THE INSTITUTIONALIZATION OF THE ORGANIZATIONAL CULTURE IN SUBSIDIARY FIRMS

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ABSTRACT
We examined the institutionalization process of organizational culture in subsidiary firms and the interaction of the subsidiary with its environment in different levels using the institutional theory. We identified a sequence of steps and factors which influence the process of legitimating and institutionalizing the organizational culture. Finally we propose hypotheses dealing with the impact of the different factors on the process of institutionalization.

KEY-WORDS: Subsidiary, multinational, institutional, culture.

1. INTRODUCTION

The interaction of the subsidiary with the parent firm and host environment, is produced within a frame provides by the organizational culture which should be stable and predictable, adopting an institutional form which organizations adopt to gain resources, stability and legitimacy (Meyer & Rowan, 1977). However, these rules are not only required by the organizations, fields also need to be institutionalized to confirm their existence (DiMaggio & Powell, 1983), this phenomenon of homogenization is called isomorphism. Oliver (1992) described institutional behaviour as being composed by stable, reiterative and lasting activities.

The organization culture of the firm is the center of political interaction and self interest defence discussions which derive in emergent laws, considering this changing nature the subsidiary is obliged to search continuously for legitimize past decisions and activities (Eker & Eker, 2009). Modern subsidiary has a great challenge dealing with change in their different levels and contexts (Dacin, Goodstein & Scott, 2002); subsidiary has to keep its institutional form facing to continuous internal and external change.

Brown and Eisenhardt (1998) propose the institutionalization of change, as a tool to avoid the risk of being static and at the same time of becoming chaotic. To achieve this balance the firm needs to work as would a precise artisan (Pitcher, 1997), working to change without falling on the other side of entropy, as when the light of entropy is turned on it is very difficult to reduce and turn off. The firm sustain its competitive advantage, changing its institutional context (Oliver, 1997) and it could also change its external institutional context, it depends on its level of influence in its field.

Rugman and Verbeke (2001) consider the multinational as a firm with value-added activities in at least two countries, these facilities are called subsidiaries which has an intrinsic level of uncertainty. Cultural differences between host and parent country contribute to increase the uncertainty level (Gong, 2003). According to Henisz and Delios (2001) there are two levels of uncertainty: firm-specific uncertainty (when the firm is not familiar with the market characteristics) and policy uncertainty (when the market and political institutions of the host country are unpredictable). However the subsidiary has the natural tendency to avoid and reduce uncertainty (Thompson, 1967), one mechanism for addressing uncertainty is to gain legitimacy, for that reason, one of the priorities of the multinational firm is to establish and maintain the legitimacy in its subsidiaries (Kostova & Zaheer, 1999). Legitimacy with the environment of the host country and legitimacy with the parent firm, if the subsidiary conforms to expectations, values and social norms of the host country and the parent firm, then the subsidiary will be considered legitimate. Delmestri and Wezel (2011) argues that legitimation of the subsidiary may be complicated or even postponed, if the norms, beliefs and regulations of the subsidiary firm diverge with those accepted in the host country.

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The organizational culture of the subsidiary is important for the parent firm because it can exert control over the subsidiary through shared values and norms (Gong, 2003; Ouchi, 1979). Cultural learning allows the subsidiary to increase the efficiency of its transactions with the host country; the long presence of a subsidiary inside a host country increases its legitimacy and local isomorphism (Gong, 2003). According to Hira and Hira (2000), the culture can determine and define the efficiency of the firm.

Schneider (1988) assures that the multinational firm has to fit its corporate culture with the national cultures of its different host countries, in assuring strategy implementation. On the other hand Harzing and Hofstede (1996) highlight the importance the host culture plays in developing the change within the firm, and advocate the need for adaptation. The cultural expectations of the host society is a source of informal isomorphic pressures which can be considered coercive isomorphism (Norhayati and Siti-Nabiha, 2009). In the case of new subsidiaries, there is incertitude because its lack of legitimization, the subsidiary has a period when it must legitimize its operations in the host country and as a member of the multinational business community; this legitimization includes expectations, values and social norms Kerr and Slocum (1987). So the institutionalization of the culture is part of the process of the institutionalization of the firm, which entails the legitimization of the subsidiary in its environment. Institutionalization of culture occurs when elements and practices of culture become widely accepted as appropriate and necessary for the firm, the MNC follow regulative and normative processes of institutionalization in order to disseminate the culture to the subsidiary firms (Rosenblatt, 2011).

In this paper, we study the relationship between the cultural environment and the subsidiary firm using institutional theory and resource-based approach. Previous research analyzed from an institutional framework the transference of a particular task from the parent firm to the subsidiary (Kostova, 2002). In our research we analyze the process of institutionalization of the organizational culture of the subsidiary firm, considering its environment where there are several cultural streams, each one influencing it, transferring to it its own cultural patterns. We believe the process of institutionalization of the organizational culture, pass for understanding, assimilating and consolidating the culture.

This paper try to explain the difficult path upon which the multinational has embarked, walking along a corridor with on one side the paralysis, the static state with a dominant bureaucracy and on the other side chaos and disorder, two opposites extremes on the Cartesian line of disorder: the institutionalization and the deinstitutionalization. Dacin et al. (2002) defend that the pressures for deinstitutionalization pass through a complex cognitive mechanism where the answers need to be legitimized and institutionalized (Greenwood, Suddaby & Hinings, 2002). We use the wide path of Dacin et al. (2002) to analyze all the stages with all the pressures exerted, for determining what the answer of the enterprise is and the consequences of the answers and whether they are sufficient to sustain the enterprise in the right direction.

2. THEORETICAL BACKGROUND

It was DiMaggio and Powell, (1983) who proposed that the result of the interaction within a highly structured field is the homogeneity in structure, culture and output which is called isomorphism, which means the natural tendency or quasi equilibrium inside the organization or field. For Eisenhardt, (1988) legitimate behavior allows predict practices inside the organization, the institutionalized organization is so homogeneous that it becomes predictable, and these actions are legitimate and performed by the same organizations throughout its organizational culture.

According to Oliver (1997) the perception of institutional activities cannot be explained by rational choice frameworks. Instead of she consider that the institutionalized behavior is unreflective, social and socially. The firm with all of its internal procedures becomes highly predictable, this makes it easier for other members of the environment to transact with it because they know its reactions. At the same time, as these partners become more stable, they adopt a waiting attitude, while internally they are also institutionalizing, adopting the answers of their partner as being safe, repetitive and known.

But this non-reflexive behavior is not necessarily irrational. It could be a sign of the maturity of an organization which is taking more reasonable decisions established on such standards that lead it to practice more secure ways (Eisenhardt, 1988). This is consistent with the affirmation of Baum and Oliver (1991), which sustains that the reward for the institutionalization of the organization is the contribution of its probabilities of survival. In effect the
old and mature firms which have all their procedures standardized and which are highly predictable, are considered to be institutionalized.

Contrarily, a young and inexpert organization is in the process of testing all its procedures, the raison for which everything is highly unpredictable, in fact it works by trial and error, until it gets the right procedure down; it is institutionalizing little by little, step by step. The higher rate of young firms that did not survive the institutionalization process and that failed seems to confirm this. Scott (1995) confirmed the cognitive character of institutionalization when he said that it stressed the cognitive frameworks rather than the normative systems.

In the resource-based perspective, the unities of analysis are those resources which are the basis of the strength or weakness of the firm (Wernerfelt, 1986). We can see into that definition a reference not only to the physical resources or tangible resources, as there are also the non physical resources, also called intangible resources by Miller and Shamsie (1996). The stability of institutionalization is also manifested through its continuity, both in quantity and quality of tangible and intangible resources, which are conducive to stability in performance, which is concordant with Barney’s (1986) affirmation that the variability of an organization is attributed to the heterogeneity of its resources. An example of this affirmation can be found in the study of the ISO 9000 made by Guler, Guillen and Macpherson (2002), where a complex system of rules and norms contributes to the institutionalization of the firm, and at the same time assures that the flow of the resources is constant.

3. INSTITUTIONALIZATION AND CHANGE

The level of institutionalization could also be a constraint to change in the organization, when managers encouraged by the inertia see their options restricted (Oliver, 1992). The institutional organization is characterized by procedures and behavior that are standard and predictable, in all the levels of the organization. Should the managers consider that the firm functions as well as a Swiss clock, then they will perpetuate the natural tendency of the minor effort; why change something that is working well, would be their rationale. While institutionalization saves the firm from dangers and diminishes the state of incertitude, in another way it is a powerful somniferous which makes the capabilities of the managers and of the firm appear lethargic.

The inertial force is also present inside the firm, where the levels of the individual, group and top managers all have their jobs assigned without problem. Communications may be horizontal or vertical and they are diminished because the spirit of competition is replaced by the spirit of conformity. In the vertical scenario, communications are restricted to the top-down isomorphism (Rodriguez & Child, 2003), the feedback is discouraged by the conformity. Change under these conditions can only occur because of the effect of political forces (Rodriguez & Child, 2003). That one-dimensional and unilevel source of change, means that the rationality of the decision is more to maintain power rather than for the firm’s benefit.

Secondly, managerial options are restricted, because the norms within and outside the firm are very strong, too difficult to change. For example, there are very few firms today that don’t have the accredited process, be it administrative or operational, the so called ISO 9000, which is also a product of global institutionalization (Guillen, 2002). These processes are all standardized, predictable and secure and they are also difficult to change, making of the choice available to the manager one limited to the possibilities that the combination of these processes provides. So instead of the firm seems solid and stable, it is also rigid, intrinsic and sometimes could be confused. The decision-making process in this kind of firm has to pass through many phases, which makes it slow and predictable. This is highly dangerous for a firm which is operating in a turbulent environment.

At the external level, it is not so different; the institutionalized firm only can survive inside an institutionalized field, which is composed by different rules and norms which regulate the activities of the members operating within the field. The field protects its members from external attacks by: limiting the number of entering firms, forming lobbies to defend against the laws of the government, and regulating prices. But it also limits the actions of its members, establishes standards and commercialization methods, rules of competition, product norms and arbitration tribunals.
4. THE INSTITUTIONALIZATION OF THE MULTINATIONAL FIRM

The multinational firm has a wide global corporate culture which is based on socialization mechanisms as: creation of lateral networking, interpersonal communication, shared values, etc. The knowledge and routines accumulated by the multinational firm in its home country are of limited usefulness when it goes abroad; for this reason the strategic decision of going abroad is uncertain (Rugman & Velberke, 2001).

The high level of complexity of the multinational firm makes any analysis by the institutional theory extremely complicated; in effect the multinational firm has the particularity of possessing many components which could be functioning in different countries (Rugman & Verbeke, 2001). The multinational firm faces environments that normally are very different, first the environment of the parent firm in the parent country, second the parent firm in the international field and finally the subsidiary in the host country. In the first case, the institutional pressures come from the government, the field and the market. In the second case the institutional pressures come from the global institutions and global fields. In the third case the firm receives pressures from the government, field, market of the host country, but it also receives pressures from the parent firm. Kostova and Roth (2002) found two factors that influence the adoption of organizational practices by subsidiaries: the rational context inside the multinational firm and the institutional profile of the host country.

There are countries with a high level of institutionalization, with a high degree of control over the economy and the society. The firm could also find countries with a medium and low degree of institutionalization, where the influence of the country’s national culture over the firm is low. The level of institutionalization of a country can be measured, according to Wan and Hoskisson (2003), using the data of the World Competitiveness Report issued by the United Nations data and International Country Risk Guide, for the political and legal level, while for the societal level by using the World Values Survey from the Inter-University Consortium for Political and Social Research.

5. CULTURE OF THE SUBSIDIARY FIRM

Wilkins and Gibb (1988) consider organizational culture as the knowledge shared and socially acquired which define a frame of reference. Barney (1986) had already considered the pervasive effects of organizational culture which is defined as a set of values, beliefs, assumptions and symbols, that define the way the firm does business and limit its actions inside and outside the firm.

For Schall (1983) the organizational culture becomes the place where the members of the firm interact (explain, coordinate, evaluate and attribute meanings), based on three pillars: values, beliefs and assumptions. In this system the actors are interacting continuously, within the context and the rules imposed by the organization and which act as cultural warrants. Daymon (2000) state that the culture is the result of a continuous process of integration, differentiation and fragmentation. It gives an idea about the culture inside this cycle, and has a tendency towards integration, that Sutton (1974) called cultural consistency.

6. MODEL OF PRACTICE ADOPTION

We consider that the subsidiary has two environments to confront: first the host country and second the parent firm. Both environments have different degrees of institutionalisation and the pressure that is exerted over the subsidiary will be in direct function to this level of institutionalisation. On the other side is the culture based on a system of values, beliefs and assumptions (Schall, 1983). In the first case, the host countries have different degrees of institutionalisation, such as highly, medium and low institutionalised countries, each level have its own level of institutional pressures. According to Scott (1997), the firm receives institutional pressures on three levels: regulative, normative and cognitive.

Kostova and Roth (2002) consider that influence over the subsidiary are related to the culture. In the case of a new subsidiary, its organizational culture is very close to the parent firm, but the influence of others factors generate a process making to flow a new culture or a mixed culture. The influences mentioned generate a cognitive process; we are going to use the five cognitive processes identified by Doney, Cannon and Mullen (1998) for analyzing the influence of the national culture on the development of truth. The cognitive processes are the following: calculation, prediction, intention, capability, and transference. The following step is the socialization and learning: the
newcomer begins to relate more intensively with the other members of the field, with the government, with the different organizations and with the market, while involved in a continuous relationship with the parent firm. This socialization comes together with the process of continuous learning involved in these kinds of relations.

All this process produces a cultural change, since the parent firm’s culture to another mixed culture which is the resulting product of this process. This mixed culture is the feedback to the process of receiving the influences of the host country culture, parent firm culture and the field culture and in setting up a cycle ready to begin another time. This continuous recycling of the cultures should turn into the institutionalization of the culture. Depending on the strength of each influencing culture, the new culture will have more or less characteristics of some prior culture.

We can compare this model with the three basic stages of institutionalization of the practices by Tolbert and Zucker (1996). This three-stage model is comprised of: pre-institutionalization, semi-institutionalization and full institutionalization. The difference between these stages is the degree of diffusion and acceptance; the full institutionalized stage entails the recognition of the practices and its legitimacy. In our model the culture also requires diffusion, acceptance and specially its legitimacy which permits and ensures the auto-conformity with our acts.

Some of these institutional pressures are present as knowledge and could be considered also as a resource (Peteraf, 1993). So this knowledge allows the subsidiary to learn about its host environment, which contributes to its process of legitimization. In this flow of resources the firm also transmits knowledge. In other words we can conceive the institutionalization model, as a model showing the flow of the resources, the knowledge. The host environment and the parent firm transmit the knowledge to the subsidiary that has to process it intra-organizationally to produce another resource, the organizational culture. Winter (2000) said that a capability renders the firm capable of producing some important output; in our perspective the output in this case is the organizational culture, in the measure that the subsidiary has the suitable physical, tangible and intangible elements, it could develop an organizational culture which will be profitable for the firm.

FIGURE 1 - Model of the institutionalization process of the organizational culture in a subsidiary of a multinational enterprise.
7. INFLUENCES AFFECTING THE ORGANIZATIONAL CULTURE OF THE SUBSIDIARY FIRM

7.1 Host Country Environment

Barlett and Goshal argue that the nature of the local environment has a decisive impact on the role that the subsidiary plays in the organization (as cited in Birkinshaw, Hood & Jonsson, 1998; p. 222). Establishing in another country obliges the multinational and its subsidiary to effect different operations in the host country such as hire and train a new work force, negotiate with suppliers, distributors, customers and government (Guillen, 2002). Meanwhile the multinational firm could be very competent in its home country, with its institutional advantages which almost disappear when it is in foreign countries.

According to Kostova (1999) the existing rules and laws in a particular national environment promote certain types of behavior and forbid others, she finds that the host country’s institutional environment has two roles in behavior: it acts to constrain and to promote certain types of behaviors. It can constrain for example the cooperation or the creative behavior by imposing too many rules and norms that can drive the firm towards bureaucratic paralysis. We can observe that in the case of Nissan as described by Kotter and Heskett (1992), the enterprise suffered of the paralysis created when its cultural model become bureaucratic and autocratic.

The second role is to promote certain types of behavior; certain firms can promote the competitive behavior. Nissan implanted certain norms and rules to reward the workers based on their yield, a change from the old system of rewards based on the number of years of experience with the firm. As we can see the firm can use the institutional environment to promote different types of behaviors according to its plans or necessities.

H1: Highly institutionalized host countries exert a high level of isomorphic pressures. The organizational culture results from a process of accommodation.

High institutionalized countries have a high level of isomorphic pressures because the field and the institutions are very homogeneous; they ensure that the new partner rapidly and effectively adapts to its new environment, and they can produce distortions or alterations in the dynamics of the host field and host country. The institutions, norms and rules of these countries are strong, so the firm does not have much freedom of action and this makes it adopt a passive role. The organizational culture of the subsidiary accepts the institutional pressures from the host culture.

The host country may provide incentives or sanctions for imposing certain organizational rules. This is the case of the ISO 9000 studied by Guler, Guillen and Macpherson (2002), in which case the state acted as a promoter because if it adopted the ISO 9000, it obliged all its suppliers to adopt it as well and in this way the whole sector was involved.

H2: Medium institutionalized host countries have a medium level of pressures toward institutionalization. The organizational culture of the subsidiary results from a process of negotiation.

H3: Low institutionalized host countries have low level of institutional pressures. The organizational culture of the subsidiary influences the culture of the host country and the host field.

Another way in which the host country affects the subsidiary is through the employees who are influenced by their cognitions and beliefs (Kostova, 2002). In spite of the training and learning process that normally accompanies a new employee, the cognitive frame and beliefs continue and influence the actions within the firm, which also affect the subsidiary.

The host country is the nearest source of tangible and intangible resources for the subsidiary which can implement a competitive advantage by developing a value-creating strategy not developed by others members from the host field (Barney, 1991). The subsidiary can use its capabilities and resources for generating rents (Dutta, Zbaracki, & Bergen, 2003), which can help to obtain its legitimization from the parent firm. The relationship of the firm with its market, either demanding or rejecting its products, lets the firm know what the market likes, so then it can begin to
adapt its products to the stable preferences of the customer. This is a very valuable resource, we can call intangible as it compiles knowledge about the customer.

7.2 Inter Organizational Environment

According to Baum and Oliver (1991), institutional links to the environment increases the possibility of survival of the organization. These links are the way that the firm looks for institutionalization within the field or the cluster. It is very important because it is the beginning of the socialization and permits the subsidiary to begin to learn about industrial practices, augmenting in this way its benefits. According to Scott (1995) there are two types of structures which envelop the firms: group of firms (clusters) and industry fields; these two structures provide the social channels which can lead to imitation and isomorphism.

The first type, the clusters, is a group of firms which are linked to each other by control, exchange or ownership reasons. Obtaining the membership of the clusters’ group provides the subsidiary with the experience of its partners and facilitates the recognition and quest of opportunities (Guillen, 2002).

The second type, organizational field, is a conglomerate of organizations which constitutes a recognized part of institutional life (DiMaggio & Powell, 1983). This type of social structure may affect the level of communication between organizations, thus promoting the imitative behavior (Guillen, 2002).

The first time, the relationship with the field may be difficult, because all are competing for the same resource. Wernerfelt (1986) propose that the firm who holds a resource affects the costs or revenues of the new entrants, creating a type of entry barrier. But the subsidiary normally has an additional resource that can compensate for the resource barriers, and this is its technical knowledge, this will permit the subsidiary to affront the extra costs necessary for passing through the entry barriers.

If the market demand is stable, the firm can continue to build its own network and try to secure its sources of external resources. Its relationship with the environmental field is very important because, it allows the firm to supervise the behavior in the field, helps it to avoid inconveniences and further, it is described.

7.3 Parent Firm

The influence of the parent firm can be important depending on two factors: the culture of the parent firm and the economic importance the subsidiary has for the parent firm. In the first case the culture of the parent firm is the first trace of culture inside the organization, one method normally used by the parent firm is to place expatriate managers in the subsidiaries to help form the organizational culture of the new subsidiary, making the transfer of knowledge easier while exerting cultural control through shared values and norms (Ouchi, 1979).

An other method is the constancy of communications between the parent firm and the subsidiary, feeding it with messages and communications highlighting its organizational culture. Rugman and Verbeke (2001) state that the firm builds the trust based on consistent, coherent and predictable decision making which transmits data and facts which can be clearly codified and understood by the whole organization. But all of this depends on the organizational culture of the parent firm, as if the parent’s culture does not stimulate trust, initiative and the transfer of knowledge, the subsidiary’s role will be limited to that of receptor of orders. This effectively condemns the new subsidiary to be a simple satellite devoid of initiative, and this behavior of the parent firm will also affect the trust of its subsidiary which could become a distrusting institution.

H4: The level of institutional pressures exerted by the parent firm depends on the economic importance of the subsidiary, the level of institutional pressure emanating from the host country and its own level of institutionalization.

An other factor of importance is the contribution of the subsidiary to the network of the multinational firm. The parent firm could promote or inhibit the development of the contributory activity of the subsidiary (Birkinshaw et al., 1998a) depending on its importance to the corporation. Certain factors of this context are mentioned by Birkinshaw et al. (1998a), they are: social control, control of the resource, formalization of the activities and level of
autonomy. This could condition the behavior of the parent firm toward the subsidiary. If the contribution of the subsidiary is important to the parent firm, be it strategically or economically, the parent firm will tend to increase the level of control toward the subsidiary. In this situation, the subsidiary will have more rules, norms and reports imposed by the parent firm, all of which increase the institutional pressure. From the resource-based perspective, if the subsidiary has specialized resources recognized by the whole multinational firm (Birkinshaw & Jonsson, 1998b), this factor augments its importance within the network.

According to the classification of resources by Miller and Shamsie (1996), there are two kinds of resources which are interchanged between the subsidiary and its parent firm. The first is knowledge-based, normally the technical knowledge of the subsidiary of a multinational firm goes beyond the level of the local market which can differentiate the subsidiary from the other participants. The second is the property-based resources, the continuous flow of resources between the subsidiary and the parent firm depends on the economic significance of the subsidiary by the parent firm.

8. COGNITION, SOCIALIZATION AND COLLECTIVE LEARNING

Cognition is the first step; when the host culture is in contact with the subsidiary, there is a cognitive process which allows for socialization and posterior learning. Authors like Zilber (2002) stressed the importance of cognition in institutionalization. We found many concepts of cognition in our research, like: theorization and internalization, which precede the diffusion within the organization of new ideas.

Fiol and Lyles (1985) propose that there are four factors which affect the probability of learning: culture, strategy, structure and environment. The same author states that there are two levels of organizational learning: the low level, based on routine and repetition and the high level, which consists in adjusting overall rules and norms. The latter is a more cognitive process than the lower level which is basically repetitive behaviour.

A subsidiary needs to apply a high level of organizational learning, in order to adjust gradually its rules and norms to the new institutional environment. One of the important factors for attaining this high level of organizational learning is social interaction, which is fundamental for transmission and change of culture. Socialization methods are the modeling of imitation, instruction, correction, negotiation, story-telling, gossip, remediation, confrontation and observation; all these activities are based on communication skills (Schall, 1983).

Translating this socialization to the intra-organizational level derives from an increase in commitment by the employee and helps to establish the corporate culture (Rugman & Verbeke, 2001). Meyer and Rowan argues that formal training and professionalism create an institutional environment through shared social rules (as cited in Guler et al., 2002, p. 211). DiMaggio and Powell (1983) state that another way of socialization is the imitation between members of social systems which could be due to competitive motives.

But the field is also disturbed by the presence of this new member in the socially-constructed-field level, which with its new ideas constitute possibilities of change (Greenwood et al., 2002). At the firm level, learning from another firm about the best practices in employment, produces competitive imitation pressures (Guler et al., 2002).

The knowledge-resources which the subsidiary is getting from the host country and the field, are very important because they are the base of its future capability in the field. It already has the technological capability which distinguishes it from the other competitors; its administrative capability improves with the help of its parent firm and its employees.

However, there is one capability that the firm must acquire quickly, that of cultural capability, its capacity to deal with and understand the culture of the host country and that of the host field. This is a resource that the subsidiary cannot expect to receive from its parent firm, it has to build its own capability, its own resource. This is the natural barrier of entry to this market: if the subsidiary acquires the resource, it will penetrate the market, but otherwise it will loose legitimacy which will affect the parent firm, and it will have to return home.
9. CULTURAL CHANGE

The subsidiary suffers the cultural influence of the host environment and at the same time of the parent firm (Kostova & Roth, 2002). The reaction of the organization to these influences is adaptation and support of the dominant values which is part of a tendency towards the consistency of cultural elements (Sutton, 1974).

Finally all of this sequence of interaction, socialization, internalization and change becomes in itself a new culture, sharing elements from one or the other. This is called hybrid culture which consists of “an emergent and simplified set of rules and actions, work capability expectations, and member perceptions that individuals within a team develop, share and enact after mutual interactions” (Earley & Mosakowski, 2000, p. 27). In the measure that this hybrid culture gains legitimacy, it will become institutionalized. New ideas become legitimized by a process of mimicry (Grenwood et al., 2002), which according to Scoot (1995) is produced when the ideas are adopted by other people and are supposed to provide profits. So the new culture will become institutionalized when it is adopted by the members of the organization and is profitable for the parent and for the subsidiary firm.

Finally, the subsidiary becomes the place of interaction for all these factors that influence the firm. In this case the resource key is the organizational learning, which means that get better understanding and knowledge help the firm to improve its actions and results (Fiol & Lyles, 1985). But it is not only a question of learning; the new knowledge has to be analyzed, the firm gives to this knowledge its own meaning, which is naturally compatible with its own frame of reference, and in this way produces a new resource, a hybrid culture, which is useful when communicating with the host environment and with their own employees.

10. CONCLUSIONS

There are enterprises that independently where they operate, their organizational culture remains almost unchanged; the possibilities of drastic change are very low, and their dependence on the managers is reduced to a minimum. This type of enterprise has an institutional culture, and its institutionalization process is very complex with many interactions, successes, errors, etc. The norms and rules that characterize the institutional practices are in the cognitive level of the organization.

One of the most important intangible resources is the organizational culture. This organizational culture has to interact with the host environment and depending on its characteristics, the firm may reap benefits. An adequate organizational culture could drive the firm to be accepted into the host environment, which would have positive repercussions at the level of its markets, the acceptation of its products, in the field and in the creation of networks which assures the positive flow of field information and resources. At the internal level, the policy is that the employees from the host county see the firm as being part of their country, which legitimizes the firm into their new environment. This can lead to the legitimacy for the parent firm, if the resultant goods are transformed into acceptable economic results.

The level of institutionalization emanating from the host country is important from both the institutional theory and the resource-based theory. In considering the institutional theory, the most institutionalized of all organizations is the country, with the most rules, norms, and laws which contribute to augment the isomorphic pressures. The reaction of the subsidiary is defensive; it has to adapt itself to this constringent environment. On the other hand, more rules, norms and laws also means a constant flow of information (Guler et al., 2002) and security of resources, which is good for the firm. But first it must penetrate the field; in this case the barrier is the organizational culture which is more cohesive than that of another less institutionalized country. Should the subsidiary manage to connect its own organizational culture to that of the host country, it will have penetrated the field.
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