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Multinationals and Institutional Competitiveness

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Abstract: This article discusses how institutional competitiveness and multinationals are mutually enriching concepts. Seen from the perspective of Multinationals, institutional competitiveness becomes expressed at two levels. At the level of corporate HQs institutional competitiveness proves itself by forming firms capable of expanding internationally. At the level of subsidiaries as providing institutional back up for these firms' abilities to fight for survival and growth within the frame of rivalling subsidiaries of the MNC. The article discusses at these two levels the comparative institutional competitiveness of Liberal Market Economies and Coordinated Markets Economies under the current competitive regime.

Introduction

Within thirty years world competitive regimes seem to have shifted thrice. The first oil-crisis ended the American epoch with mass production and price competition among large vertically integrated or multidivisional companies. Then, surprisingly, odd forms of economic organization – e.g. Italian Industrial Districts and Japanese business groups – created a “New Competition” (Best 1990) focusing more on flexible and specialized firms competing on design and quality than on prices. This shift showed that in some countries institutions sustained forms of work- and firm-organisation different from the US. Gradually, however, large corporations learned to take stock of these alternative forms of organization by internal restructuring along Japanese ideals, increasing innovativeness and flexibility, while simultaneously engaging in global expansion. Now large multinationals are taking over global control over distinct product-markets, value-chains, and

networks of subsidiaries and suppliers to the effect that global competition increasingly takes place among large multinationals, each of which internalise “markets” on which subsidiaries and suppliers mutually compete over space, mandates and positions.

Are countries equally able to construct and sustain such multinationals? Are MNCs as competitive arenas functioning different from the classical markets? Are struggles for positions and roles within them dependent of both political power and economic efficiency? How does national institutions enter into this competitive game within and among MNCs?

Multinationals and Institutional Competitiveness

Over time the theoretical causality of competitiveness, institutions and multinationals (MNCs) has become increasingly complex. From an economist view (Hymer 1976) multinationals emerge from countries of intensive competition (Porter 1990) and low profitability in domestic markets. Firms from such countries that enter foreign, less competitive markets hold comparative advantages and can be extraordinary profitable. It follows that institutional arrangements favouring free competition, will help cultivate both exports and foreign direct investments (FDI). This logic may be further elaborated by the product cycle argument (Vernon 1966). Tense competition will make firms choose innovation strategies, which will enable them to gain extraordinary profits for a period. However, as this period ends in the home market, firms may defend their technological assets and profitability by entering foreign markets in which they can exploit technological advantages. Thus institutional arrangements that ease innovative performance are important.

FDI, however, also depends on the ability of firms, instead of markets (export), to control and coordinate economic activities. In one explanation, the firm is a method for reducing transaction costs (Coase 1937): If firms are able to cope efficiently with shirking, free riders and opportunism, they will reduce costs that follow from market transactions. The way in which firms organise becomes of major interest. Chandler (1977) and Williamson (1975) showed how American companies gained institutional competitiveness as early inventors of the vertically integrated and the multidivisional organization, coping with these problems. Fligstein (1990) showed how these organizational forms emerged in response to institutions regulating competition in the US, which suggests that the propensity for countries to develop multinationals is dependent on their ability to invent organizational forms, which again depends on distinct national institutions.

Thus different countries may tend to organize multinationals in different ways, depending on national institutions. Bartlett and Ghoshal (1989) showed how Europeans used to construct “Multinational Companies” based on host country geographic management, making subsidiaries very responsive to host country opportunities. Americans rather focused on business management pushing for manufacturing rationalization, product standardization, and low cost global sourcing in “Global Companies”. Finally, e.g. Japanese used functional management with direct supervision from headquarters to diffuse knowledge and skills throughout the “International Company”. These differences reflect that corporations cannot depend on a common set of international institutions from which they can construct similar authoritative control and coordination systems and therefore tend to construct them from their national heritage and institutionalized practises (Whitley 2001).

To sum up, a minimal definition of ‘institutional competitiveness’ would suggest that a society develops a particular institutional order that shapes the nature of firms and markets in ways which

give those firms distinct competitive advantages dependent on competitive regimes. Clearly many societies fail to develop stable institutional orders, and such societies may not produce globally competitive firms. Thus institutional competitiveness may only be relevant to a small number of developed and developing countries. For those societies, research into ‘varieties of capitalism’, ‘national business systems’, etc., search for answers to the question: what institutional configurations shape, which types of firms and with which competitive consequences?

Whitley (2000) gives the most elaborate answer, particularly in his attempt to link types of innovation to types of business systems as he integrates most of the previously mentioned dimensions of institutional competitiveness. He builds a model in which different types of innovation strategy are seen to reside most easily in particular types of national business systems. The following table summarizes his argument:

TABLE 1 ABOUT HERE

Accordingly there are five broad types of institutional systems that encourage the development of particular sorts of firms with particular capabilities. Each type of business system has its own key features that shape the way in which firms innovate and develop. In “fragmented systems” (with low trust in public institutions), firms tend to be family owned, unwilling to risk large investments in building long term assets, making them opportunistic and flexible, relying on existing knowledge, and quick to shift out of falling markets. Firms in “coordinated industrial districts” are dependent on strong local institutions that provide training and skills, credit and business services, being dependent on highly skilled workers to respond innovatively as markets change. Continuous improvement of products and processes interacts with continuous skill upgrading. In

‘compartmentalized’ systems (with limited state support, powerful capital markets, low skills, weak trade unions, firms are ‘isolated hierarchies’ with weak networks with suppliers and customers), firms are focused on mass production with standardized routines aiming to reduce costs, primarily through innovation in bureaucratic control. In “collaborative, highly coordinated systems”, firms are positioned within strong networks of passive capital owners, cooperating suppliers, customers and employees, enabling them to coordinate long term problem solving in a risk-sharing environment. Japan built these networks around firms. In Germany, state involvement and strong industry trade unions have made the networks more far-reaching and entailed greater potential political disagreement. Finally, Whitley identifies “transformative innovation” where new firms and industries emerge, because capital and labor markets enable the swift and effective recombination of assets, often knowledge assets partly created through states in mission oriented science policy supporting highly research driven university systems. This indicates how firms and institutions combine in many different ways in different countries, helping them to respond to a given competitive regime in a multiplicity of ways. Thus there is no one institutional formation superior to any competitive regime, but the interaction between firms and institutions will greatly influence, whether a country may or may not benefit from a particular competitive regime in fostering continuous development. Thus, institutional competitiveness may be assessed by how effective a country is able to exploit a competitive regime in fostering development.

How is the competitive regime of multinationals relating to these different types of institutional systems? In principle, institutional competitiveness is being expressed in two ways. First, in how effective the national context is for fostering and constructing multinationals, and second, how effective national contexts are for attracting foreign direct investments and enabling subsidiaries capture economically important positions within foreign MNCs. Whitley (2001; 2005) has

primarily analyzed how firm-types in different systems have internationalized by following their trajectory of development. For example, Japanese multinationals are exemplars of the collaborative model, and research suggests that they transfer as much of their existing model as possible when investing overseas. Thus the production system in its hardware form and some of its social forms (e.g. team-working but not seniority rewards) is transferred. Numerous Japanese expatriates monitor the technical process, leaving human resource issues to local managers (Morgan et al. 2003; Whitley et al. 2003; Beechler and Bird 1999; Campbell and Burton 1994; Liker et al. 1999). Therefore Japanese multinationals prefer locations of weak institutional systems that are not constraining plant management, e.g. areas in the UK and the US with weak unions. Thus, Japanese multinationals appear little interested in how the institutional advantages of their overseas location enable new forms of innovation (if able to find a reasonably literate workforce, capable of strong industrial discipline), though they might effect changes. In the UK it has been debated how the entry of Japanese firms, by their management and disciplining of supply chain operations, improved relations to and capabilities of UK suppliers, effectively rebuilding the institutions of the traditional arms' length model of contracting towards a more collaborative one (Elger and Smith 1994; Sako 1992, Oliver and Wilkinson 1992).

The diversity of organizational forms of competing MNCs that the Japanese example suggests also reflects the difficulty in identifying one best organizational form. The multidivisional form could not simply be adapted globally, as it would pose a seemingly unsolvable theoretical dilemma: Should organizational control and coordination follow product- or geographical divisions? If shirking, free riders and opportunism are arrested in one dimension, they emerge in another. Bartlett and Ghoshal (1989) showed that American MNCs achieved scale economies, Europeans scope, while only few combined scale, scope and innovative performance. This is indicative of the current

competitive regime. Multinationals compete mutually while searching for novel organizational forms, a process in which corporations from many countries try construct novel forms by making novel use of ideas and of home-institutions. The competitive game is still in a phase of trial and error, in which success and failure constitute a blend within each MNC. Yet, an obstinate conviction of the business literature is that multinationals are able to optimize the rational allocation of capital, locate parts of their businesses to the most economically and institutionally favourable countries so as to allow for a well-coordinated global value chain. And Bartlett and Ghoshal thought that by combining the strengths of previous forms of organizations of multinationals into the “transnational corporation”, economies of scale and scope could be combined and transnational learning and innovation take place.

This article proceeds by answering the question: How could transnational corporations benefit from various forms of institutional competitiveness? and continues by investigating: How are multinationals currently constructed, and why are they not adopting this organizational form? To explore, finally: How do the federated parts of a multinational interact? By understanding how headquarters (HQs) typically intervene with subsidiaries and the latter respond, we try specifying the mechanisms by which comparative institutional differences and national institutional competitiveness enter into the operations of multinationals. It will be shown that this happens primarily through the strategies that subsidiaries evoke, when facing isomorphic demands and pressures from headquarters. We explore these strategies and relate them to institutions to understand, how it is possible for subsidiaries to have different strategies in meeting similar demands. To study how subsidiaries are able to make novel use of institutions in strategizing for survival and growth within a multinational is a major source for understanding how institutional

differences among nations effect outcomes. Within MNCs national institutional formations are confronting each other both economically and politically.

Visionary utopias: Multinationals as a community of competing institutions?

Bartlett and Ghoshal (1989) were early in considering multinationals as arenas of social interaction rather than a unified rational economic actor. This extended the research-agenda to the issue of institutional competitiveness, and how multinational firms could exploit it. In particular, they identified a new organizational formula, the *Transnational Corporation*, which they described as ‘dispersed, interdependent and specialized’ with ‘differentiated contributions by national units to integrated worldwide operations’ and ‘knowledge developed jointly and shared worldwide’ (Bartlett and Ghoshal 1989: 65). They particularly emphasized it to possess a distinctive competitive advantage because it was located across different settings with distinctive capabilities, which gave it a capacity to combine these in new ways that made it more innovative than firms lacking this internal diversity. In this perspective multinationals become engineers of cross-country complementarities.

Though Bartlett and Ghoshal did not explicitly talk about institutional competitiveness, it clearly informs their approach. First, they expected that MNCs would seek to identify subsidiaries with ‘global best practices’ along any dimension. Second, this knowledge would be abstracted from the context and transferred to other subsidiaries as a set of techniques and processes. Thirdly, they argued that this would stimulate new combinations of capabilities from different subsidiaries in ways that would increase innovation and productivity. They readily admit that strategizing managers and sub-units that compete for power, position and are self-seeking may undermine this

potential. Recent research has studied in detail the relationship between headquarters and subsidiaries (Birkinshaw and Hood 1998; Taggart 1996; Birkinshaw 1997, 2000, 2001). Birkinshaw, in particular, has argued that subsidiaries can take initiatives to extend their charters and range of activities, especially when opportunities arise as HQs evolves new plans and ways of implementation (e.g. invest in new activities). Subsidiaries may then compete and negotiate by showing that such investments would benefit from each their capabilities and host institutions to gain a favorable position within the MNC.

From the view of institutional competitiveness, the transnational solution brings into the fore a contradictory dualism. On the one hand, it can be argued that MNCs purchase subsidiaries because they want to access their particular (institutionally conditioned) capabilities. On the other hand, they want to abstract these from the locality and transfer them elsewhere. Finally, whether they are able to do so, very much depends on how they govern, coordinate and control the global organization, which depends on the home-country institutions (Morgan et al. 2001).

Constructing multinationals: A changing game

Empirically the formation and spread of multinationals is a large, diversified and complex phenomenon. In 2005, for the first time, UNCTAD produced an internationalization index for the world's top 100 non-financial transnational corporations. The index reflects a number of foreign affiliates compared to home affiliates. The average number of foreign affiliates is 230 of an average total of 342 affiliates; 67% of the affiliates of these MNCs are outside the home base¹. In general, large MNCs from small countries have the highest internationalization index. Although figures tell us nothing about the number of host countries for subsidiaries, they suggest high institutional

diversity within and among MNCs. Data on number of MNC affiliates in different regions of the world reinforce this. The European Union host 199,303 affiliates with the largest numbers in the Czech Republic (71,385) and Hungary (26,793), and with the UK owning the largest number of foreign affiliates (13,485). East Asia has most affiliates (245,310) of which China owns 215,000.

Such MNCs emerge mainly by two routes - organic growth (Greenfield Investments (GI)) or Merger and Acquisition (M&A) activity. GI occurs when MNCs set up new production facilities from scratch. This was initially seen as *the* mode of growth as it allowed firms to transfer superior practices, organizational heritage, technological advantages and competitive performance to foreign markets. In 2004, the total number of GIs in the world was 9796 with China absorbing 15% of these. 39% of GIs went to developed countries; 33% to South, East and South East Asia. In numerical terms, the UK and Germany received most GIs (482 and 247) in Europe. The US received most of all developed countries (578) and China received most of all (1529) with India second (685). Thus GIs are spreading MNCs across very different institutional contexts.

However, GIs have become less significant for the growth of MNCs than M&A. Dunning (2001:57) showed that M&A rose by eight times in the 1990s, and grew at twice the rate of total FDI by the end of the decade. Wortmann (2000, 2001) showed that 90% of the growth of MNCs during the 1990s stemmed from M&A. In 2004, there were \$380 billions worth of cross-border M&As. 89% were purchased by corporations from the developed world, and 83% involved sales of firms from developed countries. Thus ownership is increasingly swapped around among firms from the developed world, with the US, the UK and Germany playing the major roles. The US was involved in 36 of the largest 75 cross-border M&As (of which 15 were acquiring and 21 were acquired by US companies). The UK was involved in 22 (10 as acquired and 12 as acquiring). Germany was the

third most involved with 9 companies acquired and 5 companies acquiring. The USA sold \$81 billions worth of firms and bought for \$110 billion, being by far the largest player with 21% of all sales and 29% of all purchases in 2004. The UK made 15% of sales and 12% of purchases, whilst Germany made 9% of sales and 5% of purchases.

These data suggest a major transformation in the nature and dynamic of MNCs, which (particularly those from the USA, the UK and Germany) are managing large numbers of subsidiaries spread over different institutional contexts. They develop this portfolio of subsidiaries mainly through merger and acquisition, where MNCs from the USA, the UK and to a lesser extent Germany are the most active; while GI mainly takes place in developing countries. M&A activity leads to a frequent churning in both the management and the ownership of such firms and in the extent and organization of their affiliate operations. Such an event among the top 100 TNCs would on average require the integration of over 300 new affiliates with over two-thirds of them in a foreign country. This means that the HQ is practically incapable of knowing or making use of the institutional competitiveness of these subsidiaries. In the next section, we discuss the consequences of this.

Multinationals: headquarters, strategies and subsidiary control

Surprisingly, data on the US, the UK and German top-companies (UNCTAD 2005, *ibid*) indicate that Liberal Market Economies and Coordinated Market Economies (Hall and Soskice, 2001)² have been equally able to internationalize. 13 MNCs of German origin have 46% of their employees and 68% of their affiliates outside Germany. 23 US MNCs have 54% of their employees and 68% of their affiliates overseas. 11 UK MNCs have 56% of their employees and 49% of their affiliates overseas.

However, the global expansion of German MNCs seems to be an outcome of giving up previous institutions. Co-ordinated economies like Germany and Japan traditionally made use of ‘patient capital’ and ownership was generally vested in companies that were co-ordinated with the focal firm. Shares would be held by banks and insurance companies, as interested in gaining banking and insurance business as in making profit from shares. Similarly, business partners, as a sign of long-term cooperation and trust, often held shares. Legitimacy and authority was gained by guiding the long-term development of a firm’s products and processes. Share-ownership was more highly concentrated and the largest blockholders were represented on the board of directors. Thus key shareholders held more information and knowledge, and were more closely involved in negotiating senior management’s plans. This governance-system and the consensual skill based system of authority are complementary, as both tend to evolve through multilayered negotiations between interested parties. Top executives would make agreements with external stakeholders in boards of directors and could link them to agreements among groupings of employees in works councils, thereby bounding together external and internal stakeholders. Such systems thus possess from the outset constitutive elements for procedures to re-negotiate specializations and investments at many layers of and between corporations (O’Sullivan 2000).

Such firms were actually loath in internationalizing. Their whole system was based on a deeply socially embedded model of organization with network links across firms, stakeholders, and local and national institutions and it was out of these ties that the distinctive innovative and competitive strengths of these firms emerged. They preferred an export model of internationalisation since this did not face them either with the problem of managing under more bureaucratic conditions or with the difficulty of trying to copy their home base on to foreign countries.

In recent decades, however, a combination of political and economic pressures has led the largest firms in CMEs to develop on an international basis. German companies reflect these changes and have increasingly grown internationally through M&A (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. Simultaneously rapid changes in ownership and governance are occurring in Germany (Yamamura and Streeck 2003; Geppert et al. 2002, 2003a; 2003b; Lane 1998, 2001). The opening up of financial markets has led to a growing internationalization of ownership of German firms as blockholders (major banks and insurance companies) have been encouraged to sell off their shares, while the firms themselves have sought to internationalize their shareholders as a means of accessing capital in new ways and thus facilitating overseas acquisitions. This has left the German MNCs struggling to balance between commitment to consensual authority within Germany and external opportunities to develop market relations. Observers have shown how this leads to increased pressure for reform in Germany but also to a delicate balance of forces (Yamamura and Streeck 2003; Morgan et al. 2005). However, German managers remain sensitive to the skill based authority systems (both in Germany and elsewhere) for achieving long-term change and improvement. Studies of German MNCs show that budgets, targets and benchmarks are rather used for negotiating improved performance in local sites than as disciplinary mechanisms (Ferner 1997; 2000; Ferner and Quintanilla 1998; Ferner and Varul 2000). The continued presence of 'patient capital' facilitates this process providing barriers against frequent reconfigurations and encourages the long-term focus of senior managers, identifying strongly with the firm.

In considering UK and US multinationals and their location within liberal market economies (LMEs), we are investigating the currently dominant regime of globalization. In LMEs, it is legitimate and expected that shareholder value drives senior management's considerations about investments, costs, products and processes (Aguilera and Jackson 2003; Froud, Haslam, Johal and Williams 2000; Lazonick and O'Sullivan 2000; Williams 2000). Shareholders are now predominantly institutional investors, which actively monitor share prices and frequently transact shares to maximize returns to their clients as part of their competitive strategy. Failure of firms to satisfy shareholders even in the short term leads to falling stock prices, which in turn increases the cost of borrowing for management. Across firms as a whole, differential performance gaps constitute a market for corporate control as firms with increasing share prices are able to bid for lower performing firms through combinations of share swaps, borrowings and cash. While there are many ways to achieve shareholder value, 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. However, with the evolution of the financial system into a more complex institutional equity nexus (institutional investors, merchant banks, fund managers, venture capital, consultancy firms and the financial press) (Golding 2001), a discursive formation has emerged that constantly invent new standards and benchmarks for what it takes to be seen as a successful firm. To speak up share prices, top-managers must demonstrate that they comply with these standards, and dependent on their ability to prove their case they will find themselves either vulnerable (to takeover or to replacement as a result of shareholder revolts) or powerful (flush with capital to take over other companies or to return cash to shareholders). Senior managers in LMEs achieve legitimacy by responding quickly and effectively to financial market pressures by utilising the managerial hierarchy to implement corporate restructuring (Lazonick 2005).

These changes made top-managers of multinationals³ from LMEs more interventionist towards local sites, imposing new and more elaborated and frequently shifting systems of performance controls on subsidiaries. In finance, controls and targets stemmed from more sophisticated business planning techniques in head offices facilitated by professionalizing strategic management (particularly within US multinationals) and more powerful IT-systems for measuring real time performance (Ferner et al. 2004; Edwards et al. 1996). To increase shareholder value returns, managers focus on how each part of the business may contribute and an increasing pressure to reduce costs and improve performance. Such goals have been common in LMEs for a long time but have gained importance as it has become possible to turn general exhortations into particular targets and to monitor performance continuously. Using benchmarks, multinationals ‘learn’ from diversity in a particular way. Thus the performance of different sites (in terms of productivity, manpower, employment costs, down-times, speed of set-ups, stocks, etc.) become subject to comparative analysis. Targets can be set for different sites to meet the ‘world’ best standard, defined by a superior site within the MNC. This way top-management creates 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. Birkinshaw (1997), 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.

In conclusion, multinationals are in the current competitive regime driven by competition among peers to increase share prices to finance M&A. Otherwise they fall victim to hostile or friendly takeovers. In this way, the institutions of LMEs have transformed and outperformed the credit-

based systems of CME. The resulting dynamic pressurizes MNCs to focus on financial performance, using benchmarking techniques to identify appropriate levels of performance and then engaging in a process of transfer of best practices across subsidiaries. There are differences. German MNCs are more likely to negotiate these and in some circumstances to take a longer view on subsidiaries. US multinationals seem more concerned with imposing similar practices, e.g. management information, HRM policies. UK companies focus on financial controls and performance. Generally there is a common thrust from the centre towards standardization and globalization of practices. In the current competitive regime, we are very sceptical that multinationals are indeed seeking advantages from different forms of institutional competitiveness by deliberate headquarter policies. While GIs involve specific decisions about locations, M&As, being the predominant mode of growth, do not. In M&As financial concerns dominate, and often so large numbers of subsidiaries are involved that it is impossible for the acquiring firm to have detailed knowledge of the distinct institutional conditions of various subsidiaries. Post-acquisition-processes focus on rationalization, where financial concerns outweigh those of institutional competitiveness. MNC HQs are more likely to ignore or even destroy specific characteristics of subsidiaries than to build on them.

The perspective from subsidiaries

What is the outcome of this governance form and downward pressure from headquarters on subsidiaries? First, it institutionalizes a competitive rivalry that forces them to fight mutually for social space within MNCs. Some fight by conforming to standards (Mueller 1996, Bélanger et al 1999), others by initiating novel forms of innovation processes (Sölvell and Zander 1998; Kristensen and Zeitlin 2005). MNCs become battlefields over product mandates (Birkinshaw and

Hood 1998), distribution of roles and functions, if not the very identity of MNCs. Detailed studies (Bélanger *ibid.*; Kristensen and Zeitlin *ibid.*) suggest that rather than imposing on all subsidiaries isomorphic consequences, current HQs practise mobilise some to be innovative in their use of national/local institutions, networks and manpower to fight back in offensive ways. Some do this in a boy-scout-manner, while others are subversive (Delany 1998). How subsidiaries respond depends on numerous factors. First, if they join MNCs after being independent and/or having belonged to other corporations, they have gained experience, visions and follow strategic trajectories developed elsewhere. Second, they ascribe authority to principals differently, dependent on distinct national authority-systems (Bendix 1974) and on how they usually share authority among managers, employees and sub-contractors (Whitley 2003). Different subsidiaries may simply read their novel organizational context in different ways. If they see a hierarchy, the obvious strategy is to comply with orders, while in “consensual skill based systems” compliance might be highly irresponsible, if knowing that a different action would improve outcomes. Action by the latter could easily be seen as subversive or as bad excuses by HQ-executives, while from the subsidiary’s vision it is the decent route.

Subsidiaries based in LMEs with a bureaucratic authority system⁴ are most likely to conform to current forms of HQs governance. The more subsidiaries have become professionalized bureaucracies, the easier they can report figures, measure according to new benchmarks, etc., as they are organized to facilitate the efficient flow of information. Authority and the position of managers in LMEs, make them identify with the means of the organization, as this determines their career prospects. On the one hand, their position in the management hierarchy depends on achieving the benchmarks set by top-managers. Failure to do so undermines their *raison d’être* and is likely to cause their exit from the organisation – and not by their own choice. 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 LMEs tend 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 entire MNC managerial hierarchy. Therefore they have 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 they do not shape and bend information to their own interests. On the contrary, because of rapid mobility and frequent restructurings, creating new positions and forcing some to leave, it is in the interest of managers to prove that they 'over-conform' to HQs controls. Long term viability of their actions is rarely going to be calculable due to multiple restructurings. However, their short-term performance is highly visible. Consequently, the easiest route for such subsidiaries is to be highly dependent on HQs, which makes them very vulnerable to the reconfigurations and restructurings that HQs engage in to placate shareholders. So, overall, there appears to be little resistance to processes of head office standardization in these subsidiaries, leaving them and their localities vulnerable to closure or decline.

In CMEs outcomes are less predictable. First, shared authority means that novel measures, benchmarks, etc., take time as they often involve renegotiating jurisdictions and responsibilities. HQs managers from LMEs are unlikely to allow this time. In effect, subsidiary-managers are pressurized to violate "zones of indifference" (Barnard 1938) risking destroy the mutual recognition that sustains this system, and to effect changes in the very mode of authority sharing. By passing on the pressure to suppliers in the local context, they undermine cooperation within the system.

However, this is unlikely to happen exactly because of the authority system. Unlike LMEs, where managers draw their authority from being members of the managerial hierarchy, in CMEs, management authority derives from local skills and knowledge. Managers with a strong local reputation and high authority amongst employees will search for ways of protecting the local. Different options are possible. One is to 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 might measure up as improved performance in the eyes of HQs managers as the local site continues to upgrade innovative capacities and potential, not waiting for permission from the HQs. Another option is to engage more actively with the HQs shaping novel information by negotiating, for example, terms, results and formulation of benchmarks. This would mean that practises of CMEs became imposed on LMEs. Of course, the ability to achieve these ‘positive’ outcomes at the local level is highly contingent on a variety of circumstances, which we will return to below.

It may be objected that HQs can oppose these options by installing expatriate managers in the locality and thus ensure that goals are achieved. This, however, is a dangerous strategy as expatriates lack legitimacy and knowledge of the locality and therefore are left with basically two options. Either they comply with HQs and create local opposition that may destroy existing capabilities of the subsidiary, or they ‘go native’ and rely on locals to resolve the practical problems, which – once again - raises the issues of speed and of nature of change in CMEs. In contrast to LMEs, managers in CME-subidiaries often have strong commitments at local level, if having 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 HQ policies, which may have limited duration, as the principals promoting them will probably move on quickly and be replaced with others using a new set of tools and techniques for achieving shareholder value. To

them a local career may look more promising and they will try maintaining codes of conduct that lead to promotion in the local status-hierarchy. On consensually based skill systems, local managers and employees in subsidiaries are therefore likely to reject or subvert a narrative of authority based on managerial hierarchy and shareholder value.

But are more offensive strategies possible? From Kristensen and Zeitlin (2005: ch 7) it may be suggested that it depends on the collaborative ability of the subsidiary in three spheres: 1. within itself as a unit; 2. with the local economy of which it is part; and 3. with larger parts of the MNC.

In all spheres, national institutions are constitutive for how well the subsidiary may succeed, and thus determining its institutional competitiveness.

First, the subsidiary's ability to integrate various interests of groups into a joint strategy depends on institutions that enable negotiations (voice) and procedures for decision-making that guarantee mutual loyalty. Corporatist bodies at central, local and firm (e.g. Work Councils, employee-representatives on boards) level, roles of shop stewards, and the ability of employees and employers dynamically to form partnerships gain new importance. At a deeper level "careers at work" play a decisive role. Do workers aspire for managerial positions and are commitments and contributions remunerated in fair ways? Are life-courses of managers and workers leading to mutual respect and do they not struggle against each other for social space? Can the subsidiary be seen by all as a space for organizing social mobility? Is the conflicting interests narrated in a uniting way, and does this narration shape agency for local managers or partnerships of managers and employee representatives?

Second, do institutions shape an external labour market that complements the subsidiary's internal one? Does it provide proper skills, aspirations and promising opportunities for employees and managers that leave the subsidiary? Does it allow for easy re-allocation of manpower and skills depending on shifting demands from firms? Do institutions help form networks among firms, to shape trustful relations, enabling hoarding of resources for joint development projects? Are these relations and processes sustained by information-rich institutions, and do business communities, public institutions and the mobile workers create networks for search and innovation, that tie up the locality to important foreign innovative communities?

Finally, if the two first spheres are in place, the subsidiary may use its potential for becoming a major player within the MNC, by opting for three forms of collaboration:

- A. Defending its mandate by complying with profitability targets and benchmarks. This may be achieved if employees and managers share a readiness for innovation and change that takes targets and benchmarks as challenges to innovative commitment. Are these translated to offer opportunities for satisfying aspirations or are they seen as threats to existing interests? Answers depend on whether society share occupational risks with employees, and institutions help them out if failing, etc. In offensive cases subsidiaries may creatively experiment with work organisation to meet benchmarks to such a degree that they themselves become benchmarking organisations.
- B. Trying to build up capabilities that are useful to many parties within the MNC. The subsidiary may develop products or services that contain extraordinary value compared to costs, and that help ease jobs for others. In this way it may gain strong coalition partners in many other MNC units, which may support it in HQ negotiations. The more it can draw on the wider host business community, the more effectively it can pursue this strategy.

- C. Subsidiaries may try extending collaborative institutions and traditions to other subsidiaries or HQs, so as to initiate processes of negotiation and procedural justice in ways that transform the existing governance form. Negotiated benchmarks and performance indicators might lead to differentiated benchmarks enabling the MNC to benefit deliberately from comparative institutional differences.

Consequently, subsidiaries in CMEs might gain extraordinary strong positions within MNCs and transform the currently dominating figuration of MNCs into the more visionary transnational corporation in the future.

Conclusions

Seen from the perspective of Multinationals, institutional competitiveness becomes expressed at two levels. At the level of corporate HQs institutional competitiveness proves itself by forming firms that are able to expand internationally. At the level of subsidiaries as providing institutional back up for these firms' ability to fight for survival and growth within the frame of rivalling subsidiaries of the MNC.

Concerning corporate HQs, the literature have emphasized different aspects of institutional contexts, from those that shaped the intensity of home-market competition, institutional back up for innovative performance, institutions effecting superior organizational forms to financial institutions. There is no doubt, that since WWII, LMEs have been better more able to develop the shifting forms of institutional competitiveness that helped shape the ownership and growth of multinationals until recently. During most of this period, CMEs primarily competed by exporting, having difficulties in

extending their organizational practises through FDI to foreign countries. Recently this has changed. Access to much cheaper financial products in LMEs has made mergers and acquisitions the primary mode of growth for multinationals. This has essentially forced CMEs to change from credit-based financial systems, that gave institutional competitiveness for organic but comparative slow growth, to copy the superior institutional competitiveness of LMEs financial system to defend CMEs from being acquired by LME HQs.

At the subsidiary level of MNCs, LME seems, in the short run, to provide institutional competitiveness for subsidiaries to respond much easier to HQ requirements in terms of bureaucratic reporting procedures and cost reductions. However, in the long run they undermine long term potential for innovation and performance, as far as this needs to be cultivated organically. Subsidiaries in CMEs hold competitive disadvantages in the short run, because it takes time to negotiate and coordinate new courses of action among both internal and external stakeholders. However, when they succeed, it may lead to complementary social innovations both within the subsidiaries and in their local context, improving their institutional competitiveness gradually in the long term. In this case they potentially create the foundation for gradually gaining position, importance and negotiating power within the MNCs that own them, enabling them eventually to impose host-institutional-practises from below on the MNC. Such contestations might lead to significant changes of multinationals, for instance through new forms of governance.

This way of reasoning, obviously, may serve as a vehicle for creating novel hypotheses for research, where novel forms of institutional competitiveness may be detected, to construct viable strategies for both subsidiaries and HQs given the current competitive regime. For instance:

- Are we able to find CMEs in which actors and institutions can more swiftly re-negotiate multiple roles, create dynamic and novel institutional complementarities that both respond to shifting targets of MNC HQs and the longer term development of their host-economies? In case we can, such countries will hold superior institutional complementarities in defending and expanding positions of subsidiaries of foreign owned MNCs.
- Is it possible to create financial systems that simultaneously give access to cheap financial resources and can turn these into long-term credits? Is it possible to create a new form of multinational that grow “organically” by merging together highly capable organizational units, that become divested from large-scale mergers and acquisitions. And does the negotiating/coordinating institutional habits of CMEs provide institutional competitiveness in organizing such units around the globe? (This could be one reason for the MNC-strength of many small countries).

Thus one of the major contributions from the concept of institutional competitiveness is that we may be able to create new questions, the answers to which may prove important for practitioners as well as for researchers.

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Table 2: Types of Innovation related to types of National Business Systems

Type of innovation strategy	Dependent: Minor changes to products	Craft based responsive Compete by making rapid and continuing changes in product qualities	Generic New products must be mass produced through standardized routines	Complex risky Produce innovations with standardized resources and organizational routines. Rely on diverse sources of knowledge and developing new product qualities with range of uses.	Transformative Innovations that threaten existing capabilities and lead to the creation of new firms and industries.
Characteristics of firms	Low authority sharing with partners and employees Low skill	Medium authority sharing with business partners. Considerable authority sharing with skilled workers central to organizational capabilities	Low authority sharing with business partners and employees. Limited use of skilled workers.	Considerable authority sharing with business partners and skilled workers.	Flexible: able to bring together codified and tacit knowledge and skills through highly mobile labour market. Deals with high levels of uncertainty.
Institutional features	Low strength of state and intermediary institutions	Strong local intermediary institutions and considerable union strength	Limited state coordination but strong mission oriented science policy. Low intermediary associations. Capital market. Low trade union strength	State coordination and strong intermediary associations. Credit based finance system	Direct or indirect state support; 'mission oriented' state science and technology policy. Active capital market willing to invest in new ventures
Typical national business system	Fragmented: adversarial business environment and weak or contested states	Coordinated industrial district	Compartmentalized; May arise in state organized business systems	Collaborative, highly coordinated	

Adapted from Whitley 2000.

¹ Subsequent figures in this paragraph are own calculations from UNCTAD 2005:267-9.

² Though we would prefer to analyze internationalization from the firm-types and institutional formations suggested by Whitley above, we make use of Hall and Soskice's dual types to make our argument possible within the limits of this article. Country by country, the two typologies could easily complement each other. For instance the German CME combines "Collaborative, highly coordinated" and "Coordinated Industrial districts", while the British LME combines "Fragmented business system" with "Transformative innovation strategies".

³ To make our argument we have simplified. In reality, between HQs and subsidiaries there might be levels – divisions, business areas, strategic business unit – etc. that may have more direct knowledge about subsidiaries. In some MNCs these intermediary levels becomes colonized from above (see e.g. Belanger et al. 1999), while in others from below (e.g. The Danish Mafia, in Kristensen and Zeitlin 2005:92 cont.).

⁴ For the clarity of the argument, we suggest that "boy-scout" strategies are more associated with LMEs. This, however, does not imply that all subsidiaries follow such a strategy here. Birkinshaw and Hood (1998) report on studies showing that a large proportion of subsidiaries from such economies were active in extending their mandates. Similarly, there is no reason to expect that all subsidiaries in all CME are subversive.