Cultural Adaptation of an Indian Multinational in its Developed Country Subsidiaries: A Case Study

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Abstract
In this article, we present a pilot case study to understand the cultural adaptations and knowledge management of an emerging country multinational (ECM) in its developed country subsidiary. Most studies have concentrated on the experiences of multinationals from developed countries and a serious lack of empirical studies on the experiences of ECMs motivated us to choose this subject for research. Multinationals from developed countries are mostly known for their strengths, reputation, knowledge, technology, superior managerial skills. Further, they are known for other advantages that they benefit from on going to an emerging country. However, there is still a lack of empirical research from the point of view of ECMs. We are focused on developing a better understanding regarding the cultural adaptations and knowledge management of Indian multinationals in their developed North American subsidiaries. This will help in the advancement of the literature and benefit practitioners through an empirical investigation by way of an actual case study. Among other results, we also find Indian multinational’s attempts at attaining global sustainable development.

Keywords: Indian Multinationals, Subsidiaries, Adaptation, Developed Country

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Introduction
Spread of globalization in relation to the flow of multinationals may be divided into three broad phases. The interaction between firms started largely with relations between developed countries. Later the flow was acknowledged between developed and developing countries, with the developed country multinationals going towards developing countries. More recently, we are experiencing the flow of multinationals from developing countries to other developing and developed countries, as may be seen in Figure 1 (Nigam Roli and Su Zhan, 2010a). The last phase of multinationals flow is a topical reality, and our area of research.
The paper presents the literature review to understand the significance of the subject. This section also throws light on lack of empirical studies in the field of ECMs and justifies purpose of research. This is followed by an elaborate explanation of our research interest and choice of country. We finally propose our research framework which also identifies that management practices like power delegation, compensation, promotion and rewards, performance appraisal and training, development and career planning that will be used as a process by us to explore the cultural adaptations and knowledge management of Indian multinationals in their North American subsidiaries. Finally, the qualitative methodology, using case studies is justified for this particular research. This is followed by pilot case study and its analysis. We conclude the study with our contributions and further avenues for research.

**Literature Review**

Economies like China and India each are expected to have a GDP greater than the United States by 2050 and their multinationals are gradually increasing in importance (Luo and Tung, 2007). They also have rich cultural and institutional environment that is effecting businesses worldwide (Bruton and Lau, 2008; Wilson and Purushothaman, 2003). The list of UNCTAD’s (2004) top 100 includes several multinationals from emerging countries. This shows ECMs are no longer just some unsophisticated, lagging firms but, are part of the global competition. The World Bank report further confirmed their successful performance by reporting that an increasing rate of investment flow into the emerging countries was actually coming from other developing countries (Salehizadeh, 2007). An independent survey conducted by a firm named Dealogic, confirmed that these multinationals were increasingly improving their performance. For example, the FDI outflows of the Indian firms for the year 2005 were double that of 2004. Even more important were the results of 2006 which were the double of the year 2005 figures for just the first nine months. Multinationals from these countries had spent $42 billion, which was almost two times that of the year 2004 for strategic objectives like mergers and acquisitions in developed markets (Salehizadeh, 2007). The Economist (2008, Sept. 18) observed that business is no longer about a developed country firm going to a developing country for cost advantages; but more about companies competing in the same market with everyone who may be from anywhere, and for any kind of product in any line of business. The ECMs have been slowly but surely climbing up the success ladder (Nigam and Su, 2010). According to London and Hart (2004) more than 70% of the world population is living in countries which are not developed and yet most of the research had been done from the perspective of the developed countries.

Present research is mostly concentrated on the experiences of developed country multinationals (Farley et al, 2004; Gamble, 2003; Ferner and Varul, 1999). Little research that is available from the point of view of ECMs has been done on selected subjects like the increasing importance of multinationals from developing countries (Nigam and Su, 2010; Aykut and Goldstein, 2007), on their choice of entry modes (Cui and Jiang, 2008),
the various strategies used by them (Bonaglia et al, 2007; Buckley et al, 2007),
differences in internationalization of developing country and developed country MNEs
(Dunning, 2000; Mathews, 2006), acquisition strategies for emerging economies (Meyer,
2006), internationalization paths of ECMs (Chitoor and Ray, 2007). However, we found
that most studies are lacking in empirical evidence. Also past research is rapidly
becoming outdated with the ever increasing dynamics of globalization. Further
empirical research is the current requirement to understand the actual implementation,
cultural adaptation (Bjorkman and Lervik, 2007) and knowledge management of ECMs in
developed countries.

Research Interest
Our interest lies in the internationalization of Indian multinationals, their successful
cultural adaptation and knowledge management in developed North America. The rise
of Asian multinationals is a more recent phenomena which has attracted less research
(Sim and Pandian, 2003; Sim, 2006; Aulakh, 2007) and even more so in case of Indian
multinationals. Sim and Pandian (2003) emphasize that the little existing research has
not been able to provide complete explanations for the ECMs and that among other
things the western theories have also not considered the participation of government,
socio cultural and institutional perspective. Our choice of India was based on several
strategic reasons. India is among the fastest growing economies globally (Jha, 2006)
thanks to opening up of the economy (Engardio, 2007), increase in foreign exchange,
bilateral trade and other positive factors (Pradhan, 2007), all together making it an
important player in the global economy. Further, its FDI outflows are higher than
inflows, indicating its strong economic development (Sckerr, 2008). Despite the
increasing importance, there has been little academic research from the point of view of
Indian multinationals (Bruton and Lau, 2008).

The literature regarding the managerial values discusses a range of differences between
Indian and Western management styles (Fisher, 2000). Managers should not
automatically assume that the best practices of their countries would automatically
prove to be the best practices in another culture. Besides, the practices and policies of
the Indian management may not necessarily have same effect or hold similar values in
the scenario of western management (Fischer et al, 2004) and vice versa, eg. money is
considered as less important in India. The management culture of enterprises is
normally based on the socio-cultural environment of the country and the internal
environment of the organization (Aycan et al, 2000). The Indian management system is
based upon centuries of rules and regulations from various dominating empires,
different religions, a very influential caste system, the British raj who ruled India for
about 200 years and more recently the globalization of the world economies and its
managers and multinationals believe in the universality of management practices and
accordingly they would like to transfer their best practices to their foreign subsidiaries.
However, this direct transfer of practices and knowledge does not always work. With
the internationalization of Indian multinationals it would be interesting to study if and how these multinationals transfer their organizational culture or management practices or knowledge (Miroshnik, 2002) in a developed country.

**Research Question and Framework**

Certain HR practices have an influence on the degree of standardization and/or localization of Indian multinationals on going abroad and are directly related to performance. The standardization/localization influences firms management strategy, i.e. which style of management is used by Indian multinationals in their developed country subsidiary. Should the Indian multinational implement globally standardized or locally adapted practices is the big question. The adaptation process is a decision of strategic importance, and has attracted attention of a number of researchers. However, it has been pointed out time and again that this subject in is far from mature research (Goldstein, 2005; Aulakh, 2007). Although several researches have tried to study the degree of global standardization v/s local adaptation using different measures like the HRM practices (Rosenzweig and Nohria, 1994; Bjorkman and Lervik, 2007) or the involvement of the expatriates (Hannon et al, 1995; Petison and Johri, 2008); most studies have not really linked this degree of adaptation with the performance of the multinationals (Newman and Nollen, 1996).

Several arguments may be provided for and against adaptation but what is important is if that adaptation is helping the firm to attain successful performance or not (Björkman and Budhwar, 2007). Some authors (Wang et al, 2008; Redding and Baldwin, 1991) have raised questions about human resource practices and authority (which may be considered as cultural) for multinationals coming from emerging countries and going to western developed countries from cross cultural perspective. The literature has not talked much about the cultural/institutional practices from the point of view of Indian multinationals operating in developed countries. Not much is known about the extent to which the organizational practices and cultural adaptations are found in foreign subsidiaries (Bjorkman and Lervik, 2007). This presents to us a huge gap in the literature. Research demands more studies (empirical, practical or conceptual) that will help in building theory on the subject (Ozsomer et al., 1991). The internationalization of the Indian multinationals provide scope, size and opportunities to expand, exploit advantages and grow on one hand while on the other hand it also provides various challenges to the firms, that of working in a culturally different environment. For advancing the study, we propose the following conceptual framework in figure 2.

**Operationalization of Research Design**

**Choice of Multinationals**: Selecting cases is important as the well chosen cases can enhance our understanding and learning on the subject (Stake, 1995). We decided to study Indian multinationals in manufacturing sector since this industry is very important for India’s economy e.g. automobile industry, pharmaceuticals sector. It has been pointed out by Economy Watch (2007) that although the Indian services sector is
responsible for a faster economic success, it is still the manufacturing sector that is responsible for bringing and maintaining sustainability. It is also worth remarking that manufacturing companies present bigger cultural challenges. Care was taken to select multinationals which had been incorporated before 1991, the Indian liberalization year. We are very specific about the firm which was born and developed in India and had enough time to develop the Indian organizational culture in every aspect before internationalizing. As pointed out above, we will also keep in mind to go only for units which are wholly owned foreign subsidiaries of the Indian multinationals. This would allow the Indian multinationals the complete power or control to apply strategies as they prefer or see fit for their subsidiaries.

**Methodology Designed:** Recently, the Academy of Management Journal (AMJ), which is among one of the most reputed journal’s promoted qualitative methods for benefitting from rich data (Eisenhardt and Graebner, 2007). They further elaborate that these help to add richness and that even single case can have credible influence. Mahoney and Goertz (2006) argue that qualitative research explains the outcomes in individual cases. For our research, qualitative methodology would be desired since we want to explore the cultural adaptation of the Indian multinationals in Canada or USA. The methodology will help us to explore the case in detail and will eventually aid in building theory on the subject. The case study approach is said to be relevant when answering questions like how and why, where the research field is still not developed and structured and when the experiences of the actors involved is highly relevant to the context (Yin, 2003).

**Pilot Case Study**

**Case of an Indian Pharmaceutical Multinational:** We chose an Indian multinational, which is an integrated pharmaceutical and life sciences company. It is the largest Custom Research and Manufacturing Services (CRAMS) player, and a leading Drug Discovery and Development Solution (DDDS) provider out of India. The multinational was originally incorporated in 1978 and had its first international experience in 1998, when it formed a marketing subsidiary in USA. Later it acquired a company in Europe in the year 2004, which is now a sevice oriented company, and manufacturing companies in USA in 2005. The Indian multinational’s objective was to enter the global pharmaceutical sector and spread its hold in all forms of pharmaceutical market. The intention was to cradle to grave, i.e. they wanted their presence in the entire value chain of pharmaceutical industry from raw materials, to intermediates, to manufacturing of final pharmaceutical products, to marketing of those products, to the allied services like regulatory services and the clinical services.

The objective of using the strategy of acquisition for the Indian multinational was to gain a faster entry in the regulated USA market. Had the multinational set up its own subsidiary, then it would have taken a long time to get the FDA approval. It was a more strategic decision to acquire a small company and make it grow. This is how they gained an FDA approved
manufacturing unit in the North American market. Ever since the company’s operations and foothold in the global market has been increasing manyfold. For the financial year 2010, the company’s revenue was USD 813 Million.

The Company’s success so far is an outcome of its strategic focus on the pharmaceutical and life sciences industry, moving up the value chain for products and services across geographies, constantly investing in various growth platforms and promoting a culture of innovation. The multinational provides Life Sciences products and services across the value chain, serving its customers globally with its ground presence in India with world class manufacturing facilities in North America, Europe and China. In USA, the Indian multinational has 2 offices. One is the Sales and Marketing office where 7 employees are appointed. The other is the Manufacturing unit which consists of about 170 employees. There were already 20 employees of Indian origin on H1b visa at the time when the subsidiary was acquired. Some more joined after the acquisition and about 6 were sent from the headoffice in India, bringing the total count of Indians to 30 or 14% in the subsidiary. However, the number of expatriates sent especially from the headoffice to the subsidiary remains small with approximately 3%.

Power delegation: The headoffice enjoys the final decision making power over its developed country subsidiary. The basic strategy comes from the headoffice but the subsidiary is given a relatively free hand for taking its own decision within the framework of the overall strategy. In case the subsidiary has to go out of the framework, then they are required to discuss with the headoffice. Other than that the subsidiary is authorized to take its own day to day decisions. Decisions in the subsidiary related to the number of people, promotion, hiring and firing of employees, evaluating work performance, salary levels, etc are taken solely by the subsidiary itself. Nevertheless, regular meetings take place between the subsidiary and the headoffice. Communication is good and things are discussed.

Hierarchy has more importance in the headoffice in comparison to the subsidiary. The same is highly evident by the fact that there are five levels in the subsidiary as compared to 13 levels in the headoffice. Therefore, the distance between the employee and his manager in the subsidiary is not much. There is a difference in the way employees are treated. For example, in India boss always has the upper hand and their relation is more formal. On the other hand, in the subsidiary it is in terms of employees. If the boss passes by then the employees do not have to acknowledge. It was difficult for the Indian promoters and management to understand this behavior and vice-versa. Also titles and status’s have less importance in the subsidiary than in the headoffice. Consequently, employees are encouraged to make decisions without interference from their managers but only within the framework of their day to day roles.

Compensation, promotion and rewards: Although the basic pay is higher in the subsidiary according to the law in each country, the subsidiary is a little less motivational
in terms of the concept of profit sharing, bonus, share options, incentive for good performance, rewards for achievement of group objectives, and other benefits given to employees. At both, the headoffice and subsidiary, pay is merit based with little importance given to seniority or favoritism. Although relationships are important in India, they do not play a role in employees getting promotion or new employees getting selected in the company. Even if someone is recommended, they are required to go through the whole selection process and finally the best candidate is chosen.

**Performance appraisal:** The performance appraisal programs are again considered to be important both at the headoffice and the subsidiary and employees at all levels participate in it. They are done annually and are based on criteria’s such as quality of work, relationship with others, attitude, etc. Mostly formal methods are used in the subsidiary while both formal and informal methods are used in the headoffice. Employees are given feedback in formal face to face meetings at the subsidiary while at the headoffice it is both formal and informal meetings. Again, at both the places performance appraisal was aimed at having an impact at employees improved performance and employee’s own opinion was also taken into consideration.

**Training, development and career planning:** The importance given to training and development is extremely high at both the headoffice and subsidiary since the company is in the pharmaceutical industry, a market based on research and development. Therefore, specific training programmes related to the field of business are designed and information or training on the latest technology is considered very crucial. Regular trainings to both new and old employees are a necessity and are given at both the subsidiary and headoffice. Trainings are given both in the campus and outside.

Although training and development are considered extremely high in importance, there are no specifically related rewards or promotions. It is mandatory, required, specified and regular training programs which all employees must go through for maintaining themselves in the industry / company. The main budget for the training programs is finalized in discussions with the headoffice but it is allocated according to the requirements and planning of the subsidiary.

**Foreign subsidiary performance:** The performance of the subsidiary is in line with the objectives of the headoffice. However, till now the expected results have not been reached. There has been lot of tangible growth and the required infrastructure has been set up. Also, a lot of intangible growth has taken place in terms of customer accounts, volume growth, etc. It is expected that the subsidiary will prove to be profitable in the coming few years. The company has invested a lot in R&D, effectively in first few (five) years there was no profit and the subsidiary was always in rent. However, in the financial year ending 31st March 2010, there was meager profit. The subsidiary is expected to make profits in coming few years.
Overall, the Indian multinational is committed to leverage innovation and scale of operations at every step of the pharmaceutical value chain to deliver value to their stakeholders globally. It boasts of a creditable talent value chain, which is a blend of PhDs, MDs and Masters, across various disciplines, and brings a wide range of experience from global pharmaceutical companies, biotech and academia. The company is slowly but surely moving towards its vision to acquire and maintain global leadership position in its field of business, to continuously create new opportunities of business for growth, to be among the top 10 most admired companies to work for and to continuously achieve a return on invested capital of at least 10 points higher than the cost of capital.

**Discussion and Analysis**

It was observed from the pilot case study that acquiring a subsidiary in the developed country was a strategic choice of the Indian multinational to gain not only a faster entry into the US market but also to automatically and immediately receive the FDA approval and get a strong foothold in the global market. In order to ensure the strong foothold in the global market, the company also had the vision to enter into all fields of the value chain and thus building capabilities for itself. The multinational understands that it needs to acquire developed country brands to sustain its long term global growth. This is considered as a strategic decision because a brand is a valuable asset, requiring time, resources and effort to develop and at the same time difficult to imitate (Rossiter and Percy, 1997). It thus gives the Indian multinational sustainable competitive advantage (Capron and Hulland, 1999; Song, Droge, Hanvanich and Calantone, 2005).

Further, in studying the management practices, we realized that power delegation was important for the Indian multinational and hence, the decision making powers at higher levels were retained by the headoffice. However, the everyday responsibilities were delegated out to the subsidiary. It was noticed that the Indian multinational sent expatriates in its developed country subsidiary for the top management positions to maintain their control and at the same time to have knowledge about the everyday happenings in the subsidiary. Communication with and reporting to the headoffice by the expatriates is frequent and regular.

According to Chatterjee (2007) and Kumar and Sankaran (2007), respect, loyalty, affection and bonding are very important social aspects of the Indian management culture, especially in a hierarchical setting. Accordingly, the behavior of managers in a normal Indian firm may be described as a combination of collectivism on the outside and individualism on the inside. The same was also confirmed by our study with great respect given to managers by their junior subordinates. The employees were willing to make changes in their schedules and rearrange things according to the convenience of their managers. This implies that power is considered important in the Indian culture and hierarchy has a much stronger hold in comparison to the developed western management (Hofstede, 1980). Consequently, getting more power may be considered as a big motivational factor for Indians. Another analysis that may be drawn is related to
Aycan et al (2000) discovered that the management practices at the Indian firms did not promote job enrichment, neither did they encouraged reward management. Ramamoorthy et al (2005) further observed (citing Berman et al, 1985) that regarding the distribution of rewards, the Indian organizations seemed to follow the equality philosophy in contrast to the equity philosophy practiced in individualist countries like North America. These ideas are supported by our study as well since we did not observe any special benefits designed for the employees and this was followed even less in the subsidiary. The compensation and reward systems were more designed in accordance with the legal requirements on the subsidiary rather than by the headoffice.

Stone et al (2007) noticed that “formal, objective and individual appraisal” methods are more popular in individualist cultures like North America, which encourage goal achievement. On the other hand in collectivist cultures like India, “use of informal, subjective appraisal” is more popular. However, we found that the Indian multinational in its headquarters was comfortable using not only the informal appraisal methods but also formal. This could be a result of globalization’s effect on the Indian management.

Training programs were important for both the headoffice and the subsidiary; however that could be attributed to the pharmaceutical industry where research and development along with regular training programs are the very essentials of survival. Aycan (2005) argues that in collectivist cultures (eg. India), training and development (T&D) is also aimed towards increasing loyalty towards the organization. Whereas in performance oriented developed countries, it is directed towards the employee’s or team’s performance. However, this could not be supported by our study since high importance was given to T&D at both the headoffice as well as the subsidiary.

There is a standard defined career path for the employees in general while specific planning is limited in Indian organizations. VRSs are also common in public sectors (Chatterjee, 2007). Overall, the career planning and management practices are seen as “less dynamic, rationalized and structures” in India on comparison with UK, which is a developed country (Baruch and Budhwar, 2006). We can say that this idea was somewhat supported by our study since receiving training or attending training programs were not directly linked with development of careers at either the headoffice or the subsidiary.

the flexibility. The Indian management culture may be said to be more flexible in terms of everyday management and operation. In comparison, the subsidiaries were found to be more formalized in their working style. The flexibility may be seen as an advantage for enhancing sustainability and durability as firms venturing outside their domestic boarders can make use of it to benefit from more strategic options (Luo and Rui, 2001).
Challenges, degree of adaptation and knowledge management

During the interview, it was acknowledged that integration is always a challenging thing. This is especially so since it is not just work related integrating but involves social integration as well. Significant difference in the institutional framework, work cultures and human behavior in different economies leads to difficulties in integration between the two cultures. For example, the boss subordinate relation is very informal in the subsidiary in contrast to the headoffice in India, where it is very formal. In India everybody tries to do all kinds of work. They try to have knowledge about everything. Long hours of work are not seen as much of a problem and are generally acceptable. On the contrary, in the subsidiary it is not the same. Here employees like to be more specific in regard to their work. They do not interfere into everything, but try to finish their job and return home. Employees differentiate between work and personal time. They like to spend time with family, and take time off to go for vacation.

These kinds of cultural differences create misunderstandings, if not problems. That is one of the important reasons why some expatriates from the headoffice have been placed in the foreign subsidiary by the parent company, to try to resolve misunderstandings created due to cultural differences. They try to understand from India and explain things to the employees in the subsidiary. They play the role of a buffer in the whole system, in their effort to minimise / dissolve the pressure coming out of the differences between the two cultures. A very simple and ordinary work culture example may be used to highlight the above said. In India, if the superior wants to have an urgent meeting out of schedule then he will expect the subordinates to be there almost immediately for the meeting. There is not much planning done as to when it is scheduled and how it will take place, most of the time. However, in the USA subsidiary it is not so. If the superior says it is urgent, the employees will not see it as urgent requiring immediate attention. If he says 2-3 times then they will respond but still say that this needs to be properly scheduled and planned. They might want to discuss it over the call and to plan properly. The meeting needs to be properly scheduled, and schedules are respected. This kind of behavior will not be seen in the Indian headoffice. These kind of cultural differences lead to frustrations and misunderstandings. Some of the expatriates sent from the Indian headoffice accordingly become buffers at a senior level and try to minimise these frustrations or leverations in understanding through communication.

Communication is also important between subsidiaries. The multinational has three subsidiaries in the developed North America, which are following local practices presently. Hence, an effort is being made to integrate the practices in the subsidiaries, especially in the USA subsidiaries at least. Accordingly, the aim is to have common practices throughout USA. It is not possible or even advisable to follow standardized practices since the culture is different and even the institutional environment is different. Further, the practices are much more organised and thoughtful in USA in comparison to India.
Based on the case study and the above discussions, we can conclude that the subsidiary is more localized in terms of presence of number of employees at the management level. Secondly, we say that the multinational’s strategy is more inclined towards adaptation because the multinational is more interested in reaping the benefits of developed country subsidiaries instead of attempting to change the existing policies and practices. Although the multinational has given the developed country subsidiaries a relatively free hand, it nonetheless has kept the final strings and control in its own hands, which is very much evident by its control over the final financial budgets, strategies and defined frameworks for the subsidiary. Thirdly, we observe that the multinational is not trying to change the management culture in the subsidiaries but instead aiming at developing a better understanding between the headoffice and the subsidiaries. In the process it is also trying to learn from its international experience. The multinational has the objective of both control and learning, which leads towards global competitiveness (Bartlett and Ghoshal, 1989) and with the development of overall understanding leads towards sustainable development (Takeda and Helms, 2010).

We can conclude with the contributions that the study has made to the literature and the practitioners. Our empirical exploration will help in the advancement of the literature by contributing to the limited pool of studies in the field of ECMs. As for the practitioners, they can learn from the experiences of this multinational and develop an understanding for their future planning. Further research is encouraged on the subject to fill in the research gaps. We would really benefit with multiple case studies on the same topic and research questions for making this research more vigorous and validating it with pattern matching.

References


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**Figure 1: Phases of Multinational's Flow**

![Phases of Multinational's Flow](image1)

Source: Nigam, Roli and Su, Zhan (2010 a)

**Figure 2: The Conceptual Framework**

![The Conceptual Framework](image2)

Foreign Subsidiary Performance

Foreign Subsidiary Performance

Indian Management Culture

HR Cultural Management Strategy:
Acculturation Integration Laissez Faire

Local Culture

Power Delegation

Compensation Promotion and Rewards

Performance Appraisal

Training Development and Career Planning
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