



Transnational institution building and the multinational corporation: An emerging field of research

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Introduction to the special issue

Since the 1980s, the international business and management field has produced a large amount of analysis and research on the multinational corporation (MNC) as an organization. Particularly influential has been the work of Prahalad, Doz and Bartlett (see particularly Doz et al., 1981; Bartlett, 1986; Prahalad & Doz, 1987) who, drawing on contingency theory, developed the integration-responsiveness framework to depict the different environmental forces exerting conflicting demands on MNCs. This literature is concerned, for example, with how organizations respond to task-related demands by centralizing or decentralizing activities. However, the analysis of environmental forces is restricted to the task or technical environment and the effects it has on the structuring of organizations.

In contrast to this by and large more strategy-oriented literature, MNCs have not received sustained attention from other organization theorists (see for exceptions, Rosenzweig & Singh, 1991; Morgan et al., 2001, 2005; Westney & Zaheer, 2001; Ghoshal & Westney, 2005). This is surprising; after all, it would seem that MNCs offer great potential for developing and testing organization theories (Evans, 1981) and research on the organizational aspects of MNCs could be enriched by the insights of organization theorists (Ghoshal & Westney, 2005). These arguments apply especially to the different strands of institutional theory which emphasize the relationships between organizations and their institutional environments, namely new institutionalism (Meyer & Rowan, 1977; Powell & DiMaggio, 1991; Scott,

2001) and different variants of a comparative and historical institutionalism (Campbell, 2004) with labels such as 'business systems approach', 'societal effect approach' or 'varieties of capitalism approach' (Boyer & Drache, 1996; Hollingsworth & Boyer, 1997; Whitley, 1999; Maurice & Sorge, 2000; Aoki, 2001; Hall & Soskice, 2001; Amable, 2003). Both institutional perspectives share a focus on the adaptation of organizations to institutional environments but come to very different conclusions (Tempel & Walgenbach, 2006).

In their seminal contribution, Meyer and Rowan (1977) see organizations as institutionally formed entities. In order to ensure their survival, organizations must comply with the rationalized and institutionalized expectations of their environment and adopt the expected structures and management practices. Such institutionalized expectations are increasingly globally diffused by actors, such as MNCs, consulting firms, professions and academics (Strang & Meyer, 1993; Sahlin-Andersson & Engwall, 2002). The adoption of institutionalized elements leads to a structural equivalence (isomorphism) of organization and global institutional environment. New institutionalists, who often focus on micro-institutions (see for an overview Scott, 2001), tend to emphasize the global diffusion of practices and the adoption of these by organizations, but pay little attention to how such practices are interpreted, 'edited' (Sahlin-Andersson, 1996), 'translated' (Czarniaswska & Joerges, 1996) or 'transposed' (Boxenbaum & Battilana, 2005) as they 'travel around the world'. Further, new-institutionalists have tended to neglect to apply their arguments to the study of MNCs and to comparative organizational analysis (for exceptions, see Kostova, 1999; Kostova & Zaheer, 1999; Kostova & Roth, 2002).

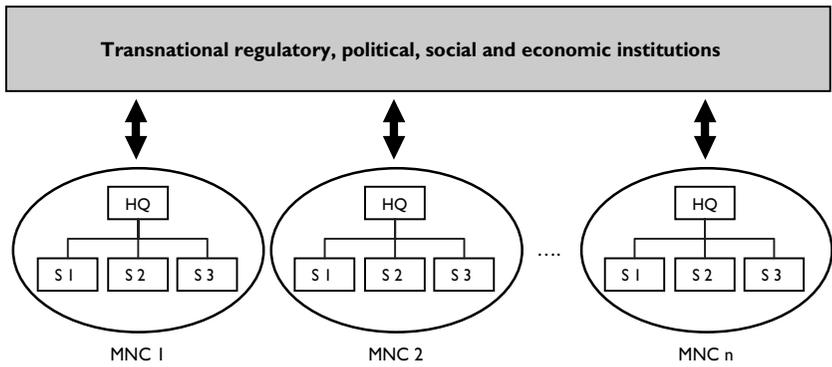
In contrast, when proponents of the comparative institutional approaches (see in particular, Maurice et al., 1980; Whitley, 1992, 1999; Lane, 1995; Sorge, 1996; Hollingsworth & Boyer, 1997; Maurice & Sorge, 2000; Hall & Soskice, 2001) have applied their arguments to MNCs, they have tended to focus primarily on rejecting the idea that MNCs will converge on a transnational 'best practice model' and on disputing the depiction of MNCs as being footloose, 'denationalized' (Whitley, 1994) enterprises, being able to free themselves from any national dependency and transcending national institutions (see particularly, Whitley, 1994, 1998, 2001; but see also Lane, 2001; Morgan, 2001a, 2001b; Morgan & Whitley, 2003; Whitley, 2003). The primary focus of these approaches is on macro-level societal institutions, in particular those which govern 'access to critical resources, especially labor and capital' (Whitley, 1999: 47) and thus shape the nature of national business systems. More specifically, the emphasis is upon institutions which deal with the kinds of resources available to private property

rights owners, the terms on which they are available and the sorts of people who become property rights owners. Rather than stressing the tendency towards convergence in MNCs, these macro-institutionalists reiterate the ongoing relevance of national and local diversity (Sorge, Whitley) and different contextual rationalities (Morgan). Recent research has argued for example that the country of origin of MNCs is not just an historical footnote or – as Bartlett and Ghoshal (1989) put it – an ‘administrative heritage’ of increasingly transnational activities, but a key issue in understanding social practices of internationally operating firms. Home-country embeddedness effects in MNCs have been found, for example, in the area of HRM practices (see Ferner, 1997; Ferner & Quintanilla, 1998; Almond & Ferner, 2006), control mechanisms (Harzing & Sorge, 2003) and work system changes (Geppert et al., 2003a, 2003b).

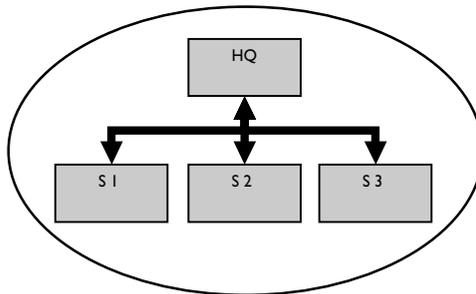
Both strands of institutional theory discussed above can thus make a significant contribution to our understanding of the institutional environments with which MNCs are confronted. At the same time, both theories have tended to neglect the active and reactive roles which MNCs play in the process of globalization and transnational institution building. This seems problematic because it hinders the development of a deeper understanding of the dynamic interrelationship between MNCs and transnational institutions in a number of ways.

Based on the above discussion we argue that at least three different conceptual angles are required to better understand the roles and activities of MNCs in transnational institution building (see Figure 1).

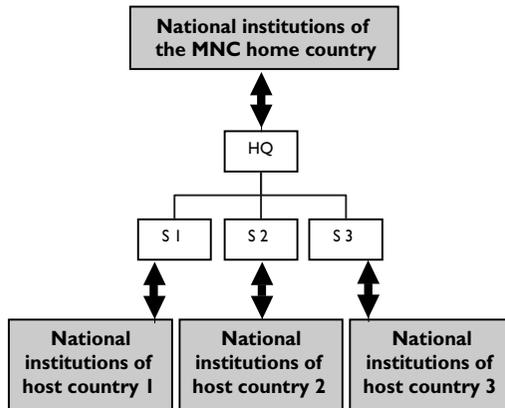
First, MNCs are operating in a global institutional environment which is increasingly shaped by global regulatory, political, economic and social institutions. A theory of the MNC does, however, not only have to take into consideration how MNCs reactively adapt to this global institutional environment but also how they actively shape transnational institutions. Recent research has shown that MNCs are not just responding to certain technological and economic uncertainties but are also actively involved in the development of transnational standards and regulations. For example, Morgan (2001b) distinguishes three areas of transnational standard setting affecting the business activities of the MNC: 1) product standards, 2) standards regulating ‘who (is) a “fit and proper *corporate* person”’ and 3) standards of ‘fair dealing’ (pp. 228–47, emphasis in original). Especially the first, product standards, are often actively influenced by single powerful MNCs, such as Microsoft, which has used its monopoly power to force consumers and suppliers to adopt its Windows application. However, the analysis of how MNCs are shaped by and are shaping transnational standard setting cannot just be understood in reference to regulatory dimensions.



Perspective 1: MNCs as institutionalizing and being institutionalized on the transnational level



Perspective 2: MNCs as institutionalizing throughout their transnational organization



Perspective 3: MNCs as transnational organizations institutionalizing and being institutionalized on the national level in home and host countries

Figure 1 Conceptual perspectives on MNCs and transnational institution building (HQ = Headquarter; S = Subsidiary)

Studies, for example, by Hancke and Casper (2000), Walgenbach (2000, 2001) and Guler et al. (2002) stress that mimetic and normative isomorphism supports the adoption of certain quality standards, as for example, ISO 9000. Most companies see the introduction of ISO standards as a necessity for business success because their appropriateness is institutionally constructed, without any proof that these standards can be or are always met in reality.

Second, MNCs operate transnationally or globally and institutionalize management practices and structures at a corporate wide level. This is again related to the former argument that MNCs have a more active role in shaping the global institutional environment than is often assumed. Thus, research in the last two decades starting in the late 1980s with a debate about Japanization of work and organizational practices, for example, in the UK (Ackroyd et al., 1988; Elger & Smith, 1995) and more recently on the dominance of Anglo-Saxon style management practices, for example, in Germany (Ferner & Quintanilla, 1998) and Finland (Tainio et al., 2001) was concerned about the role MNCs play when transferring management and work system patterns developed elsewhere to host country environments. In this sense, it is assumed that MNCs are the driving forces behind the institutionalization of 'best practices' from 'dominant' national economies such as continuous improvement measures or teamwork (from Japan) and performance management measures (from the USA) throughout the world.

Third, MNCs' headquarters and subsidiaries as organizations as such are still locally embedded in home and host countries and thus institutionalization of practices can be seen as strongly dependent on the specific institutional contexts of these local environments. Based on the extant literature focusing on the dominance of certain national economies and the transmission of certain 'best practices' transnationally, comparative institutionalist research in particular stresses the importance of the country of origin of the MNC and its influence on the transfer of particular management practices. Moreover, comparative studies also show that the institutional embeddedness of subsidiaries in their host country societal contexts matters. It is especially stressed that concepts which have been developed elsewhere are actively influenced by subsidiaries 'translating' and adapting these ideas locally (Czarniawska & Joerges, 1996; Sahlin-Andersson, 1996; Boxenbaum & Battilana, 2005). In line with new institutionalist research this highlights that mimetic isomorphic pressures lead to the diffusion of certain management practices. Examples are the spread of new accounting software systems, such as SAP, in the global lifts and escalators industry (see, for example, Geppert et al., 2003a) or the diffusion of the concept of teamwork in the European car manufacturing industry (Woywode, 2002). At the same time, however, it is emphasized that measures globally considered as 'best

practices', inevitably become locally adapted. Both studies find that the transnational transfer of 'best practices' is influenced by host country institutions, for example, by the educational and industrial relations system, which lead to distinct local adaptations at subsidiary level. For instance, in the latter study by Woywode, the French companies interpreted and implemented the concept of working groups quite differently from the German sample where the team members were more highly skilled and had more decision-making autonomy. In a similar vein, the study of Geppert et al. (2003b) in the lifts and escalators sector shows that the implementation of new controlling and accounting systems was quite smooth in the British sites but was heavily contested in the German subsidiaries of the same MNCs. A theory of the MNC thus has to explain the ways in which MNCs handle the potential conflicts arising from different institutional logics, that is, the institutional demands of local environments as well as the conflicts which arise from the global institutional context and the respective local institutional contexts.

In summary, we would suggest that these three different perspectives offer a conceptual framework for understanding the role of MNCs in transnational institution building. Figure 1 provides an overview of the discussion so far. In presenting these three perspectives in a fairly distinct way we do not suggest that these views, in a given empirical context, are mutually exclusive. In fact, as some of the contributions in this special issue show, the different perspectives often co-exist and intertwine. We will return to this aspect and some other implications at the end of this article and will now turn to assess the specific contribution of the different articles.

Overview of the contributions to this special issue

The special issue aims at exploring the potential of both strands of institutional approaches for research on MNCs. The first interest of the special issue is to explore and contrast the basic conceptual and methodological assumptions of both approaches as well as their specific contributions to the theory of the MNC. The second interest of the special issue is to go beyond the divide of the two institutionalisms by extending the scope of analysis and exploring the role of MNCs in the process of transnational institution building.

In their contribution, Glenn Morgan and Peer Hull Kristensen directly refer to the second strand of institutional theory we mentioned above, that is, comparative and historical approaches within institutionalism. However, they argue that institutional analysis needs to go further by identifying the key sites of micro-political conflicts in the MNC and by showing how these

add together to create as distinctive configuration of actors within the MNC with specific consequences for the broader political economy. This article inventively deals with the issues of organizational power, micro-politics and conflicts emerging within and around MNCs, which have so far been neglected by mainstream international business studies (see also the current special issue in the *Journal of International Management* on these issues (Dörrenbächer & Geppert, 2006)). According to Morgan and Kristensen, the MNC as a totality may be seen as a highly complex configuration of ongoing micro-political power conflicts at different levels in which strategizing social actors and groups of actors inside and outside the firm interact with each other and create temporary balances of power that shape how formal organizational relationships and processes actually work in practice. Institutions, they argue, enter into these processes, firstly as co-constitutors of the set of actors or groupings of actors and their mutual roles and identities, secondly as forms of restriction on the choices actors make, thirdly as resources that empower actors and finally as rule-givers for the games that emerge. Morgan and Kristensen thus develop a useful framework to better understand the institutional embeddedness of micro-political power games with the MNC. They further examine different types of micro-politics that emerge in MNCs and based on recent empirical research nicely illustrate the strategies and tactics employed within MNCs. The intensity and significance of these micro-political processes in modern MNCs, they argue, can, however, only be understood if the context of ownership, capital markets and the relationship with senior management is taken into consideration.

In their article, Paul Gooderham, Odd Nordhaug, and Kristen Ringdal analyse the degree to which national institutional settings impact on the application of managerial practices in foreign subsidiaries of MNCs. Applying the national business systems approach (Whitley, 1999), their analysis centres on the use of calculative human resource management practices by the subsidiaries of US multinational companies in the UK, Ireland, Germany, Denmark/Norway and Australia compared to indigenous firms. Referring to arguments of the national business systems approach, they argue that the degree of global integration of US multinationals should vary according to the degree to which the local institutional context of the subsidiary differs from the norms of the parent organization. In an empirical analysis of a sample of 3186 private sector firms located in the UK, Ireland, Denmark/Norway, (former West) Germany and Australia, the authors demonstrate that the use of calculative HRM practices is significantly higher in US subsidiaries than in indigenous firms in all countries. Their findings further reveal that the use of calculative HRM practices in US subsidiaries is significantly lower in Germany and Denmark/Norway than in the UK,

Ireland and Australia. Thus their results for Denmark/Norway and Germany indicate that US multinationals in these countries experience constraints in their attempt to take their own, nationally idiosyncratic repertoire of HRM practices with them and apply them in their subsidiaries.

On the basis of a qualitative study of 113 Italian managers, the article by Guiseppe Delmestri discusses the influence of different institutional influences on the enactment of the identities of middle managers in Italian subsidiaries. The author is especially concerned with when and why some Italian managers working in MNCs of various countries of origin develop non-identical managerial roles despite host country institutional pressures. It was found that the enactment of managerial identities was not so much a matter of autonomous strategic choice but was influenced by the subsidiary's role and position in the corporate network of the MNC. Italian managers working for international firms developed new roles which are strongly based on Anglo-Saxon values, beliefs and practices especially when they had extensive international contacts and when the MNC was using Anglo-Saxon style HRM practices. Those newly developed multiple-identities often equipped the middle managers with varying degrees of reflexivity about host country institutional constraints and accordingly enabled them to design their identities in opposition to Italian practices. This involved gender and generational conflicts. The development of new Anglo-Saxon managerial identities appeared to provide power resources against old managers mainly enacting traditional Italian roles, in turn supporting the career development of younger and female managers.

The article by Anne Tempel, Tony Edwards, Anthony Ferner, Michael Muller-Camen and Hartmut Wächter picks up a fairly long-standing debate on the role and nature of subsidiaries of MNCs where the institutional contexts of home and host countries are fairly different. This carefully crafted empirical research in the article is a particularly interesting read, firstly because it looks at paired comparisons of subsidiaries of the same four MNCs in two rather distinct institutional environments, namely Germany and the UK. Second, all four MNCs are US-owned, which not only provides a colourful empirical canvas for the analysis of some of the questions at the heart of this special issue but also raises expectations about the general nature of a (corporate driven) globalization process, which arguably is seen by some to be pretty much dominated by the only remaining superpower (Held, 2004). The article is also challenging as it looks in particular at collective representation practices which are at the heart of the 'European model' and while work on this issue, in particular in the fast food industry (Royle & Towers, 2002; Royle, 2005) has suggested a rather uni-directional trajectory in favour of the dissemination of US-style practices in Europe, the choice of sectors in

Tempel et al.'s research brings a rather multifaceted picture to the fore. The article provides evidence that responses to institutional duality are not only different in different countries but that they differ even within countries, depending, for instance, on sectors and historical legacies. In this respect, the article also warranted inclusion into this special issue as it has considerable potential to inform further research aimed at obtaining a fine-grained understanding about the antecedents, factors and implications of how actors within MNCs react and legitimize their responses to institutional duality.

Last, but by no means least, the article by Nicolas Dahan, Jonathan Doh and Terrence Guay applies the institutional perspective on MNCs to a field which has risen to unprecedented popularity in much of the current public concern on corporate power and influence in global political processes. Authors at the interface of academia and contemporary debates, such as Korten (2000, 2001), Hertz (2001, 2004) or, more recently, Bakan (2004) have argued that big MNCs have gained a degree of political influence which raises serious questions about the transparency and legitimacy of the corporate role in shaping institutions which govern global economic, regulatory and political processes. Dahan et al.'s article opens up an interesting dialogue with the introductory piece by Morgan and Kristensen as it also focuses on the specific transnational level of institution building. Their work adds much needed clarity to the debate on the power and responsibility of global corporations in conceptualizing their specific place, channels of influence and embeddedness in constellations of global political actors. We would also suggest that their article is in some ways groundbreaking as it ventures out into neighbouring disciplines, such as economic sociology and political economy and applies key elements of the extant understanding of policy networks in these disciplines to the study of MNCs. The article thus offers a very useful step to move beyond a debate on corporate power which currently tends to be dominated by circumstantial evidence and/or ideological preconceptions. Rather, the authors suggest a conceptual framework for describing, explaining and managing a field of inquiry in management which has only recently become subject to more rigorous academic scrutiny. In this sense it is our hope, and indeed expectation, that this piece of research will inform further empirical work into one of the more pressing agendas of the role of large MNCs in the processes of economic and political globalization.

Summary of the key contributions of this special issue

In our view, the theoretical and conceptual angles employed by the contributors to this special issue strengthen and enrich the understanding of at

least three contemporary debates at the beginning of the 21st century, not only among management scholars but also among social scientists in general.

First, we would argue that an institutionalist perspective adds to our understanding of the globalization phenomenon which, even after nearly 20 years of discussion, can be regarded as anything but uncontested. Probably the most recent example is Thomas Friedman's (2006) thesis on the 'flat earth' which has led to considerable controversy and could be considered as a very eloquent renewal of an account of globalization which sees convergence, homogenization and isomorphic change of societies, economies and cultures as the essence of the phenomenon. At the other end of the spectrum, there have always been strong voices drawing our attention to the persistent differences, 'clashes' (Huntington, 1993) and growing local divergence which in some ways are even becoming more pronounced in a world of closely intertwined economic, social and political processes. This debate has had its manifestation in many social sciences, and management studies has by no means been an exception. Voices range from, for instance, Ohmae's (1990) 'borderless world' on the one hand to Rugman's (2000) thesis of the 'end of globalization' in a largely triadic, regionalized world on the other. However, only limited attempts have been made so far to appreciate and understand the apparent diversity of globalization and to make sense of both the converging and diverging forces of globalization and their manifestation in the (multinational) business firm (see, as a positive example, Child, 2000). We see this special issue, in particular the empirical studies by Delmestri, Gooderham et al. and Tempel et al., as enriching our understanding of the dynamic and hybrid nature of the MNC, and their work suggests that more and in particular qualitative and actor-centred research is necessary to gain a broader grasp of the manifestations of the 'global-local' dilemma within the multinational firm.

A second aspect, as we intimated in the introduction, is the infrequent use of institutional theory as a lens for understanding the global firm in the international business and management literature. This can be partly credited to the fact that much of the original theory development took place in neighbouring disciplines, such as sociology and political sciences and we are delighted, in accord with *Human Relations'* mission of the 'integration of the social sciences', to contribute to a broader, interdisciplinary inquiry into the MNC. All the articles in their own way elucidate that institutional theory not only enables the study of hitherto neglected phenomena but may also provide a basis for more predictive theory which ultimately might have the potential to translate into knowledge relevant for the actual management of global organizations. Furthermore, we hope that this special issue

advances an appreciation of the fact that ultimately we are talking about sociologically informed institutional theories and that, notwithstanding certain core patterns of conceptualizing and theorizing, this school of thought provides a rather diverse and rich resource to the scholarly community interested in the MNC. However, the sociological foundation of most of the contributions in this special issue provides us with a solid focus of analysis, which would be rather difficult to achieve when including, for example, economic and political-economic branches of the broad church of institutional theories.

Finally, we would suggest that this special issue provides an innovative approach to the study of a debate which has risen dramatically on the public agenda during the last decade, namely the power and responsibility of large MNCs with regard to domestic and global political processes. Transnational institution building, as discussed particularly in Morgan and Kristensen's and Dahan et al.'s articles in this special issue, can easily be translated as corporations becoming involved in shaping, manipulating and often dominating traditional national and global political actors in their role as regulators. With 51 of the world's largest 100 economies being corporations, there is growing public concern about the political influence of corporations, manifest among other things in a recent surge in Hollywood films focusing on the scandalous behaviour of big MNCs, such as *Supersize Me* (McDonalds) or *The Constant Gardener* (a British pharmaceutical MNC). While this debate has led to a number of books by scholars and activists trying to understand the changing role of MNCs (e.g. Hertz, 2001; Korten, 2001; Bakan, 2004), most of the traditional fields of inquiry in management have been somewhat reluctant to engage in this debate. In particular, the field of international management and international business has largely ignored the political role and power of MNCs, ranging from limited acknowledgement of the problem (Kobrin, 2001) to the outright denial of the issue (Rugman, 2000: 54–70). In a somewhat similar vein the literature on business ethics or corporate (social) responsibility, though naturally more in tune with the issues, also shows a palpable reluctance to acknowledge and engage with the political role of the corporation in (global) society (e.g. van Oosterhout, 2005). Only very recently has the focus shifted towards conceptualizing and theorizing the political dimension, if not the political nature, of particularly large MNCs (e.g. Matten & Crane, 2005; Scherer et al., 2006; Scherer & Palazzo, 2007). A good deal of this work still has to wrestle with the accurate description of the phenomenon and it is here that we see the significant potential which an institutional angle has to offer in analysing the role of MNCs as political actors.

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