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Adapting a Lean Production Program to National Institutions in Latin America: Danone in Argentina and Brazil

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ABSTRACT

This article argues that national institutions identified in the varieties of capitalism approach have a significant impact on the degree of fidelity and extensiveness of best practices adapted by geocentric multinational corporations in host countries in emerging markets. To illustrate this argument it shows how differences in national institutions between Brazil and Argentina caused Danone to adapt a lean production in radically different ways in each of these countries. Both of the programs implemented had low degrees of fidelity and extensiveness to the original best practice. This article contends that in Argentina strong labor laws and the ability of unions to negotiate significant salary increases combined with a desire of workers to have individual pride in their jobs caused Danone to empower them individually instead of creating teams as foreseen in this company's original lean production program. In Brazil the weakness of unions combined with labor laws that promote employee turnover and the desire of workers to improve their salaries caused this company neither to empower workers nor create teams. Instead, it motivated workers by providing them the previously unavailable opportunity to become a manager.

1. Introduction

Multinational corporations (MNCs) derive advantages over their domestic rivals in foreign countries from their ability to leverage knowledge across international borders (Scott-Kennel and Giroud, 2015; Tregaskis et al., 2010). The transferal of best practices to host countries is one way these companies seek to take advantage of this knowledge. Nevertheless, these practices often lose their effectiveness when they are altered to fit institutions in other countries (Ansari et al., 2010). Although particular attention has been paid to how best practices are altered to "fit" specific organizational contexts, greater attention needs to be given to how organizations adapt them to the particularities of national contexts (Ansari et al., 2010; Ansari et al., 2014). Articles that do address this topic focus almost exclusively on the transferal of best practices between subsidiaries of companies in the developed world (Horwitz, 2017; Sayim, 2011). The lack of attention to this topic in emerging markets is surprising given that best practices adapted by MNCs in these countries often fail (Khanna, 2014; Khanna et al., 2005). Although a plethora of scholars have focused on describing the apparent institutional weakness of institutions in emerging markets (Khanna and Palepu, 1997, 2010; Khanna et al., 2005; Schneider, 2013; Vassolo et al., 2011; Wilkinson et al., 2008), work still needs to be undertaken to demonstrate how specific national institutions shape the adaptation of best practices in these countries and how differences in institutions can cause firms to adapt these practices in different ways.

We address these gaps by examining how important institutional differences between Brazil and Argentina, two neighboring

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countries in Latin America generally believed to have relatively similar institutions, caused Danone to adapt a lean production program in radically different ways in each of these countries. Drawing on the varieties of capitalism approach (VoCA) we focus on how differences in industrial and employee relations caused the lean production programs adapted in each of these countries to have low degrees of fidelity and extensiveness to the original lean production program even while they differed radically from one another. We examine two aspects of employee relations, namely labor laws and sources of motivation. This article also demonstrates how regulatory, normative and cognitive institutions, the three types of institutions identified by Scott (1995), interact to shape firm behavior. These institutions are represented by labor laws, union power and sources of motivation respectively. We contend that strong unions combined with employee relations characterized by a desire of workers to take individual pride in their work in Argentina caused this firm to empower individual workers. The original lean production program designed by this company in France empowered teams, not individuals. Despite the fact that labor laws increase substantively the cost of terminating workers in Argentina, the power of the unions to prevent terminations caused these laws to have no real impact on the adaptation of this best practice in this country. In Brazil we argue that a weak union, labor laws promoting employee turnover and employee relations characterized by a desire of individuals to receive promotions that led to higher salaries caused this division of Danone to maintain its original organizational structure and forgo the creation of teams and worker empowerment. Nevertheless, it gave workers the previously unavailable opportunity of being promoted to managerial positions.

This article argues that the VoCA is the appropriate theory for conducting this type of comparative study because it identifies a critical set of variables that can be examined in a fine-grain manner. Only by examining institutions in this manner, we argue, can scholars effectively demonstrate the impact of institutions on the transferal of best practices. We also believe that our study demonstrates that best practices transferred from the developed world to emerging markets do not have to have high degrees of fidelity and extensiveness to be effective. We also assert that the ability of an MNC to adapt best practices is related to its management style.

2. The adaptation of best practices

The ability of an MNC to effectively transfer a best practice to another country depends on the nature of the practice itself. Some of them are "stickier", so harder to transfer, than others because they rely more heavily on a certain set of institutions (Jensen and Szulanski, 2004; Szulanski, 1996). However, best practices can be designed to be less sticky and more adaptable to different contexts (Ansari et al., 2014; Ferner et al., 2012). They can also be reconfigured to incorporate new meanings from a new setting (Ansari et al., 2010). Best practices should to be general enough to be able to be transferred to radically different institutional contexts, while at the same time specific enough to preserve the core idea. When adapting best practices MNCs have to ensure that the overall meaning of the practice is not dramatically changed in order to guarantee that its potential benefits can be realized. If the original idea is not transferred intact, a best practice can lose its significance. Although the concept of stickiness helps scholars understand why best practices sometimes have to be adapted, work on this topic has yet to demonstrate how a specific set of national institutions shape the stickiness of best practices and how they are adapted.

Best practices implemented in foreign subsidiaries differ from original ones in terms of their degrees of fidelity and extensiveness. The former term describes the extent to which it "resembles or deviates *in kind* from the features of the previous version" (Ansari et al., 2014: 1316), while the term extensiveness "assesses the *degree* of implementation" (Ansari et al., 2014: 1316). If the manner in which managers at a subsidiary interpret a best practice differs from the way it is interpreted at a company's headquarters, we should expect that it would have a low degree of fidelity to the original idea. For example, Friel (2003) points out that the manner in a lean production program was interpreted by managers at a U.S. subsidiary of a German company caused it to emphasize the flow of work and six sigma instead of the empowerment of workers to solve and diagnose problems with minimal managerial help as it was originally intended. An example of extensiveness is when German firms implemented only those parts of the Japanese form of work organization that fit with this country's industrial relations system (Jürgens, 2003). Until now the literature has focused only on the potential operational downsides of low degrees of fidelity and extensiveness. However, best practice can improve the operations of firms even if they differ radically from the original idea. The better suited a best practice is to a particular context, the more it can improve the operation of a subsidiary *in that context*. Indeed, the effectiveness of a best practice in any country may depend more on how well it is adapted to a local context than on how much it resembles the original one.

The ability of an MNC to effectively adapt a best practice to a host environment depends on the style of management of the company. Perlmutter (1969) delineates three management styles. The ethnocentric style is characterized by a company using the norms of their home country to control their subsidiaries, while the polycentric style is present when control is devolved to the subsidiary. The geocentric style exists when an MNC works with its subsidiaries to establish "universal standards and permissible local variations" (13). Executives at geocentric firms understand the benefits of best practices and provide local managers leeway in adapting them to the particularities of their institutional contexts. Nevertheless, the literature focuses on ethnocentric firms and the potential benefits to be derived from their ability to impose their will on their subsidiaries (Ferner et al., 2012; Gooris and Peeters, 2014; Kostova and Roth, 2002; Kostova et al., 2008; Oliver, 1991; Regnér and Edman, 2014; Wilkinson et al., 2008).

3. How institutions shape the adaptation of best practices

Despite the rise in interest in recent years in the manner in which institutions shape firm behavior, what institutions are and how they matter remains unclear (Hotho and Pedersen, 2012; Jackson and Deeg, 2008). Hotho and Pedersen (2012) contend that scholars in international business (IB) generally do not explicitly state what type of institutional theory underlies their work. They argue that these scholars generally rely on one of three institutionalist approaches, namely new institutional economics, new organizational