DOI:
https://doi.org/10.1093/oxfordhb/9780198708612.013.29

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International Management

Introduction

The subject of international management (IM) is now widely taught across business schools, and is frequently approached as an adjunct or extension to the well-rehearsed disciplines of Business Strategy and Economics. Perusing a selection of popular 'International Management' textbooks, generally published for the consumption of western audiences by Anglo- American writers, the following headings would appear to be indicative reference points for the parameters of the emergent yet somewhat experimental domain of IM 'The Political and Legal Environment, Managing Across Cultures, Strategy Formulation and Implementation, Motivation and Leadership Across Cultures, Managing International Assignments'. Yet, arguably, the construction of the subject matter in such fundamentally managerial terms raises as many questions as are potentially resolved. The more critical observer may be disposed to consider, in particular, whether 'best practice' strategic formulations that may be conceived in a 'clean' and pragmatic fashion by both practitioners and theorists, typically residing in 'western' settings, can readily be transposed from site to site in the modern international enterprise straddling diverse institutional and cultural territories. More generally one senses that the multinational corporation (MNC) is frequently taken for granted as an all pervasive presence in modern economy and society, the alluring image or brand it projects tending to obscure the geographically scattered and diverse managerial groupings that constitute its internal organisation, or the workers, frequently located in far flung developing regions, whose labour creates its product or service. In this chapter we seek to bring to the fore the 'reality' of multinational organisation by suggesting that the transcendence of MNCs is a manifestation of a particular era in global economic history and that the subsidiary units comprising the MNC totality are 'embedded' in distinctive and diverse socio- economic contexts and are prone to manifest organisational disparity as well as unity. We also argue that the human relations constituting the social fabric of the MNC are scarcely 'clean' or ordered, but rather that they may be characterised by contestation and 'power playing'. In proceeding we will draw upon emerging critical discursive contributions relating to international organisation, which are more grounded in the disciplines of sociology, organisational behaviour and socio-political analysis than derived from strategic management or mainstream economics.

At its core, International Management concerns the study of multinational corporations (MNCs), which evidently constitute an all pervasive force in an era of modernisation and globalisation, but which have arguably been subject to under- developed theorisation in extant literature. Since the inception of the discipline of IM in the early 1950s early rationalistic and unitary views of international enterprise, derived largely from the standpoint of transaction- cost economics or political economy, have tended to give way to more finely grained sociologically informed accounts, which have envisaged the cultures and structures of MNCs as being fundamentally conditioned by the diverse regional institutional arrangements impacting international organisation. Recent departures in the study of MNCs have also moved away from early rationalistic paradigms in recognising the unpredictability and potency of primary social agents in determining the affairs of the MNC. Indeed there is growing recognition of the 'tortuous' relationship between headquarters and subsidiary, which may be characterised through the interplays of power and politics as well as possibilities for harmonious engagement. In this chapter we approach the topic of IM by addressing the following thematic issues; firstly, why are MNCs dominant actors on the world economic stage and what are the forces which compel companies to internationalise? Secondly, why are particular elements of production or service delivery processes within MNCs distributed across particular global regions? Thirdly, in the context of such globalisation of production, what are the critical dynamics of the relationship between 'parent' and 'subsidiary' elements within the MNC? Fourthly, In the light of growing realisation that the institutional context for MNC organisation 'matters', how do societal and regional effects impinging on dispersed MNC organisation contribute to and understand of MNCs as conflicting 'social spaces' or sites for micro-political interplays.

The Global Context

The growth of the MNC, and corresponding scholarly and popular awareness of international organisational issues, has occurred in an increasingly liberalised global economic environment over the past couple of decades. While the debate continues between those who remain sceptical about the actual extent of globalisation (see, for example, Edwards & Rees 2006; Rugman 2001), and those 'hyper-globalists' who enthuse about the onset of a new 'global village' (for example Ohmae 1994; Friedman 2007), it is undoubtedly the case that significant political and regulative shifts at international and regional levels have facilitated the rise of the MNC to seemingly unprecedented global status. Of particular note are, firstly, successive GATT (General Agreement on Tariffs and Trade) treaties since the early 1990s which have served to dismantle protective tariffs and quotas, secondly, the concurrent seismic political shifts in Russia and the former communist bloc, China, India and Brazil which have engendered market liberalism in these countries and lifted barriers to international trade and investment and, thirdly the removal of restrictions to the free movement of capital and labour *within* trade blocs such as the North American region (the North American Free Trade Agreement – NAFTA) and the European Union (EU). More recently, the three 'megaregional' groupings of the TPP (The Trans- pacific Partnership), TTIP (Transatlantic Trade and Investment partnership) and RCEP (Regional Comprehensive Common Partnership- including

India, China and Japan) (UNCTAD 2014) have gained prominence as international trading entities.

Furthermore, in seeking to understand the anatomy of numerous modern MNCs, which are increasingly characterised by their 'footloose' regional investment strategies, it should be noted that powerful international institutions, specifically the World Bank, International Monetary Fund (IMF) and World Trade Organization (WTO), have paved the way for the incursions of predominantly western based corporations into the 'Global South'. As a condition attached to loans extended to developing economies through the auspices of the World Bank and IMF to catalyse growth and alleviate poverty in these regions *structural adjustment programmes* have been implemented which typically require debtor countries to privatise state owned utilities and, more generally, to engage in economic deregulation. In consequence, the physical and social infrastructures of economies in the developing world have been opened up for foreign investment, and corporate expansion or relocation from the advanced economies, exposing relatively inexpensive reserves of labour or other forms of capital. In reflecting, therefore, on the nature of globalisation, a major element of which has been the rise of MNCs as dominant actors on the global socio- economic stage, it is instructive to note that the 'new world order' has, to a considerable extent, been constructed by governmental and trans-governmental actions, as well as by the autonomous strategies of MNCs themselves. In comprehending, therefore, the geo-political background for the playing out of 'international management', the application of free market principles to a new global economic order has to be acknowledged, and concomitant economic and political asymmetries between the advanced and underdeveloped world. Such increasing asymmetries have also become prominent between advanced economies. An example is the dissimilar socio-economic development of Northern and Southern European countries, in the aftermath of the financial crisis in 2008.

Understanding the MNC

An MNC may be broadly defined as a company which is *physically* active in more than one country (Hollinshead 2009), it therefore possesses factors such as plants, technology, as well as expert knowledge of managers and workers in a country other than its country of origin. While, therefore, this definition embraces many household name MNCs, including, Microsoft, Ford or Mitsubishi, it would also include numerous international concerns, of varying sizes, which manifest a lower profile, for example an internationally based charitable or voluntary organisation, estate agent or finance house. As Steger (2013) points out, the number of MNCs increased dramatically from around 7000 in 1970 to 80,000 in 2012. The top 2000 MNCs now account for approximately one half of global industrial output, and the headquarters of such enterprises are exclusively located in North America, Mexico, Europe, China, Japan and South Korea (Steger ibid).

The expanding, and fluctuating, pattern of MNC organisation across the globe may be understood with reference to published data on flows of foreign direct investment (FDI) from region to region. FDI may be defined as 'an investment made to acquire lasting interest in enterprises operating outside the economy of the investor' (IMF 1993). Recent statistics produced by UNCTAD (ibid) reveals that, while the USA remains the largest provider of FDI outflow, (followed by Japan and China), as well as the largest recipient of inflow (followed by China and the Russian federation), the developed countries are actually losing ground to emerging countries (and particularly China) the latter becoming major providers and recipients of FDI. Nevertheless, in terms of FDI *outflow,* in 2013, the developed economies from within North America and Europe provided $857 billion of outward investment compared to $454 emanating from developing countries. It is also of interest to note that only two Chinese MNCs are in the 'top ten' MNC list, in terms of revenues, to date. Most of the listed MNCs still originate from Western capitalist countries, with companies based in US and the oil industry clearly being most prominent (see table 1).

Insert table 1 about here.

Over the past thirty years, two 'rationalistic' approaches - the eclectic paradigm and the evolutionary model of the MNC - have not only dominated the field of IM but have also subdued more critical reflections and openness for alternative conceptual ideas. The *eclectic paradigm* was developed by the British economist Dunning (1977) and was subsequently further elaborated (e.g. by Hennart 1991). Its key focus is on the question of how we explain the existence of MNCs in comparison to other forms of internationalisation, for instance export or 'turn- key' projects. The decision of MNCs to integrate and (wholly) own its international ventures is mainly described in terms of transaction cost economics, as the most efficient response to the failure of market-like forms of organisation, and because such organisational integration provides for locational and ownership advantages (Dunning 1993). Scholars proposing the evolutionary model, on the other hand, based on evolutionary and contingency theories, stress the importance of effective MNC management. Effective managerial decisions are described as best strategic fit between organisation structure and the economic and technological environmental pressures of more or less internationalised markets/industries (Bartlett & Ghoshal 1989; see also Prahalad & Doz 1999). This led to wider discussions in the IM field about how the MNC can be managed, given the dilemma that MNCs need to be simultaneously globally efficient and locally adaptive.

Motives for internationalisation

The multinational enterprise has been in evidence for centuries, the earliest such corporations emerging as a product of colonialism, notably the two East India Companies originating from British and the Dutch colonial empires (see also Cairns & As-Saber forthcoming; Clegg forthcoming). The modernist international configuration, however, gained increasing prominence after World War II, when Fordist production ideas travelled the world (see e.g Djelic 2001). In seeking to unravel the logics underlying the theory and practice of IM, it is initially instructive to reflect upon the fundamental question; *why do companies internationalise?* In a seminal response, Bartlett, Ghoshal and Birkinshaw (2004) suggest that an evolutionary effect has been apparent in the key drivers impacting corporate internationalisation strategy. Accordingly, for the early large modern MNCs, a premium was placed upon *accessing raw materials,* for example oil and aluminium, as well as *seeking new markets* and achieving *low cost production,* particularly in relation to labour inputs. The latter was one the main goals of the dominant Fordist production system. However, in more recent years, these authors (ibid) suggest that the corporate priorities driving internationalisation have been subject to modification. Most notably, in highly competitive 'Post Fordist' global market circumstances, it is argued that unprecedented concentration is being placed on the acquiring of innovative capacity through extensive *investment into research and development (R&D) activity.* Also within a hyper- competitive market environment, considerable corporate attention is being devoted to achieving *economies of scale* and *shortening product life cycles,* as well as gaining vital informational advantages through *global scanning and learning* alongside the accumulation of knowledge based forms of capital (Burton-Jones 2001; Bartlett et al. 2004: ibid). In sum, therefore, it is argued that a paradigm shift has been observable in the increasingly global mind- sets of managers of MNCs, which have been described as moving away from a primarily opportunistic managerial orientation towards internationalisation towards one that embraces a more integrated strategic approach in a more transnational sense (Bartlett et al. 2004: ibid) (see table 2).

Insert table 2 about here.

In a complementary analysis, Dunning (1977, 1993, 2001) and Dunning and Lundun (2008), postulate that MNC investment decisions are influenced by *resource- seeking, market- seeking, strategic asset- seeking* and *efficiency- seeking* behaviours (see table 3). Implicit in such an exposition is that, while the market seeking goal driving MNC expansion remains critical, particularly in an era of global market liberalisation, a parallel set of logics relating to the acquisition of world- wide assets, including knowledge, and the geographical spreading of production to reap the competitive reward of sourcing variable labour and other costs, remains equally compelling.

In drawing together various explanatory factors driving corporate internationalisation Barrell and Pain (1997) suggest that the following factors are significant. First, the search for new markets is driven by restricted capacity in home markets, increasing competition in all markets, and growing opportunities overseas through the liberalisation of transforming regions such as China, Russia and India. Secondly, MNCs may be induced to physically locate productive facilities close to emerging markets in order to harvest indigenous supplies of knowledge and skill in the host country and to avoid import restrictions. Thirdly, as

Hollinshead (ibid) suggests, MNCs possess the strategic capability to undertake a 'cost-benefit' analysis of available physical and human resources on an international basis and to allocate productive processes accordingly. Salient factors are likely to include the cost of labour with reference to levels of skill and expertise, availability of raw materials, the quality of local suppliers and the level of technological advancement. More generally, inward investors may be influenced by prevalent economic, political, social, environmental legal conditions prevailing in the host environment. Of course these factors may be subject to rapid change, with inward investors typically, subject to physical and other constraints, retaining the prerogative to switch capital from region to region, should a more favourable constellation of contextual phenomena appear elsewhere. Finally, in both developed and developing regions, host country governments and other indigenous stakeholders are frequently at pains to attract inflows of FDI through offering financial and other incentives. So, for example, 'economic processing zones' have been established by governments in various emerging and developing economies, typically close to ports, allowing MNCs to locate productive or manufacturing facilities in clusters benefiting from favourable taxation regimes. It is recognised in host countries that MNC investment can 'kick start' economic growth, as well as exerting a 'multiplier' effect on infrastructural development. As well as injecting much needed capital, MNCs can act conduits for the flow of new technologies and ideas (Hollinshead ibid).

Insert Table 3 about here.

International Division of Labour and the New Dispersal of Production

In following the logic of internationalisation, and particularly that concerned with *resource* or *efficiency* seeking behaviour, it is instructive to consider why the dispersal of productive of service providing activities across various spaces or regions may offer cost or competitive advantages to the MNC. Edwards and Kuruvilla (2005) suggest a potentially fruitful, yet somewhat neglected, theoretical precept in IM and related disciplines is the *international division of labour.* This notion relates to the capability of the multinational concern, both in manufacturing and service provision, to stratify productive activities into discrete functional areas and to relocate each into appropriate geographical regions. As stated above, since their emergence on the global scene in the years following the Second World War, MNCs have recognised the competitive advantage that may be accrued through disaggregating and spatially relocating elements of their production or service delivery process. An archetypal example of this phenomenon would be the automobile manufacturing industry which, since the 1960s, has organised manufacture on the basis of a form of 'global production line'. Accordingly, taking a 'typical American' automobile, it has been discerned that at least eight countries are involved in aspects of its production including South Korea for assembly, Japan for components and advanced technology, Germany for design, Taiwan and Singapore for minor parts, the UK for marketing and advertising and Ireland and Barbados for Data Processing (Carlton Television 2001).

In more recent years it has been observed that various contextual changes signifying an intensified global order have led to further fragmentation of productive or service delivery processes. Dicken (2011), referring to a *kaleidoscopic* picture of international production, highlights the following three factors as being of significance;

Firstly, systems of mass production associated with heavy industry, with their fixed and static quality, have given way to computer- based flexible technological which may be replicated at various global locations.

Secondly, the shift towards knowledge or information based society has been based on electronic and digital technologies which establish a form of instantaneous production and organisation across national borders.

Thirdly, profound changes have occurred in global financial systems, enabling the instantaneous flow of capital across financial centres. The ability to switch investment instantaneously from region to region not only serves to interconnect international economies, but also renders managers and workers within them, susceptible to the volatilities of global financial markets.

It is within this novel global context that the process of 'slicing up' international 'value chains' has become intensified and has become an everyday facet of product or service delivery .The concept of *Global commodity chains (GCCs)* (Gereffi 1999) or *global value chains (GVCs)* (Kaplinsky 2013) provide valuable insight into why certain firms 'touch- down' in certain localities, and, more generally, how the internal functions of international organisations may be both disaggregated and co-ordinated.

According to Giddens (2006: 55) a GCC or, in his term, Global Production Network (GPN), represents 'the worldwide networks of labour and production processes which yield a finished product. These networks consist of all pivotal production activities that form a tightly interlocked 'chain' that extends from the raw materials needed to create the product to its final customer' (Gereffi 1999; Hopkins & Wallerstein 1996)

Following Taylor (2008), GCC analysis focuses upon, firstly the modularisation of varied labour processes necessary for the creation of commodities or services and, secondly, the subsequent distribution of related tasks between a network of firms. The GCC approach points to vitality of the social context of constituent actors in the international 'chain' of productive connections, and it suggests that power and control have an important role to play in the organisation and co-ordination of dispersed economic activity. Lead firms within GCCs, which are invariably situated in advanced global regions, are typically well placed to assert market leadership or control, to configure the technology of production across the international network and to influence the distribution of costs across the stages of production (Taylor ibid). Where the GCC is characterised by such a system of governance in which lead firms possess considerably superior financial and technological resources compared to suppliers, the former are able to control the appropriation of value across the chain as a whole (Taylor ibid). In such a GCC configuration, a 'core' and 'periphery' model is likely to be apparent, with primary functions such a major R&D and branding being retained in headquarters, while low cost and labour intensive activities are devolved to suppliers in the developing world. A compelling strategic rationality for the construction of GCCs is therefore to enable the transnational enterprise to pursue indomitable market power through the construction of internationally configured and unique assets and capabilities.

Building on the resource based view of the firm (RBV) (Barney 1991; Grant 1991, Amit & Shoemaker 1993), and possessing considerable explanatory value in a global context in which international alliances and ventures across diverse cultural and institutional regions are becoming more commonplace, the *dynamic capabilities* perspective (Kogut & Zander 1992; Teece et al. 1997) refers to the processes used by companies to assemble and leverage knowledge assets rapidly and flexibly in response to environmental change. Central to the dynamic capabilities framework is the notion that fundamental competitive advantage may be derived from combining and synthesizing resources of knowledge and skill from a variety of geographically dispersed organizational sources (Kogut & Zander ibid).

This new debate reflects a new meaning of the resource seeking behaviour of MNCs. In comparison with Fordist MNCs, where low labour costs were a key asset for location decisions, research related to the dynamic capability framework suggests that the resource seeking bahaviour of post-Fordist 'high- tech' MNCs now necessitates a search for locations where expert knowledge and lower labour costs are available, for example in such as India or Ukraine. Our case study vignette (below) based on new research refers to the motives for and praxis of software development offshore outsourcing to Ukraine.

Case Study Vignette - The offshore outsourcing of software development to Ukraine

Over the past decade or so, software 'capitalists' based in the UK or Northern Europe have recognised the strategic and competitive advantages associated with outsourcing software development activity to highly skilled engineers in Ukraine, the former I.T. capital of the Soviet Union. As an alternative to such sourcing in India or perhaps China, Ukraine offers the advantage of geographic proximity, relative cultural consonance and labour cost arbitrage. While the 'crown jewels', or primary design and R&D functions are invariably retained in the corporate headquarters, more routine developmental platforms have been devolved to Kiev or other major Ukrainian cities, with products being recycled into lucrative western markets.

While the western software companies have sought to reap the competitive advantages associated with such international sourcing of such productive activity to low cost but highly skilled providers, certain risks have also been acknowledged. Firstly, the Ukrainian political and institutional environment is notoriously volatile, this demanding appropriate 'due diligence' and the consultation of third parties with finely tuned local knowledge when making the initial investment decision. Secondly, despite the apparently enthusiastic attachment of the local engineers to these enterprises, there is a persistent fear of intellectual property leakage, particularly into the informal economy. Thirdly, despite the relative geographic proximity of Ukraine to the Western nerve centres, cultural differences sometimes render working relationships difficult. This particularly relates to the work ethic of the Ukrainian engineers who are prone to 'work to contract', or to take time off for family events. As a risk mitigation strategy, a number of the software companies are engaging in 'soft capitalist' techniques to engender employee commitment, for example distributing company 'mugs' or t-shirts to employees, or redesigning the interior of buildings to resemble 'silicon valley' facilities as a socialising effect. Ultimately, however, it should be recognised that such offshoring investments occur in a transient 'window', the software companies being prone to shift global sourcing locality if more favourable conditions emerge in another global region. Perhaps unsurprisingly, the Ukrainian engineers in their work orientation tend to mirror the instrumental approach manifested by the western software capitalists, reserving the right to quit if perceived employment advantages diminish.

Source: Hollinshead, G. and Hardy, J. (2012)

Organising the MNC

Having considered the rationale for the international spread of productive functions we now 'look inside' MNC organisation to consider the dynamics of the pivotal relationship between 'parent' and 'subsidiary' A key issue for the international concern is to combine being highly differentiated, so that there is sufficient flexibility to respond to local conditions, and particularly market requirements, with a level of global integration that will promote corporate coherence and economies of scale. Seminal contributors on this theme are Bartlett and Ghoshal (ibid) who, on the basis of an extensive empirical study of MNCs straddling the U.S., Europe and Japan, posited an ideal typology as a reference point for future developments in MNC organisation. These scholars took issue with prevailing 'images' of MNCs, which tended either to overemphasise the potency of managerial control from headquarters, envisaging MNCs as monolithic organisational entities, or to construe the structure and culture of the MNC almost entirely through the 'lens' of the subsidiary (Bélanger et al. 2003) or from a host country perspective. In reviewing 'traditional' constructs of MNC organisation, Bartlett and Ghoshal expose the following typologies; (1) *multinationals*; which strive to build a strong local presence through sensitivity and responsiveness to local differences (2) *global* companies, which maintain centralised global operations to gain cost advantages and (3) *international* concerns, which take advantage of parent company knowledge and capabilities through worldwide dissemination and adaptation (Leong & Tan 1993).

However, in aspiring to arrive at a new 'managerial theory of the firm' (ibid: 25) Bartlett and Ghoshal suggest that the traditional typologies of MNC organisation, as inspired by authors such as Chandler (1962) and Cyert and March (1963), were losing explanatory purchase as the realities of conducting international business were becoming increasingly complex and dynamic. Consequently, they suggest that it is necessary for MNCs to aspire towards a 'transnational solution' which entailed being simultaneously locally adaptive and globally efficient. Holding a leading Swiss- Swedish headquartered electrical equipment manufacturer as an exemplary case, it was suggested that three major *processes* lay at the core of flexible, multi- domestic and transnational concern. Essentially, three strata of management assume responsibility for these processes, top level managers defining organisational mission and purpose, middle managers integrating strategy and capabilities, and front-line managers acting as 'organisational entrepreneurs' (Bartlett & Ghoshal ibid). A highly distinctive, and from the point of view of Bartlett and Ghoshal, productive feature of this novel international configuration was the fragmenting of the global concern into 1300 operating companies, further divided into 3500 profit centres, rendering the corporation as a 'coalition of diverse interests' (Bartlett & Ghoshal 1993: 36), within which entrepreneurialism is spawned. The transnational MNC therefore, possesses the following characteristics which should serve to promote multinational flexibility and worldwide learning capability (1) constituent units being interdependent, specialised and dispersed, (2) contributions being differentiated according to national units but towards integrated worldwide operations (3) joint development of knowledge across organisational units with worldwide sharing (Leong & Tan 1993).

Insert table 4 about here.

In a more recent study, which again focuses on the case of ABB, Bélanger et al. (2003) offer a critique of the work of Bartlett and Ghoshal, essentially taking issue with the influential authors' perception of the Swiss– Swedish owned MNC as an idealised form of transnational MNC. In an alternative and competing 'take' on the corporate anatomy of ABB, Bélanger et al. (2003; 483), argue that, at the level of practice rather than managerial espousal, local subsidiaries do not constitute 'independent subsidiaries' but rather that they are 'monitored and constrained' by headquarters in a number of ways. In particular, local level managers engage in a two- way political process with senior management with reference to broader interpretations of market constraints and opportunities impinging upon the enterprise. On one hand, HQ acts as a 'rampart' against volatile market forces, shielding the subsidiary from excessive exposure to environmental factors. On the other, the 'parent' allows competition between various dispersed subsidiaries within the firm, invariably engaging in benchmarking or coercive comparisons. Subsidiaries within the MNC are therefore bound to deliver acceptable financial results and to interpret the local environment in an 'effective' fashion (Ferner,2000). Through the exercise of politics and power, therefore, according to Bélanger et al. (ibid), the global corporation channels and mediates the most potentially detrimental effects of external market forces on subsidiaries.

Now turning briefly to two alternative conceptions of the global/ local dilemma, in a highly influential work originally published in 1969, and re-iterated and rehearsed frequently in the domain of international management subsequently, Howard Perlmutter (1969) posits an evolutionary typology to cast light upon the 'tortuous' phases of evolution impinging upon the strategic relationship between 'parent' and 'subsidiary'. According to Perlmutter, in its first phase of development, the MNC tends to adhere to the *ethnocentric '*state of mind' or paradigm. Here the corporate preference is to is to retain the 'reins of power', including R&D and other proprietary knowledge or functions in the country of origin. As Perlmutter suggests, however, while ethnocentricity may be accompanied by certain strategic advantages (see also Mayhrofer & Brewster, 1996), notably the ability of HQ to retain control and co-ordination over subsidiaries, there may be associated dysfunctions. From the position of the subsidiary, the ethnocentric profile may represent the imposition of 'alien' policies and practice emanating from the country of MNC origin, which will be subject to interpretation at local level, or even resistance. The occupying of the upper ranks of the corporation by home country nationals may also present a 'glass ceiling' constraining the promotion prospects of subsidiary managers and employees. From the perspective of HQ, the ethnocentric 'state of mind' runs the risk of neglecting or overlooking the wealth of resources, human and otherwise, embedded in host country environment, this constituting an opportunity cost as MNCs fail to capitalise on such precious intangible assets.

According to Perlmutter, therefore, the next evolutionary stage of the MNC involves a move towards *polycentricity,* or the decentralisation of managerial authority to subsidiaries. This phase of development is defined as 'tortuous' as the degree of trust evident between parent and subsidiary frequently lubricates the process of devolution. Accordingly, following screening, those regional subsidiaries which enjoy the greatest confidence of the parent will be ceded empowerment in advance of others. It should be noted also that divestment of decision-making authority to local level management teams is invariably partial. While the parent company may be prepared to delegate aspects of the HRM or marketing functions, typically critical areas of financial management and R&D are retained in headquarters.

In the final stage of evolution, and reflecting Bartlett and Ghoshal's 'transnational' typology, MNCs are typically striving to strike an optimum balance between local responsiveness (differentiation) and international organisational coherence (integration). Perlmutter's *Geocentric* typology*,* therefore, captures the status of the advanced global concern, which simultaneously succeeds in combining local and international strategic resources. Salient features of the geocentric MNC would include flexible, as opposed to hierarchical, organisational structures, the devolution of responsibility to teams of staff across national and organisational boundaries depending on task, and the sharing of knowledge and learning throughout the organisation. In a later study, Heenan and Perlmutter (1979) identified a fourth evolutionary profile for the MNC, termed *regiocentricity.* This orientation may be regarded as mid way between ethnocentricity and a global profile. Regiocentricity implies the devolution of corporate responsibilities to headquarters at regional level, for example in Europe, East Asia or North America.

The evolutionary tendencies of MNCs are also recognised by Adler and Ghadar (1990), who, in a theoretical contribution which in many senses parallels the highly influential work of Bartlett and Ghoshal, suggest that MNC strategies and structures relate to phases in its product life cycle. Drawing upon Vernon's product life cycle theory (1966), Adler and Ghader identify successive phases of MNC development as follows: (1) Domestic; an emphasis is placed on home markets and exports, management operating from an ethnocentric perspective, with little attention given to foreign cultures. (2) International: involving a shift to local responsiveness and the transfer of learning. (3) Multinational; a focus is placed upon low cost and price competition. Foreign based operations are significant as a means to obtain cost effectiveness on the basis of production factors differentials and economies of scale. (4) Global; emphasising particular challenges in international competition and organisation in the global era. This typology places a focus on both local responsiveness and global integration in seeking to combine cost advantages and low prices with high quality products or services, and adaptability to local tastes.

While the above theories provide valuable insights into the global/ local tendencies impacting MNC organisation, to inherent tensions between parent and subsidiaries, and to evolutionary characteristics impacting their development, it should be recognised that such theories are based upon ideal typologies which do not always fit organisational reality. Taking Perlmutter's theory as an example, it is quite possible that an MNC will straddle more than one typology, or even regress through the stages of development over periods of its life cycle.

Further insight and theoretical purchase is offered into vital and 'entrepreneurial' role of subsidiaries within the heterarchic fabric of the MNC as stressed by Hedlund (1986). The latter view abandons the top-down hierarchic view of MNCs which was dominant in earlier debates in IM and asserts that subsidiary managers may actually actively influence relations with HQ and with fellow subsidiaries, rather than being controlled by or just responding to HQ demands (e.g. Birkinshaw 1996, 2000). In follow-up debates related the role and autonomy of subsidiary management is also stressed that subsidiaries have and develop different roles in terms innovation, entrepreneurship and mandate change within the MNC, which provide them with more or less *critical resources* to successfully bargain with the HQ (ibid). New research stresses that the importance of the subsidiaries' "issue-selling"-ability (see e.g.

Dörrenbächer et al. 2014; Dörrenbächer & Geppert 2014) when they are going to bargain about mandate changes imposed by the HQ or negotiate about support for entrepreneurial initiatives at subsidiary level.

Institutionalist approaches: home and host country embeddedness

There is growing recognition in critical IM literature that the expansion of MNCs across national and regional borders does not occur in a neutral, or disembodied, fashion, as has tended to have been envisaged by rational or economistic models. Instead, drawing upon the contribution of institutional, and comparative institutional, theorists, it is increasingly being acknowledged that the dispersed organisational sub-units which comprise the totality of MNC organisation are respectively influenced by regulative, normative and cognitive frames prevalent in their immediate surroundings (Powell & DiMaggio 1991; Scott 2001, Meyer & Rowan 1977). *Organisational Institutionalism* therefore holds that, while MNC headquarters (HQs) are 'embedded' in the distinctive institutional and cultural contexts prevalent within their home locality, subsidiaries will be prone to internalise the socio-political, and related, rules and norms evident in their situated geographical positions. (Geppert et al. 2006; Morgan & Kristensen 2006; Harzing & Sorge 2003; Powell & DiMaggio 1991; Meyer & Rowan 1977). Westney (1993) argues accordingly that the MNC management has to deal with two major institutional pulls (or institutional duality), where one is triggered by the firm's home country embeddeness and the other by the firms host country embeddedness.

Following from such an analysis, it has been asserted that the nature of the 'business system' (Whitley 1999) in the MNCs country of origin, including means of ownership, degrees of competition or collaboration between industrial and commercial concerns and the quality of the relationship between management and workers or trade unions will critically determine the structural features of the internationally expanding concern. Consequently, 'policies, practices, national templates and routines of control' (Morgan & Kristensen 2006: 1471) emanating from the home country will tend to be subject to diffusion and replication amongst subsidiaries. From the point of view of the subsidiary, following Kostova (1999) it is likely that a situation of *institutional duality* will be confronted, on one hand it being subjected to regulatory, normative and cognitive influences emanating from corporate HQ, and, on the other, being conditioned to adopt practices associated with dominant host country conventions (see also Kostova & Roth 2002; Kostova & Zaheer 1999; Morgan & Kristensen 2006). What is missing in these institutionalist debates is to consider the crucial role of the social agency, e.g. related on the different interests and identities of HQ and subsidiary managers, and ask questions about who is actually 'pulling', and how and why (see e.g. Geppert & Williams 2006). Such questions are in the centre of debates about power and politics within MNCs, an issue we will return to in the following section.

In a parallel stream of literature, deriving particularly from the domain of industrial relations, the significance of a ‘country of origin’ or ‘dominance’ effect in the institutional make-up of the MNC has been increasingly acknowledged (Ferner 1997). According to Edwards and Rees (2006), concepts of ‘best practice’ are most likely to flow from the home locality of the corporation, where they are associated with high levels of productivity and business success. So, for example, MNCs emanating from the US have served as conduits for the diffusion of managerial principles and practices to the far reaches of the globe, including ‘Fordist’ mass production systems in the 1940s to 1960s,’Taylorist’ job design and payment systems in the post war period, and HRM related innovations from the 1990s. Similarly, in the 1980s, Japanese MNCs were engaged in the global transposition of techniques such as ‘lean production, ‘just-in time’ manufacturing and ‘total quality’ management (Hollinshead ibid; Edwards & Rees ibid). Yet, in keeping with comparative institutional analysis, and the notion that different *business systems* (Whitley ibid) or *varieties of capitalism* (Hall & Soskice 2001) persist in different countries or regions, it may be predicted that managerial or organisational practices which are self-evidently rooted in one spatial domain may not be easily transposed across borders into institutionally contrasting environments. So, for example, in much of the continent of Europe the principles of ‘social partnership’ are adhered to as an industrial norm. Here, consensus arrangements between organisational stakeholders as manifested in codetermination arrangements at board level or works councils on the shop floor, or greater state intervention into factors such as pay or job security are commonplace. For a US MNC, therefore, seeking to transpose ‘free market’ orientated principles or practices (such as non-unionism, ‘hiring and firing’ or performance related pay) into, say, Germany, the ‘co-ordinated’ market institutional principles in evidence are invariably bound to represent a considerable structural obstruction and can lead to severe conflicts between key actors, in the HQ and locally (Hollinshead ibid; Edwards & Rees ibid). The latter issue leads us into a relatively new debate in IM to which we now turn.

Political issues and power relations within the MNC

Accompanying the acknowledgement that the organisational sub-units of the MNC are ‘embedded’ in particular socio- economic contexts, there has been growing recognition amongst critical IM scholars that the scope exists, within the social fabric of the international organisation, for pluralistic expression and the contestation of social space by internal factions or vested interests. Mainstream rationalistic and instutionalist approaches in IM fall short of understanding the dynamics of political processes and power relations within MNCs because most studies have systematically neglected the impact of social agency and political strategizing processes of powerful key actors. It has been shown that even in situations where power relations are asymmetrical and the HQ or a top manager have some authority to exercise power over other subunits and members of the multinational firm, subsidiaries and lower level managers and employees are never really ‘powerless’ and can ‘gain’ influence in decision-making if they actively participate in political processes and micro-political games played in the firm (Bouquet & Birkinshaw 2008). These games are based on formal and informal rules (Crozier & Friedberg 1980), and actors can draw on different resources and skills to influence the setting of these rules. This is because 'the rules of the game' developed in the HQ or elsewhere always need to be contextualised and interpreted, which opens room for agency and political contestation (see e.g. Hardy & Clegg 1996: 634). Thus, achieving local legitimacy across national borders, it has been argued, must be seen as a political process which sometimes leads to political conflicts. Power can be understood as medium of "relations" in which subjectivity, as a complex, contradictory, shifting experience, is produced, transformed or reproduced through the social practices within which power is exercised' (Knights & McCabe 1999: 203). Thus, power in the MNC need to be seen as context-specific (institutional and culturally shaped but not determined) and interactively and discursively constituted social relationship.

Moreover, critical international business/ IM approaches have highlighted that diverse institutions, identities and interests come into play in MNC power relations and political processes (see e.g. Geppert & Dörrenbächer 2014). In contrast to mainstream international business/ IM and institutionalist studies which largely concentrate on the macro-level (environmental economic or societal) and the meso-level (organisational and structural) it is evident that that newly emerging critical perspectives are offering a deeper understanding of political processes and power relations in the MNC through a more 'bottom-up' and actor-centered approach. The 'bottom- up' trajectory is prone to expose the MNC as a 'contested terrain' or political system characterised by political bargaining and negotiation (Morgan 2001: 9-10). Accordingly, MNCs may be understood as being political systems socially constituted through political coalition-building. These coalitions can be more or less stable and fragmented 'not only between competing social forces but across national institutional domains, and along various "horizontal" cross-national organizational dimensions, leading to the pervasiveness of a micro-politics with distinct characteristics that reflect the international dimension of MNCs' operations' (Ferner & Tempel 2006: 9).

Conclusion

Far from being disembodied or transcendent global phenomena, this chapter has pointed to the reality of the MNC as a transnational *organisational* entity. We have given attention to those factors which have driven the international dispersal of productive activities across global regions, most recently in the form of GCCs, invariably in the pursuit of extraordinary competitive advantage in highly volatile international market circumstances. In bringing to the fore the reality of MNC organisation, it has been identified that asymmetry in terms of knowledge and power relations frequently characterises the social relationship between 'parent' and 'subsidiary' and that reconciling global/ local organisational tensions remains a vital strategic area of concern. Accordingly we have, drawing upon contemporary theoretical departures in IM, taken issue within the notion that MNCs may be regarded as 'rationalistic'

enterprises and have instead postulated that they may be regarded as fragmented sites for micro-political negotiation and contestation between dispersed organisational actors. In concluding, we highlight a number of desirable avenues for future research, especially when we see the MNC as a political system.
First, a closer examination of the wider national institutional and cultural context is essential, especially in order to gain enhanced understanding of how local embeddedness both constrains and enables key actors to build power resources and mobilise political support when negotiating or resisting the transfer and implementation of global best practices.

Second, research is needed to address how HQ-subsidiary power relations and political processes bring to light diverse identities and interests of actors. The classic question of HQ-subsidiary relations may be mutated into discussions concerning *interest* formation and political contestation, and whether local subsidiary managers *identify* more with the HQ or with their local company.

Third, there is a need to look into the issue of 'identity work' and identity politics within the local subsidiary itself, which can lead to political conflicts, stereotyping and sometimes misunderstandings, conflicts of interest and political struggle. Here, not only are the power and political approaches of local managers and expatriates considered but also the role of identities and interests of employees in micro-political game playing and power struggles.

We would argue that future research should place more emphasis on *micro-level*, in-depth and case study based analysis. Such a socio-political approach puts emphasis on the fact 'life is lively' in organisations (Ortmann 1988: 7), meaning that power does not just play 'a role' in the MNC, but it also sheds light on the question of how power relations are actually socially constructed. A socio- political trajectory examines how actors with various interests and identities interact in MNCs across cultural and functional borders, leading to micro-political game playing or political battles when interests or identities conflict. Solving these conflicts requires skillful actors, able to negotiate and develop shared meanings.

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