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An institutionalist perspective on international management

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Glenn Morgan[1] and Peer Hull Kristensen[2]

Abstract

Multinationals are faced with the problem of how to coordinate different actors and stop 'fiefdoms' emerging that inhibits the achievement of transnational cooperation? We identify this as a problem of 'constitutional ordering' in the firm. Drawing on Varieties of Capitalism approaches, we explore how multinationals from different contexts seek to create constitutional orders. We argue that the models which exist appear to be destructive of coordination. We explore the implications for MNCs

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To distinguish international management from the broader field of 'international business', the sub-discipline tend to emphasize not just the focus on 'management' per se but more particularly the issue of cross-cultural differences and how these affect management processes. Tayeb, for example, in her introduction to 'International Management: Theories and Practices' (2003) states that 'the aim of this book is to provide an introduction to the complexities of international management by examining how socio-cultural differences, and our understanding of these, affect all aspects of management' (2003:3). The problem with international management is that in practice it has tended to rest on a narrow view of both management and 'socio-cultural differences'. The view of management espoused in such an approach is, broadly speaking, technical and (surprisingly in the light of the concern with cross-cultural differences) lacking in a sense of the social construction of management practice. The view of socio-cultural differences tends to rest either directly or indirectly on views of 'national cultures' as stable, homogenous and deterministic (as represented by the works of Hofstede 2000). As a result, the nature of 'international management' itself as a set of practices is reduced to 'cultural' management. 'International management' constitutes itself as a 'culturalist' ghetto within the broader field of 'international business'. Instead, we propose that the role of international management as a discipline lies in investigating the conditions under which what Barnard (1968) labels as 'the functions of the executive' are performed in multinational firms. In particular, Barnard seeks to investigate how managers create a 'constitutional order' which enables actors with different interests to cooperate and collaborate inside the firm. Within this perspective, the challenge for the multinational is to "create a constitutional order that allows for representation, negotiation, and peaceful collaboration among differently constituted organizational entities, each in turn constituted by a multitude of professions, guided by their own moral framework and distinct national laws" (Kristensen and Zeitlin, 2005: 232).

In this paper, therefore, we seek to reorient the analysis of international management away from the dominance of technical and culturalist definitions of management towards a framework for understanding the development of constitutional orders within multinationals. In order to do this, we place in the centre of our analysis institutionalist accounts of different national business systems as described, for example in authors such as Amable (2004), Dore, Lazonick and O'Sullivan (1999) Hall and Soskice (2001), Hollingsworth (1997), Marsden (1999), Maurice and Sorge (2001), Morgan, Whitley and Moen (2005), Streeck and Yamamura (2001), Whitley (1999; 2003b), Whitley and Kristensen (1996; 1997) Yamamura and Streeck (2003) , If, as these authors argue, national business systems continue to exert a powerful influence over the construction of organizations, management and work systems, what do we understand by the term 'international management' and how does this relate to the construction of constitutional orders inside multinational firms?

What particularly concerns us from the point of view of constitutional orders is how management authority is constructed and reproduced. Conceptions of authority within firms work together with, and elaborate on, existing forms of authority and legitimacy within society as a whole. From an institutionalist perspective, forms of authoritative coordination and constitutional ordering within firms reflect the dominant rules of the game within particular societies. The distinct problem for the study of 'international management' and multinationals is therefore what systems of authority are being built that bridge institutional and national differences.

The paper proceeds in the following sections. Firstly, we argue that recent developments in the study of multinationals building on the model of the 'transnational solution' (in Bartlett and Ghoshal 1989) have implicitly raised the issue of constitutional ordering. However, these discussions have tended to lacks a systematic framework for understanding institutional difference and its impact on processes of constitutional ordering and authority relations. In the second section of the paper, therefore, we provide an outline of such a framework by drawing on the national business systems and varieties of capitalism literature. We use this framework to identify two distinct socially embedded models of managerial authority. In the third section, we then elaborate on the implications of these for multinational firms. Our argument is that the central theoretical and practical problem in this field is that of developing a legitimate authority structure for a multinational firm. Through our analysis, we show the limitations in the current models and discuss possible future directions in research.

THE TRANSNATIONAL SOLUTION AND THE PROBLEM OF CONSTITUTIONAL ORDERING

The problem of constitutional ordering in the multinational is of relatively recent interest. It reflects the developments stimulated by Bartlett and Ghoshal (1989) in their discussion of the 'transnational solution'. Before their book, the relationship between a multinational's headquarters and its subsidiaries was primarily conceptualized in terms of the extent to which there was a transfer from the headquarters to the subsidiary. In these discussions, management remained primarily domestic and the integration of subsidiaries and headquarters was limited. Bartlett and Ghoshal's 'transnational solution' involved a new level of dynamic interaction and flows across and around the multinational. This marked a significant shift in the study of international business. Westney, for example, has described how 'the second half of the 1980s marked a turning point in the study of the MNE….the focus of managerial interest shifted from the internationalization process to the challenges of effectively managing dispersed operations….the central themes driving research expanded from the analysis of the competitive advantages that enabled a firm to extend its reach internationally to the competitive advantages a firm could derive from being international' (Westney 2003; see also Dunning's reflections on these issues: Dunning 1998; 2001). Bartlett and Ghoshal emphasized that the transnational cannot be reduced to a structural model along the lines of a matrix where the tensions between the three core objectives are mediated through formal reporting relationships. They state that transnationals ‘decide task by task and even decision by decision where issues should be managed. Some decisions will tend to be made on a global basis, often at the corporate centre…; others will be the appropriate responsibility of local management. But for some issues, multiple perspectives are important and shared responsibility is necessary’ (Bartlett and Ghoshal 1990: 209). The task of the headquarters is not to impose on subsidiaries but to facilitate flows around the firm and to balance between different focuses that emerge and ultimately by adjusting resource flows influencing and changing the shape of the firm. A hierarchical structure cannot be imposed on this diversity which is more like a ‘differentiated and interdependent network….integrated with a flexible coordinating mechanism’ (ibid: 210). In Hedlund’s terminology, the firm moves from hierarchy to heterarchy (Hedlund 1986; 1993).

The obvious problem, which then emerges is that of possible conflicts between the different actors in the system, now that the constraints of hierarchy have been loosened. For us, this is the problem of ‘constitutional ordering’. Such conflicts if they take on the shape of competitive rivalry, spurring different subsidiaries and branches on towards more efficient and innovative modes of production are seen as quite productive and helpful but the problem is that they risk being turned into wars among “fiefdoms”. Bartlett, Ghoshal and Birkinshaw state that ‘developing this capability to create, leverage and apply knowledge worldwide is not a simple task for most large MNCs’ (2004: 457). In their original formulation, Bartlett and Ghoshal propose that the answer to this lies in a common ‘management mentality’; ‘such a management mentality becomes the global glue” that counterbalances the centrifugal forces of the transnational structure and processes’ (ibid: 175). ‘The most crucial task of transnational managers is to encourage a shared commitment to integrate the organization at the fundamental level of individual members’ (ibid: 66). If this is not successfully achieved then ‘the risk was that if participants…were not thoroughly indoctrinated in broader organizational objectives, parochial attitudes or self-serving behaviours could turn the process negotiations into horse trading which produces acceptable compromises and trade-offs rather than shared commitments’ (ibid: 169).

Birkinshaw, in his many studies of subsidiaries (Birkinshaw 1997: 2000; 2001; Birkinshaw and Hood 1998), reinforces the importance of this problem when he notes what he terms the ‘dark side of subsidiary initiatives’ (2000:133). He relates this to the problem of empire building and opportunism at subsidiary level. Like Bartlett and Ghoshal, however, he holds that the key to controlling this is ‘a strong corporate culture’ which enables subsidiaries and HO to trust each other. Sölvell (2003), on the other hand, is more directly critical of the idea of the transnational. He argues that differences across subsidiaries are deeply embedded and make cooperation across the MNC highly problematic. Similarly Doz and his colleagues find the transnational solution as presented lacks credibility. They state that ‘in our research we studied conventional multinational companies and found little evidence that they were exploiting their potential for innovation advantage by melding dispersed knowledge’ (Doz et al 2003: 161; also Doz et al. 2004).

Perhaps most importantly in terms of what may be described as internal critiques of Bartlett and Ghoshal is that provided by Hedlund in his analysis of the MNC as a Nearly Recomposable system (Hedlund 1999). A nearly recomposable system (abbreviated to NRS in the article) ‘generates novelty rather than reproduces the old. It puts things together rather than takes them apart’ (ibid: 9). Hedlund uses the term in comparison to the idea of ‘nearly decomposable’ system, where the system has been designed to control possible ‘contagion’ across parts and enable the elements to be taken apart easily and without affecting the overall system. In the decomposable system, it is the integrity of the elements that is crucial. In the NRS it is the interaction of the parts that generates novelty and innovation. NRSs are characteristic of many different sorts of social systems, not just firms. However, particular sorts of MNCs (corresponding most obviously to Bartlett and Ghoshal’s model of the transnational) seem ‘rich in recomposition opportunities’ (ibid: 22). Nevertheless, Hedlund sees a major problem in achieving this potential. He states that ‘the drawbacks – at least empirically to judge from the research there is – pertain mostly to questions of identity and attitude. Few MNCs can boast a coherent and shared identity and sense of belonging among the employees globally or a forceful vision for knowledge and development. Openness to the outside as well as an experimental attitude are hampered by the historical weight of successfully exploiting old advantages. However, there are also "harder" obstacles, generated primarily by structural rigidities at the firm as well as the industry or larger levels. To the former belong the often pathological reward systems – if you want international recomposition – and lack of sharing of knowledge across organizational boundaries. At the meso and macro levels, the fact of thousands of languages being spoken in the world and of differing standards prohibiting shifts between contexts are formidable barriers' (ibid: 23). Like the other authors previously discussed, therefore, Hedlund finds the idea of learning across national borders a crucial part of the MNC but similarly finds there are significant barriers to this. In terms of solutions, he offers a similar answer – around the theme of management and the creation of a common vision or common culture that overcome the differences in the heterarchy.

These debates indicate the crucial problems for international management and multinational firms. For us, what these authors are identifying is the problem of developing a constitutional order in a multinational. In order to tackle this question, however, it is necessary to consider what are the foundations of constitutional orders in firms *per* se. Our argument is that such orders have in the past been primarily constructed within different varieties of capitalism. As a multinational spans different varieties of capitalism (see Morgan, Kristensen and

Whitley for various theoretical and empirical analyses of this problem) , therefore, it is first essential to understand those different constitutional orders.

VARIETIES OF CAPITALISM AND CONSTITUTIONAL ORDERS

Drawing on what we will call, for the sake of simplicity the ‘varieties of capitalism’ (VoC) perspective, we identify in this section two different forms of constitutional ordering within firms. This framework has been explored in a multitude of recent papers and books (e.g. Hall and Soskice 2001; Maurice and Sorge 2001; Morgan et al. 2005; Streeck and Yamamura 2001; 2003; Whitley 1999; Whitley and Kristensen 1996). This literature suggests that in particular national institutional contexts, there will be dominant rules of the game which structure the nature of economic actors, the roles which they play and the conditions under which they interact. National institutional settings (i.e. particular configurations of relations and interactions within and between the state, the financial system, the system of education and training and the cultural system) shape the types of firms which develop inside them by influencing patterns of ownership and control and patterns of authority and the sharing of authority between managers, employees and business partners. These rules of the game underpin the constitutional order inside the firm, i.e. the structures, processes and beliefs which enable actors to make sense of their world and how to act in it. Constitutional orders are not static, but evolve in a path dependent manner in response to exogenous and endogenous change processes. Constitutional orders are open to challenge but tend to be characterised by relative stability over periods of time.

In order to illustrate our argument, we draw on the well-established distinction in the VoC literature between liberal market economies (abbreviated to LMEs) and coordinated market economies (CMEs) (see in particular Hall and Soskice 2001). Whilst we recognise that in reality, there are varieties within these broad categories, for purposes of illustration, this dichotomous distinction enables us to marshal our key points and develop them within existing space limitations.

Coordinated market economies (e.g. Germany, Denmark, Sweden, Japan) are characterised by a constitutional ordering at the level of the firm and the economy in which authority is shared and distributed amongst collectively organized stakeholders, amongst e.g. business partners, professions, crafts, standard-setting bodies, vocational institutions and other institutions outside the individual firm. Such systems (whilst they differ in some important respects), share a similar emphasis on the importance of knowledge and skills and a recognition that these are distributed amongst different groups (see Streeck and Yamamura 2001 and Yamaura and Streeck 2003 for a detailed account of these processes in Germany and Japan). Achieving the objectives of the firm requires cooperation across these different stakeholders and this is secured not by market mechanisms but by institutional mechanisms that provide the framework for coordination, e.g. works councils, employee directors, collective agreements, ‘friendly’ shareholders, closely integrated supplier networks etc..

Liberal market economies such as the US and the UK rely on the market. Once the resources (labour, capital etc.) are purchased on the market, they are coordinated within strict managerial hierarchies. Authority is concentrated in this hierarchy and the majority of the employees (and business partners) are excluded from participation in decision-making either at the workplace or at the strategic level. We label the first *a consensual skill based system of authority* and the latter a *bureaucratic positional based system of authority* (see also Whitley 2003a).

Bureaucratic positional based systems of authority are associated with the classic Chandlerian model of managerial hierarchies. The change from the authority of the heroic individual entrepreneur towards bureaucracy in American capitalism involved Scientific Management and the training of engineers on a mass-scale to take over the new positions of industrial bureaucracies, while simultaneously reducing the needs of skills at the operational end of the scale (Bendix, 1956:ch 5; Noble,1977). Later this tendency has been prolonged by increasing on a mass-scale, administrative education and occupations, primarily in business economics, etc. thus further differentiating the managerial group from other employees. There is minimal authority sharing with lower level employees. The managerial layer devises principles and procedures of practice which are imposed on employees with limited consultation. Thus the constitutional order of firms in these systems is constructed around the dominance of the managerial hierarchy. Other employees are kept at arms-length from key decisions as are other outsiders such as suppliers. Coordination is based on a combination of external controls on and monitoring of behaviour, coupled with market-based bargaining over conditions of work in which the collective organization of employees may play a limited role.

Consensual skill based systems of authority rely on all the different groups in the firm having substantial training and through this expertise in their particular area. These groups are embedded within a system of shared authority with employer groups and the state as well as other occupational groups whereby rights and duties are associated with a particular sphere of jurisdiction. Markets are constrained by this system in that particular roles within the firm and outside can only be undertaken by individuals belonging to such groups (Stinchcombe 1992). In such systems craft unions and/or professions compete against each other in an effort to enlarge the skill base and the jurisdiction of their members especially when new technologies or new forms of work organization are emerging. Firms and employees organized in these sorts of way are constantly negotiating over the distribution of authority in these changing contexts. In practise this means that managers need to enlarge their skills at the operational level so that they can continuously reproduce the ability to instruct and give advice to still more skilled subordinates. It is on this ability that their authority rest (Stewart et al, 1994),. They need to continually improve on their ability to lead the “citizens” of the firm not by reference to abstract knowledge of ‘business’ or ‘marketing’ or ‘accounting’ but by reference to the same body of knowledge that is possessed by the employees. In such contexts, managers often arrive in this position via circuitous routes but the main thing is that they become managers through learning technical skills first and then adding to these other skills e.g. in finance, marketing, sales etc. mainly as a result of experience.

This affects how managers interact with employees as a whole and how different groups of employees interact with each other. Processes of rivalry, competition and conflict are framed within a constitutional order that is based on a system of self-confidence and self–respect at the level of the various groups. This also exists within a system of mutual respect as each group has its own area of expertise and recognises, even whilst engaged in rivalry, the expertise of the others. Management too is part of this, not as a separate and superior group but as a key mechanism in helping groups recognize their interdependence and finding ways that facilitate collaboration amongst potentially competing groups of employees. Management in such a system is based on experience of handling actors in such a way that "zones of indifference" are respected (Barnard, 1968). In such a context, central control is limited and the goal is to ensure that mutual commitments across groups of employees can be facilitated when the challenge of change emerges.

In the bureaucratic positional based system of authority, it is the managerial hierarchy which decides how change takes place. At one extreme, the bureaucracy may simply fire its workers and hire a new crew with new skills, subordinating these to the standardized rules of its bureaucratic administration. Alternatively it may seek to make the change by acquiring a new site or plant which better meets its new objectives or it may impose a new set of rules and controls on the workforce. Finally it may change through establishing an innovation centre, the successful products of which are then planned into production by engineers, imposing their distinctive plan. If the managerial hierarchy cannot do the task, the capital market effectively intervenes and forces such changes. Moreover, it is in the capital market that the real possibilities for change arise as relatively open and flexible access to financing in liberal market economies reduces the barriers to risk-taking and opens up the possibility of new combinations of capital, labour and technology. Institutional authority, i.e. the socially legitimated right to make decisions about the strategy and structure of the firm, rests in the managerial hierarchy, no matter how much particular decisions may be contested. Moreover, the scale of the changes can be described as ‘configurational’, i.e. they can fundamentally alter the structure and strategy of the firm.

In the consensual skill based system of authority, change is much more difficult as its negotiation evokes not only the actors within the firm as such, but also the actors in the wider society, including banks, trade unions, other firms (suppliers, customers and competitors), local and national government, educational and training institutions etc.. In the consensual based system, managers cannot assume that they can achieve new goals simply through a process of imposition. The fact that many of the managers have been recruited from the ranks of the skilled employees is crucial to managing this process of coordination. Managers derive their authority from their personal position and reputation established through their long experience and involvement at various levels of skill and rank within the occupation and the firm. This gives them the authority as well as the knowledge and understanding to negotiate and facilitate change processes within the firm, using their contacts and networks in the wider local context to reinforce this process. This is not to say that resistance and conflict does not occur in such a context but it occurs within an institutionalised framework where authority is legitimated through the system of skill and knowledge acquisition rather than simply bureaucratic position, constitutional bodies for negotiations and exchange of different professional views are in place and can be rejuvenated to modernize the ability to reconcile novel interest conflicts. Such systems work best in terms of allowing intensive, incremental cooperations to occur that gradually improve products and processes. Management's role is concerned with ensuring that the necessary network linkages that will facilitate this are sustained and developed. This is best achieved through the involvement of managers who have participated over the long-term on a personal basis in this process and therefore work with an established knowledge base and reputation within the local area. In this context, the constitutional ordering limits the scale of change, making it difficult to introduce configurational change but easier to produce incremental improvements.

Insert Table 1 about here

AUTHORITY AND MANAGEMENT IN THE TRANSNATIONAL FIRM

Transnationals as defined by Bartlett and Ghoshal aim to manage within one organizational setting the advantages from both these sorts of systems. On the one hand, they seek to be able to introduce configurational change, shifting production from one site to another as economic conditions change, or shifting investment from one set of products to another. On the other hand, they seek to enhance innovation and improvement in and across the organization by extending learning and cooperation within and between sites. What are the implications of this? We proceed in three stages. Firstly we consider multinationals whose home base is in liberal market economies and examine how their existing constitutional ordering produces a form of that impacts on local subsidiaries in distinctive ways. Secondly we consider multinationals whose home base is coordinated market economies. We argue that such multinationals find it very difficult to establish similar constitutional orderings to those which they are used to at home in overseas settings. We therefore conclude that there are fundamental structural obstacles to the achievement of the transnational model within the current frameworks. In our final discussion and conclusion section, we examine the implications of this argument for the study of international management. We draw on a range of empirical studies of MNCs in LME and CME contexts for our argument (e.g. Belanger, Berggren, Bjorkman and Kohler 1999; Edwards, Armstrong, Marginson and Purcell 1996; Ferner 2000; Ferner and Qunitanilla 1998; Ferner and Varul 2000; Ferner et al. 2004, Geppert, Matten and Williams 2002, 2003; Geppert, Williams and Matten 2003; Kristensen and Zeitlin 2005; Lane 1998; 2001)

Authority, Governance and constitutional ordering in Multinationals from liberal market economies

In liberal market economies, it is legitimate and expected that shareholder value will drive senior management's considerations about investments, costs, products and processes (Aguilera and Jackson 2003: Froud, Haslem, Johal and Williams 2000; Lazonick and O'Sullivan 2000; Williams 2000). The main goal is to achieve an acceptable profit for shareholders. Shareholders in such systems are now predominantly institutional investors which actively monitor share prices and are involved in frequent transactions of buying and selling in order to maximize returns to their clients as part of their competitive strategy. Failure of firms to satisfy these requirements is reflected in falling stock prices, which in turn increases the cost of borrowing to management. Across firms as a whole, differential performance gaps are the basis for the market for corporate control as firms with positive share price growth are able to bid for lower performing firms through combinations of share swaps, borrowings and cash. Whilst there are many ways to achieve shareholder value (and investors are not necessarily concerned about the exact mechanisms), there are a relatively small number of key performance indicators which show whether the company is on the appropriate track. These indicators basically relate to returns on investment for the shareholders. Depending on the speed and direction in which trends on returns move, companies (and their managements) will find themselves either vulnerable (to takeover or, in an increasing number of cases, to replacement as a result of well-publicised ‘shareholder revolts’) or powerful (flush with the capital to take over other companies or to return cash to shareholders if no takeover situations appear likely to generate a good level of return). In terms of legitimacy, senior managers in liberal market economies achieve this through their ability to respond quickly and effectively to financial market pressures by utilising the managerial hierarchy to implement change (see e.g. the discussion of corporate restructuring in Lazonick 2004). These systems encourage ‘reconfigurational’ processes, i.e. merger and acquisition activity or bursts of foundings of new firms as in the dot.com boom, in which managerial hierarchies respond quickly and rapidly to changing market circumstances.

These changes have meant senior management of multinationals from these systems have become more interventionist in local sites in a number of ways. Such interventionism was a taken-for-granted capability of the authority structure in these systems. It did not need to be justified or debated as it was embedded in the concept of what it was to be a senior manager in a firm whether it was mulotinational or not. The result was the introduction of new and more elaborated systems of performance controls on subsidiaries. In the financial area, these controls and targets stemmed from more sophisticated business planning techniques in head offices facilitated by a growing professionalisation of strategic management and more powerful IT mechanisms for identifying performance at any particular moment. The identification of shareholder value returns led to a focus on how each part of the business could contribute to this and an increasing pressure to reduce costs and improve performance. Such goals have been common in these systems for a long time but what gives them importance in this period is the ability to turn general exhortations into particular targets and to monitor performance to targets extremely tightly and frequently. Associated with this in multinationals was the effort to 'learn' from diversity in a very particular way. This was through the use of benchmarks. Thus the performance of the different sites of the MNC (across a variety of non-financial as well as financial targets, e.g. productivity levels, manpower levels, employment costs, down-times, speed of set-ups etc.) were subjected to comparative analysis. Building from this, targets could be set for different sites to meet the 'world' best standard established by another site within the firm. These mechanisms are part of the broader effort of the senior management to create a sort of internal market competition within the firm reflected both in ongoing benchmarking that fed into decisions on relocation and corporate restructurings and into specific 'competitions' over the allocation of resources within the broader multinational. Birkinshaw (1999), for example, describes this in terms of competition not just for new investment but for becoming a centre of excellence in a particular area of production that brings with it status, position, rewards and opportunities for individual mobility.

One perspective on these processes is that they do work like a market and that the result is an enhancement of the overall efficiency of the organization. We wish to counter this by emphasising the 'politics' of this process. In other words, our expectation is that such competitive processes also unleash responses in social actors in different contexts. Social actors have interests that are not circumscribed by the strategic framework of the multinational. Their concerns are likely to involve their own survival and prosperity, whether as individuals or collectives. For them, the particular organization in which they work significantly frames their life chances and how they can seek to improve them. However, this is as much about informal mechanisms of power as it is about succumbing to the formal rules of the system (Edwards et al. 1996). It is important therefore to identify how the game which the multinational from the liberal market economy constructs becomes enacted on an informal and a formal level within subsidiaries.

We would identify three general tendencies (which are played out in different ways in different contexts). Firstly these processes create a form of transparency that is likely to stimulate competition between sites making it less likely in many cases that there will be voluntary cooperation and sharing. Secondly, they create new forms of 'gaming' over information delivered to the head office as subsidiary managers seek to portray themselves in the best light by a judicious process of editing and censorship. Thirdly, benchmarking processes will also therefore become sites where access to and power over information, categories of data and interpretation of results is thoroughly imbued with considerations of broader organizational politics. How this works out in practice, however, is likely to vary between subsidiaries located in liberal market economies and those located in coordinated market economies.

Impact on subsidiaries and subsidiary managers in liberal market economies. If we consider the effects of these processes it is obvious that they are more easily dealt with from subsidiaries based in liberal market economies with a bureaucratic positional based system of authority. The more these subsidiaries have become professionalized bureaucracies, the better they will be able to respond to the numbers game of ROI, measure new bench-marks in standardized ways, etc. as they are exactly constructed in order to facilitate the efficient flow of such types of information. Authority and the nature and role of managers constitutes a central issue here. Managers in liberal market economies identify themselves with the goals of the organization. Their career has two elements to it. On the one hand, as part of the management hierarchy in such firms, they are dependent on achieving the goals as set out by senior managers. Failure to do so undermines their *raison d'etre* and is likely to lead to them leaving the organization under conditions not of their own choosing. On the other hand, as 'general' managers, they are not tied into the firm but can become active on the external labour market in the right circumstances of their own choosing. This implies that subsidiary managers in liberal market economies are likely to identify more strongly with the management role in the firm as a whole than with any local social actors. Whether they are expatriate managers or not, subsidiary managers are part of the authority structure of the managerial hierarchy of the firm as a whole.

In terms of the ‘gaming’ behaviour to which we earlier referred, this has particular implications. It points to a combination amongst subsidiaries in liberal market economies of what has been called the ‘boy scout’ model of subsidiary (following orders like a good boy) and an entrepreneurial strategy (trying to find new business areas) (Delany, 1998). The subsidiary manager has little interest in the particular social and institutional context of the site. They are willing participants in HQ strategies of bench-marking, investment-bargaining and regime shopping (Mueller and Purcell, 1992; Mueller, 1996) even where this is likely to lead to the closure of their own site. This is not to say that subsidiary managers do not use their position to shape and bend information to their own interests. On the contrary because of the rapidity of mobility in such firms and the frequent restructurings that occur (thus creating new management positions as well as forcing others out onto the external labour market), it is very much in these managers’ interests to ‘over-conform’ to senior management controls. The long term viability of their actions is rarely going to be calculable in a context of multiple restructurings. On the other hand its short-term impact will be highly visible. Therefore there is a premium on over-conformity to immediate head office demands. As a consequence, it is difficult for these subsidiaries to be other than highly dependent on the head office. This in turn makes them very vulnerable to the reconfigurations and restructurings that senior managers engage in in order to placate shareholders.

Impact on subsidiaries and subsidiary managers in coordinated market economies. In consensual skill based systems of authority, however, shared authority means that novel measures, bench marks, etc. are going to take time to implement as they often involve a re-negotiation of jurisdictions and responsibilities. In practise, head office managers from multinationals based in a liberal market economy are unlikely to allow this time. In effect the pressure is on managers to violate the "zones of indifference" which are the basis of the mutual respect, which sustains this system. The more managers pass this pressure onto their employees the more risk there is that changes in the consensual skill based systems of authority will occur and irreparably damage the previous model. The more they pass on this pressure to their suppliers in the local context, again, the more they undermine the cooperation on which the system is based. In reality, however, this is unlikely to happen precisely because of the existing authority system in these systems. Unlike liberal market economies, where managers draw their authority from being members of the managerial hierarchy, in these systems, management authority derives from local skills and knowledge Local managers with strong reputations in the local system and high authority amongst employees will therefore evolve ways of protecting the local. This may be achieved in a number of ways. One way is that local managers will engage in more strategic game playing in the local context to deepen the broader coalition and network of interests that supports the local site. This can have a positive outcome for the head quarters of the MNC in the sense that the local site continues to upgrade its innovative capacities and potential without waiting for the permission of the headquarters. Another way to protect the local is to engage with the headquarters in terms of shaping information and expectations more actively so that, for example, the terms, the results and the interpretation of bench-marking exercises are more negotiated than might be expected. Of course, the ability to achieve these ‘positive’ outcomes at the local level is highly contingent on a variety of circumstances, ranging from the skills and commitment of local managers through to the broader economic and shareholder pressures under which headquarters labours.

It may be objected that this argument ignores the power and ability of the head office to insert expatriate managers into the local context and in this way ensure that their goals are more unproblematically achieved. This, however, has obvious dangers. As such expatriates lack legitimacy and knowledge in the local context, they have basically two options. The first is to do as they are told by headquarters (e.g. in terms of implementing benchmarks, cutting costs etc.) risking creating opposition in the local context and destroying the existing capabilities of the subsidiary. This may well be the most obvious way to act as, again, the longer term consequences of such actions may only emerge long after the expatriate has moved on to another position either inside or outside the MNC. The second is to ‘go native’ and rely on locals to resolve the practical problems – in which case once again, the issue arises concerning the speed and nature of change in coordinated market systems.

Thus the managers in these local sites often have long careers and commitments at local level, especially if they have gained their position through the normal working careers of a skill based system of authority. Therefore they know better than to commit themselves too strongly to head office policies which may have limited duration as the managers (either in HQ or as expatriates) promoting them will probably have moved on within a few years having been replaced with others using a new set of tools and techniques to achieve shareholder value (and enhance their own personal career in this elite labour market of senior executives of MNCs). To them, therefore, it may look much more promising to work for a career locally, by maintaining the codes of conduct that leads to promotion within the status-hierarchy of the profession. Local managers and employees in subsidiaries in consensually based skill systems are therefore likely to reject or subvert a narrative of authority based on managerial hierarchy and shareholder value.

What arises in these contexts is clearly a range of local conflicts and tensions, partly within the local site (between those seeking to implement outside controls and those unwilling to accept the new capital market narrative as an adequate replacement for narratives of involvement and participation based on skill and expertise) and partly between the local site and the head office (as actors struggle over the presentation and narrative interpretation of events and processes as preludes to action) (see Kristensen and Zeitlin 2005 for a detailed study of these tensions and conflicts in one MNC). Depending on the depth of these conflicts and processes, local sites can respond in a variety of ways. One potential response is where local sites manage to construct a new solidaristic narrative of their own identity which envisages the creation of a possible future outside that of the multinational in which it is currently embedded. Thus the continued efforts at control from head office actually become counter-productive as they stimulate growing questioning of the legitimacy of these activities and a reawakened interest and understanding of the distinctiveness of the local site. In particular if such a local site is surrounded by strong institutions that define rights and duties (authority and discipline) differently from how the multinational headquarters does, it may increase the propensity of the subsidiary to follow a subversive strategy (Delany, 1998) towards the HQ. Such a strategy which may be based on enabling the different groups in the local area to see their joint long term interests as involving cooperation and coordination over objectives set within their own network rather than within the managerial hierarchy of the firm. This, of course, depends upon some existing form of solidarity amongst employees and managers in the local site, supported by local labour market institutions, collaborative traditions and surrounding enterprises that provide for alternative business relations. These institutions may be formal (local government, local trade unions, local firm associations) or they may be informal (strong local labour markets that offer employees alternatives; local innovation systems that encourage managers to deepen their attachment to the locality rather than weaken it (Solvell and Zander 1997). Not all sites even within coordinated market economies have these powers and they may find head office measures imposed on them, in the process extinguishing whatever sparks of local advantage might exist until they simply become another subsidiary without anything distinctive for the MNC to learn. In both these cases, the MNC might end up destroying the diversity and difference which is supposed to be the transnational advantage.

Authority and Governance in Multinationals from coordinated market economies

Traditionally in such economies, the emphasis was on ‘patient capital’. Ownership was generally vested in companies that were closely integrated with the firm itself. Thus shares would be held by banks and insurance companies which were as interested in gaining banking and insurance business as they were in making a profit on shares. Similarly in coordinated market systems, shares were often held by business partners as a sign of long-term cooperation and trust. In these contexts, legitimacy and authority was gained by guiding the firm long-term in the development of its products and processes. Shareownership tends to be more highly concentrated and the largest blockholders of shares are represented on the board of directors. Thus there is more information and knowledge in the hands of the key shareholders who are in turn more likely to be closely involved in approving and supporting senior management’s plans. This system of governance and the consensual skill based system of authority complement each other as both tend to evolve through multilayered negotiations between interested parties. Top executives would make agreements with external members through the boards of directors and these could be linked to agreements among groupings of employees in, for example, works councils. By linking these agreements, external and internal stakeholders would be mutually bound together. Such systems could be said to possess from the outset constitutive elements for procedures to re-negotiate specializations and investments at many layers of the corporation so that they could create an experimental practise of re-composition and mutual learning.

Reflecting this, firms from such systems were actually loath to become involved in international production. Their whole system was based on a deeply socially embedded model of organization with network links across firms, stakeholders, and local and national institutions. It was out of these networks that the distinctive innovative and competitive capabilities of these firms emerged. Therefore firms from these systems tended to prefer an export model of internationalisation since this did not face them either with the problem of managing under more bureaucratic managerial hierarchy type conditions or with the difficulty of trying to establish similar networks as in their home base in institutional conditions which were not conducive to the same patterns of collaboration and cooperation. For these reasons, they tend to find it more difficult to internationalize than do firms from liberal market economies. In recent decades, however, a combination of political pressures (threatened tariff barriers to close markets against 'unfair imports') and economic circumstances (to achieve global economies of scale and scope, to access local market information, to take advantage of different cost structures) have led the largest firms in coordinated market economies to develop on an international basis.

However, what is the significance of this in terms of such companies establishing a transnational structure or international management? Whitley has been extremely sceptical of these developments (2001: 2005). In a recent paper, for example, he suggests that multinationals from these types of system are best described as either ‘colonial’ or ‘domestically dominated’ rather than ‘transnational’ in the sense described by Bartlett and Ghoshal. Whitley’s ‘colonial’ model of the MNC is described as a national company with foreign operations that are highly subservient to the head office (Whitley 2005: 259).What he describes as ‘domestically dominated firms’ show some opening up but still retain key decisions and key innovation capabilities in the home base. Unlike MNCs from liberal market economies, they are less concerned to internationalise in order to learn from overseas contexts as they alredy have strong learning capabilities in their home contexts. Their main concerns are market access and economies of scale.

Japanese MNCs, in particular, seem to continue to resist the ‘transnational’ model, preferring in Bartlett and Ghoshal’s terms to be ‘global’, i.e. delivering to a global market through pipelines in different contexts (Beechler and Bird 1999; Campbell and Burton 2003; Morgan et al. 2003; Whitley et al 2003). In this way, they have avoided a whole set of problems concerned with ensuring learning and transfer of knowledge across subsidiaries. Having implanted certain key characteristics of the

Japanese production system in subsidiaries, they leave them to be managed by local managers in ways consonant with the local context. Indeed liberal market contexts for their investment are preferable as fitting in to the local context is relatively simple and does not require adjustment to complex regulations or socially embedded institutions. Thus within Japanese MNCs, 'colonial' subsidiaries are, as the term suggests, relatively powerless in the overall context of the firm. The local managers of subsidiaries are locked into their particular part of the multinational with very little influence over broader strategic decisions.

German companies, on the other hand, are somewhat different, being less 'colonialist' and more 'domestically dominated' in Whitley's terms. Unlike Japanese firms, they have increasingly grown internationally through merger and takeover (Wortmann 2000: 2001), often as a deliberate attempt to create both economies of scale and the sort of diversity, variety and learning opportunities articulated in the 'transnational' model. Clearly, this relates to the more rapid changes in ownership and governance that are occurring in Germany (compared to Japan) (see e.g. the contributions in Yamamura and Streeck 2003; also Geppert et al. 2002, 2003: Lane1998: 2001). The opening up of financial markets has led to a growing internationalization of the ownership of German firms as blockholders (particularly the major banks and insurance companies) themselves have been encouraged (both by government and taxation reform and their own desire to establish a global presence) to sell off their shares. Similarly, the firms themselves have sought to internationalize their shareholders as a means of accessing capital in new ways (particularly through the US bond markets) and thus facilitating overseas acquisitions. This has left the German MNCs struggling to balance off their commitment to consensual authority systems within Germany with the opportunities open to them in other contexts to develop more market oriented relationships. As a number of authors have shown this leads to increased pressure within Germany for the system to change, the result currently being a delicate balance of forces (see in particular the discussions in Yamamura and Streeck 2003; also Morgan et al. 2005). However, German managers remain sensitive to the role of skill based authority systems (both in Germany and elsewhere) in terms of achieving long-term incremental change and improvement. Studies of German MNCs have shown that budgets, targets and benchmarks tend to be treated more as ways of negotiating improved performance in local sites rather than as disciplinary mechanisms (Ferner and Quintanilla 1998: Ferner and Varul 2000). The continued significance of 'patient capital' facilitates this process as it provides a barrier against frequent reconfigurations and also encourages the long-term focus of senior managers who themselves identify strongly with the firm.

How do subsidiaries from different contexts respond to these processes in MNCs based in coordinated market economies? Subsidiaries in liberal market economies are likely to interpret this in terms of their dominant view of authority, i.e. to construct possible head office attempts to facilitate cooperation and change as directives, translating them into specific targets and implementing them as such. To shift such local subsidiaries away from this appears extremely difficult particularly where it is obvious that the weight of authority, control and innovation remains in the HQ in the coordinated market economy. Subsidiaries in the home base or in other coordinated market economies, on the other hand, may understand the general game which they are being asked to play but may respond by enhancing their locally produced networks as a defence against becoming over-dependent on the MNC (see Kristensen and Zeitlin 2005).

DISCUSSION AND CONCLUSION

The differing authority structures which we have identified create fundamental problems for multinationals in establishing a constitutional order. The problem for the head office in the circumstances outlined is that in seeking to exert power and failing to be effective in many contexts, it actually weakens itself even further. If it cannot achieve its stated objectives, it undermines even a utilitarian view of its legitimacy. Such a view from the inside of the MNC would emphasize that its usefulness to local sites derives from two sources. Firstly it provides some protection from the vicissitudes of independent ownership (whether that was on the stock market or by individual control). Secondly, through its global reach, it offers local sites conduits into new markets across the world that they might not be able to reach as independent, smaller firms. However, the conflicts, difficulties and changes set up inside the transnational form make even these objectives difficult to achieve, thus reinforcing local sites' concerns to re-establish their own narrative of authority. The enigma then becomes how the MNC is able to maintain any authority when it seems to destroy it by exercising it.

In our view, this reflects two possible directions for MNCs in the future related to two models of constitutional ordering. The first model we can label as a manipulative, pathological model of constitutional ordering; the second is a positive cooperative model. The first model is easier to observe and describe. Firstly it involves the senior managers utilizing their ability to impose on others uncertainty, (as also demonstrated by Crozier (1964) for the special case of the Post War French industrial bureaucracy), and secondly, they use their position to allocate 'blame', as analyzed by Jackall (1988) in case of the multidivisional form.

As the transnational solution is a non-structural solution to the problems that face firms in terms of integration and diversity it offers a deep reservoir of possibilities for both generating uncertainty and allocating blame. The transnational solution is propounded by Bartlett and Ghoshal as a philosophy and a mind-matrix that enables managers to accept and to live in ambiguity. In their analysis of successful cases they show how successful top executives rather than sticking to one organizational structure shift between different structures to balance between ambiguous signals from the environment. This legitimizes top-executives constantly changing the formal structures and jurisdictions within a multinational as a means to ensure profitability. However, by doing so they create a permanent state of uncertainty for sub-levels of the corporation in which it is very difficult to strategize coherently and consistently – either as ‘boy-scouts’ or as ‘subversive strategists’. At the same time it makes it nearly impossible to stabilize the system that in any possible way can trace responsibility and compare performance in the longer run because corporate restructurings are so frequent and widespread. In this melee of uncertainty, what makes the difference for individual managers in the headquarters is to demonstrate fast, short term improvements in performance and at the same time to escape from being “blamed” for failures. So, as Jackall expresses it, bureaucratic power becomes the right to allocate blame to subordinates. Subordinates’ best way of escaping from this is to accept the performance-measures that they can most easily achieve in the short term and thus gain for themselves so fast a promotion that they avoid the blame process. Better still they may become allocators of blame disciplining their successors for the mistakes that they have made themselves. In local sites, where local narratives are also a method of constructing track-records and allocating responsibility in a very different way, this process clearly does not increase the legitimacy of the HQ and its promotional system. What it does do is to teach local managers how to play a new game. The problem is that this form of constitutional ordering negates the supposed advantages of the transnational firm because its focus of concentration is not on enabling learning to occur across diverse contexts but rather of imposing uniformity on contexts and thereby destroying the potential to learn.

So what is the alterantive constitutional ordering? Firstly, it is clear that an uncontrolled penetration of shareholder value into transnationals is counterproductive and will end up destroying diversity and learning potentials. What might ameliorate this trend? This is a huge question reflecting issues of public policy and economic management that cannot be adequately addressed in this paper. However we would point to the way in which certain forms of institutional activism are building into their policies and practices a stronger awareness of the social consequences of investment. Another more contentious argument would be that if MNCs are really as we suggest, i.e. destroying their supposed advantages rather than developing them, then this will become visible in financial markets, e.g. on the analogy of the 'conglomerate discount' (i.e. the stock value of a conglomerate is often below the value of its parts if it were split up into pieces), there may emerge a 'multinational discount' as investors see that the MNC destroys rather than creates value. From this point of view, one might expect the emergence of new organizational forms which avoid these problems together with a 'voice' strategy from remaining shareholders calling for a more careful management of this diversity. Clearly, there are a number of authors (Gereffi 1995; Langlois 2003; Powell 2001) currently arguing that economic activities may well be being reorganized into network chains of highly specialised actors rather than located within hierarchical firms (even of the heterarchical transnational sort!). There are also continued debates about how institutional investors should relate to their ownership role. We would expect this to continue and as ownership itself becomes more international to become more salient.

Secondly, within the European Union at least, there are institutional moves that affect these processes. One set of moves concerns the development of European Works councils, which create a framework within which employees from different local sites can learn about their differences without necessarily having to have managers act as the conduits and interpreters of diversity and learning (Marginson 2000). Another set of moves concerns the interest in local embeddedness and local regions which the EU is stimulating whereby different sets of actors in local contexts gain greater awareness of their interdependence. Both of these enable the construction of new narratives of the purpose, position and functioning of MNCs and their local sites. One is a narrative of shared interest amongst employees, obviously highly attenuated, uneven and confined to limited numbers but nevertheless emergent and potentially powerful. The other is a narrative of local 'ownership' and development of economic resources, providing a framework outside any particular structure of MNC ownership as a potential safety net for local sites (see also the links made between MNCs and EU policies in Kristensen and Zeitlin 2005).

Thirdly, there is the broader debate amongst political groups and social movements concerning the inter-relationship between globalization and local contexts. This is creating a greater awareness that globalization enhances the potential for local identities to emerge at the same time as it overlays this with elements of common frameworks, discourses and practices. Stronger local identities will lead to increased pressure on MNC managers to take serious stock of their local sites, what institutional advantages lie there and how they may be utilised in a more beneficial way for local populations. Such a system will have to constitute itself as a shared authority system built on multilevel negotiations that create mutual commitments and joint allocation of resources.

In order to understand the tensions between these different constitutional orderings, we would argue that scholars of international management and MNCs should move their gaze to this broader horizon of theoretical debates and empirical issues. How is authority constituted and how does such constitutional ordering taking place within different types of multinationals? The following constitute a possible set of questions and projects:

- *The governance structure of multinationals from different national contexts*. How are senior managers selected and where does their authority come from? Is it primarily from shareholders on the basis of the manager creating a successful career within managerial hierarchies? If so, what sort of careers are represented amongst this group? Alternatively are there examples of senior managers emerging out of a different set of reputational elements – those deriving from long service and skill acquisition at local levels? If so, are they engaged in different processes of experimentation aimed at different forms of constitutionally ordering MNCs?

- *How, why and with what frequency are MNCs from different national contexts restructured?* What happens to local sites and local managers in these processes? Are subsidiaries learning from past experiences and are they able to create strategies that secure themselves a place in mutual negotiations over projects and resources?

- *What sorts of tactics do employees develop in order to try to create a shelter against the frequency of changes initiated by the headquarters?* Are they able to create a stable type of leadership, initiate negotiations on alternative benchmarks that to a higher degree reflect on the sorts of improvements that reflect local aspirations?

- *How are the loyalties of managers structured and changed in settings where career advancement up the MNC is highly uncertain?* Is it basically at the level of top-executives and of local managers that a market for executives are present or are some sort of markets and professional codes emerging at the middle levels? Are such transnational spaces engaged in discussions over problems and solutions to the constitutional ordering of transnationals?

In conclusion, our argument is that ‘international management’ can make a serious and important contribution to our understanding if it incorporates a stronger sense of the institutional foundations of firms into its approach and investigates how constitutional orders are being constructed within multinationals. In our view, these internal dynamics within firms will repay much closer attention in order to understand how processes of integration and variety interact. On the basis of our own and others’ research, we believe that this will reveal a much greater complexity of forces than has previously been expected. This is the ‘transnational’ challenge. We are a long way from the ‘transnational solution’.

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Table 1: Authority in different national systems

	Liberal Market economies	**Coordinated market economies**
Dominant legitimation of individual authority	Position in hierarchy	Possession of reputation and skills
Access to authority positions	Through becoming a 'manager' with general 'management' skills	Gradual acquisition of technical and business qualifications and skills in particular area
Career patterns	Frequent internal and external labour market mobility	Long term commitment to particular firm or occupation; limited mobility
Extent of authority sharing within the organization	Low	High
Extent of authority sharing outside the organization – with other firms and actors	Low	High
Learning within the organization	Limited to managerial hierarchy	High within and across the firm
Impact of authority structures on change processes	Top down: focus on reconfigurational change: ability to move in and out of business areas rapidly	Focus on incremental change and learning
Impact of authority structures on characteristic forms of innovation	Reconfigurational change: major new innovations achieved either through internal R+D departments or through industry level competence-destroying innovations leading to establishment of new firms and sectors	Mainly competence enhancing within existing model of skills and expertise