordinate with bad news, or that the information was negative for themselves. During the summer of 2002 a number of issues which were seen as related to lack of information were discussed at the plant. While the Norwegian manager believed the bathrooms for the production workers had been renovated, this was not the case according to the workers. Their repeated complaints had not been received at the top of the organizational hierarchy. There were also cases where the



information from the top had not been received among the workers. This concerned especially information related to the rationale behind the different changes, e.g. the wage settlements, the changes in production principles etc. Despite these difficulties and the encouragements from the Norwegian manager, the Koreans did not surpass their superordinates and approach the Norwegian manager directly, because the traditional system of loyalty in relation to the organizational hierarchy was preserved.

The distortion or lack of information was seen to be related to internal politics at the plant, but also to cultural differences between the Scandinavians and the Koreans. Most of the Korean employees emphasized the important role of implicit communication, and how this was related to preserving harmony and order in the organization. The foreigners and the Koreans diverged strongly in how they communicated. The Koreans tended to circumscribe and/or only vaguely mention difficult topics, expecting their listener to infer the full message. The Norwegian manager in contrast opted for open and free discussions based on divergent opinions and arguments. The Norwegian manager's attempt to introduce joint projects between workers and managers was opposed because the workers were not seen to be ready to openly oppose their superordinates, while the workers themselves complained that their expectations towards more participation was not fulfilled. The encouragement to speak directly to the Norwegian manager was well received among the workers, but the traditional system of loyalty and harmony hindered them to surpass their superordinates. While the Koreans in general were positive to the changes brought on by foreign ownership, they also saw the rationale in their own traditional practices.

#### **7.3.2.12 Organizational positions**

Changes in the organization structure caused some confusion among both managers and workers. New positions were introduced, and the old lines of reporting were not always respected. The solution of giving the second in command the Korean title of *isa* – had implications for how the employees related to the Norwegian manager. Most of the employees could not, or they had difficulties, speaking to the Norwegian manager because of the language barrier. In addition, he could be perceived as redundant in terms of the Korean system because there was already a plant manager. The employees at the factory were more comfortable relating to the *isa* because of the language, but also knew that they needed to pay respect to the actual local manager. This was a cause for confusion among the employees who at times did not know how to behave properly. For the Norwegian manager who did not speak Korean and who was unfamiliar with Korean tradition, it was important to have someone who could fulfill the social responsibilities which follows the role of a plant manager. But while the two people in question seemed

to agree, the status difference and the division of responsibility between the *isa* and the Norwegian were not clearly defined for others in the organization.

Other new roles, like that of the interpreter also caused confusion. The Norwegian manager expected her to report directly to him, but according to the traditional system she was supposed to report to a different manager. For some time she therefore received different orders from different people, and struggled to understand her own position. The emphasis on a lean organization also caused some difficulties. Different organizational positions were expected to be more flexible as to which tasks they took on, this also included menial tasks like brewing coffee. Some respondents found it difficult to balance between the expectations of the foreign managers, and those norms and values associated with a more traditional Korean management system. While female employees at the plant had received a higher salary increase than others, and the differences between male and female employees in this sense was reduced a bit, these changes did not affect the treatment of females by their male colleagues. Despite the higher salary and for some higher responsibilities, the female employees were not included to the same extent as their colleagues in discussions or projects at the plant.

One year after the Norwegian manager had arrived, two different organizational structures had developed at the Yangsan plant. Some of the employees were comfortable relating simultaneously to both, while others felt it was more difficult and struggled with conflicting norms and expectations, e.g. like the translator. Even though the Norwegian manager had attempted to alter the traditional Korean organization structure, to a great extent it was still preserved. He himself had limited access to it as he failed to understand and adhere to the cultural codes and the language, but most of the employees still related to it as it was the most familiar structure of the two.

The existence of these two structures was a compromise between the changes the foreign owners wanted to introduce and the traditional Korean management system. The understanding for how Kongsberg Automotive wanted to have things done had increased considerably among the Koreans during this time, and it was easier to find workable compromises as time went by. Most of the respondents were convinced that they increasingly would be able to find compromises in the future, which could accommodate both local and company needs.

## **7.4 Summary**

The establishment in South Korea was a challenge for Kongsberg Automotive. The acquisition of Jung Ang was a different endeavor than what they had embarked on earlier. While earlier factories had been established as greenfields they were now taking over a fully established organization. In addition, South Korean culture, language and society were more unfamiliar to them than they had faced before in e.g. Poland or Mexico. The initial months under Korean leadership showed that it was essential to have somebody who understood and knew the company to take charge of the new plant. Otherwise they would not be able to transfer their coordination and control systems, production ideas and other changes. The main responsibility of the Norwegian manager who was put in charge was to create a balance between local needs and the expectations of the head office. He initiated changes in administrative routines which allowed for stronger control and planning for the head office, but also for the local managers. The local managers were now preparing two sets of reports, one for local governments and another for the head office. They expressed frustration over the detailed documentation that they were expected to produce, but also acknowledged that it gave them new opportunities for planning. The organizational hierarchy was also changed, especially in terms of areas of responsibilities and a weakening of the vertical axis of authority. Most appreciated the changes, but there was also some confusion because some of the changes were not consistent with the traditional Korean system, and demanded other rules of conduct. This was also the case for the Norwegian manager's attempts to introduce open and critical debates. While most embraced the idea, it was also difficult to implement since these behavioral norms ran counter to what was traditionally considered proper behavior.

In production an increased emphasis on quality and productivity was introduced as soon as the factory had moved to new facilities. Also here the changes took some time to implement, on the other hand, it became quickly visible that the changes affected the productivity in a positive direction. Because the Koreans saw the improvement quite quickly, these changes were easier to accept than others. On the other hand, foreign investments have since 1997 become quite common in South Korea, and together with the large number of foreign companies there are trends towards change here as well. The remuneration system the Norwegian manager introduced was new for the former Jung Ang's employees, but there is a trend in South Korea towards emphasizing individual achievements. The change in the wage settlements was accepted by most employees even though some were concerned that these changes could destroy the harmony and the sense of collectivity among the employees. And since the changes reduced the discrimination of females, and awarded young employees for their efforts, these groups were of course the most appreciative. However, all employees were negative to the re-

duced number of social gatherings and the limitations in the use of gifts. The rationale behind these practices seemed not to be fully understood by the foreign management, who thought of these as something 'extra', the way it is perceived in e.g. Scandinavian countries.

Despite the changes initialized by the Norwegian manager, much remained the same. While many of the changes had been implemented and people adhered to them, there were also many of the traditional Korean practices still in use. The Koreans behaved according to these as much as they could without breaching the expectations of the foreign owners. To behave properly according to both systems simultaneously was at times difficult, but all our Korean respondents seemed to be positive towards the foreign management and for the future. As several said, Kongsberg Automotive still needed two more years to be able to settle properly in South Korea, and to learn about how to do business in the country. And Kongsberg Automotive itself still has plans to double the sales in the area within a five-year period, to bring more products to the factory and to increase the exports from South Korea to other countries in the region.

## 8 Local solutions and local leadership

### 8.1 Introduction

The question which will be addressed in this chapter is as earlier specified; *why is local leadership crucial for creating local solutions?* When faced with the motivations of the parent company to create a uniform organization, the ability of the subsidiary to create local solutions is expected to be influenced by the relative power of the unit. But when it is local leadership which has the central role in translating the interests and needs of the local unit towards the central management, the approach of local leaders becomes essential for understanding the local solutions that are created. What role does local leadership have in creating local solutions and what can be seen to influence the approach of different local managers?

Why and to what extent local solutions were created will be discussed with regards to the differences between the local units, as well as through time when different local managers were in charge of the units. I will compare the units on the variables earlier identified in chapter 2, and discuss their explanatory value. In the last part of this chapter I will address in more detail why local leadership is crucial for creating local solutions and what implication answers to this question have for earlier research and theory.

I will focus on how representatives from the local subsidiaries can be seen to push for local solutions and how their ability and interest in doing so is affected by their social embeddedness, their interests, power and institutional environment. In new institutionalism the local manager of a subsidiary has been seen to fight for the independence of the local unit in opposition to the head office. His capability and interest to do so, has been found to be dependent on the status of the local unit. A large local unit which is highly dependent on the local environment and which has organization structures in place before an acquisition is expected to provide the local manager with more resources to push for local adaptation than a smaller greenfield establishment which is not dependent on the local environment. In previous chapters I have identified the different local units of Kongsberg Automotive and the various local managers who have been a part of their development.

Social embeddedness was defined in chapter 2 as the effect of social networks. The

desire and necessity of belonging and adhering to the norms of social networks are expected to influence the behavior of a boundedly rational actor to choose strategies which involves other benefits and gains than those merely related to self-interest. A local manager in a foreign subsidiary acts as the unit's representative and I expect that his approach is influenced by how he sees his own role in the local organization and whether he identifies with having a responsibility for the local workers.

Interests were broadly defined including material goods, as well as ideology, values, norms and social goods such as status. I expect that a local manager will heed the interests of the unit in negotiations with the head office. When local adaptation on different issues is understood as important for the unit and its performance the local manager will attempt to push for local solutions on these issues.

The power of the local managers to push for local adaptation is relative to the power and interests of the head office. His capability to choose local solutions depends on how strong his negotiating power is. His power is depended on the status of the local unit in terms of size, its dependence on the parent company and the strength of his argument in terms of how important the local solution is for the unit. A local manager who represents a unit which is large and less dependent on the parent company will have more power than a smaller and more dependent unit.

The institutional environment represents regulative, normative and cultural-cognitive systems which influence the local manager in that he will attempt to comply with rules, norms and beliefs belonging to his institutional environment. I earlier identified three main institutional environments that are expected to influence the MNC: the local environment, the parent environment and the global environment of the automotive industry. The influence of these institutional environments depends on whether the local leader identifies with and has knowledge of them. A local manager who is familiar with his local environment is expected to attempt to comply with its norms and rules, but may also be able to exploit the constraints of the environment. Institutions consist of a myriad of institutional orders with different reality-systems, and the practices a local manager chooses do not need to comply with all these systems, but more importantly should not contradict the relevant institutional orders. Thus, there is not one 'right' practice that fits with one institutional environment, but an indefinite number of alternatives. However, to be able to find or construct these alternatives, the actor is dependent on knowledge and experience with the relevant institutions.

## 8.2 Local units and local managers

In chapter 3, I discussed the various subsidiaries and to what extent their characteristics affect whether they have the interest and power to be locally adapted. They are situated in very different local contexts; the heart of the automotive industry in Detroit USA, the Rio Grande area of Mexico, a suburb of Warsaw in Poland, and an industrial park outside Buzan, South Korea. The table below summarizes the differences discussed in chapter 3.

**Table 8-1 The various units**

<b>Unit</b>	<b>Production</b>	<b>Year</b>	<b>Green-field</b>	<b>Size</b>	<b>Parent Dependency</b>	<b>Local dependency</b>
USA	Sales/proto-type Seat Comfort	1996	no	16	High	Medium: customers, local employees
Mexico	Seat Comfort	1999	yes	304	High	Low: local employees
Poland	Seat Comfort	2000	yes	287	High	Low: local employees, Polish regulations
South Korea	Gearshifts	2001	no	33	Medium - Low	High: customers, suppliers, employees

The interests and capabilities of each unit to be locally adapted are expected to affect the role of the local manager and his interest and capabilities to push for local practices. Below I will discuss each of these units and the approach of each of the local managers. I expect that the more familiar the local manager is with the local environment the more capable and interested he is in pushing for local adaptation. The local leaders who have been present in the development of each local site vary as to their nationality, experience, language skills, knowledge of the local site and the extent to which they are familiar with the local environment, the international automotive industry and the parent environment. The table below illustrates some of the characteristics of each local manager.

**Table 8-2 Local managers**

Where/Who	Nationality	Experience w/ institutional environment			Local language
		Local	Parent	Automotive	
<b>1. USA</b>	Swedish	no	yes	yes	yes
<b>2. USA</b>	Belgian	yes	no	yes	yes
<b>1. Mexico</b>	Swedish	no	yes	yes	no
<b>2. Mexico</b>	Mexican	yes	no	yes	yes
<b>1. Poland</b>	Swedish	no	yes	yes	no
<b>2. Poland</b>	Polish	yes	no	yes	yes
<b>1. South Korea</b>	Korean	yes	no	no	yes
<b>2. South Korea</b>	Norwegian	no	yes	yes	no

Below I will describe the history from each case and local leader. I will look at how they chose to adapt to the local context, and fulfill the expectations from the company and the international automotive industry.

### 8.2.1 The U.S. unit

As stated in chapter 3, I expect that the U.S. unit will have a high interest in adapting to their local environment. The local environment of the U.S. unit corresponds with the international automotive industry since U.S. car manufacturers have been seen to define many of those rules, norms and shared understanding that are prevalent in this industry. However, there are also differences in that European car manufacturers which Kongsberg Automotive in Scandinavia is experienced with have other methods and expectations. To adapt to the local environment signifies for the U.S. unit to comply with the expectations of its major customers, something which is considered essential for the unit's performance. On the other hand, there is less reason to expect that the unit will have much power to push for local adaptation. The unit is small and its former status as an acquired and older unit was significantly changed when production was moved to Mexico.

There were two different managers in the U.S. unit as we have seen in chapter 5. The first was a Scandinavian with limited experience of the local institutional environment. He had earlier worked in Sweden for Scandmec and had experience from the automotive



industry in Scandinavia and Europe. While he was working in the U.S. unit the unit was suffering great financial losses. This was due to the cost level developments in the U.S., but was by our respondents, also attributed to the management itself. Local employees suggested that the Scandinavian manager was not fulfilling his responsibilities as a manager, and was not supervising his employees. He was also described as lacking an understanding of how to do business the “*American way*”. More specifically, it was stated that he failed to recognize that business in the US was less ethical than in Europe, and that this led to unnecessary problems. The head office in Norway also reacted to the negative figures in the US unit and made for two important changes. The production was moved to Mexico and a new manager for the US unit was sought.

The first manager in the US unit made few adaptations to the local environment. The employees in the unit were asking for a different approach towards the customers, but he did not recognize the need or did not have an interest in changing his own approach nor that of the company. He spoke the language, but lacked experience from the local environment, and did not seem to take on a role as a representative for the local employees. In a way, one may say that he brought norms and beliefs from his own local environment to the U.S. context, emphasizing a low-key management style, and a lot of individual freedom to the workers.

Through a recruitment agency, a Belgian with ample experience from the international automotive industry was hired in 2000. He had lived and worked in the US for many years, but was also seen to have experience from international and European business life. He was able to make the US unit break even after only four-five months. He also brought a different and more visible leadership style to the US unit, emphasizing personal responsibility and initiative. He agreed with the local employees that the Scandinavian way of doing business in the US was not aggressive enough and that the Scandinavians failed to recognize how unethical US business can be. In his dealings with the head office and board members of the company he emphasized the need to have a different approach in the US market.

Sales people and others who were working directly with suppliers and customers were more positive to his approach than others employees in the organization. They felt his approach in dealing with customers was appropriate for the US market. Those employees, however, who had a more internal focus with prototype production and designs, were a bit more reluctant. They felt a stronger focus on internal conditions could be appropriate and were complaining that communication between sales, prototype and the final production in Mexico was suffering.

While achieving what several local employees had asked for; a stronger customer focus and turning the US operation around, in the end the new manager seemed to have

had a too strong focus on fulfilling the expectations of the customer. He did not see eye to eye with managers at the head office who disagreed with the strategy he was trying to achieve for the US market. And when Kongsberg Automotive Inc. failed the QS 9000 audit in 2003, this was amongst other things ascribed to a too lenient attitude in negotiations with the customers. The communication issues between the US and Mexico were now causing severe problems and this was in part ascribed to his failure to understand the needs of the production unit. During the summer of 2003, a new manager was in put place in the US, a Norwegian with experience from both the Swedish and Norwegian units. He was viewed as a manager who would emphasize more strongly the operational side of the business, and thus one who could make for a more balanced approach in satisfying both the customers and the internal production.

The second manager in the U.S. heeded what I have earlier defined as the interests of the unit, complying with customer demands. He pushed for local adaptation on these issues in negotiations with the head office. This was an approach which took the form of a collective fight towards the head office, including other employees. According to the new manager, the rules of the game in the international automotive business were to be more aggressive and more flexible towards the customer than what the head office thought. His management style was well adapted to the local conditions, emphasizing personal responsibility and a visible leadership. On the other hand, his approach did not meet the expectations of those employees who worked mostly internally in the organization; prototype and design workers. While he did succeed to a certain extent towards the head office, he did not have sufficient power to change the approach of the company in the U.S. market in the long run.

### **8.2.2 The Mexican unit**

I expect that the Mexican unit has a shared interest with the U.S. unit to adhere to the expectations of the customers in the U.S. market. In addition, they have an interest in complying with the local environment in terms of expectations from employees and the *maquila* program. While it is a large unit, and this may give them more negotiating power when faced with the head office, they are also highly dependent on resources from the sites in Scandinavia. There were two managers in the Mexican unit, first a Swedish manager with experience from the company and thereafter a Mexican manager.

The Swedish manager was in charge of establishing the unit in Mexico in 1999. He had worked in Kongsberg Automotive for many years, and was well familiar with the production systems within the company. He had not worked in Mexico earlier, and did not speak Spanish. The production system was moved as a *carbon copy* from the US to Mexico and the Swedish manager worked closely with both US and Scandinavian

colleagues in the move. In addition he had one of the company's main suppliers who were established close by to assist him. When local Mexican managers were hired they were able to partake in shaping the organization structure.

The organization structure which emerged in Reynosa was seemingly adapted to a local Mexican context. Following the advice from Mexican colleagues, and perhaps also his own expectations as to what a Mexican organization should be like, the organization structure was more hierarchic than in other units in the company. The argument was that status and respect for managers in Mexico is achieved by preserving distance between workers and managers in the organization. Following the hierarchy, the responsibilities and tasks of the managers were also more defined and separated than in other units in the company.

Even though this manager had a close relationship with the head office in Norway, and was well familiar with the company, he was in retrospect criticized for working too independently in Mexico. He followed through on copying the production process from the US and Scandinavia, but was later criticized for not heeding advice from either the supplier in Reynosa nor from people at the head office. The criticism from the head office was further strengthened by figures showing a high turnover, quality problems and low productivity. Local employees stated that there had been serious communication problems at the plant, some due to language barriers as the two Swedish managers in place did not speak Spanish, but also due to the attitude of both Scandinavian and Mexican managers. The attitude of some of the managers at the time was described as reluctant towards engaging in tasks outside of their own responsibilities, and that they distanced themselves from the production and the workers. The Swedish manager tried to change the situation by consulting the workers, and received suggestions for improvements. Free transportation was introduced, the canteen facilities were improved, and in order to try to induce more workers to return to work after the holidays, a special Christmas bonus was introduced. However, the problems persevered and a Mexican manager was hired in 2001.

The Swedish manager can be seen to push for local adaptation in terms of how the organization structure deviated from the policy and standards of the company, and the various practices that were introduced for the workers. On the other hand, he seemed to be heeding too much the advice of local middle-managers who benefited from a taller hierarchy and who were arguing that it was appropriate in a Mexican context. To a lesser extent he was able to adapt the organization to the production workers who felt the distance was too great and that the communication in the organization was not satisfactory.

The next manager was Mexican. He had not worked in a *maquiladora* earlier, but

had previous experience in the area working for international companies and in the automotive business. He was considered an expert in quality systems, having a certificate for the *six-sigma*. Six-sigma is a quality system advocated in the international automotive business. While lacking any earlier connections to the company itself, he was well acquainted with local conditions and the international dimension of the automotive business. As a Mexican he was also fluent in Spanish.

In cooperation with his recently appointed superior in the US unit, he undertook some important changes at the plant. These were directed towards coping with the severe quality and productivity problems, as well as with the high turnover. The hierarchy in the organization was reduced by eliminating a number of managers, and regular production workers were offered to advance to positions as team leaders. This made for shorter distances between workers and managers, and new opportunities for workers to improve their salaries. He also introduced team leaders in the factory, thus making the organization structure more similar to the policy of the company. The Mexican manager also changed the production system in a way which was more suited for the local employees. As he saw it, it was necessary to include poverty in the equation when working with quality issues in Mexico. One could not expect that the workers were able to concentrate 100% when they were hungry and worried about how to feed their families. He therefore changed the production system from a *push* to a *pull* system, a system which was less vulnerable to quality problems. He also introduced tests or exams for those who wanted to improve their salaries or take on more responsibilities. This was done to increase the educational level at the factory and to improve the production in a longer-term perspective. A new testing machine which could detect quality problems to a higher standard was brought to use in production. This was a different machine than what was used elsewhere in the company.

In addition to these structural changes a different management style was introduced. A style based on closer cooperation between workers and management with a focus on encouraging initiative both among managers and workers. The turnover improved, even though it remained higher than in other units in the company<sup>1</sup>. The Mexican manager preferred that it was him and not his superior in the US or others who had the direct contact with the workers, thus avoiding any communication problems that could arise.

While local employees said they earlier felt the factory was not a proper *maquiladora* and said this had been some of the reason why workers chose to go to other companies,

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<sup>1</sup>) The *maquiladoras* have on an average a high turnover (9-10 %) due to the high supply of many similar jobs in the area, which require few specific skills. With the possibility of gaining a few extra pesos it may be attractive to change jobs.

their attitude changed somewhat after these changes. The plant was still seen to be too small for a *maquiladora*, but this was now understood to be an advantage as workers had more possibilities for advancement than in other places. The contact between workers and managers was now described as good in most cases and few felt they had any difficulties in approaching their superiors in case of problems. In relation to customers, the efforts to reduce the production problems had succeeded and the figures were positive. When problems with the QS9000 occurred in 2003, the head office seems to have agreed with the Mexican manager that the main problem was to be found in the contract negotiations in the US unit. And even though a Swedish logistics manager was now brought in to assist at the Mexican plant, this was not a sign of mistrust to the Mexican manager. On the other hand, it can be understood as a desire to introduce more of the company's procedures and routines, as the Mexican manager had made it clear that he shied away from too much paperwork and documentation.

The Mexican manager pushed for local adaptation for the unit, but it seems as though he was better equipped to exploit the constraints of the local institutional environment than the former manager. The changes he made in the unit deviate from those of other *maquiladoras*, but were well received by the employees. He made changes based on an understanding of the institutional environment, but neither copied the company's practices nor those common in other *maquiladoras*. He also took on a role as a representative for the local employees, emphasizing their problems with poverty and hence specific needs as to the production system and advancement opportunities. One may say that social embeddedness influenced his behavior as he identified with the workers. He said himself that he considered it a necessity to find the best solutions for the workers while at the same time fulfilling the needs of the company. His power to make these changes seems to have been sufficient as his approach was well received by the head office. On the other hand, he did not unite with the U.S. unit as I expected, in terms of pushing for adaptation to the expectations of the customers. Rather, he was more prone to agree with the head office on these issues. This may be seen as a result of the problems the unit was facing, with designs and prototypes which were not optimal for mass-production.

### **8.2.3 The Polish unit**

The size of the Polish unit may aid the unit in its negotiating capabilities towards the head office, on the other hand the local dependency is low, and it is a greenfield establishment which is also highly dependent on the parent. In chapter 3, I found that the unit is expected to have an interest in pushing for local adaptation as it needed to comply with the expectations of the local employees and the peculiarities of Polish regulations and laws. While there have been changes in the former Polish bureaucracy, there are

still national and local differences which Kongsberg Automotive was unfamiliar with. There were two different managers in the Polish unit, first a Swede who was in charge of the project phase of establishing the unit, thereafter, a Polish manager who had earlier worked for large U.S. companies in Poland and was well familiar with local conditions.

The first manager in Poland was a Swede who was responsible for the establishment and initial development of the plant. The size of the plant during his time in Poland was small as this was an introductory period of training and establishment of the factory before regular production was to begin. This Swedish manager did not have experience from Poland or Eastern Europe, but was well familiar with the company, especially with the Åmotfors factory where most of the production system came from.

The local employees who had been hired at this time described this time period as very positive. Despite the fact that they could not communicate directly with their supervisor, they described him as a polite, warm and encouraging manager. The local employees felt they were able to learn much during this period and that workers and managers alike cooperated closely to establish the factory. Even though the head office acknowledged that he had done a good job at establishing the factory, they were also critical to the manner in which he had created a too informal and relaxed atmosphere. He was seen to be too generous in giving employees responsibilities, and not providing clear orders. By other colleagues he was also said to be sidestepping standard procedures in his dealings with the factory in Åmotfors, conduct that was seen to cause problems for others. In retrospect, he and others in Scandinavia were criticized for not establishing proper procedures and providing documentation during this time period. The problems which followed in production were attributed to a lack of order, both in relation to training of employees and in the production system. Neither did he fulfill the expectations of the company; their procedures were not fully implemented, like for instance the SAP, even though this was also related to other problems like Polish regulations and language. The production at the plant was severely behind schedule, and approvals from customers for producing at the plant were not obtained.

While the local employees clearly appreciated his management style, and the way in which he shaped the organization, it is hard to argue that he adapted the organization to the local environment. He imported a Scandinavian leadership style, emphasizing participation, a flat organization structure and delegated responsibility. The local employees seemed to thrive under his leadership, and stated that they felt as if they participated strongly in establishing the unit. However, his approach was later criticized for not providing clear enough guidelines for the local organization, and that the unit did not heed rules and norms in the Polish society.

The Polish manager had a background from the automotive industry, and had been

managing a division of Delphi Automotive Systems with 1800 employees. He was also highly educated. This manager had a different focus of how to run the plant than his predecessor. Much work was done in order to establish procedures, and many of these were clearly inspired by his and his colleagues' backgrounds in the automotive business. Facing the disorder from the establishment period, the main emphasis became discipline and order, both in the physical layout of the plant and in terms of relations to the employees. He also criticized the factory in Sweden and the head office for not paying enough attention to documentation and proper procedures. These were arguments that the management in Norway, after some time, recognized and appreciated, on the other hand they also wanted to have a less hierarchic organization and that the Polish managers would work in a more 'Scandinavian' manner, meaning that they should be flexible as to their tasks and responsibilities. For instance that they should do menial tasks themselves and not hire secretaries.

Even though he was Polish and well familiar with the local context, the local employees were critical of the new manager. In contrast to how the Swedish manager was described, the new manager was described as impolite and that he treated the workers without respect. The local employees seemed to have different expectations of their employer, perhaps boosted by their experiences during the project phase. Also during interviews two years later, the employees were critical. However, now they were less critical towards the plant manager himself, but more towards lower managers and technicians. The management style that had been introduced at the plant was one based on discipline and orders, and most employees aspired for a more cooperative and, what they considered, a more polite style. The plant manager had changed somewhat between the two rounds of interviews and it was himself amongst others who said that he had worked explicitly on his social and inter-relational skills in order to cooperate better with the employees. It was the administrative manager at the unit that in part made him aware of the problems. She was more conscious of the need to unite with the production workers and to create a sense of shared identity and shared goals at the plant.

The Polish manager heeded practices from his earlier experience working for U.S. automotive companies. He introduced techniques and procedures inspired from the automotive industry as these are advocated in US companies and seemed to push more for adaptation in compliance with these models than a more local Polish approach. He also emphasized a visible management style stressing clear orders, goal orientation and discipline. The local employees were negative towards his approach, especially those who had been present during the project phase. Many of our respondents were afraid to lose their jobs as personal responsibility was highly stressed, and there were different control procedures directed towards each individual. There were also a high number of

temporary employees at the plant, since Polish regulations didn't hinder such practices. Few of the employees, especially at the first round of interviews, seemed to share his norms and beliefs as to how to manage the plant. Also, other managers were skeptical.

On the other hand, he also expressed a desire to change his approach in time. He hoped to increase participation by the workers with time as the team leaders would become more self-sufficient and the foreman position could be abandoned. In terms of adaptation to Polish laws and regulations, he was pushing for local adaptation in these areas. There were numerous discussions with the central management, and the Business Area Director about the specific needs at the unit of providing various reports, clear specifications on shipments and in general more thorough and detailed documentation. The manager was able to make the unit and the company comply with these regulations and norms.

#### **8.2.4 The South Korean unit**

The South Korean unit is an acquired unit which is highly dependent on the local environment in terms of customers, suppliers and employees. The unit is also less dependent on the parent company than other foreign units. The unit has both the power and interest in maintaining local adaptation. The Korean manager led the unit a fairly short time before a Norwegian manager with experience from the company took over.

The first manager in South Korea was a sales agent that had worked with Kongsberg Automotive for some years. He preserved the practices of the former Korean organization, and even though he was expected to be familiar with the company and its procedures, there were few changes in the organization to accommodate the head office. In the eyes of the local employees he represented a continuation of a familiar Korean organization. But these, especially females and younger men had other expectations of an international company. They had expected changes both in salaries, the physical facilities and in the traditional hierarchic organization structure. The Korean manager failed to meet these expectations, and when the production results were not improving and there were signs of misconduct, the head office replaced him.

Even though he was pushing for local adaptation, or more correctly maintained the structures and practices of an already local organization, the reaction from the employees was in most cases not positive. They had other expectations towards the management and the organization because it was now a part of an international company. In addition he failed to implement procedures and practices the head office deemed necessary, thus losing credibility in the eyes of the top-management.

The second manager in South Korea was a young Norwegian with experience from the head office, and from factories both in Norway and Sweden. He had not worked



in Korea or Asia before, and did not speak Korean. He introduced the company's procedures in budgeting, planning and reporting in the Korean unit. He also introduced a different leadership style and attempted to make his colleagues cooperate in a Western manner. He brought changes which stood in contrast both to the former organization of Jung Ang and to the Korean society in general. He imported a Scandinavian or Western organization model with its adhering practices.

On the other hand, a decisive point seems to have been his approach in introducing these changes. Changes were introduced incrementally and not in an authoritative manner. He was also seen to use tactics as he searched for ways of implementation by asking advice for his approach from different persons and by finding alliances. His approach seems to have been essential for the reaction from local employees who in general were positive to the changes. The two groups who had most to gain by the changes were also those who were most positive, women and young men. Some of the changes he introduced were motivated by a desire to make for more equality at the plant – between men and women, workers and managers, and older and younger people. The production workers in general were positive to what they saw as changes towards making the managers more accountable for their fields of responsibility. On the other hand, older employees were not pleased with the changes in the salary system and in what they perceived as a loss in respect and status.

As the unit is highly dependent on the local environment through customers and suppliers, there had been much discussion at the plant about how these would react to the change in ownership of the plant. In order to make sure that the customers continued to view the company as legitimate he let the local employees handle the external relations to a great extent. But there were also advantages of having a foreigner lead the plant. They came to realize that the customers and suppliers applied other norms and expectations to a foreigner than Koreans. It was accepted as well as expected that a foreign company would behave differently and with other demands than a Korean company, at least to a certain extent. This applied to for instance payment terms which now were adapted to fit with company procedures. A foreigner had thus more room to maneuver within the institutional constraints of the local environment.

He was having more problems being accepted as one of the local employees. He was criticized for not "*getting close*" meaning he did not participate sufficiently in various activities outside work and in creating close informal relationships to his co-workers. He did not speak Korean and it was thus difficult to talk to most of the employees, in addition, his Western background made him reluctant to let his work enter his private time. The Western norms of keeping a distance between the private – public person, and between work and pleasure, are much less pronounced in South Korea.

### **8.3 Discussion**

From the above I will argue that all the factors expected to have an influence on the behavior of the different local managers have been present in the various stories. However, not all are present at once and they take on different forms. Below, I will summarize and discuss the findings above in relation to the research question earlier posed: *why is local leadership crucial for creating local solutions?*

In accordance with my research question, the local manager may be seen as the central actor in the unit's and the company's attempt to create an appropriate balance between the local institutional environment, the global automotive industry and the institutional environment of the parent organization. In his efforts to push for local solutions I also ascribed a number of characteristics of the unit as important factors influencing his interest and ability to do so. The unit's dependency on the parent company for example influences the interests of the local manager to maintain a good cooperative relationship with the head office, and to make sure that the unit has all resources readily available to them.

In terms of social embeddedness it is difficult to assert to what extent the different managers were influenced by the social networks they belonged to. None of the managers who were foreigners in the local units can be considered an integral part of the organization. The reason might be the time period they stayed in the unit. Apart from the first manager in the U.S. the other foreigners stayed less than two years in their respective units. None of these spoke the local language. Even though the Swedish manager in Poland and the Norwegian manager in South Korea were viewed in a positive light by the local employees, they were not considered an integrated part of the local organization. Social embeddedness seems to have affected the behavior of the Mexican manager. His attempts to adapt practices to the living conditions of the workers and to change the structures at the plant allowing for more responsibility among the workers can be understood as motivated by loyalty with the local employees and identification with their situation. The Mexican manager was the one who seemed to view his role as a local manager also as a spokesperson for the local employees and who chose to take on such a responsibility. The Polish manager stated that he was hoping to increase the salaries of the workers, because he believed they were underpaid. On the other hand, this had not occurred and the changes he had made at the plant caused stress and anxiety among the workers, even though he was also seen to bring the results to a profitable level.

The various managers above can be seen to be heeding the local interests of their respective units, albeit to a varying degree. The second manager in the U.S. joined his employees in a unison fight for practices that would allow them to comply with the de-

mands and expectations of the U.S. customers. The Mexican manager pushed for local solutions that would increase productivity and quality while allowing for the specific needs of the local employees in terms of their living situation and competence level. The Polish manager deemed it necessary to introduce individual control procedures, systems for documentation, and more discipline in his plant in order to increase performance and to adapt the plant to the needs of the workers. The first manager in Mexico attempted to heed what he understood as the interests of the organization, however, it seems as though he was foremost a spokesperson for middle-management and others who were interested in creating positions which could bring (themselves) more status. The first manager in Poland and the second manager in South Korea can be seen to introduce a more Scandinavian and Western management style and practices, heeding the parent institutional environment more than focusing on local interests in adaptation.

It does not seem that the status of the different units in terms of size, age, method of founding and dependency had much influence on the relative power of the local manager to push for local solutions. One reason for this might be that my material does not allow for measuring strength on these variables, and that even though there are differences among the units, it is difficult to categorize the units in terms of more or less power. The unit which distinguishes itself is the South Korean unit. Having structures and practices in place beforehand, and having a high dependency on the local environment mean that it is also the unit which is most different from the standards of the company. However, this did not prevent the head office and the Norwegian manager introducing a number of practices and solutions alien to the organization and the institutional environment. The local manager's relative power seems to be more related to relations, rhetoric and results. The ability to push for local solutions can therefore be seen as a result of the local manager's relations with the central management and whether these have trust in his capabilities. In Kongsberg Automotive two of the local managers were also asked to leave their job when they were no longer viewed as right for the tasks at hand. These two may be seen to have lost the trust of the central management. The ability of local leaders to create local solutions is also dependent on how well the manager is able to argue for the local need, and ultimately whether the results show that local adaptation was right. I will come back to these issues in chapter 10.

The behavior of all the local managers seems to have been influenced by the institutional environment the managers identified with. However, it varied which of the three environments – the local, parent and global environment – that the local manager was heeding. The foreign managers all seem to have been inspired by the parent institutional environment in their approach at the local unit. The first manager in the U.S. used a low-key, participatory management style which can be said to be inspired

from a traditional management style in Scandinavia. The first manager in Mexico approached the organization much the same way. He was heeding the advice of the local employees when creating the organization, and involved managers and to some extent workers in identifying the needs of the organization and the subsequent solutions. The project manager in Poland created what was later referred to as a “*Scandinavian living-room*”. The Norwegian manager in Korea introduced a number of practices, solutions and approaches characterized by participation, open discussions and equality. These are examples of management styles which are more readily related to Norway than the local contexts of the foreign units. The second manager in the U.S., the Mexican, the Polish and the Korean managers on the other hand, were more inspired by the local institutional environment, and some by the global institutional environment represented by the automotive industry. The second manager in the U.S. approached the unit with a visible leadership style emphasizing personal commitment and responsibility, an approach familiar in a U.S. context. He also stressed an approach towards the customers inspired by the norms and understandings of the U.S. automotive industry. The Polish manager introduced a number of practices and techniques from his former work in a U.S. automotive company, and seemed less inspired by a local institutional environment.

#### **8.4 The influential role of the local manager**

In all of the units, the local manager has been the central actor in the development of the local organization. Based on the material above, it seems as though structural variables may affect the power and interests of the unit, but it is ultimately how the local manager perceives these interests and his own capabilities to represent them that determine the approach.

A local manager may choose between different roles and responsibilities, depending on his interests and capabilities. Most of the managers in Kongsberg Automotive acted as a translator between the head office and the local unit. They translated the practices and solutions from the head office to their units and adapted these to the local context. When doing so they were able to alter the practices and solutions. They were also translators from the unit to the head office. They were attempting to increase the understanding at the head office of the specific needs of the unit in terms of the local context. This was the case for the U.S. unit when arguing for the particularities of the local automotive industry. Others took on a role involving social responsibility when they were pushing for solutions and practices which could accommodate the needs of the local workers. In such cases the local leader can be seen as the representative for the local employees,

more than for the unit as such. A slightly different version of a role involving social responsibility was to promote solutions valued in terms of equality and social rights. Some of the changes made in South Korea were based on such an approach, abandoning practices because they were seen to be unacceptable, and not because they were necessary harmful or detrimental for the performance of the unit.

There seems to be larger latitude for constructing appropriate solutions and practices in the local context than the former dichotomy local adaption – centralization suggests. We have seen above that ‘local’ is not necessarily ‘local’. The Mexican manager in Reynosa made changes in the organization that were unusual to the local environment, but which were positively viewed by the employees. It is therefore difficult to advocate that the appropriate solution in a certain institutional context has some sort of predetermined format. However, a prerequisite for finding appropriate alternatives might be to have the knowledge and experience of the relevant institutional orders in order to exploit their constraints and boundaries.

The above material also illustrates that what is deemed as legitimate in an institutional environment is relative to the situation and actors involved. In South Korea for example, employees did not maintain their former expectations towards their employer when an international company bought the unit. Even though an organizational hierarchy based on age, experience and gender is highly institutionalized in South Korea, there were expectations among the employees that this system would be abandoned when an international company took over. Also, the customers had other expectations towards a foreign company, and were now seen to be more willing to change their contract terms. This was a willingness they had not demonstrated before, despite repeated efforts from the Korean sales people. Even though few of the respondents knew much about the parent company, they referred to Kongsberg Automotive as an “*international*”, “*Western*” and “*Scandinavian*” company, expressing expectations towards changes based on these images.

The local leader can be seen to have a lot of influence over the local construction of meaning, especially in circumstances where there are few linkages directly between the parent company and the employees in the local unit. To translate solutions and practices to a new context, involves negotiations with the ones who ultimately deem them as legitimate. It is foremost the local employees who determine the legitimacy of the practices introduced by their local manager. Their reactions may be expressed towards the local management, but are also illustrated in numbers for turnover, absenteeism and productivity. To introduce alien practices to the local organization seems to depend a lot on the presentation. Even though the Norwegian manager in South Korea attempted to make a number of changes that were considered very different in a local South Korean

context, most of these changes were viewed positively by the local employees. Employees who gained most by the changes, women and younger men, were most positive, but also others who did not gain personally were in general positive. His approach in presenting the new solutions was to some extent based on tactics and good rhetoric and the solutions were accepted by the local employees. To focus on the acceptance of local employees may reveal more as to how and when alien solutions are considered legitimate in the organization, and ultimately whether such practices can be seen to cause changes in the private – centralized institutions of the organization.

## **8.5 Concluding remarks**

The local leader has in earlier research been presented as the antagonist who fights for the independence of the local subsidiary. The relationship between the local unit and the head office of the company has therefore been portrayed as one of “*ever present tension*” (Prahalad and Doz 1981: 191). This emphasis assumes that because there is an asymmetrical power balance between the head office and the subsidiary, the subsidiary will tend to resist those practices and solutions imposed from the head office and fight for local solutions. The extent of local solutions at the local units has earlier been explained by how vulnerable they are to pressure from the head office. The argument is that if the local units have characteristics which give it more negotiating power towards the head office, the unit will heed local interests and implement local solutions. A unit can be said to be more powerful if it is a large, older and acquired unit. If the unit is also highly dependent on the local environment and less on the parent company it will have more relative power. Such a perspective, however, overlooks the effect of leadership and the interaction of boundedly rational actors.

As shown above, the local manager and his approach in negotiations with the head office is influenced by how he perceives his own role and the interest of the local unit. The local managers in Kongsberg Automotive were all influenced by an institutional environment they identified with – the local, the global or the parent environment. It is difficult to hold that they were in constant conflict with the head office, but they were rather heeding the interest of the unit as they perceived it to be, and found solutions that they thought were appropriate. On some occasions these solutions can be described as being adapted to the local environment, on others they were clearly inspired from the automotive industry and its norms and beliefs. Instead of holding that the relationship between the subsidiary and the head office is foremost characterized by tension, the discussion above shows that it is more appropriate to describe it as based on negotiations

where a shared goal is to find appropriate solutions for both parties. In these interactions the role of the local leader and his perception of the situation are central to the alternatives which emerge and how solutions are ultimately created or adapted, and implemented locally.





## 9 Governance structure

### 9.1 Introduction

The research question which will be addressed in this chapter is: *why are governance systems built both upon structural and cultural control mechanisms?* The challenge of central management is to control and coordinate a complex international organization. Centralized and formalized control mechanisms allow for standardization across the organization, but is standardization sufficient for handling the differences between the local units and their needs? Socialization or cultural control mechanisms may allow for more flexibility and a greater consensus in the organization. How do such mechanisms comply with the overall goal of controlling the organization and how do these accord with the use of other types of control mechanisms?

After specifying in more detail the different control mechanisms, I will discuss the characteristics of the parent company, and the differences between the units. The use of different control mechanisms will then be discussed in terms of how the governance system has developed in Kongsberg Automotive and the reactions from the local subsidiaries. The last part of this chapter is a discussion on why different mechanisms were in use, and finally, what implications my findings have for earlier research and theory.

The theoretical discussion in chapter 2 concluded that, in line with former research, I expect that the head office of a MNC will attempt to push for similarity across its various subsidiaries. Their motivation to do so is supported by a need for control of the units and a result of organizational replication. While former research has attempted to explain governance structure as a result of different structural variables (Pugh et al. 1969; Blau and Schoenherr 1971; Child 1973; Hage and Aiken 1967; Garnier 1982), I will include the role of boundedly rational actors and their interaction when discussing how different control mechanisms were employed in the organization.

Control and coordination has in earlier research been seen as equivalent to standardization and centralization. A high degree of consistency across the units in terms of structures and practices is a result of organizational replication, and often seen as a prerequisite for controlling the units. As Thompson holds, the solution for controlling and coordinating a number of subsidiaries is often sought through standardization of pro-

cesses and structures: “*under norms of rationality, organizations facing heterogeneous task environments seek to identify homogeneous segments and establish structural units to deal with each*” (1967: 70). One of the two most important factors pushing for cross-national isomorphism within a MNC is therefore the need for control and coordination (Rosenzweig and Singh 1991). This is based on an efficiency criterion, supported by former research demonstrating that it is easier to coordinate production across borders when the subunits involved have similar organization structures and processes (Flaherty 1986). The other factor pushing for isomorphism is the replication of already existent structures, and reflects the relatively narrow selection of alternatives that managers hold to be appropriate for a specific organization.

Instead of assuming that an emphasis on control and coordination by the central management results in a great reliance on centralized control mechanisms across the subsidiaries, in this chapter I will make a distinction between the different control and coordination mechanisms available to the organization. Formalization and centralization mechanisms can be expected to create more consistency across the units, while mechanisms such as socialization promote more autonomy to the units and a more differentiated organization.

It is imperative for a MNC to control and coordinate its various subunits. But control and coordination is more complicated in an international than a national or local context. Communication becomes more complicated due to time-differences, geographical distance and language barriers. Evaluation of performance at each site is distorted by fluctuations in currency exchange rates, and the interaction between the units and headquarter may be affected by cultural, social and political differences. In new-institutionalism it is argued that the company needs to find some ways to adapt to the local environment. In the case of a MNC it is argued that this is further complicated because a geographically dispersed organization is subject to a variety of different and potentially contradictory isomorphic pulls from the different environments in which it operates. Pressures for local consistency may run counter to what is considered appropriate by the head office. How is the MNC thought to respond to such conflicting pressures, and by what means?

The institutionalist answer has been that when faced with incompatible or inconsistent isomorphic pulls, the organization will set up formal structures to cope with or replicate the environmental pressure. But when the pressure is incompatible with other patterns in the organization, the organization responds by loose coupling across subsidiaries. In some cases the coupling is so loose that it becomes what Meyer and Rowan (1977) call ‘ritual conformity’. However, when loose coupling is not possible, conflict results. Meyer and Rowan hold that when it is not possible to solve inconsistencies by formal structures the organization will turn to conflict resolution by individuals and informal structures.

A thorough review of research on different control and coordination mechanisms shows that MNCs employ different types of mechanisms (Martinez and Jarillo 1989). These authors argue that the complexity of the international environment induces companies to add more informal and subtler mechanisms for control and coordination to the already existent formal and standardized ones. Such informal and subtler mechanisms are more flexible and adaptable, and hence, allow for more differentiation between various subunits. The outcome of this line of reasoning is consistent with the institutionalist argument presented above. It does not however, argue that individuals and informal structures are used because of a failure to solve conflict through formal structures. The institutionalist assumption is that solutions and practices introduced to the subsidiary from the headquarters are viewed by the local unit as alien to their situation, needs and context. Thus, conflict occurs.

To include the role of actors in such a perspective may allow for a different conclusion. While structural explanations emphasizing the nationality of the company, its international experience and the character of its industry may predict how prone the organization is towards centralization – decentralization, I expect that the ability and interests of the representatives from the head office also affect their choices of control and coordination mechanisms. I further expect that their social embeddedness and institutional constraints also have an effect.

Before I can discuss the development of control mechanisms in Kongsberg Automotive, I need to define the different control and coordination mechanisms that I expect to find employed in the organization and those structural variables which in earlier research have been found to affect these types of control mechanisms.

## **9.2 Defining control and coordination mechanisms**

When it is argued that the need for control and coordination in a MNC is a strong pressure for similarity among the units in the organization, it is assumed that the mechanisms that are used are centralized and formalized. Control and coordination are hence viewed as being contingent upon standardized procedures and policies which are employed equally across the local units. As Martinez and Jarillo (1989) assert, there is a growing interest among researchers to study more informal and normative control and coordination mechanisms, and this interest might well reflect that MNCs are increasingly employing such mechanisms. Normative and socialization mechanisms are seen as providing autonomy to the local units, and allowing for more flexible and differentiated structures and processes across the organization.

### 9.2.1 Centralization, formalization and socialization

Control and coordination mechanisms may be divided into three main groups; centralized, formalized and socialization mechanisms. Centralized mechanisms consist of the formal organizational structure and the hierarchy of formal authority. Formalized mechanisms are the standardized procedures, rules, and policies as well as reporting and budgeting systems allowing for impersonal and direct control. Socialization mechanisms are more informal and indirect, and may be based on creating lateral relations and communication between individuals, teams and groups, and by emphasizing the organizational culture and shared values among team members. It is held that 'centralization' and 'formalization' are adequate for rather simple strategies, but that these need to be supplemented with 'socialization' once strategies become more complex (Martinez and Jarillo 1989).

Centralization is defined as the division of decision-making authority between the headquarters and the various operational units (Garnier 1982). When the decision making process is centralized it is hierarchically organized with the headquarters often making most of the crucial strategic and policy decisions. Centralization mechanisms are in two forms:

- the formal organizational structure
- the hierarchy of formal authority

The formal structure follows the principle of labor division as a mechanism of organizational influence (Simon 1976), and the hierarchy determines whether the locus of decision-making lies in the higher or lower levels of the chains of command. The use of authoritative power and sanctions towards individuals and subsidiaries are conserved within the hierarchical authority structure.

Formalization is the routinization of decision-making and resource allocation (Nelson and Winter 1982). It is the extent to which decisions are made and resources allocated according to impersonal rules, routines and procedures. Formalization may take the shape of:

- Formalized and standardized procedures, routines and policies, e.g. job descriptions, rules, standard operating procedures.
- Standardized systems and processes of strategic planning, budgeting and goal setting.
- Different types of behavior and output control through standardized reporting and direct supervision.

Formalization may be seen to decrease the personalized power of both the central management and the local leadership at the subsidiary as it constrains the exchange relation to an impersonal set of rules that often assume a power independent of the motivations of the actors in the exchange relation (Weber 1968). It has been argued that

formalization is a means to control the subsidiary in an impersonal manner, in order to avoid the tension that overt hierarchical control might cause (Nohria and Ghoshal 1994). The argument is that a subsidiary is more receptive to impersonal rules and procedures. However, formalization can also be seen to be used because centralization is expensive, in that it requires more resources on the top-management level.

Socialization and normative mechanism is based on creating domain consensus and shared values within the organization. However, such processes are seen to be expensive and demand many resources and take more time to achieve results than the mechanisms discussed above (Martinez and Jarillo 1989). Socialization is considered the glue that may hold the organization together despite geographic, cultural, social or political distances (e.g. Evans 1992; Laurent 1989). These informal and subtler mechanisms may take the shape of:

- Lateral relations across departments or units and direct managerial contact in temporary or permanent teams, task forces, cross-geographical teams and committees.
- Informal communication and personal contacts among managers at meetings, trips, and conferences.
- Socialization by focusing on the organizational culture of known and shared strategic objectives and values by training, transfer of managers, career path management, measurement and reward systems etc.

How do these mechanisms act together in a manner which makes a subsidiary more or less autonomous? Hedlund (1981) found a clear relationship between centralization and formalization mechanisms. Formal control instruments are used not as a substitute for influencing decision in local units, but as a means of exercising such influence. The factors which affect the extent of centralization, thus also affect the extent of formalization and in the same direction. Companies that rely on socialization and informal mechanisms for control and coordination also give much more autonomy to the local units. Hedlund's conclusion was that there was a clear picture of autonomous subsidiaries and informally managed headquarters – subsidiary relationships. Below I will have a closer look at those variables which have been found to affect the governance structure of a MNC and its subsidiaries.

### 9.3 Structural explanations

There are numerous structural variables that have been argued to affect the relationship between the subsidiary and the head office. Organization theorists have found various types of control mechanisms to be dependent on the size of the company (Pugh, et al. 1969; Blau and Schoenherr 1971; Child 1973), environmental change (Burns and Stalker 1961; Lawrence and Lorsch 1967) and complexity in production or markets (Hage and Aiken 1967; Thompson 1967). Others have discussed dependency between the subsidiary and the head quarters (Garnier 1982; Hedlund 1981), international experience of the head quarters (Hedlund 1981; Goehle 1980) and the age of the subsidiary as contingent variables (Garnier 1982). Those variables that seem most relevant for Kongsberg Automotive are the character of its industry, the nationality of the parent company, its international experience, and those variables causing variance across the subsidiaries as discussed in earlier chapters.

The factors which have been shown to have a bearing on the control and coordination mechanisms in a MNC, can be divided in two main categories; those which are characteristic for the parent company, and those which are particular for each subsidiary. In contrast to most studies focusing on control and coordination in MNCs, I have chosen to look at one MNC<sup>1</sup>. There are therefore a number of variables which are held constant in my case. They may have a bearing on the particularities of my case, but I'm not able to make any comparison to other companies, except theoretically.

#### 9.3.1 Characteristics of the parent company

As discussed in chapter 3, the automotive industry, the nationality of the parent company and the international experience of the company may affect what types of control mechanisms the company employs. I will recapture.

It is held that companies in global industries are more prone towards centralization than companies in multidomestic industries (Rosenzweig and Singh 1991; Gates and Egelhoff 1986). Global industries are defined as where a firm's competitive position in one country is affected by competition in other countries, while multidomestic industries are independent of competition in other countries. Examples of global industries are automobile and electronic equipment, while multidomestic industries include retailing and consumer goods. The automotive industry operates to a greater extent with regional markets, which leaves the different subsidiaries more room for standardization within larger markets. Greater centralization is a tendency in the automotive industry, especially

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<sup>1</sup> According to Martinez and Jarillo (1989), 74% of studies on control and coordination mechanisms in MNCs were surveys based on large samples of MNCs.

concerning marketing. I therefore expect that the central management have a tendency to employ control mechanisms that creates consistency across the units.

The nationality of the company has also been found to affect the types of control mechanisms in use (Hedlund 1981; Egelhoff 1984). European MNCs have a tendency to be less centralized and employ more flexible and informal mechanisms than MNCs from other geographical regions. Bartlett and Ghoshal (1998) argue that the administrative heritage of a company influences which coordination and control mechanisms it relies on, also when the organization has become international. The administrative heritage is influenced by amongst other things the national and local culture, and represents 'our way of doing things'. It is therefore to be expected that there will be similarities in the use of control and coordination mechanisms across the subsidiaries in Kongsberg Automotive due to the national origin of the company.

The international experience of the parent company has been theorized to have an effect on the types of control and coordination mechanisms employed. It is argued that with greater international experience the MNC develops a more cosmopolitan perspective (Stopford and Wells 1972). However, earlier research has been inconclusive as to the effect of international experience. In Kongsberg Automotive their experience with controlling foreign operations has increased from the first unit in the U.S. to the acquisition of the last unit in South Korea in 2001. On the other hand, their extensive internationalization period covers a shorter time span from 1999 – 2002. Because earlier research has been inconclusive as to the effect of international experience, and the experience of Kongsberg Automotive is limited, I expect that if time and experience affect how they control the units, this is more related to a model how the relationship between the units and the head office develops over time, which I will address in chapter 10.

Kongsberg Automotive is a company in the automobile industry, a global industry which has earlier been found to exercise centralized control and coordination mechanisms to a greater extent than companies in other industries. They have a larger interest in creating consistency across the different subsidiaries as their customers are more homogenous than in other industries. The nationality and administrative heritage of the head office is expected to draw towards control mechanisms which allow for decentralization. European MNCs have earlier been found to employ more informal mechanisms than their e.g. U.S. counterparts. Their administrative heritage supports this argument as I have earlier described the company as relying extensively on personalized responsibility and informal contacts. These latter factors may be described as institutional influences.

### 9.3.2 Characteristics of the subsidiaries

Even though the focus below will be on the central management and their motivations for using different control and coordination mechanisms, I will also need to ask whether they have chosen to employ these mechanisms differently in each local subsidiary. Earlier research on control and coordination mechanisms have attempted to predict the use of control mechanisms based on characteristics of the different units. As discussed in earlier chapters, there are structural differences between the units in the U.S., Mexico, South Korea and Poland. I will briefly recapitulate the differences I have earlier discussed.

Parent dependency is expected to affect how interested the head office is in creating centralized control. Garnier (1982) theorized that the greater the intercompany purchases are in a MNC, the more centralized would control and coordination mechanisms be. All the units in Kongsberg Automotive have a high dependency on the parent company, except for South Korea who relies on locally developed products, local suppliers and customers. Even so, the future development of the unit is highly dependent on the parent company in terms of new products, investment and technological development.

Method of founding is also expected to affect the interest and power of the head office in creating centralized control. Hedlund (1981) argued that the head office encounters difficulties in gaining control over a unit with an independent history and structure, and that to gain control by creating centralized structures is considered less important as the unit is already adapted to its local context. It is expected that too many changes may have negative consequences for the local unit. Of the units in Kongsberg Automotive only the South Korean unit can be said to be a truly acquired unit, as the U.S. unit's structures and processes were significantly altered when production moved to Mexico. It is hard to argue that its former status as an acquired unit still effects whether the head office manages to gain control or is interested in doing so.

The size of the subsidiary has been expected to affect the type of control mechanisms employed by the head office. As Picard (1977) argued, the parent company will grant more autonomy to larger subsidiaries as they have more resources to support a full management staff. However, other studies have been inconclusive or contradictory to Picard's claim (Hedlund 1981; Garnier 1982; Gates and Egelhoff 1986). While the size of the subsidiaries in Kongsberg Automotive varies, I do not expect to find that larger subsidiaries will have more autonomy than smaller ones. It is the Polish and Mexican units which are the larger units of the four subsidiaries.

Age of subsidiary has also been theorized to have a bearing on the control and coordination mechanisms employed in a MNC. Garnier (1982) held that the older the subsidiary, the more experience it had and hence, represented less of a risk to the parent company



who would grant it more autonomy. However, this hypothesis has not been supported through empirical findings (Gates and Egelhoff 1986). It is the U.S. and Mexican units which are the oldest of the four foreign subsidiaries.

As seen in earlier chapters, the dependency on the local environment might also affect the extent of autonomy in the subsidiary. If the subsidiary is highly dependent on its local environment, the central management may be more willing to grant the unit more autonomy and employ more decentralized control mechanisms. As seen in earlier chapters it is the U.S. and the South Korean units which are mostly dependent on the local environment. Cray (1984) also holds that when the subsidiary's environment is substantially different from that of the parent company, the central management will employ decentralized mechanisms in order to ensure flexibility. The South Korean environment can be said to be highly unfamiliar to the central management in Kongsberg Automotive. The table below summarizes the differences across the foreign subsidiaries in Kongsberg Automotive.

**Table 9-1 Structural variables associated with the subsidiaries.**

<b>Unit</b>	<b>No. of employees</b>	<b>Age</b>	<b>Environmental complexity and dependency</b>	<b>Method of founding</b>
<b>USA</b>	16	1996	Familiar, long experience. Dependent on local employees, but also on customers.	Acquired
<b>Mexico</b>	304	1999	International free trade zone, familiar regulatory environment, unfamiliar culture. Dependent on local employees only.	Greenfield
<b>Poland</b>	287	2000	Familiar with customers in the area, more unfamiliar with local organization and authorities. Dependent on local employees only.	Greenfield
<b>South Korea</b>	33	2001	Unfamiliar cultural and regulatory environment and organization. Dependent on local employees, but also on local customers and suppliers.	Acquired

The variance between the different subunits in Kongsberg Automotive on the structural variables discussed above, leads me to expect that the South Korean unit is the most likely to be subject to decentralization and informal control mechanisms. This is because of the unfamiliar local environment that South Korea and Asia represents for the Norwegian head quarters, which is further strengthened by its local dependency on customers, employees and suppliers. In addition, it is an acquired unit which had organization structures and processes in place, and which may be difficult for the parent company to change and control directly. Former research has been inconclusive as to the effect of size and age, and it is difficult to provide any clear tentative expectations as to age and size. While Mexico and Poland are the larger units, it is the U.S. and the Mexican units which are the older ones. However, their age is only a few years more than the other units. Expecting that these variables may affect how the central management chooses to control and coordinate the units, it is the Mexican unit which, next after the South Korean unit, is expected to be decentralized. On the other hand, the administrative heritage of the company, the automotive industry and their international experience are factors which are expected to produce similar governance structures across the foreign subsidiaries.

## **9.4 Control mechanisms in Kongsberg Automotive**

The dilemma between adapting locally and the threat of disintegration of the company has been discussed among the central management in Kongsberg Automotive. The use of different types of control and coordination mechanisms has been central in this discussion. In general, the central management relies on a combination of formalized, centralized and socialization mechanisms. Below I will describe the various mechanisms they have employed, the reactions to these from the foreign subsidiaries and the various changes that have occurred over time.

### **9.4.1 Centralization**

The centralization mechanisms employed by Kongsberg Automotive have been based both on creating a formal organization structure and employing a hierarchy of authority.

The formal organization structure of the company makes a clear division of labor between the various production units and centralized functions situated in Norway or Sweden. The Mullsjø plant in Sweden includes the R&D center, central purchasing department and marketing. All subsidiaries relate to these centralized functions at Mullsjø in Sweden. The unit is named the Centre of Excellence, reflecting their position as the most experienced and qualified. The IT-department is situated at the head office in

Norway. The US unit is a sales office with a design and prototype department, but all changes and alterations on design are to be coordinated and approved by the construction manager in Mullsjø.

Kongsberg Automotive has traditionally relied on a great extent of centralized decision making. This has been possible due to the relatively small size of the company thus far, and the closely knit top-management team. The managers in the central management team have worked together for many years and have close relationships. The leadership style is based on personalized commitment to the company and its progress. In addition to the management team, the owners are also actively involved in the company and its development.

All major decisions are taken by the central management and at the head office, like for instance the approval of the budget, investments and employment of local top-managers. They also intervene when units are not reaching expectations or when there are other problems which occur. The head office attempts to balance between an advisory role and a more authoritarian role. This has for instance been the case for the use of local bonuses for the employees. The head office and the Business Area managing directors have been reluctant towards the use of local bonuses and advised against them. The local units have however introduced several such schemes with varying success. The head office has been clear on their strategy to transfer production processes and other procedures wholesale, but other decisions such as the structuring of the work day, unions and ergonomics at the work place have been left to the local site. In the case of labor unions, those units who do not have unions have been encouraged to initiate groups for employee representation in order to heighten employee participation at the local site.

The centralized decision making structure relies heavily on the use of team reviews at regular intervals. The Business Area Managing Director visits each unit to review their results and future plans. The team reviews at each plant are standardized in that there is a specific agenda which is followed each time at each site. In addition there are formalized reporting routines and contacts between others at the head office and the unit. There are financial controllers in Scandinavia who are responsible for following-up the different foreign units.

At times the head office intercepts in more substantial manners. One example is the layoffs in Poland during the summer of 2001. The productivity in Poland was not reaching expectations, and the local solution was to try to hire more and more employees. The argument from the head office was that this was aggravating the problem as less and less time could be allocated towards training and improvement. Another example is after the US and the Mexican unit failed the QS9000 audit in 2003, and new reporting

routines were introduced. The US manager was relieved of his responsibilities and the Mexican unit reported directly to the managing director. While the head office did intervene the respondents in Mexico held that the reaction should have come earlier, and that they were disappointed by the support they asked for from the managing director in earlier team reviews. The team reviews at the time were described as superficial.

#### **9.4.1.1 Reactions and change**

There have been reactions against the centralized hierarchy and decision-making structure in the different foreign units. In the U.S. unit the respondents argued that the centralization of the R&D department in Sweden makes the company fail to adapt to the US market and to the needs of the US customers. In Poland, Mexico and South Korea respondents were negative because the need to cooperate closely with centralized units was complicated by time and geographical distance. The geographical distance was seen as an obstacle when the purchasing department was situated far away. It was argued that the plant in Mexico had to operate with higher inventories than what they wanted.

The respondents in Mexico and the U.S. questioned the rationale behind the centralized structure. Most found that the geographical distance and the time differences caused considerable coordination problems. Some also held that their Swedish and Norwegian colleagues showed little understanding for the situation abroad. What they perceived as a tendency to down prioritize the foreign units and give slow responses when asked for support, was also understood as a lack of knowledge and understanding as to the challenges faced by the foreign units. In a positive light, they acknowledged that a central purchasing unit could push prices lower for all units, than if the units were to select suppliers on their own. Also the centralization of design and R&D was seen as useful, in that technological competence may be developed faster and better when resources are situated in the same place. Some respondents said they understood that the limited size of the company made it necessary to have the current level of centralization.

There might have been also other motivations behind the policy of maintaining centralized functions in Sweden, some respondents saw it as a consequence of internal politics. Because production had increasingly been moved to foreign subsidiaries, the Swedish units have been given increased status or importance in return. Especially the naming of the Mullsjø plant as a “*center of excellence*” was by the respondents viewed as a result of internal politics.

There were also reactions against the centralized IT-department. Some of the employees both in Scandinavia and in other units were asking for more updated systems. This was particularly the case for younger employees who were accustomed to having access to all the latest software from other companies or from their schools. Besides

younger employees, it was especially the US unit who were negative to the restrictive policy. The US and the Mexican unit were much in need of an intranet to improve their coordination. The intranet project was delayed in Scandinavia and so the US unit finally created their own in secrecy. The US employees were also frustrated because there had been restrictions as to the use of laptops for a long time. The IT department in Norway held that they did not have the capacity to service a great number of laptops, and the heightened security risk of alien programs and viruses. The US employees on the other hand held that this was essential in their work, and that the policy restricted their ability to service their customers. Furthermore, the US employees also argued that the company needed to become updated on the computerized drawings and that the use of paper trails was abandoned in the US several years earlier. The restricted policy towards updated software and computerized tools was especially viewed as negative by the US unit, but also others held that the IT department was short on resources and staff when having to service the totality of the company.

However, the reactions have varied according to different situations. During the establishment of the factory in Poland, the reactions from the new Polish management were more pronounced. At the time the Polish management felt they had too little local autonomy. There were restrictions as to the amount of money they could sign for; an amount which they felt was too limited. Also in other areas the Polish managers felt they had too little autonomy, and that the centralized decision making obstructed their work. In South Korea as well, the changes brought in by the new owners caused the Korean employees to complain that because of the centralized decision making structure they now spent too much time waiting for decisions to be made.

A consequence of the centralized structure and decision-making was that the company lacked a focus on inter-unit coordination. The split production chains between Åmotfors and Pruzkow, and between the US and Mexico caused difficulties. There were challenges related to coordination, as well as to control. The central management was therefore criticized for not providing the means for more inter-unit communication.

Another explanation given to the use of extensive centralization was that the head office was too centralized in their manner of thinking. Most of the foreign leaders and middle-managers said they felt they could have contributed more to the company if they had been invited, but that the head office and their Scandinavian colleagues failed to ask for their opinions and to invite them to participate. The foreign units were asking for a different focus and a change of attitude in line with the now internationalized organization.

However, there were also substantial changes made while we studied the company. The different local units gradually acquired more autonomy. The foreign managers de-

scribed how the relationship with the head office had changed over time. All said they felt they had to gain the trust of the head office, and as they had proved themselves by obtaining good results they were granted more autonomy and trust. They also described how they had to “sell” their ideas to the head office or to departments in Sweden, and that with time they got easier acceptance for their ideas and felt that their Scandinavian colleagues listened more to them. The central management was also described as having a more “*international perspective*” with time.

Despite the reactions described above, few respondents said that they personally were lacking autonomy. Some did, however, draw a distinction between the formal autonomy they possessed, and the degree of autonomy they felt that they were granted informally. As they saw it, managers within a larger corporation may always wish for more autonomy. But a point was made of how the rules of autonomy within Kongsberg Automotive were in practice not an absolute. There were limitations, but if you stepped across them in order to do well for the company, you could also be commended for your personal initiative and courage.

The central management argued that it is most rational to centralize material supplies in Sweden, because a common purchasing unit is able to obtain the best prices. In 2002 – 2003 a different explanation came more to the fore. It was stated that the company so far had lacked employees in other units who could search for suppliers closer to the different factories. The lack of international experience in the company is therefore also an explanation as to the use of centralization as a mechanism. To search for local suppliers is today a part of the internationalization strategy.

In order to improve the inter-unit coordination a cross- geographical team was developed in 2003. It united the production managers from US, Mexico, Poland and Åmotfors. While the original plan was to have one manager responsible for working with and transferring “Best Practices” between the unit, this idea was abandoned when the central management realized the difficulties involved in transferring such practices by the use of one person.

Another change was that the Polish plant has started to produce cable mats, thereby functioning as an internal supplier in the company on these products. Comparing the first establishment of the Polish factory and the enlargement a couple of years later, there were also substantial differences in how the company organized the projects. Now, when experienced personnel were to be found abroad, these took a larger role in planning and implementing new projects.

Also other changes took place that involved the centralized structure and decision making, but these are also related to use of socialization mechanisms which I will discuss further below.

### **9.4.2 Formalization**

The company employs different types of formalization mechanisms; these include formalized procedures, routines and policies, standardized systems and processes, and various types of behavior and output control. As shown in earlier chapters, the initial plans for establishing the units have been to replicate the processes and production methods as they have been developed in Norway and Sweden. This also implies to copy standardized procedures and routines for reporting, planning and control. The majority of formalized control and coordination mechanisms are computer based.

One of the main tools for formalized control and coordination in Kongsberg Automotive is the SAP. While many other companies have reported difficulties in implementing and using SAP successfully, Kongsberg Automotive is satisfied with the program and it is in use in all their units, albeit to varying degrees. To determine the reasons for the success with SAP in Kongsberg Automotive is beyond the scope of the thesis, the most compelling reasons seem to be that the system has been incrementally and differentially implemented. On the other hand, all the functions in a full-fledged SAP system are not in use in Kongsberg Automotive. The limited use of the system may also be a part of the reason behind the success of SAP in this company. The SAP is used for detailed reporting to the head office and to relevant departments in Sweden. There are quarterly reports for all subsidiaries, as well as continuous reporting through the SAP system. The local manager reports to the Business Area director (seat comfort, gear shift or truck systems) for productions/operations and to the head office with financial and personnel affairs. The SAP system also makes it possible to compare the subsidiaries. This information is accessible at the head office and at the various units. The budget process is standardized throughout the company and everyone has the same timeframes to complete the budget.

All the units are also to be certified within the QS9000 systems as well as other certification systems deemed as standard in the automotive business. The QS9000 system provides rules for training, production methods, quality control, logistics etc. Other standards in the industry such as lean manufacturing where one of the consequences, amongst other things is reduced stocks, are also implemented across the different units. Visualization of production processes at the production hall is also common. In each production hall graphs and other illustrations are used to demonstrate for all employees the current quality problems, production volumes, customer complaints, quality issues and absenteeism among the workers.

This is also related to the layout of the plant which is a standard within the company. The same rules of order and tidiness are applied everywhere, and the production manager is to have his office on the production floor to ensure that he is physically present

in production. Apart from the routines and standards above, there are schemes for HSE – health, safety and environment. In terms of behavioral control, the company exported job-satisfaction surveys, a 360-degree manager review and used to some extent appraisal interviews among the employees, reviewing how employees saw the relations at the plant, their tasks and the support from their managers.

#### **9.4.2.1 Reactions and change**

In 1999-2000, due to occasions of fraud, embezzlements and mismanagement by managers abroad, as mentioned in previous chapters, the top management of Kongsberg Automotive strengthened the financial control of their international operations. They also increased communication and closer supervision of foreign units. According to some of the respondents these experiences had resulted in mistrust towards managers abroad in general. The stricter control by head office was at times interpreted as a sign of mistrust. However, the extensive use of formalization mechanisms was in general accepted at the foreign units. The most critical reaction was related to the attempts to move standardized production systems from Scandinavia and to the foreign units.

The strategy to “*carbon copy*” the production systems from well established units to new ones was not without its challenges. There were different reasons as to why this was at times difficult. In Mexico the local manager saw it necessary to change from a ‘push’ to a ‘pull’ system in production, arguing that the education level, living situation and experience of the workers demanded a different logic in production. The Mexican management also introduced a new tester, which allowed for a different quality control than in Scandinavia. This was not readily accepted by the top-management, but was argued to be necessary by the local managers in the US and in Mexico. Also, U.S. respondents indicated that an earlier attempt to introduce technology in the U.S. from Sweden had failed because of cultural differences. The technology introduced was a so-called turning-table where the operator could turn the piece in work away from her while it was drying, and in the meantime do the same operation on a new piece. The introduction of these tables failed and was explained by cultural differences, in that U.S. workers had a different attitude towards work than their Swedish colleagues. In South Korea, the manager introduced production methods which were standard in the factories in Norway and Sweden. Most workers and their managers had difficulties understanding the rationale behind the methods, and they were implemented only partially at first. On the other hand, there were positive reactions as well to the new and alien procedures. The introduction of visualization methods was well received in all the units, especially in South Korea. The employees in South Korea welcomed these methods as it gave them more information on production related matters. However, the



challenges of moving standardized systems can not be attributed only to differences in the recipient units.

During the establishment of the Polish unit and in the move of production from England and Sweden, the Polish management was frustrated because drawings, manuals and production methods were either not updated or missing. The Polish management saw this as a result of insufficient planning. Their demand for formalized procedures was higher than had been customary within Kongsberg Automotive thus far. The extent of formalized procedures, routines and guidelines thus became a point for divergent opinions between the Polish management and their Scandinavian colleagues. The move from England and Sweden to Poland not only demonstrated flaws in product drawings, manuals and work instructions, but even more so it demonstrated that much of the knowledge they were trying to move from was tacit. Earlier, it had not been necessary to update the drawings because the workers who produced them had produced them for years, and newcomers would be taught through practice. As one of the Polish managers said; *“the productivity in SAP is calculated based on a process and this process was never delivered to Poland”*.

It proved to be difficult to transfer the quality standard. This became apparent in the discussion between trainers from the US and Sweden when they trained the Polish workers. When Swedish workers produced alongside the Polish workers and American workers were on the quality control, they would scrap the products and vice versa. Even though the drawing for the heat cover was specified to the last detail and the work method as well, there was still room to be found for diversity within the same item. The quality standard differed from factory to factory and was dependent on the various customers. This also became a matter of divergent opinions between the US and Mexico, where the prototype department in the US would disagree on the quality produced in Mexico. Others added that it was difficult to understand how to implement the standards for production issued for the company, and also what these standards were at times.

All the units needed to obtain customer approval before products could be shipped from the factory to the customer. In Poland's case it took some time to obtain the approval and items were thus shipped via Åmotfors for quality control before arriving at the customer. Åmotfors was thus able for some time to review the work of the Polish workers, and they applied a strict quality control. Some respondents held that the quality control was too severe, as the workers in Sweden did not have an interest in seeing the Polish factory succeed. Kongsberg Automotive's experienced was that it took a minimum of nine months to acquire the certification at each site.

The use of SAP was seen by the respondents to ease cooperation between the different units, in that more information and contact opportunities were made available. In the

US and Mexican unit the SAP is in use with the same functions as in Sweden and Norway. However, none of the respondents we spoke to in these units felt that the program represented any hindrances in their daily work, and all spoke of positive experiences. When being asked whether SAP impeded local adaptation, or was a hinderance to how they needed to run the plant, none of the respondents could confirm this.

As discussed above, the demand for formalized procedures was seen to be higher in the Polish unit than the central management was used to. This was also related to the SAP. In Poland the Cyrillic alphabet required implementation of a Polish version of the software. This did not exist at the time of the establishment of the factory, and local solutions needed to be found. In order to provide the reports local Polish laws and regulations demanded, there were for some time two parallel systems operating. The SAP was implemented in English, but then mostly used for internal reporting to the head office and for coordination between Åmotfors and Pruzkow. With the aid of an external accountant a different system produced the Polish reports. The company was able to obtain a dispensation from Polish authorities which allowed them to provide several reports in English for a limited time period. Even though the dispensation limited the number of double reports which had to be made, the management in Norway felt the Polish bureaucracy demanded too much paperwork. They were hence reluctant to accept the arguments from the Polish management that all the different reports were necessary, and interpreted that the demand for detailed reporting stemmed from Polish culture, and their communist past.

The implementation of the SAP system was on some occasions seen to have been planned insufficiently. While there had been some discussions between the SAP-group and Polish employees as to the necessary requirements to consider in Poland, these had not been detailed enough, and occurred too late in the implementation process. On the other hand, the Polish employees might also have been too eager to claim experience in SAP when they were hired, as they were later criticized for not having sufficient knowledge about the system.

Two years later, when the Korean factory was acquired, the SAP-manager from Sweden was better prepared, and the planning process started earlier. Also, the expectations for a fast and complete implementation seemed to have been lowered. The SAP was more slowly introduced, and the preparations were more detailed. The Korean plant used an Excel-based budget and planning system and it was not before one year had passed that a few functions in SAP were introduced. On the other hand, the implementation challenges in Korea were considerably fewer than in Poland. The factory and the production volumes are much smaller, and the Korean factory does not cooperate with another factory in production. In the case of Poland, the split production chains between

Åmotfors and Pruzkow demanded a great deal of coordination through the SAP. Several respondents said the greatest weaknesses in the system were functions needed for coordination of split production chains. The system had not been tested on such functions earlier, and no one was prepared for the challenges created by the intercompany cooperation between Åmotfors and Pruzkow.

A different problem with the SAP system was that it created dependencies within the company. The expertise on the SAP was centralized in Sweden, and the system became thus one more issue, together with purchasing, design and technical support, that the foreign units relied on Scandinavia for, and which was complicated because of geographical distance and time differences.

The different behavioral controls that were in use were received positively. But it seems that on some occasions they were not adequately adapted to the local context. The job satisfaction surveys were transferred in Excel as questionnaires together with guidelines for implementation. The manager in Korea was considering applying it in the Korean plant, but decided otherwise as the questionnaires were best suited for people who spoke English fluently and who lived in a Western context. In Mexico it was used, but here the guidelines for anonymity and random selection of respondents were not applied. The information obtained from the foreign subsidiaries may therefore have been limited and less comparable than what the central management had expected.

It is important to note that while the central management earlier seemed bent upon standardization, the changes occurring in the different unit indicate that there was a change in attitude. The central management came to realize that it was difficult to *carbon copy* systems and procedures from Scandinavia and that some diversion from the ideal model needed to be accepted. This is supported by respondents in the foreign units. Discussing whether they felt supported by the central management in their attempts to introduce changes in the standardized processes and methods most respondents said they felt the support increased as their arguments for change were getting more clearly across to Norway. At the same time, a majority of the respondents indicated that although room had been provided for local adjustment of work processes, there was little encouragement when it came to local initiatives in other areas, such as local development of machinery and techniques that eventually might improve production worldwide, e.g. the new testing machine developed in Mexico. Innovation as such in production is neither encouraged nor may one say, approved by the central management.

The central management had focused on standardization on certain areas like SAP, machines, tools, supplies and to a large extent designs and technology, but there were other areas which had not received sufficient attention. When the US and Mexican unit failed the QS9000 audit in 2003, several respondents stated that they lacked the proper

procedures and that the company had not provided them. The difficulty was that existent procedures in Scandinavia had to be translated to the U.S. and Mexican context, and this involved a lot of work. On the other hand, the respondents in the U.S. stated that it helped them that the company now had several units abroad, expecting that this would increase the understanding in Scandinavia about the difficulties of logistics and the necessity to adapt to local conditions. While the U.S. unit had for several years been the only one arguing for its local needs, there were now other units who did the same.

### 9.4.3 Socialization

The company employs control and coordination mechanisms which rely on acculturation and socialization. The Human Resource department is central in devising and employing these mechanisms. Examples of such mechanisms are management courses, trainee program, expatriate policies, different seminars and meetings, as well as more informal communication.

The values that the central management has endorsed are swift, but informed decision making, personalized responsibility, risk taking and no-bureaucratization. A joke among the employees was to describe the company as “*lean and mean*”. Even though it was used humoristically, there is also a serious undertone in that the expression emphasizes the types of feedback these employees felt they received in the company. This was feedback which valued the qualities of hard work, difficult challenges and being tough. A different example was the discussion that was aroused when one of the top managers took his parental leave, and the younger employees were surprised (positively) because they saw it as counter to the image of the company. The values heeded by the central management are also exemplified by the use of short deadlines for projects, and the manager role which is to include a wide variety of tasks, also those which may be considered menial tasks. A manager within the company should be ready to take on practical tasks. Picking up garbage from the factory floor in passing, is used as an example by the company’s president. These values are diffused throughout the company by such means as leadership courses, lower management courses, internal newspaper, the internet, and through informal meetings and relationships.

The head office has used expatriates as a way to teach foreign subsidiaries “*the Kongsberg way*” as well as a means for control. The expatriates are described as the bridge which can ease the communication between the Scandinavian units and the foreign subsidiary. In 2000 the central management found they lacked employees who were willing and able to work as expatriates. An internal course, called ‘Interdal’, was created directed towards young high potentials who were willing to take on an international career. The great majority of the first group who took the course were Norwegian and Swedish.

Only two were foreign employees, one from Poland and one from the US unit. The course had a clear aim of acculturation, and each of the five sessions was dedicated to a different business area presented by its top manager. A re-occurring theme during the course was the challenges related to working abroad. Several of the participants at the course were sent abroad shortly after the course was finished. Also, a trainee program initiated a couple of years earlier resulted in other expatriates in the foreign subsidiaries.

While expatriates were used to disseminate the values of the head office and to explain the “*Kongsberg way*”, foreign employees were also invited to come to the head office or to the production units in Scandinavia. These visits could extend to a few weeks in order to give proper training to the foreign employees, or were shorter visits dedicated to specific matters. The president of the company said he attempted to teach the new employees his manner of thinking in a subtle way. He said he once had spent several hours traveling with the Polish manager talking to him about the values and norms of the company, but the president was sure that the Polish manager did not think of it as a conversation related to such issues. The president held that culture and what he referred to as “*the Kongsberg way*” could not be merely explained to someone, but that it had to be continuously demonstrated over time. Or as he said, “*culture is a result of systematic action over time*”. The top management uses words like the “*Kongsberg family*”, and also relates the construction of the company to more idealistic goals. As the president of Kongsberg Automotive holds; “*International companies are peace-keeping forces*”.

#### **9.4.3.1 Reactions and change**

Most respondents agreed to the basic ideas of what the central management presented.

There were, however, different views as to what their origins were, and how they were related to the close integration the central management was trying to achieve. In the U.S. and Mexico, the respondents saw these values as typical of European companies. Few of the respondents identified with the shared “*Kongsberg Automotive*” identity, nor with the conception of the company as one international, but closely integrated “*family*”. Few of the production workers abroad knew much about Kongsberg Automotive as an international company. Most managers had a different knowledge base, but many of them had not been employed by the company for very long. Others who had long experience with the company suggested that there might be more diversity within the company than the central management sometimes liked to think. In this perspective the company had a “*U.S. way*”, a “*Kongsberg Automotive way*”, and also a “*Scandmec way*” (the competitor Kongsberg Automotive bought in 1996). In Mexico, the management had consciously chosen not to inform the workers about the company or about the production in Poland, Sweden or other places. To provide too much information about

the company at large was viewed as unnecessary, or moreover, to not provide too much information was seen as a way to shield the workers. What several of the foreign managers agreed on was that the central management exposed a certain Scandinavian bias. They felt this was expressed through a too-strong reliance on Scandinavian managers and too little on local resources abroad. Despite the emphasis applied by the central management to create an integrated company, few of the respondents abroad felt that this had occurred or even that it was desirable.

In 2002 – 2003, there were increased discussions within the central management about how they presented the company within the organization, which values they were dispersing, and whether the international character of the company now demanded a broader view of what the foreign subsidiaries could identify with. There were efforts undertaken to counterbalance some of the characteristics mentioned above. The start-up of the Polish plant and the subsequent evaluation led to discussions within the company which placed greater emphasis on less tangible issues like management values, training, and relations between workers and management. According to the participants at the first Interdal course there was a growing awareness in the company that socio-cultural factors do matter. Also the rhetoric used by top management in different presentations had a stronger focus on the diversity of perspectives and a softening of their reputation for being *“lean and mean”*. There were also efforts towards increasing the emphasis on feedback and support. The second Interdal course also reflected attempts to move away from a Scandinavian bias. While the first course had only 2 of 23 participants who were from foreign subsidiaries, the second course included 6 participants from these subsidiaries. The second Interdal course also had a larger emphasis on culture, values and norms than the first one. As one from the central management stated; *“we have recognized that we have been naïve in the globalization process, the focus is now therefore less on whether cables are 11.5 cm [standardization] but more on values and attitudes”*. In 2003 an encompassing survey to identify common values for the organization was launched, asking the employees at home and abroad to characterize the company and what they wished to identify with.

Language difference is a part of the problem, but perhaps more so is the failure to focus on the world outside of ones own unit. This was apparent in Åmotfors when the Polish factory was to be established. The move to Poland, even though it did not result in fewer jobs in Sweden, represented a move to a cheaper country which Sweden was seen to have problems competing with. The Swedish employees were not motivated to see the Polish unit succeed, and while it is difficult to assert whether they sabotaged the move, several respondents indicated that they did. However, this may also be due to a failure on the part of the management and the head office to emphasize the need to

shift attention from only ones own unit towards viewing the company as an international organization. This was a change which to a large extent was taken for granted by the management, but which seemed to demand more time and effort than expected. The importance of having an international attitude was gradually put on the agenda during 2002 and 2003, and received more attention from both managers and employees.

While the coordination and communication between the head office and the various subsidiaries has received much attention in recent years, there has been less focus on inter-unit relations. The foreign units have complained that the head office does not initiate or encourage inter-unit collaboration and coordination, and that the means to do so have been lacking. In all the foreign units closer lateral relations with other units were seen as the most promising way of improving the problems they struggled with. In Poland and Åmotfors the need for better understanding and knowledge of the other was seen as a way to reduce misunderstandings and coordination problems. In the US and Mexico it was especially the problems during the winter of 2003 that made these respondents address the need to create closer relations between the two units. Most felt that an important source for their problems was a failure to understand each other. It was held that they could struggle with misunderstandings for days and spend too much time trying to solve the issues, but once they were face-to-face the matter would be easily solved. While the head office took few initiatives to strengthen the cooperation between the units, there seems to have been a greater understanding of the need. The creation of the cross-geographical team between production managers which was established in 2003 seems to have been formed by such an understanding.

Whereas earlier the central management had an approach where it was certain values that they themselves identified with that were diffused from the head office and out, a less centralized stance was later introduced. A greater understanding and perhaps appreciation of the heterogeneity of the company now reflects the socialization mechanisms that are in use, and the emphasis on such mechanisms has increased over time.

## 9.5 Discussion

It is seen as imperative for a MNC to control and coordinate its various subsidiaries. Former theories have applied structural explanations to predict the governance structure in a MNC. I have also included the role of actors and how their interaction may be seen to affect the employment of different types of control mechanisms. Below I will discuss in further detail my second research question; *why are governance system built both upon structural and cultural control mechanisms?*

The use of control mechanisms in Kongsberg Automotive may in part be explained

by the structural variables discussed at the beginning of this chapter. The character of a global industry allows for more centralized control than in other industries. The company is seen to rely on such mechanisms to a large extent. In line with the expectation that European MNCs employ more decentralized mechanisms, Kongsberg Automotive have also relied to some extent on informal relations, especially relations directly between the central management and the various subsidiaries. The emphasis on personalized responsibility can be understood as a result of the administrative heritage and nationality of the central management. With time these mechanisms became more pronounced, and different measures were taken to strengthen the decentralized control mechanisms. Whether this may be said to be a result of increased international experience, or whether this is a consequence of increased trust between the central management and the foreign managers is difficult to assert. I am more inclined to the latter, as different statements from both actors have emphasized how trust increased and how they, as a result of this, were granted more autonomy.

There are little differences in the manner which the central management has chosen to control and coordinate the various subsidiaries. Even though the South Korean unit was subject to a more incremental implementation of the SAP, the same reports and procedures were asked for, albeit through a different format. The size and age of the Mexican unit does not seem to have caused a different approach to this unit either. It is similarity in the governance structure that characterizes the different subsidiaries more than variances.

From the descriptions above on how control and coordination mechanisms were developed in the company, it seems that the interaction between central management and representatives from the local unit is important in understanding these developments. These actors were influenced by their different interests, power, institutional constraints and their social embeddedness when they negotiated on the different control mechanisms that were used.

The relative power of the central management over the different subsidiaries has been substantial as shown in earlier chapters. However, their ability to employ different control mechanisms has varied. They have been constrained by available resources, the transferability of standards and tacit knowledge, and by time differences and geographical distance. The reactions from the foreign subsidiaries have been decisive as well. These factors have complicated the employment of different mechanisms, and affected the ability of the central management to use them. The lack of expatriates meant for instance that there was not an expatriate in the Polish unit before 2003, even though the central management had attempted to find someone in 2001. The person who came to the Polish unit was moreover a trainee with limited experience within the company.



The attempts to transfer the “Kongsberg way” therefore relied more on informal talks with the president and others in the central management, and the plant manager’s participation at the Interdal course. For the Polish management this meant that they were more involved in decisions and in closer contact with the central management than they perhaps would have been otherwise. The challenges of transferring standards between the units meant that more autonomy had to be given locally to decide which standards they needed to follow in order to satisfy their customers. It also caused a stronger awareness about the need for learning and knowledge transfer between the units. This was also related to the problems of transferring tacit knowledge. The lack of updated drawings and specifications in the move to the Polish factory, meant a stronger emphasis on such issues at the Scandinavian factories, as well as increased understanding of the nature of some of the knowledge they were trying to transfer. The reliance on formalization and centralization mechanisms was somewhat moderated after these experiences. Also time differences and geographical distance demonstrated the flaws in relying too much on such mechanisms, and made for more informal contacts and more face-to-face communication between the units.

The interest of the central management towards employing the various mechanisms has varied as well. Former theory states that the main reason for using centralized control mechanisms is the need for control, formalization is used to avoid overt hierarchical control, and socialization mechanisms are used to create consensus. In Kongsberg Automotive a number of other incentives were present as well. The use of formalization mechanisms such as QS9000 is a direct result of the automotive industry, and what the industry considers as compulsory mechanisms in a legitimate company. Other mechanisms were motivated by a desire to lower costs (e.g. centralization of purchasing), obtain comparable information (SAP), and others again because there was a belief that it was possible to transfer standardized procedures and routines. It seems as though few within the company realized the extent of adaptations that needed to be made, and it was through time and increased experience that such knowledge was obtained.

The central management was criticized for operating with a Scandinavian bias in their dealings with the foreign subsidiaries. Respondents held that this bias was visible in who they selected as participants in the Interdal course, in that the Scandinavian way of doing things was considered the norm, and in a failure to view the company with an “*international mindset*”. The central management seem to have taken their institutional background as a given when internationalizing their company. It was only after there were reactions from other units that these assumptions began to be questioned. The central management attempted to change their attitude and initiated a number of schemes aiming for a larger emphasis on the heterogeneity of the company. This was for instance

done through the project focusing on values in 2003 and a larger emphasis on such issues in the second Interdal course. The lack of international experience also affected the focus in the Scandinavian units. This is related to some of the problems occurring between Åmotfors and Poland. Åmotfors and Mulsjø as the two plants which had been most involved with the subsidiaries abroad did not become aware of its new role for some time. The realization that some of their capabilities needed to be redirected towards central or global tasks came slowly and late. There was information given to the employees and through the unions but the foreign subsidiaries were still viewed as last priority, and the local employees served domestic needs first. With time there was an increasing awareness that there was a need to change the focus.

The close relations between the management in Norway may have influenced how they chose to approach the internationalization process, emphasizing the process as an integration process. Their awareness of how close relations had influenced their own work seems to have been translated into a desire to duplicate these relations into an extended “Kongsberg family”. As the president of the company said in one of his presentations; [we need to] “*treat new units the same way as the old family members*”. While the main goal was the need for control, the central management can also be seen to attempt to create closer social networks with the foreign managers.

Central leadership affects the use of different control mechanisms. The central management as boundedly rational actors has through time changed their use of control mechanisms based on their ability to employ them and their perception of need and interest. The reactions from the foreign subsidiary has made them question their own institutional constraints, and made way for a more heterogeneous approach where the foreign units are accorded more autonomy and a more legitimate role in shaping the organization. Time has mattered in this process in that their increased international experience has allowed for new alternatives to be valued.

## **9.6 Interrelations between structural and cultural control mechanisms**

There has been a limited emphasis in earlier research on why organizations create governance structures based on a combination of structural and cultural control mechanisms. The emphasis has been on finding the relevant structural variables which cause centralized vs. decentralized control in an organization (e.g. Ghoshal and Nohria 1989).

Based on the developments in Kongsberg Automotive, I have shown above that even though the company at the outset may be described as relying to a great extent on centralization and formalization mechanisms, their emphasis on these mechanisms was

weakened in time and a greater reliance on socialization mechanisms ensued. There were several reasons for this change. The introduction of standardized procedures and rules did not go as smoothly as had been expected in all the units. Procedures, production processes, products specification which earlier were coordinated mainly in Sweden between Åmotfors and Mullsjø were difficult to transfer to other places, and received new interpretations as they were implemented in the new subsidiaries. One of the difficulties was that solutions and practices were to some extent based on tacit knowledge. This caused a greater awareness of the fallibility of these methods at the central management.

The reactions from the foreign units to the central management's attempts to control and coordinate the subsidiaries, was a different reason for the change. This goes against another assumption in earlier research. A common assumption has been that control mechanisms are something employed from above, and that it is the sole decision of the central management to choose which mechanisms to employ. The reaction from the subsidiaries and possible changes as a result of such reactions have rarely been included. In Kongsberg Automotive the central management increasingly recognized the different views held by the employees abroad and implemented schemes both to understand more about the heterogeneity of the organization and used control mechanisms which were less stringent.

The various groups of mechanisms discussed above have also often been viewed separately in earlier research, while in fact they are intertwined and affect each other. While Fleming and Sjøborg (1998) hold that hierarchical control is conceptually outdated, and that the increased complexity of organizations makes them obsolete, this does not seem to be the case in Kongsberg Automotive. Even though there was a stronger reliance on socialization mechanisms after some time, centralized control mechanisms were still seen as essential. The challenge in this company was not whether to use centralized and formalized mechanisms vs. socialization mechanisms but more to achieve an appropriate balance between a whole range of mechanisms. That is a balance which could appropriately accommodate the needs for control and flexibility at each local site and at the head office.

While socialization mechanisms allow for more autonomy at the subsidiaries and more decentralized responsibility, their use as mechanisms of control should not be underestimated. As Michel Foucault (1977) argued, to create a mutual understanding of reality is also a means to control and discipline people's behavior. In Kongsberg Automotive the increased number of activities that aimed at creating a shared identity in the company should also be understood as means for controlling and coordinating the behavior of members of the organization. When organizational members share norms for right and wrong they also engage in self-monitoring activities, disciplining their own behavior towards an accepted norm.

In Kongsberg Automotive the central management could not freely choose the mechanisms they saw fit. The lack of available personnel, time and funds restricted their choices. In earlier research an assumption has been that the MNC has all resources available to choose freely among the various control and coordination mechanisms. The use of control mechanisms is restricted by the resources at the company at a given time, and hence affects the choice of mechanisms. One of the major challenges when a company attempts to expand internationally is to have a sufficient and competent supply of managers with international experience (Arbose 1986). In Kongsberg Automotive such a supply was missing during most of their internationalization process. Also restrictions set by outside parties, such as major customers who make some mechanisms compulsory are not included in earlier research. While it is difficult to assert to what extent the automotive industry in this case restricts the choices of the central management, there are some mechanisms which are compulsory within the industry and which the top-management of the company complied with. The use of QS9000 is an example of such a mechanism. Further research as to how companies in different industries are restricted by customers and others in their strategies for control and coordination is needed.

The discussion above shows that the use and development of various control mechanisms can be seen to be influenced by the interaction between boundedly rational actors. Both actors from the head office and the subsidiary interact in this process. This is in line with the arguments of Doz and Prahalad (1984) who criticize traditional research on these issues for having a unidimensional approach to what is essentially a multidimensional problem. The former reliance on structural explanatory variables has led to an approach which has ignored underlying processes in the organization related to information, interaction, communication, learning and trust. The interaction of boundedly rational actors should be included in an analysis of how formal structure and institutional environments affect the governance structure of the organization.

## **9.7 Concluding remarks**

As seen in this chapter, the governance structure in Kongsberg Automotive was gradually developed to include both structural and cultural control mechanisms. While structural variables such as administrative heritage, the global automotive industry and their increased international experience cannot be dismissed, the interaction between central management and representatives from the subsidiaries can in this case be seen as having a strong influence on how the company chooses to control and coordinate an increasingly larger multinational company. To achieve a balance between control and flexibility in the organization depends on a process where relevant actors interact to shape the outcome.

The governance structure in a MNC changes over time according to the various interests and capabilities of those involved. To attempt to predict the best 'fit' between the dichotomy centralization vs. decentralization and the geography or organization structure of a company is in this perspective not a fruitful approach. It is a focus on the underlying process in an organization which involves boundedly rational actors and their varying interest, power, institutional constraints and social embeddedness which brings more central issues to the fore. The interaction between these actors is a central dimension in understanding why and how some mechanisms are employed when others are not.



# 10 A perspective on learning

## 10.1 Introduction

In the two previous chapters I've analyzed and discussed the behavior of two groups of actors, the local managers and the central management, below I will focus on the interaction between these actors and look at how learning processes emerged and changed the organization. It is the third research question which will be addressed in this chapter: *Why is a perspective on learning important for understanding the internationalization process?* An understanding of the relationship between the central management and the local subsidiaries, as characterized by bargains and negotiations, explains to some extent why the central management and the local leaders reach agreements as to which solutions and practices one should implement. But how can one explain that the relationship between these actors evolves and changes through time, and that they create solutions which are neither grounded in the practices of the local institutional environment nor the parent institutional environment? Why can a perspective on learning offer explanations as to the fundamental changes that occur in the organization through the internationalization process?

Why such a perspective may provide insight for understanding the internationalization process will be discussed below with regards to the changes that occurred in Kongsberg Automotive. I will focus on how and why the relationship between the central management and the different local subsidiaries changed through time, and the different practices and solutions that emerged. In the last part of the chapter I will discuss in more detail why it is important to understand the internationalization process as characterized by processes of learning. Finally, I will address the implications of such a perspective on earlier theory and research on internationalization processes.

An intensive internationalization process such as the one Kongsberg Automotive have undertaken can be a tremendous learning experience. There are great possibilities for new knowledge involved in moving from a limited environment in Norway and Sweden to creating and including subsidiaries in a number of countries around the world. In a lot of the literature on organizational learning it is held that in order to create learning from such organizational changes there are a number of provisions that needs to be made

beforehand to be prepared for learning. While organizations most certainly can improve in terms of their learning capabilities, there are also grounds to argue that learning can be seen as unavoidable. Profound changes, such as the ones that Kongsberg Automotive has gone through creates knowledge and experiences which only a myopic organization can avoid being influenced by.

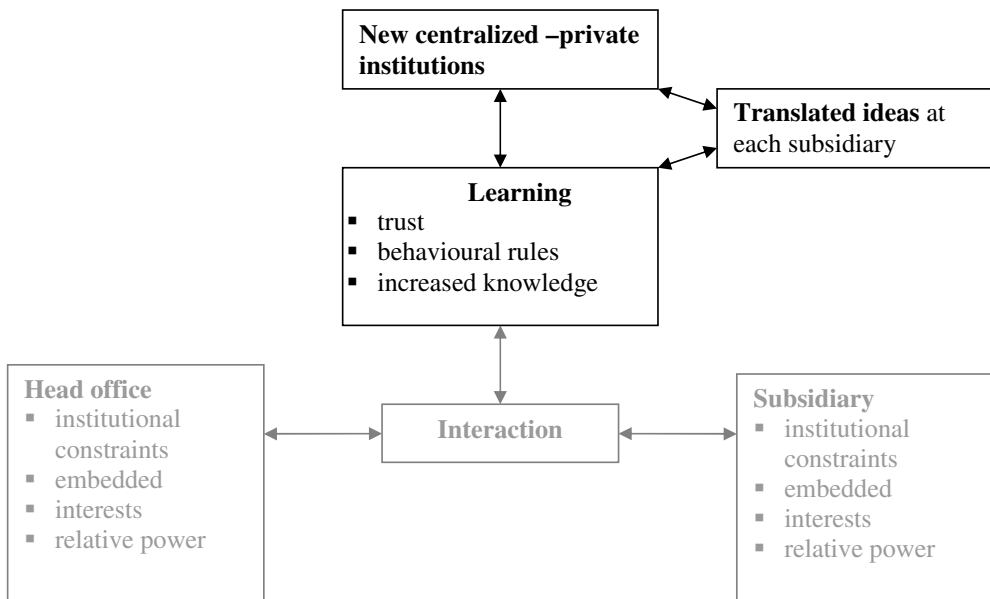
It is crucial for an organization to create organizational knowledge. For the organization and its members to cooperate efficiently they need to have some degree of mutual knowledge. The organization learns when such knowledge is changed and developed. However, learning does not merely have an effect on isolated practices and solutions at each local unit in the organization, but can over time also have an effect on solutions and practices employed in the totality of the organization. However, dependent on how the organization approaches these new experiences more or less learning may be created. A too strong domination in the learning process on behalf of a group of actors or through strong prevalent norms and beliefs may hinder the participants from grasping the value of divergent opinions and the creation of new solutions. On the other hand, interaction over time is also expected to affect the actors as they learn how to negotiate through increased knowledge of each other, increased trust and by constructing behavioral rules.

Within an institutionalist perspective, discussions on the role of learning have been largely absent. When learning has been discussed within new institutionalism the focus has been on negotiations between separate parties and how negotiations ultimately lead to adaptation to institutional pressures. Here, I will employ a learning perspective which emphasizes how interaction may create new practices in the organization, even though these are not torn loose from the local institutional context. In this chapter I will focus on the upper part of the model provided in chapter 2.

In accordance with earlier research on organizational learning, I assume that learning has taken place when a set of individuals start to behave according to some tacit or explicit rules produced in cooperation with others in the organization. These include formalized and written rules and procedures, tacit and informal norms, roles and codes based on experience. The production and re-production of such rules take place when individuals are confronted with specific situations in their daily work. In the case of Kongsberg Automotive I focus on how the interaction between the subsidiary and the head office produce such rules. The head office attempted to transfer explicit organizational knowledge to the local units through strategies such as replication of production processes. However, much of the knowledge they were attempting to transfer was tacit, or was not understood or accepted in the new units. This was the case with the procedures that were moved from Åmotfors to Poland, but also the case for more general knowledge, such as rules on 'how to act', or what they themselves call the "*Kongsberg*



way”. This knowledge was attempted to be transferred from one community-of-practice to another and acceptance by the new organizational members relied on reinterpretations both abroad and at home.



**Figure 10-1 Theoretical framework**

## **10.2 The characteristics of organizational learning processes**

The learning perspective adopted in this thesis is one emphasizing how knowledge is practiced within social networks, and how learning is dependent on changes in such practices. An important distinction between the approach adopted here, and earlier accounts on developments within institutionalist perspectives is that learning here is expected to create something ‘new’ and is not seen as a selection between viable alternatives to find the most appropriate ‘fit’.

Central to understanding how organizations incorporate knowledge and experiences are what may be called organizational rules. These rules may be recorded in the minds of individuals, in work descriptions and procedures, in physical objects and in the prevalent norms and assumptions. Such rules encode the experience of the organization (Argyris

and Schön 1996). The cognition and behavior of the members in the organization are organized by such rules and they also serve as templates for interaction between the members. Organizational rules restrict what a member sees as relevant questions, appropriate approaches and alternative solutions. These rules contribute to what may be termed an organization's unique identity, which is often characterized by referring to the dominant behavior among a central group of people. The processes of continuously producing and re-producing organizational rules through repeated negotiations, bargaining and compromising can be regarded as 'organizational learning processes'. Organizations learn when their knowledge in the form of such rules is changed (Argyris and Schön 1996). But this change is dependent on the knowledge of individuals. Organizational knowledge in the forms of routines for instance exists only to the extent that individuals draw upon them and accept them as a part of their own knowledge.

Argyris and Schön distinguish between single-loop and double-loop learning. Single-loop learning is defined as instrumental changes in how the organization performs its tasks. It is the detection of an error in e.g. the quality of a product and the measures taken to ensure that the production process is changed so that the error may be avoided. Double-loop learning on the other hand causes changes in the values, strategies and assumptions of the organization's theory-in-use. Theory-in-use is best described as the prevalent practices in the organization, while espoused theories are descriptions of these practices. These two types of theories are most often incongruent, as it is impossible to arrive at a complete and accurate description of how a task is performed. This is amongst other things because there is often a lot of tacit knowledge involved which formal descriptions ignore, and there are many different practices as different individuals perform them. The distinction between these types of theories is similar to what Brown and Duguid (1991) call canonical and non-canonical practices, descriptions of practices and the actual practices. Returning to the learning perspectives discussed by Argyris and Schön, it is double-loop learning which is most important for the development of the organization, since such learning alters fundamental assumptions and norms which in turn determine the practices of the organization. On the other hand, learning is not necessarily productive. Within this definition learning is seen as change, and such changes may be false or unworkable. To arrive at productive learning in an organization, Argyris and Schön ascribe a 'theory of action'. Productive learning is achieved by creating conditions for collaborative inquiry. This implies that the practices or the theory-in-use in the organization allows its members to share control over processes of generating, interpreting, testing and using information. It is through interaction and internal commitment that valid information is produced. This also implies that the strategies and subsequent action employed in an organization should be seen as experimentation, open for alterations and new information.

To understand how individual knowledge and organizational knowledge are linked, a clarifying concept is 'community-of-practice' (Brown and Duguid 1991). The perspective on communities of practice acknowledges that the performance of the organization is dependent on how individuals work together and that it is through interaction that individuals are able to combine their individual experiences and create shared interpretations that are more useful than the individual interpretation of each member. These individuals and their interaction constitute a community-of-practice. This is a community which cannot be analyzed out of its physical context, since the site where practice is done also influences the practices that emerge. Structures as well as actors are therefore important for understanding learning. Within an organization there are many different communities of practice, here I focus on how the different subsidiaries in Kongsberg Automotive may be seen to represent different communities of practice. On the other hand, I also acknowledge that within one such subunit there may also be different communities, but for the sake of the further analysis I will view one subsidiary as one community of practice. It is the interaction between these communities which I argue constitutes the learning process in Kongsberg Automotive.

To understand how such separate communities interact in shared learning processes one may distinguish between intra- and inter-organizational learning processes (Holmqvist 2003). Inter-organizational learning processes are expected to produce more variety in learning as the organizations involved have not become 'skillfully incompetent' (Argyris 1993) or 'simple-minded' (Cyert and March 1963). Or put in a different way, they have not developed an inability to fully comprehend the complexity of a situation. Inter-organizational learning is expected to be more problematic and tends to involve more conflict and explicit compromising, bargaining and negotiating than intra-organizational learning processes. It is argued that this is due to the lack of a formal structure of authority between the organizations (Killing 1982; Mowery, Oxley and Silverman 1996). On the other hand, it might also be a result of a lack of behavioral couplings between the actors (Holmqvist 2003).

If one party dominates the process too much this may restrain the learning process. Asymmetrical bargaining is a typical characteristic of organizational learning processes. This is due to the formal hierarchy in the organization where typically there is a group of individuals who are able to dominate the learning process and its subsequent outcome. Domination affects the degree of heterogeneity in the learning process as domination is always grounded in this group's simplified understanding of experiences. Domination will therefore limit the amount of attention paid to the full complexity of the situation.

However, domination and power may also be seen as constructive tools in the learning process (Levin and Klev 2002). Domination can have a disciplinary effect on the

process in that it creates focus and pushes towards taking decisions. Domination need not be vested in a group of individuals who are seen to have authority over others; domination is also expressed through discourse, in those arguments and ideas which are regarded as more legitimate than others. This is related to another barrier towards taking full advantage of the learning process; a biased approach. If one or both parties in a learning process approach learning with an attitude strongly grounded in his own conception of reality, this may be a barrier towards understanding the other as well as conceiving of new ideas and interpretations. Defensive behavior may also result. One or both parties may attempt to place the explanation or necessary changes in all other places than those related to themselves.

In the beginning of learning processes the actors have few behavioral couplings between them. They have limited experience in interaction and knowledge of each other. One may expect conflict, misunderstandings and complications in their interaction, but this may also cause both parties to reflect on their own taken-for-granted assumptions. Through repeated negotiations such assumptions are challenged by the other party, and they are increasingly made explicit. The actors are also expected to produce joint behavioral rules which make future interaction and learning more predictable and stable. Such behavioral rules can take the form of knowing how the other will react, what the most effective arguments are, what the most prioritized goals are, what routines and procedures one should follow to present ones case and so forth. These rules, routines and norms both parties become aware of and respect through their increasing interaction. To create such mutual knowledge as well as trust between the actors is crucial if coordination of action is to become possible. The result is similar and predictable behavior in both parties. The advantage is a learning process which is relatively smooth and fast, and where the outcome is in line with expectations in the company. It produces behavioral stability. It follows that learning may thus become less varied, but more reliable.

I expect that the learning processes in Kongsberg Automotive can be described as both single-loop and double-loop learning. The outcomes will both have instrumental consequences on the practices in the subsidiaries and in the organizations, and more substantial consequences for the assumptions and norms underlying what constitutes the theory-in-use in the organization. The latter may be seen as related to the arguments of Ingram and Clay (2000) as discussed in chapter 2. Institutional change in the organization is supported by and created by changes in private-decentralized institutions – the norms and beliefs individuals hold.

### **10.3 The learning processes in Kongsberg Automotive**

The learning processes I will discuss below are seen to begin when the company embarked on their international expansion. The extensive internationalization process the company undertook was a great learning experience as the former Norwegian company included and established units abroad.

As seen in earlier chapters, the company's strategy for including the new units in the organization was largely based on replicating production procedures and organizational structures from Norway. The rationale behind this policy was that these were procedures and structures they knew were efficient and which they had experience with. However, it also entailed a certain narrowness in perspectives as other alternatives necessarily were disregarded. The approach they met the new units with and which they attempted to export can be summarized in the concept of "*Kongsberg way*". The "*Kongsberg Way*" discussed in earlier chapters represents a set of implicit and explicit behavioral rules that organized how employees in Scandinavia perceived their experiences. It was the prevalent organizational rule in the organization at the time and made for a certain behavioral stability between those employees who were familiar with it. When describing the "*Kongsberg way*" the respondents emphasized personal responsibility, swift and fact-oriented decision-making, but also a somewhat tough attitude, illustrated by the internal joke of "*lean and mean*".

The company also moved fast when they established new units. The central management held that even though the establishment of new units could be planned in more detail over a longer period of time, it was better to move fast and repair problems afterwards. A quote from one of the respondents illustrates this policy: "*... sometimes it is better to take action first and clean up afterwards. Because sometimes the tempo forces actions rather than analyses. Analyses are of little value, if you don't know what the proper premises are. In the face of the unknown it is very hard to pinpoint what the proper premises might be, and then it's better to be there, and to take corrective action on the spot*".

The central management thus heeded a policy where they were prepared to learn through action rather than to analyze and prepare too much beforehand. It was seen as necessary to use such an approach, because they were not able to acquire the knowledge and experience they needed before they had started the process. However, in the units abroad this approach was seen as too hasty and caused additional problems. This was especially apparent during the establishment of the Polish plant. The Polish management argued that a number of important issues had been overlooked, and that they were the ones left to fix the problems. In their opinion this made the first year difficult as they were constantly repairing old problems and were not able to look ahead. This focus on

fast establishment and quick decisions restricted the learning process in one manner, the domination of the central management was pronounced as they pushed for decisions and actions, and those employees who made the decisions used what they already knew – the familiar context of Scandinavia and how the factories worked there. On the other hand, it also meant that the necessary adaptation to the local context became apparent through action and in negotiations with the employees abroad.

When the central management and the employees in Scandinavia were faced with the “*new members of the family*” – the new foreign subsidiaries – these employees questioned the legitimacy of the “*Kongsberg way*”. They questioned whether this was the appropriate way to behave and demanded further arguments from the Scandinavians before they were willing to adjust to the norm. This occurred when Scandmec was acquired in 1996, and reoccurred when each new unit was added to the company. As mentioned earlier, the particularities of a “*Scandmec way*” were still seen to be present in the organization in 2000, and there were still discussions in the organization, especially between employees from Norway and Sweden as to what the prevalent organizational rules should be. Employees in Sweden characterized the central management’s approach as more authoritarian, hierarchic and old-fashioned than what they had been used to.

The foreign local managers in Mexico, Poland and the U.S. held that the central management and the employees in Norway and Sweden operated with a Scandinavian bias. Especially when units were established, there were time limitations, and hence most decisions were taken with a basis in Scandinavian ways of reasoning – that is, they were “*embedded*” (Giddens 1991) in a Scandinavian context, despite the fact that they were put to work in a different setting abroad. The Scandinavian bias was expressed on different issues. The centralized departments in Scandinavia were by some respondents abroad believed to focus on the needs of local Swedish units, rather than to serve all parts of the organization on an equal basis. For the employees in Scandinavia the organizational rules that should prevail in the company were those they were used to. As one respondent said: “*Kongsberg does have plants abroad, although we’re relatively small. When I was in touch with people here, this realization was not really there. You got to hear that “this is not how we do it in Sweden”, and that’s a ridiculous thing to say abroad. You can say that this is not how we go about things in Kongsberg Automotive, but not “this is not the way it’s done in Sweden or Norway”, because they don’t give a damn; they couldn’t care less about that*”.

The Scandinavian part of the organization was also seen to lack knowledge or understanding about local conditions abroad. At the same time there was a high degree of centralized decision making and respondents abroad said they felt the decisions were not always appropriate because of a lack of knowledge. One respondent said: “*they have to*

*get away from the idea that at Kongsberg Automotive, we have our rules, and therefore the rest of the world is going to adhere to our rules".* As I have discussed earlier there was a strong reliance on solutions originating in Norway and Sweden, and also to some extent on the personnel from Scandinavia. Some of the foreign managers held that the company should use more local resources. This was for example argued to be the case at the start-up of the Polish factory.

In addition, the central management and employees in Scandinavia did not exhibit any great eagerness to learn from the local units. Respondents from the management level who had interaction with representatives from Norway and Sweden were unanimous, saying that no, in the beginning they did not feel that people from the parent company were interested in learning anything from them. However, at the second round of interviews more respondents said that they now felt there was more willingness to learn from the units abroad. By our respondents this was also linked to how they felt they received more respect from Scandinavian colleagues after some time and that their colleagues were more ready to listen to them. This was also related to trust, and also on this account the respondents said it had taken some time for them to gain the trust of the central management. They also indicated that it was the distance and lack of face-to-face interaction which could explain why it had taken time.

The dominating party in the learning process between the foreign subsidiaries and the Scandinavian units was clearly the central management and the other Scandinavians. This was both because of the centralized decision structure and the direct intervention from the central management, and because the organizational rules that prevailed in Scandinavia were attempted to be exported as the legitimate norm for the whole organization.

### **10.3.1 Creating mutual knowledge**

Within the organizations in Norway and to some extent Sweden, there was less need for explicit and implicit bargaining over organizational rules. These discussions were to a certain extent finished as these former separate units had created a shared history and the members of the organization had a larger agreement on the prevalent organizational rules. Meeting a number of foreign subsidiaries and their managers and employees meant that their taken-for-granted beliefs were challenged. The central management and employees in Scandinavia had to reflect on their taken-for-granted behavior and make it explicit so that it was understandable to the new members. After some time the need to constantly having to explain the logic and rationale behind the practices was reduced, and the two parties created mutual knowledge which made their interaction more efficient. Such mutual knowledge took the forms of behavioral rules, trust and knowledge of the other.

Some concrete examples may serve to illustrate how behavioral rules were created. Because of a former incident between the president of the company and the Belgian manager in the U.S., they had created a saying which emphasized the possible misunderstandings of speaking a language which was foreign to them both. In their interaction they used the phrase; “*we have to check our dictionaries*”, reminding them of the possible misunderstanding that could occur. At our third visit to the Polish plant we arrived the same day as the local management was preparing their strategy to convince the central management of certain local solutions they wanted to introduce. Discussing how and why they had a meeting to prepare the strategy, we were told that with time they had learnt how they needed to argue, and that the central management would demand thorough documentation that sustained their arguments. The issue they were now preparing was one they had attempted to introduce earlier, but which had failed because they had not known how, when and where to present it in a convincing manner. The last example I have mentioned earlier, the local managers came to realize after some time that even though their local autonomy was restricted, the behavioral norm advocated by the central management was that it was better to take actions and ask afterwards if you could be seen to act for the benefit of the company. What most local managers had first perceived as restricted autonomy and too much hierarchy, was perceived differently as they came to know the central management.

Especially during the first round of interviews, some respondents indicated that Scandinavian managers, simply because of their nationality, were granted more trust than foreign managers. Foreign managers and employees also held that they did not feel they were trusted enough. Later, however, several of the respondents stated they now felt they were trusted by the central management. Most held that this had been a result of proving themselves and their results, and that with time the central management had gained trust in them. Also, the other way round, it seems that trust had been created. At the second round of interviews there were more comments and statements which expressed understanding and confidence in the strategies and decisions of the central management.

Also in terms of increased knowledge, the relationship between the parties improved. During our second round of interviews most of the respondents abroad felt that insufficient knowledge about local conditions was more apparent in the past and that things had improved. They also held that their Scandinavian colleagues now expressed a greater eagerness to learn from them. As one respondent said when asked whether his colleagues in Scandinavia wanted to learn from them: “*No, not from the start. More recently, I think they have realized that we have had some experiences here that they need to understand*”. This had also resulted in a weaker Scandinavian bias. There had been



a change in perspective, from a practice based on Scandinavian terms, to a perspective, where local knowledge was combined with Scandinavian experience and perhaps also with more general insights from the fields of production management and organization theory.

Even though mutual knowledge was created and the bargaining between the parties may be seen to have become more efficient, there were still hindrances that arose. Cultural differences were seen as such a barrier towards understanding and accepting employees from other units. The central management and employees in Scandinavia focused on such differences when they were criticized by the Poles for not preparing the move from Åmotfors to Poland sufficiently. When the Poles blamed the Scandinavians for not providing sufficient documentation, the Scandinavians held that this was essentially a Polish problem because of Polish communist history where detailed procedures and routines had higher priority than results. Also much later, between the U.S. unit and Mexico in 2003, cultural differences were held up as the main explanation for the problems they had. Cultural differences had not been seen as a problem when we visited the unit one year earlier, but because of the problems with the QS9000 audit these explanations came to the fore. Again it was a matter of where to place the blame. Since none of the units wanted to admit their own faults in the process, it was explained by referring to the culture of the other which made them behave in ways counterproductive for interaction and the business. These defensive behaviors seemed to take the focus from the actual problems and made learning difficult.

### **10.3.2 New organizational rules**

The examples above illustrate that the learning process between the Scandinavian parent company and the foreign subsidiary was not unidirectional and without hindrances on the way. On the other hand, there are also numerous examples of new organizational rules that were negotiated and which altered both the strategies and policies of the head office as well as the approach and understanding of the local subsidiaries. As seen in earlier chapters, the different local units were able to negotiate local solutions to an increasing degree with time, but also more encompassing changes occurred affecting the whole of the organization. These changes were dependent on changes in the norms and beliefs of those devising the various policies and solutions, changes that came about because of the meeting between the old and the new members of the organization.

While the company in the beginning of their international expansion relied strongly on Scandinavian expatriates and project managers, such positions became available to foreign employees with time. One may argue that their former reliance on Scandinavian employees was because they lacked foreign employees who were familiar with the

company and who could be used in such positions. But the scope of the first Interdal course provides grounds to argue otherwise, as foreign employees were hardly included in this course even if it was designed to create the future international leaders of the company. However, with time, foreign employees were given more equal opportunities. The second Interdal course included more foreign employees, and for the forthcoming establishment in China, a U.S. employee will be an expatriate in the new unit.

Earlier, the foreign subsidiaries had little contact with other local units, as their contact and cooperation with the rest of the company was mainly limited to contact with the units in Scandinavia. Their demand for more communication between the various units was answered to a certain extent by the creation of a cross-geographical team between the U.S., Mexico, Poland and Sweden. There is also an increased emphasis on seminars for different function areas such as for instance purchasing and sales where employees from different units meet.

As seen in chapter 9, the use of different control mechanisms was given a more balanced approach after some time. The employment of socialization mechanisms came more to the fore, and these mechanisms allowed for more communication between the different employees in the company. Seen in a learning perspective, these socialization mechanisms have much in common with methods seen to enhance learning in an organization. As stated earlier, exploratory learning models require more relaxed control to function optimally. In addition, there were more arenas for communication created both horizontally and laterally in the organization. There were efforts taken to increase the discussion on taken-for-granted assumptions, beliefs and norms than earlier. In 2003, a focus on the company culture was introduced and there were efforts to more directly socialize and integrate new employees, above all the management from the various units, in the company at large. Underlying these changes was an increased understanding in the company of the limited use and fallibility of formalized and centralized control mechanisms. Even though these were essential, they were also dependent on creating shared understanding and trust in the organization in order to create the control and coordination they were in need of.

A stronger reliance and awareness of socio-cultural factors seems to have been introduced. This was reflected in the content of the second Interdal course which relied more strongly on such issues, and also in the implementation of more instrumental solutions. The ambitions and expectations for the various SAP projects were lowered with time, and people were better prepared for eventualities arising from differences in local contexts. The start up of the Polish plant and the subsequent evaluation led to discussions within the company which placed a greater emphasis on less tangible issues like management values, training, and relations between workers and management. Also the rhetoric used

by the central management in different presentations had an increasingly stronger focus on the diversity of legitimate perspectives and a softening of their reputation for being “*lean and mean*”. There were also efforts towards increasing the emphasis on feedback and support.

The central management and the employees in Scandinavia had been accused of operating with a Scandinavian bias, and the foreign units were asking for what they referred to as an “*international mindset*”. After some time, more respondents acknowledged that the company had undergone a learning process, and that the central management was increasingly demonstrating their qualities as global leaders. The respondents abroad saw this as a result of a changed awareness and understanding in Scandinavia and as a result of the challenge stemming from now several foreign units.

## 10.4 Discussion

Despite the fact that the learning process was highly dominated by the central management, and by the organizational rules that prevailed in Scandinavia, the meeting between the Scandinavians and the foreign employees resulted in learning experiences that altered the organization. The domination both in terms of authority and organizational rules diminished in time as the local units challenged the former norms and beliefs. And the learning processes which in the beginning only involved central management and certain employees in Scandinavia and in the foreign units, multiplied as more lateral relations were created involving more actors and the outcomes of the learning processes were dispersed to a larger part of the organization.

In line with former theory, mutual knowledge was created between the organizations. While earlier theory has relied on a separation between inter- and intra-organizational learning processes, Kongsberg Automotive is an example where learning processes move from being inter-organizational to intra-organizational. It is also a case which disputes the claim that inter-organizational processes are always characterized by a lack of formal authority. The discussion above shows that it is not the lack of formal authority which distinguishes the process from the beginning of the international expansion and later, but more so the lack of mutual knowledge in the form of behavioral rules, trust and knowledge.

Even though the central management acknowledged that the internationalization process could not be planned in detail but had to rely on experiences on each local site, a strategy in line with Argyris and Schön’s theory of action, the full consequence of such a practice was not embedded in the organization. When the establishment of new units yielded new information, such as the need for more documentation in Poland, the Scandi-

navian units reacted by defensive behaviors. Their argument was that the Polish demand for more documentation was due to their communist history. This was an argument that neither questioned whether they were providing too little documentation nor why the Polish unit was in need of more documentation. As seen above, the move of machines and production processes from Scandinavia to Poland was supported by incomplete descriptions of how these machines and processes had been practiced in Scandinavia. When the Polish unit was faced with figuring out how to work the machines, and how to meet the standards that were specified in the SAP, they realized that they had not received adequate information. On the other hand, in later establishments such as in Korea, the strategy of introducing the methods and practices of the parent company was done in a more cautious manner. A manner suggesting that the management was expecting new information to emerge, and which included the local employees to a larger extent.

One of the challenges the company had to face was how to create behavioral rules, trust and knowledge between the separate organizations across geographical distances. This was a challenge that was increasingly recognized by the central management and this acknowledgement made for important changes in their strategies. Our respondents acknowledged that the lack of face-to-face interaction and the distances made it difficult to build trust between the organizations. They therefore called for more exchange and more arenas for communication. Because of the international character of the organization many formal and informal relations were disembedded, or torn loose from social contexts. Normally, trust is embedded in a particular social context, and develops over time through formal and informal interaction in different situations (Giddens 1991). The people involved get to know each other's values, knowledge and reaction patterns. This was to a lesser extent the case in Kongsberg Automotive, and the lack of shared local contexts meant that to create trust took more time, and had to be based on other shared frames of references than the daily interaction in a local setting. While the different groups and units became closer with time and developed efficient learning and interaction behaviors, these relationships were also fragile. When problems arose at a later time, a convenient strategy was to reintroduce the concept of 'us' and 'them', blaming the other for difficulties in the relationship. They used cultural differences as an explanation, even when this had not been seen as a problem earlier. Such defensive behaviors, as discussed by Argyris and Schön (1996) inhibit productive learning in the organization. And even though organizations can be seen to attempt to move away from such defensive reasoning one should also expect that regressions occur.

The outcome of the learning processes was, as seen in earlier chapters, isolated solutions implemented in the local units, but also more general insights which took the form of instrumental changes as well as changes in the private – decentralized institutions in

the different units. The changes in these institutions ultimately made for transformations in the private – centralized institutions in the organization. This can be seen as equivalent to what Argyris and Schön call single and double-loop learning. Instrumental changes were related to how the SAP, for instance, was more gradually introduced with time, and the acceptance of the need to provide more accurate specifications on drawings etc. to the foreign units. The changes that occurred in the central management's approach towards the units and to the future challenges of the company can be described as double-loop learning. The awareness of a former Scandinavian bias and the need for a more international mindset ultimately made for other strategies when it came to recruitment, training, local autonomy, lateral cooperation between the units and an increased focus on socialization mechanisms. These changes made for new private-centralized institutions in the organization which emphasized interaction and a stronger acknowledgement of how practices determine both learning processes and outcomes.

## **10.5 A learning perspective for understanding an internationalization process**

The value of applying a learning perspective on the internationalization process of an organization is that it draws our attention to the fact that such a process is characterized by uncertainty and lack of knowledge, and that the ability to learn and develop new knowledge is of the utmost importance for success. It also accentuates the trial-and-error experimentation involved as boundedly rational actors attempt to make sense of new situations and problems. This is in line with Argyris and Schön's definition of learning as change. To view the internationalization process as trial-and-error experimentation also acknowledges that false or unworkable practices may emerge.

On the other hand, Argyris and Schön also hold that for productive learning to take place it is not trial-and-error experimentation which is the answer. Such a perspective on how the organization relates to its strategies and actions implies to ignore that intent is an important part of the actions that are realized. Their recommended theory of action is to view the design of a strategy as a hypothesis and the action as a probe. Such a perspective fosters a more open dialogue in the organization as to possible improvements of both intention and action. This is a perspective which can be situated between a rational approach to strategy where strategic intent is imposed through rigorous implementation and a natural approach where strategy is viewed as behavioral adaptation to changes in the environment. The theory of action thus holds that when both strategies and actions are viewed as more exploratory by the members of the organization, there will be a larger potential for creating new and better informed practices.

The learning potential involved in the internationalization process of Kongsberg Automotive can be expected to be higher than in more narrow intra-organizational learning processes as the available pool of alternative views and ideas is greatly enlarged. This is also argued by Brown and Duguid (1991) who state that separate perspectives of different communities-of-practice may be amplified by interchange among such communities. An internationalization process should perhaps be seen as a particular case when viewed in a learning perspective. Brown and Duguid hold that the alliance between separate organizations with different interpretive schemes, enables the composite group they make up to have more options to choose from as these are independent members of the groups and not restrained by a rigid hierarchy. Despite hierarchical authority, the new members in Kongsberg Automotive contributed to an enlargement of perspectives. However, their ability to do so seems to have been increased when these communities received more autonomy and their interconnectedness was improved.

Traditional research on subsidiary – parent company relations has mainly focused on how institutional forces affect the choices made within the organization, and has emphasized less the effect of the interaction between the different groups of actors. The mutual adjustment that occurs creates shared knowledge which affects both the perception of the actors and the subsequent outcome of the learning processes. Mintzberg refers to mutual adjustment as a “*simple process of informal communication*” (1983: 3 – 9). A simple process, but as discussed in this chapter it can have profound effects on the participants and the social system they interact within.

On the other hand, understanding the various units in Kongsberg Automotive as communities-of-practice also acknowledges that practices that prevail are situated in a context. The structures and the institutional environments of the local organizations influence the practices in the community. That practices from one community to another cannot be replicated without some form of confusion and subsequent alteration in the new community is illustrated in the case of Kongsberg Automotive. The description of work practices does not represent the actual practices. This was the case when machines and production processes were moved from Scandinavia to the new subsidiaries. There was tacit knowledge existent in Scandinavia which was not transferred, and the new contexts of the subsidiaries demanded alterations. There were few attempts to construct arenas where these separate communities could have interacted and built shared interpretations of both practice and context.

In former research on organizational learning processes domination has been seen as having a negative effect on the outcomes of these processes. The material from Kongsberg Automotive shows that learning processes and fruitful outcomes occur even when the interaction is strongly dominated by one party and is at the outset characterized by

conflict and misunderstandings. A too strong focus on the conflictual aspect of power ignores the possible formative forces that power can have. Productive learning as defined by Argyris and Schön (1996) emphasizes the potential in problematic situations and sees the experience of surprise as a prerequisite. Conflict in this perspective is seen as a challenge to prevalent norms and beliefs and may therefore function as a pressure for improvement and change.

The learning perspective applied here draws the attention to the underlying processes in the organization relevant for learning. These processes make for explanations as to how changes in private-decentralized institutions come about, what Ingram and Clay (2000) calls the origin of preference. As shown above, preferences are changed in interaction with others. That individuals change their preferences, further infers explanations as to how changes in the private-centralized institutions of the organization may come about.

The perspective applied above counteracts the former reliance on structural explanations to predict the outcome of the dichotomy centralization vs. decentralization in former research on MNCs. While structural factors do matter, the case of Kongsberg Automotive also illustrates that the role of boundedly rational actors and their interaction is important for understanding the outcome of the subsidiary – parent company relationship. A learning perspective such as that advocated by Argyris and Schön views learning processes as contingent upon actors and their intent as well as changes in the environment. However, the focus when attempting to understand how an organization develops needs to be on the interaction processes between boundedly rational actors who are situated in their specific communities.

## **10.6 Concluding remarks**

The value of applying a learning perspective on the internationalization process is that it fosters an understanding that organizational development is neither a result of environmental adaptation nor a result of strategic action. The focus on learning emerges these two perspectives of adaptation and action as boundedly rational actors are seen to interact within institutional constraints. It was interaction between separate communities-of-practice which in Kongsberg Automotive's case resulted in new practices that became institutionalized in the organization. When the central management attempted to transfer the practices of the Scandinavian units abroad they relied to a great extent on descriptions of these practices. There were few measures taken to create arenas for communication between those who were familiar with the production processes and the new units who were expected to implement them. Knowledge that was tacit in Scandinavia was therefore not transferred, and confusion and subsequent alterations in practices followed in

the new units. This was also the case for what the central management referred to as the “*Kongsberg way*”. While the Scandinavian employees saw this as the most appropriate way to do things, employees in the new units questioned and challenged these assumptions. They described the decisions that were taken as biased by Scandinavian reasoning. Because of domination by the Scandinavian units in the internationalization process, both through authority and legitimized norms, the views from the new units were ignored or argued to be irrelevant because they were seen as culture-specific.

However, through time their interaction created interdependencies between the separate communities. Behavioral rules, trust and increased knowledge of each other were gradually created. These couplings made it possible to create new practices which were based on the new context of the organization. A more international mindset ensued and as seen in former chapters; the local units were granted more autonomy and the control measures employed by the head office were more sophisticated, diminishing the unidirectional centralized control applied earlier.



# 11 Theoretical implications

## 11.1 Introduction

With a theoretical framework based on new institutionalism I have analyzed the development of organizational structures and practices in Kongsberg Automotive. While I have included structural explanations in this framework, it is the processes of learning where individual actors have interacted which have been given the main emphasis. Such a perspective has allowed for an analysis focusing on how an intensive internationalization process changed the private – centralized institutions of the subsidiaries and the organization as a whole. This process was contingent upon both actors and institutional environments.

Former theory, analyzing the relationship between the head office and subsidiary, has explained the development of both local solutions and the use of control mechanisms by emphasizing structural explanations. The analysis of Kongsberg Automotive has shown that the role of boundedly rational actors is central to a more comprehensive understanding of these issue areas. Both when it concerns the development of local solutions and of control mechanisms in the organization, the role of actors constrained by institutions, power, interest and their social embeddedness has explanatory value. Below I will discuss further the relevance of these findings for existent theory and future research on multinational companies.

In line with prevailing theory, institutions have in this thesis been defined as stable patterns of rules and norms which influence the behavior of individuals as well as organizations. However, in order to grasp the complex nature of multinational corporations I have above advanced a more comprehensive, yet flexible concept of the institutional environment. This is a concept which holds that the institutional environments of MNCs are multiple, layered and involve a variety of stakeholders who ultimately deem the organization as legitimate. The contribution of this thesis on new institutionalism is this re-conceptualization of institutional environments in the case of MNCs. This diverts some from prevalent theories where it is the slow-changing and exogenous character of institutions which has been given prominence.

Below, I will discuss in more detail the theoretical implications this analysis has for

both an organizational-learning perspective and for new institutionalism. I will base the discussion on the theoretical framework and research questions presented in chapter 2. I will also include some thoughts on future research which could further increase our understanding of these issues.

### **11.1.1 A learning perspective emphasizing institutions and actors.**

The emphasis on leadership in this thesis is partly a result of the inclusion of the actor perspective, but also a result of the nature of the MNC itself. Because of language barriers and geographical distances there is a restricted number of individuals who become central to the internationalization process of a company. Even though there was much interaction between the foreign units and the Scandinavian units of Kongsberg Automotive, the local managers abroad had a central role in representing their units. These local managers were more essential to the internationalization process than other employees in the foreign units.

Organizational theory has to some extent left the issue of leadership to more normative management literature, but it is vital for organizational research to understand how leadership is exercised and its effect on the social systems of organizations. In an internationalized company the former transparency of the organization is reduced as the parent company lacks the knowledge (language and cultural codes) to communicate directly with large parts of the organization, and lacks the resources to be present because of geographical distances. The role of local leadership takes on a different character than in smaller and more homogenous organizations. Former research on control and coordination has made some assumptions that do not seem to hold as to how the governance structure of a MNC develops. The analysis of Kongsberg Automotive shows that the employment of control mechanisms is not merely dependent on decisions by the central management, but is conditioned by the usefulness of the mechanisms themselves and whether other actors in the organization perceive them as legitimate.

#### **11.1.1.1 Local solutions and local leadership**

Former theory has emphasized how the development of local solutions in subsidiaries is dependent on the power and interest of the unit to push for such solutions when negotiating with the head office (Gates and Egelhoff 1986; Garnier 1982; Rosenzweig and Nohria 1994; Gupta and Govindarajan 1991). The ability and interest of subsidiaries in these studies are explained by structural variables such as extent of dependency on local resources, size, dependency on parent company and so forth.

In this thesis I have argued that the status of the different units in terms of these structural variables does not seem to have much effect on the extent of local autonomy.

However, I do acknowledge that other means of measuring these variables could have provided other results. On the other hand, earlier research emphasizing structural explanations for the degree of local solutions has to some extent omitted the role of the local leadership. The material from Kongsberg Automotive suggests that this may be an error. This brings me to my first research question: *Why is local leadership crucial in creating local solutions?*

The local manager of a foreign subsidiary may at times be the only representative from the unit that the central management relates to directly, and he serves therefore as the main interpreter of local conditions as well as to how practices are translated and implemented at the unit. He is the principal link between the parent company and the local unit, and both local employees as well as central management depend to a great extent on this one person to represent their interests. What role the manager takes on may therefore determine the solutions that are advocated locally, and those which are fronted in negotiations with the parent company.

I have above shown how the local leaders in Kongsberg Automotive had different approaches towards their role as managers of the local subsidiaries. A perspective emphasizing that these are boundedly rational actors who are shaped by their relative power, interests, social embeddedness and institutions made it possible to discuss the variety among the local leaders in Kongsberg Automotive. Even when faced with the same central management, these leaders took on different roles both in regards to the local unit and in negotiations with the central management. The roles the local managers in Kongsberg Automotive took on varied from being the representative of the head office to the spokesperson for the production workers.

The local managers were influenced by different institutional environments. Some of the managers in Kongsberg Automotive had a background from the same environment as the head office and were strongly influenced by these institutions in their approach abroad. Others identified more with the automotive industry and the norms and beliefs inherent to this global industry. This seems to have been the case for the Polish manager in Pruzkow who had most of his work experience from large U.S. companies in Poland. Others again heeded to a greater extent the local environment of the subsidiary. The Mexican manager and the South Korean manager for instance were strongly influenced by the local environment and were seen to push for maintaining or creating local solutions. The manner in which these managers related to the institutional environment can be seen as a support of Rottenburg (1996) proposition. He holds that the institutional environment consists of a myriad of institutional orders. The introduction of new solutions is more dependent on a translation which does not contradict institutional orders than on a predetermined format. The political skills of the local manager are therefore

important in the endeavor to create acceptance both at the head office as well as locally. Through tactics and rhetoric the local manager is able to create legitimacy for his ideas and solutions. The importance of the organization to be viewed as legitimate is also central to new institutionalism even though their focus has been on external stakeholders more than those internal to the organization.

### **11.1.1.2 Governance system**

Earlier research has maintained that companies rely on different control and coordination mechanisms because of their interests in creating consistency or allowing for local autonomy in its subsidiaries. The type of industry – multidomestic or global- affects to what extent the company needs to consider local market receptivity, and hence their interest in allowing for local autonomy (Gates and Egelhoff 1986). The national origin and administrative heritage is expected to create a tradition for using some type of mechanisms above others (Hedlund 1981; Egelhoff 1984; Bartlett and Ghoshal 1998). While earlier research has been inconclusive as to the effect of increased international experience, it is held that increased experience allows for more autonomy to the local units (Stopford and Wells 1972). It has also been argued that how dependent the unit is on its local environment vs. the parent company will determine the extent of local autonomy in these units (Garnier 1982; Hedlund 1981; Picard 1977; Cray 1984). In addition to these structural explanations I have above included the role of boundedly rational actors in my analysis.

When explaining the governance structure in Kongsberg Automotive, the role of such actors becomes central. The ability of these actors to choose different control mechanisms over others was determined by how these mechanisms affected the internationalization process and the organization at large. The use of different mechanisms had at times unintended consequences, which in turn made for changes in how these mechanisms were applied. Earlier theory has maintained that the motivations for using mechanisms such as formalization or socialization are to avoid overt use of hierarchical control or a need to create consensus (Nohria and Ghoshal 1994; Evans 1992). The analysis above suggests that there is greater variety in the motivations for employing different mechanisms. The various control mechanisms that were employed affected the relationship between head office and subsidiary. A perspective emphasizing interests, power, social embeddedness and institutional constraints highlights how the central management were restricted by, as well as motivated by, a number of factors in their choices of control mechanisms. This brings me to the research question posed earlier: *Why are governance systems built both upon structural and cultural control mechanisms?*

When attempting to control and coordinate their increasingly international organiz-

ation Kongsberg Automotive experienced that their ability to rely on some mechanisms over others was affected by lack of resources, time and the usefulness of the different mechanisms. The formalized control and coordination mechanisms, such as standardized operating procedures, proved to be fallible. The functioning of the production procedures replicated from Scandinavia was based on tacit knowledge in the Scandinavian units. The knowledge of how to achieve the same result as in the Scandinavian unit was thus not transferred together with the operating procedures. This was also related to the standards for the produced items. Production workers from different units did not agree on the details of the standards, but the production process and the subsequent expected outcome was already set as a standard in the resource planning system, SAP. It was thus the standards existent in Scandinavia which served as a norm for the rest of the organization, even though these found that they did not have the know-how on how to reach it. Other procedures such as those related to the implementation of the QS9000 quality system had not been transferred. This was seen as one of the reasons why the U.S. and Mexican unit failed the QS9000 audit. It was differences between the Scandinavian and U.S./Mexican context which caused difficulties for transferring these procedures.

The varying local contexts of the foreign subsidiaries represented problems when relying on standardization. It was difficult to introduce the SAP into the Polish context. A different alphabet and language together with other laws and regulations demanded alterations in the system. In Mexico the overall production process was changed from a 'push' to a 'pull' system accommodating the education level and living situation of the workers. Also a different tester for quality control was introduced. Even though the use of SAP allowed for controlling the increasingly large organization it also demanded a higher level of support from Scandinavia to the foreign units. These, together with other weaknesses connected to the use of formalized and centralized mechanisms, as described in chapter 9, meant that the strong reliance on such mechanisms needed to be supplied with other means for control and coordination, those connected to socialization mechanisms.

The reactions from the units were a different reason for the change in governance structure. Employees in the foreign subsidiaries did not agree with the rational behind some of the mechanisms. The extent of centralization was seen to limit lateral coordination between the units, and to restrict adaptation to the North American market. The centralization of purchasing was viewed as an obstacle for production as it created a need to keep larger inventories, and could limit the availability of supplies on a short-term basis. Centralization of other areas such as IT-support, R&D and finance was also viewed as an obstacle because of time differences and geographical distances.

The increased reliance on socialization mechanisms came as a result of the above,

but was hindered by lack of resources. While the head office wished to use expatriates as a means for controlling and coordinating the foreign subsidiaries they were short on personnel who could take on expatriate assignments. This was attempted to be resolved by creating the Interdal course, but also other means for achieving a more integrated organization were initiated. A stronger focus on values and attitudes was an attempt to create a stronger consensus in the organization. This also involved the head office trying to learn more about the differences between the local units and how these perceived the company. More arenas for communication were also created through the cross-geographical team of production managers and a number of functional seminars involving employees from different units.

In Kongsberg Automotive there was a growing understanding of the fallibility of formalized, standardized and centralized mechanisms, as their knowledge of the variety in local needs and contexts increased. With time, a more sophisticated balance was achieved, as a wider range of mechanisms was employed. The central management's ability to choose their preferred means for controlling and coordinating the organization was affected by whether these mechanisms were appropriate for the issue areas they attempted to control and whether actors in the foreign subsidiaries perceived them as appropriate. This meant that the governance structure they were attempting to create needed to be built both upon structural and cultural means for control and coordination. The increased degree of autonomy the local units received came as a result of the fallibility of formalized and centralized control mechanisms.

However, local autonomy may also be understood as a different means for controlling the units. Employees in the foreign subsidiaries are persuaded to engage in self-monitoring through increased participation and by sharing company goals. That a common understanding of reality is a means to regulate and discipline people's behavior through shared norms of right and wrong, has earlier been argued by Michel Foucault (1977). This is increasingly a control mechanism that is used in companies, as Fleming and Søborg (1998) argue; reflexive, self-monitoring and evaluation-focused employees are the new tools for integration and development of the company. An important element in such a change is the decentralization of responsibility from the central management to employees at the individual subsidiaries (Clegg and Palmer 1996; Sennett 2001; Clarke and Clegg 1998; Beck 2000). When former research has focused on explaining whether a company is centralized or decentralized, the effect of different types of control mechanisms has received less attention. A greater acknowledgement of how control mechanisms are intertwined and affect each other seems to be in order. This is increasingly important as companies are seen to employ more sophisticated means of controlling and coordinating their organizations. As Beck

(2000) quotes Andreas Zielcke<sup>1</sup>, "early capitalism was based upon the exploitation of labor, while today's capitalism is based upon the exploitation of responsibility" (p. 151).

Based on these findings the structural explanations advocated in earlier theory may still be valid in predicting the extent of centralization in a MNC. But such explanations also need to incorporate a greater understanding of the effect of different control mechanisms. The choice of governance structure is conditioned by how useful different mechanisms are for controlling and coordinating the various tasks of the organization and whether actors in the organization perceive them as appropriate. This means that a less conflictual route towards integration is achieved by employing both structural and cultural mechanisms. Former theory has also ignored how some mechanisms are considered compulsory by a great number of companies regardless of national origin or organizational structure. For example, Kongsberg Automotive employed the QS9000 quality system because the system is increasingly viewed as mandatory in the automotive industry. Some mechanisms may be seen as becoming institutionalized throughout the industry.

### 11.1.1.3 A perspective on learning

The final research question I have attempted to answer in this thesis is: *why is a perspective on learning important for understanding the internationalization process?* The emphasis on learning processes highlighted the many changes that occurred in the organization during the years of international expansion. Such a perspective allows for understanding how the meeting between different institutional environments and actors produce negotiations over prevalent organizational rules, but also how new solutions are created. The learning processes in Kongsberg Automotive reflect those described by Argyris and Schön 1996, and Brown and Duguid 1991.

I characterized the learning processes in Kongsberg Automotive as moving from inter-organizational to intra-organizational. The separate organizations of the company gradually created mutual knowledge which increasingly unified the organizations and its members. This is in contrast to earlier research which has highlighted the differences in these processes, where the distinction has been based on the lack of formal authority (Holmqvist 2003). Inter-organizational learning processes have been described as more exploratory since both the process and the outcome may be expected to be more open ended. This exploratory quality has been ascribed to the lack of formal authority. Intra-organizational processes characterized by formal authority and mutual knowledge have

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<sup>1</sup> Zielcke, A. *Der Neue Doppelgänger*, Frankfurter Allgemeine Zeitung, 20 July 1996.

been seen as limited by the myopic nature of the organization which inhibits its members to see the full complexity in a situation. In Kongsberg Automotive the learning processes were to a large extent characterized by formal authority, but it was the lack of mutual knowledge which made for more exploratory learning experiences in the beginning as prevalent organizational norms were challenged by employees abroad.

Even though such learning processes are seen to be vulnerable to domination and dependent on more relaxed control, the formal authority and use of power in Kongsberg Automotive's case can be seen as constructive elements in the process. Domination in learning processes has been viewed as negative because it implies that one party's simplified understanding is allowed to dominate the learning process and subsequent outcomes. On the other hand, power may also be seen as a constructive and formative force in learning processes as it may create focus and induce decisions (Levin and Klev 2002). In Kongsberg Automotive the use of power was observable not only in the shape of a hierarchical authority, but also highly visible in the form of a strongly legitimized "*Kongsberg way*". The Scandinavian part of the organization adhered to these norms and beliefs and these were attempted to be exported to the new members of the organization, the new foreign units. That many of the assumptions and norms the Scandinavians adhered to were taken-for-granted became clear only when these were confronted by foreign employees who did not see or understand the rationale behind the practices. The meeting between those who expressed a "*Scandinavian bias*" and the outsiders was essential for the fundamental changes that occurred. This further accentuates the explanatory value of including the role of boundedly rational actors. Organizations are inert structures and they resemble the individuals within them. Individuals are reluctant to change unless there is a problematic situation which demonstrates the limitations in prevalent norms and understandings.

When new units were added to the existent organization there was for some time a higher level of conflicts and misunderstanding between employees in these units and those in the Scandinavian units. Through time mutual knowledge was created in the form of behavioral rules, trust and increased knowledge on both sides. Both parties expressed greater understanding and trust at the second round of interviews. Explicit behavioral rules were created, more arenas for communication were formed and the participants came to have more knowledge of each other. Trust was seen by the respondents themselves as essential in the relationship between the head office and the local units. A greater extent of trust seems to be a part of the explanation as to why the central management relied on more relaxed control after some time, and also why the local managers expressed a greater understanding in the decisions the central management initiated. This learning process may have been enhanced by an increased use of socialization mechanisms



that have similarities to the means earlier advocated for improving learning processes. Argyris and Schön argue that to develop productive learning the different communities in the organization needs to be more autonomous and included in a collaborative process towards common goals.

These learning processes resulted in changes in the private-centralized institutions of the organization as the central management moved from employing a “*Scandinavian bias*” to what was described as a more “*international mindset*”. The outcomes of the learning processes meant that former practices which had favored Scandinavian employees above employees from the foreign units, were changed. This implied more equal opportunities for all employees. A more critical approach towards taken-for-granted assumptions was also visible as discussions on values and priorities increasingly emphasized the international character of the organization. As Scandinavian institutionalists have argued, such changes come about through social processes where actors discuss, interpret and certify some ideas as more appropriate than others (Czarniawska and Sevón 1996; 2003). This is also in line with Argyris and Schön’s emphasis on interaction as an essential part of productive learning. The logic of what was considered appropriate within Kongsberg Automotive was altered when new actors familiar with other institutional environments were included in the organization. As such, it was a meeting between separate communities-of-practice (Brown and Duguid 1991). This is related to the processes of institutional change which Ingram and Clay advocate (2000), focusing on how preferences are changed in social interaction. I will below discuss the implications of such a perspective in further detail, as I look closer at the theoretical framework applied in this thesis.

## **11.2 A theoretical framework based on new institutionalism**

Much research has been devoted to studying the relationship between an organization and its environment (Child 1972; Pfeffer and Salancik 1978; Hannan and Freeman 1989; Singh and Lumsden 1990). However, there has been limited research on multinational companies and their multiple environments (Szulanski 1996; Zaheer 1995). The concept of institutional environments applied in earlier research has frequently and implicitly been seen as congruent with national boundaries (Rosenzweig and Singh 1991). It is the local organization or organizational field within national context which has received the main focus. While some authors have recognized the importance of focusing on how organizations are influenced by multiple environments, few have addressed these issues in empirical research (Lawrence and Lorsch 1967; Meyer and Rowan 1977; Rosenzweig and Singh 1991). This study has attempted to remedy some of this lack in

previous research, focusing on a multinational company with subsidiaries in as diverse local contexts as South Korea, U.S.A., Poland, Mexico, Norway and Sweden.

Studies which have a bearing on understanding complex organizations such as those focusing on the internal relationships between head office and subsidiaries, have relied on structural explanations for their observations (Pugh et al. 1969; Garnier 1982; Hedlund 1981). While including structural factors which have been found to affect the head office – subsidiary relationship I have above emphasized the role of actors and their interaction. I have allowed for structural explanations of human behavior as well as an inclusion of the effect of individual choice (Ostrom 1997). As Doz and Prahalad (1984) have argued, the former research approach which has relied on structural explanatory variables, has ignored important underlying processes in the organization. Processes related to communication, information, negotiations, learning and trust. These processes which involve the interaction of boundedly rational actors, are essential for understanding the development of organizations.

A tendency in studies focusing on head office – subsidiary relationship has been to give prominence to the influence of the head office on the various subsidiaries. There is reason to expect that like in all social systems, there is an upward influence from the subsidiaries to the head office as well as to other local units in the organization. For instance, in studies of how international companies control and coordinate their local units an underlying assumption has been that the employment of such mechanisms is the sole decision of the head office and that it remains unaffected by other parts of the organization. When analyzing the development of the internationalization process in Kongsberg Automotive I have given emphasis to the influence of the various local units and their managers on the central management and the organization as a whole. It is the interaction between these actors which ultimately results in new practices in the organization.

The inclusion of these perspectives in a study of a multinational organization has allowed for an analysis which highlights how contradictory institutional pressures are perceived and how these are solved within the organization. However, this also implies a re-conceptualization of institutional environments and those stakeholders who deem the organization as legitimate and socially acceptable. I have earlier argued that the environments of MNCs should be conceived of as multiple, layered and that the organizational structures and practices are judged legitimate by internal as well as external actors.

### **11.2.1 Multiple environments**

The multinational organization of Kongsberg Automotive has been shown to be affected by different institutional environments. The various subsidiaries were subject to institutional pressures originating in their different local environments, from the parent environment and from an increasingly institutionalized global environment of the automotive industry. The inclusion of multiple environments in an analysis of MNCs allows for acknowledging that the challenge of such organizations is not so much whether to adapt locally or to centralize according to the institutions of the parent company. The challenge of these organizations cannot be expressed in such a dichotomy, but is rather based on creating a balance between multiple institutional environments. It follows that the organization also needs to seek legitimacy among a variety of actors, both internal and external. Altering the argument from new institutionalism; it is through complying with a number of institutional environments simultaneously that an international organization is able to be perceived as legitimate, socially accepted, credible and to gain increased survival capabilities and resources. Those who deem the organization on these terms are situated in different geographical locations, have different interests, are internal and external to the organization and have different means of sanctioning an organization perceived as illegitimate.

On the other hand, the distinction I have made between the three different institutional environments is also limited and does not encompass the variety in relevant institutions that may affect an international organization. Neither have I included all the different stakeholders who ultimately perceive the organization as legitimate. I have concentrated on actors internal to the organization. This re-conceptualization of institutional environments, however, accommodates the nature of the MNC which operates in a number of geographical locations and where its complexity obscures the employment of a supreme and unidirectional force from the head office.

### **11.2.2 Institutions on different levels**

Institutions were in chapter 2 defined as regulative, normative and cultural-cognitive elements which provide stability and meaning to social behavior. While institutions may be defined as shared by those living in one geographical area, it may also be defined as adherent to one organizational field encompassing one type of organization; hospitals, banks, schools etc. A different approach is to distinguish between institutions on different levels and focus on who creates and enforces them (Ingram and Clay 2000). In this perspective there are different institutional systems adherent to the state, organizations of all kinds, and individuals. These institutional systems are interrelated as they constrain and support each other.

The distinction advocated by Scott (2001) between the various elements of institutions (regulative, normative and cultural-cognitive) is essential for an understanding of institutions. He also acknowledges that institutions are seen to exist on different levels in society, but that earlier new institutionalists embraced a definition of institutions as more overarching systems with a somewhat unreachable character. The inclusion of centralized – decentralized and public – private dimensions advocated by Ingram and Clay (2000) implies a larger role for actors and change. Decentralized – private institutions shared by a group of individuals support higher level institutions, and changes on higher levels are contingent upon changes on the individual level. While institutional change in former theory may be understood as major changes in overarching systems, the above distinction makes it possible to conceive of change as occurring on a lower level among individuals. Minor changes in private – decentralized institutions belonging to groups of individuals may in due course affect larger institutional systems. Institutional change thus begins incrementally among groups of individuals.

I have earlier argued that such a development occurred in Kongsberg Automotive. The private – centralized institutions of the organization, which were formerly characterized by a strong "*Scandinavian bias*" were increasingly conceived of as more "*international*". The stronger "*international mindset*" of the central management made for new practices which gave the local units a more integrated role in the organization. A practice where it was mostly Scandinavians who were given opportunities as expatriates and who received training as future international managers was altered to include more foreign employees. Lateral cooperation between local units was introduced, whereas earlier this had been virtually non-existent. And respondents from abroad increasingly stated that they were listened to and that Scandinavian colleagues now understood the value of their knowledge and experience.

### **11.2.3 Multiple stakeholders**

Even though Scott amongst others acknowledges that those who ultimately deem the organization as legitimate are both internal and external to the organization, the main tendency in earlier institutional research has been to focus on external stakeholders (Dowling and Pfeffer 1975; Hannan and Freeman 1977; Meyer and Rowan 1977). That is customers, suppliers, governmental agencies and society at large. The focus in this study has been on stakeholders internal to the organization. In accordance with institutionalism these actors are seen to be constrained by institutions, but when they comply with them, institutions also serve as resources. In this study I have shown that actors may exploit institutions. Based on knowledge and familiarity with prevalent institutions individuals may be seen to draw advantage of aspects of these institutions when at-

tempting to introduce alien solutions or to create new practices. This was the case in the Mexican unit where the local manager introduced a more participative, organizational model when regular production workers were promoted to team leaders and the former foreman position was abandoned. A company which was earlier conceived of as not a “*proper maquila*” was after the change seen to have its advantages.

A related finding is divergent opinions within the organization. Since the analytical level within institutional research has mainly been on comparing different organizations within an organizational field, these organizations have also tended to be viewed as coherent entities (Scott 2001). When new solutions and practices are introduced into an unfamiliar institutional environment these solutions have been characterized as alien. The assumption has been that there will be resistance among local stakeholders towards such alien solutions. And, further that institutions belonging to the local environment are considered legitimate by all its members. As discussed earlier, individuals can be seen to aspire for changes in their institutional environment as norms and beliefs are considered legitimate by some but not all. The introduction of practices from a different institutional environment, such as that of a Scandinavian company in Asia, may be seen as a long sought after chance to alter norms and practices. Practices which are highly institutionalized such as e.g. the seniority system in South Korea, are also practices which women and younger males may disagree with. The policy and principle of adapting locally should therefore be viewed with some degree of skepticism. What local stakeholders consider legitimate may well be ‘alien’ solutions.

The variety in institutions, levels of institutions, stakeholders and institutional orders I have discussed above gives perhaps more room for bargaining between actors attempting to create legitimate local organizational structures and practices than what has earlier been advocated. It follows that the goal in earlier research of finding the right ‘fit’ in an institutional context should be seen as a futile attempt.

#### **11.2.4 Institutional change**

Institutions are important for understanding the workings of different social systems and how individuals behave within them. And institutions matter because they are interpreted and expressed through individuals who are both constrained by them and who may use them as resources. Because actors are able to choose from different institutional logics they can also be seen to find ways of heeding their institutional environment and simultaneously introduce what may be termed alien practices. The largest limitation to such translations is not perhaps the institutional environment, but rather depends on the approach of the actor.

The failure to account for the origin of preferences has earlier been identified as one

of the weaknesses in new institutionalism. Ingram and Clay (2000) hold that institutions on an individual level (private – decentralized institutions) consist of norms and beliefs which are shared by groups of individuals. These researchers also argue that preferences are created and altered by individuals who interact. It is the interaction and the rhetoric in these encounters which provides the individual with the interest and motive to change his own preferences. When there is interaction between groups of individuals who adhere to different institutional environments one may expect that such encounters produce results more varied and different than when the individuals belong to the same familiar institutional environment. This is related to what Argyris and Schön (1996) call productive learning. It is when an individual encounters a problem and becomes surprised because his efforts to solve it are not accepted by others nor produces the expected result that he is most likely to start to think and act in a new way. In a meeting between individuals from different institutional environment one may expect more surprises than when these individuals share norms and beliefs from the same institutional environment. In Kongsberg Automotive the employees from the foreign units questioned and challenged the Scandinavians on their taken-for-granted understandings.

The learning perspective that I have applied in this thesis may have a higher explanatory value for a MNC or for companies undertaking great changes in their organization. But even if learning-processes and the subsequent outcomes are perhaps more easily observable in these organizations, I expect that the relevance of such a perspective is no less elsewhere. In all social systems there will be a continuous bargaining and re-bargaining over organizational rules because individuals are not similar and situations change. There will therefore also be learning-processes and outcomes which are a result of these. The interaction between different communities-of-practice resulted in the creation of new practices in Kongsberg Automotive. This is not a perspective that argues that changes occur as a result of adaptation to institutional environments nor that it is the ability of specific groups to define reality that explains the practices of the organization. Both institutional constraints and power are important influences on how actors interact, but it is the interaction which determines the practices that are created.

On the other hand, the fairly small size of Kongsberg Automotive as compared to larger multinational companies (e.g. Coca-Cola, McDonald's) may have affected their necessity to learn. Larger companies may have more power to execute organizational change in line with predetermined strategies. These companies have more resources available and may also have less need of creating a consensus in the organization as non-compliers may be easily replaced by others who agree with the policies of the central management. Smaller companies may therefore need to adjust and adapt more than larger companies, as they are more vulnerable to conflicts because of fewer resources.

### **11.3 Future research**

The research process underlying this thesis has conveyed that there are some issue areas which deserve to be granted more attention in future research. This is related to issues of theoretical importance within new institutionalism and those affecting internationalization processes within companies.

While I have above included the role of the automotive industry and the institutional pressure stemming from globally accepted solutions and standards, more research is needed in this area. A fast growing trend is how popular solutions and practices become institutionalized as a growing number of organizations view them as mandatory and legitimate. These institutional environments also restrict the individual organization and its members, and may be expected to have a similar effect regardless of local or national institutional environments. More research on the effect of such international standards on individual organizations is needed.

There has been limited research on how major organizational changes such as internationalization processes affect the use of control mechanisms. So far the emphasis in research on control and coordination has been on more stable features of the organization, e.g. administrative heritage and parent company dependency. One of the reasons why the use of control mechanisms may change when the organization as such develops is as mentioned above, the reactions from those subject to the control, the local units. Another is that the actors involved are engaged in a learning process where they, through interaction, conceive of new ways of solving the challenges of the organization.

An issue which is related to the role of the local manager and his ability to influence the negotiations between head office and subsidiary, is the role of other individuals who serve as interpreters and translators. These have not been discussed in this thesis. It may be expected that expatriates for example, who are unfamiliar with the local institutional environment will attempt to find someone who may translate and interpret the local organization and practices. Such a role may be filled by assistants, secretaries and interpreters in the organization. We observed how this was the case in the South Korea unit where the English teacher/translator worked as an interpreter between the South Koreans and the foreign manager. The role and power of such individuals are important aspects in understanding how the organization develops and what comes to be viewed as viable solutions and alternatives. Possible similarities to the concept of 'cultural brokers' as advanced by Wenger (1997) may be a viable path towards exploring these issues. Such cultural brokers are seen to be central in the interaction between different communities-of-practice.

I have discussed the various organizational structures and practices which emerged at the new units and in the organization as a whole. A closer view at these structures and

practices as advocated in Actor-Network theory may have revealed more as to variety among the units and how actors in a wider sense (including material and non-material entities) interrelate in translating and implementing practices (Callon and Latour 1981; Latour 1991; Czarniawska and Sevón 1996). A closer scrutiny of the content and characteristics of such practices within an institutionalist perspective may also have revealed in more detail how institutional environments affect the implemented solutions. My perspective has rather been on how the people involved have been affected by the institutional environments. An analysis which seeks to merge the perspectives of institutionalism and Actor-Network theory, may give increased understanding as to how institutions affect individuals, objects and practices as these interact in networks.

#### **11.4 Concluding remarks**

An international organization is less transparent than a national organization where geographical distances and language seldom represent barriers towards interaction and communication. In an international organization the interaction between the head office and the local subsidiaries may be expected to be strongly dependent on a few individuals. These individuals have the formal authority to act as interpreters of local conditions, and of parent company solutions and practices. Since geographical distances and language barriers may impede the direct interaction between other local employees and the parent company, the local manager becomes the main interpreter in the relationship head office and subsidiary. The role and approach of the local manager is therefore of importance in understanding how an international company develops.

One of the largest challenges in a MNC is how to control and coordinate an increasingly large and complex organization. The findings in Kongsberg Automotive suggest that the choice of governance structure is dependent on the usefulness of different control mechanisms and of a consensus in the organization as to the legitimacy of such mechanisms. When creating a more sophisticated governance structure incorporating a variety of different means for control, they were also able to introduce mechanisms for self-monitoring at the local units. This allowed for more local autonomy and a greater acceptance of the governance structure in the foreign units. Also institutional constraints stemming from the automotive industry were important explanations as to the employment of certain mechanisms. This was one of the results of the intensive learning process the organization went through.

The learning processes in the organization seems to have moved from inter-organizational, characterized by few behavioural rules, conflict and misunderstanding, to intra-organizational, characterized by behavioural rules, trust and more predictive, but efficient



learning experiences. Power and dominant discourses were in this perspective seen to have a formative effect on the learning process.

Because of certain fundamental differences between national and international organizations an institutionalist framework for studying international organizations needs to accommodate the variety in institutional environments and stakeholders relevant for these organizations. A concept of institutions as multiple, layered and subject to judgments from a variety of stakeholders is a step towards creating a notion of institutions more suited for the study of MNCs. Research emphasizing how multiple institutional environments affect an organization needs also to include the problem of divergent opinions within the organization, and not resort to simplified labeling such as that of 'alien' solutions. According to the findings in Kongsberg Automotive the creation and subsequent implementation of new solutions and practices in an organization is more dependent upon interaction and presentation than whether it is alien to the local context or not.



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