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978-0-521-19717-5 - Politics and Power in the Multinational Corporation: The Role of Institutions, Interests and Identities

Edited by Christoph Dorrenbacher and Mike Geppert

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Part I

Introduction

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1 Politics and power in the multinational corporation: an introduction

Mike Geppert and Christoph Dörrenbacher

The current financial and economic crisis has negatively underlined the vital role of multinational corporations (MNCs) in our daily lives. The breakdown and crisis of flagship MNCs, such as Enron, WorldCom, Lehman Brothers, Toyota and General Motors, does not merely reveal the problems of corporate malfeasance and market dysfunction but also raises important questions, both for the public and the academic community, about the use and misuse of power by MNCs in the wider society, as well as the exercise of power by key actors within internationally operating firms. Given these and previous similar developments, it is surprising that questions about organizational power and politics have not had a more central role in the study of the MNC.

Historically, research on the MNC was focused on studying the influence and changing role of headquarters (HQ) management (e.g. Stopford and Wells 1972; Vernon 1966), with, for example, Hymer (1970) actually predicting that more geographical dispersion of MNCs would lead to greater concentration of decision-making power at the center. As long as HQ management was seen in the driving seat, the role of lower level managers, e.g. in local subsidiaries, and of other employees was mainly reduced to adaptation either to centrally set strategies or to external environmental pressures. Later, studies on the “evolution” of the MNC stressed that MNCs can hardly be managed top-down, especially if “diversification” and internationalization are increasing, but they did not “dare” shed more light on power relations and organizational politics. Instead, they preferred to apply an apolitical language, referring to “barriers” to evolutionary changes (Bartlett and Ghoshal 1989). Nohria and Ghoshal (1997) went even further and saw no need to make any references to organizational politics, asserting that the adoption of differentiated network structures in the transnational corporation might even have pacifying effects. Indeed, most IB (International Business) studies are focused on helping MNC management to overcome strategic and structural misfits in responding to environmental pressures. From this perspective, political behavior and resistance by certain actors and groups of actors

are seen as dysfunctional, and the task of “good” management is to overcome these organizational “barriers.”

Despite this broader trend, a few scholars have actually predicted that the increased diversification of strategies and structures of MNCs observed by evolutionary scholars might have some organizational political consequences, and that “influence and power of how the trade-offs between multiple stakeholders and multiple perspectives are made” (Doz and Prahalad 1991: 46) needs to be considered in future research. This call was taken up slowly and only by a certain stream of research, e.g. by Birkinshaw and his colleagues studying subsidiary entrepreneurship (2000) and mandate changes (1996). These studies show that subsidiaries develop their own strategies in order to influence decisions about resource allocation and compare strategic approaches which lead either to the gain or loss of subsidiary mandates. In short, managerial strategies are in the center of this research and political interests are mainly interpreted as (bounded) rational, concentrated on improving the power position for themselves and the subsidiary in the MNC when fighting for, for example, enhancements of their mandates. In line with early micro-political approaches it is assumed that subsidiary management is “self-interested” and follows (bounded) rational strategies when playing “games” to gain mandates and thus power (see e.g. Crozier 1964; Doz and Prahalad 1991). Power is understood as being directly related to the control of “uncertainty zones,” which affect the performance of other members of the MNC, and to “critical resources” on which other actors are dependent (Crozier and Friedberg 1980; Pfeffer and Salancik 1978). To sum up, resource dependency, and to a smaller extent micro-political approaches, have been the core theoretical building blocks for a rather small number of IB studies focusing on power and politics within the MNC. But to date, the role of power is conceptualized in a rather simplistic way: (a) individual and collective actors possess power because they control critical (scarce) resources and (b) actors who can gain and control more critical resources have more power (see also Clegg *et al.* 2006).

What is missing in the IB debate, however, is a more nuanced sociological understanding of power and politics in which questions are asked about: *what* forms or constitutes “self-interests” in MNCs, *for whom* are certain managerial strategies effective or efficient (Hinings and Greenwood 2002), and *who* is actually benefiting from the implementation of more standardized transnational structures, benchmarking systems or best practices, which are crucial issues in MNCs nowadays. The fact that actors have different interests regarding the implementation of such measures, and that they

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might resist the implementation of certain measures or try to renegotiate proposed measures, is hardly considered in mainstream debates on power in MNCs. The conceptualization of agency is reduced to the questions of who has what power and who has power over whom (Clegg *et al.* 2006: 127). The role of institutions, interests and identities of actors who engage in political games in and around MNCs is neglected. We propose that power is not a property of certain powerful actors but should be understood as a “relational effect” (Clegg *et al.* 2006: 222), which means that power has to be studied in reference to the social context in which political strategies are embedded. Institutionalist scholars have addressed the problem of embedding agency and knowledge within different social and societal settings of MNCs (Redding 2005) and stress that the institutional duality between HQ and subsidiaries (e.g. Vora *et al.* 2007) might trigger political struggles and conflicts. Moreover, the role of political interests and social identities has also been stressed by Morgan (2001), who suggests that MNCs should be studied as “transnational social spaces” and by Bélanger and Edwards (2006), who are skeptical about attempts to conceptualize the MNC as “placeless” transnational corporations, suggesting instead the study of the MNC as a “contested terrain” (Edwards and Bélanger 2009).

The chapters in our book build on these recent conceptual developments while bringing together two typically separated theoretical debates: first, about the institutional and cultural embeddedness of social relationships in the MNC, and second, about the role of agency and diverse interests and identities of key actors, which constitute the MNC as a “political system” (Bélanger and Edwards 2006; see also Morgan and Whitley 2003). In short, the contributions of our book fit well under the rubric “emergent critical perspectives” within a framework recently provided by Barner-Rasmussen *et al.* (2010), which compares key IB perspectives on “contemporary multinationals” (see also Andersson and Holm 2010). The authors distinguish between mainstream “design,” “network,” “institutional” (which we call institutionalist in this chapter) and critical perspectives. The chapters of our book study politics and power in the MNC at three levels (see also Bélanger and Edwards 2006). First, they look at politics and power in the MNC at the *macro-level* of (national and international) society, where the role of societal institutions and the cultural and political influences of stakeholders such as shareholders, governmental agencies, non-governmental pressure groups and civic movements are studied. Second, they examine power and politics at the *meso-level*, where the MNC itself, as a more or less politicized organization, is the focus of analysis, along with its key players in managerial

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positions (both within the HQ and the subsidiaries) and its employment relations. Third, the chapters in this volume examine power and politics at the *micro-level*, i.e. among individual actors, especially at the subsidiary level, which are studied as political systems where strategic decisions of MNCs have to be legitimized (Kostova and Zaheer 1999), leading to political game-playing, resistance and negotiations between managerial groups and between managers and employees.

Our introductory chapter unfolds as follows. First, we review in detail how power and politics have been discussed in the mainstream IB as well as in institutionalist literature. Second, we introduce alternative approaches to how power and politics has been defined and analyzed, referring to emerging debates about the MNC as a “transnational social space” (Morgan 2001a), “contested terrain” (Edwards and Bélanger 2009) and spaces for certain “types of micro-politics” (Morgan and Kristensen 2006). While especially referring to the role of institutions, which are not just structural and cultural constraints to agency, but also trigger or enable certain political strategies, we will in particular shed some light on the diverse and sometimes contradictory socio-political interests and identities of actors and groups of actors constituting transnational social spaces (Becker-Ritterspach 2006; Becker-Ritterspach and Dörrenbacher 2011; Clark and Geppert 2006; Dörrenbacher 2007; Dörrenbacher and Becker-Ritterspach 2009; Dörrenbacher and Geppert 2006, 2007, 2009a, 2009b, 2010; Geppert and Williams 2006). Finally, we will introduce the contributions of our book, which cover different levels of analysis and relate to the role of institutions, interests and identities in the exercise of power and politics in MNCs.

Power and politics in the MNC: mainstream rationalistic IB and sociological institutionalist approaches

MNCs have become essential parts of our daily lives. As customers, employees, shareholders and interested and/or critical citizens we are dealing with them either as a stakeholder or as multiple stakeholders. We typically see multinationals as monolithic organizations. But, like any institution in society, they are not. They are geographically, socially, culturally and institutionally diverse organizations, which raises issues of politics and power. This volume deals with this complexity, focusing in particular on issues of politics and power, an underdeveloped area of study in mainstream analyses of multinational corporations.

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Politics and power in the MNC: an introduction

An increased specialization of social sciences, especially from the 1950s onwards, led to the establishment of IB as academic discipline and the dominance of economic and rationalistic¹ perspectives in the study of the MNC, intellectually driven mainly by political economists and economists. Sociological studies focused historically not so much on the MNC itself as unit of analysis, but rather on the spread and crisis of production models, such as Fordism and post-Fordism, throughout capitalist societies (see e.g. Lash and Urry 1987). Only recently have MNCs as unique organizations received the attention of some, mainly organization sociologists interested in the role of institutional influences on MNC structures and capabilities. However, as we will see, both camps – economic and rationalistic mainstream IB approaches as well as institutionalist sociological studies of the MNC – either neglect the role of politics and power in the MNC or address it only in a limited way. Next, we will discuss how the first, IB camp, treats politics and power in MNCs. We focus on two leading approaches, the so-called eclectic and evolutionary paradigms. Then we move on to the second, institutionalist camp, and distinguish between North American neo-institutionalist and European comparative institutionalist approaches.

The eclectic paradigm: apolitical economic view with unexamined political implications

Mainstream economic research focuses on the efficiency of managerial control when studying foreign direct investment (FDI) and how MNCs internationalize. Drawing on ideas of transaction cost economics, it is asserted that either market-oriented or hierarchical forms of control (or some combination of them) are applied to control international ventures. One highly influential approach in this academic camp is Dunning's eclectic OLI theory, which explains FDI and the existence of the MNC by arguing that international operating firms are mainly interested in maintaining and gaining "ownership," "locational" and "internalization" advantages (e.g. Dunning 2000; Dunning and Rugman 1985). According to this scheme, *ownership* advantages refer to a company's specialized home country capabilities, such as human capital, patents, technologies, intellectual property rights, brands and reputation. It is assumed that these assets must be hierarchically

¹ Rationalistic theorists, either implicitly or explicitly, believe that managerial decision-makers are able to replace 'irrationality' with technical or economic rational decisions. Such a perspective assumes that better managers and organizational designs will help to avoid irrational decisions (see e.g. Fischer 2005).

controlled when replicated by MNCs in new international market environments, with a key question being how to transfer knowledge and management practices efficiently. *Locational* advantages are mainly seen as cost-saving activities such as labor costs and transport costs, as well as being close to customers and efficiently tackling trade barriers (tariffs and quotas). Finally, *internalization advantages* are seen as the ability of a firm to organize its international business activities in a more transaction cost-efficient way than its local competitors.

The OLI theory has been developed further, mainly with reference to the so-called “knowledge economy.” For example, Dunning and Lundan (2009) argue that resource-seeking and market-seeking activities are not sufficient and that strategic assets are more knowledge intensive than originally assumed in IB studies of the MNC. They suggest that instead of transferring just “hard technologies,” the transfer of “soft technology” such as organization structures and work practices becomes increasingly important and requires rethinking of traditional approaches to studying MNCs. However, this approach does not go as far as considering issues of political processes and power in the creation of knowledge assets in the MNC. This is because the eclectic paradigm is an *apolitical* tool, both for researchers and managers, designed to inform internationalization decisions, and shares the basic assumptions of transaction cost theorists such as Williamson (1985). As a result, some highly significant implications about power relations in MNCs are ignored, or minimized as simply a factor of principal–agent relationships (see e.g. Perrow 1986 for critique). Economic rational actors are typically seen as the drivers of internationalization, and managers (agents) need to be controlled by owners (principals) because of the potential risk of opportunistic behavior and the threat of selfish, profit and career-enhancing behavior, especially if “assets” are highly specific and “uncertainty” is high. A key problem with such basic assumptions about human nature and agency is that economic rationality of agents is understood as being universal, neglecting the social context, the social embeddedness of economic actions (Granovetter 1985) and the influence of diverse contextual rationalities (Morgan 2001a). Moreover, the conceptualization of MNCs as predominantly economic decision-making systems is misleading. Rationality is not only “sub-optimal” because of incomplete contracts and opportunistic manager behavior, but also because of the political nature of decision-making processes. Decision-making in the MNC, as in any other organization, is based on political coalition building and therefore often “bounded,” as stressed by organizational theory pioneers Cyert and March (1992: 226–30).

In summary, we believe that economic studies neglect politics and power in the MNC, despite the fact that they implicitly assume that selfish and cheating actors need to be controlled either by effective contractual or hierarchical arrangements in order to efficiently control the management of international ventures, including MNCs. While these studies refuse to acknowledge that politics and power are a natural aspect of MNC decision-making, they indirectly bring power and politics into the picture, in a very limited but sound way.

The evolutionary model of the MNC: rationalistic and normative view on power and politics in the MNC

While the economic approaches described above developed a rather simplistic understanding of the management of MNCs, the so-called *evolutionary* theory of the MNC paints a more sophisticated picture by examining how internal organizational design and management structures are linked to internationalization in MNCs. Whereas the former approach conceptualizes the organization of the MNC simply according to different degrees of hierarchical or market coordination, the latter concentrates on the management of MNCs, which is still seen as bounded (rational), with the HQ in the driving seat. Grounded in a mixture of both evolutionary and contingency theory based ideas, this approach asserts that the task of management is to “select” the best organizational forms and internationalization strategies to “fit” specific external environmental requirements (see e.g. Westney 2009 for an overview). A key argument is that the management of MNCs faces a “dilemma” as they increasingly internationalize their business activities. This dilemma emerges because MNC management needs to balance the demands of being *globally efficient* – an argument which largely follows the assumption of economic theories – and the *demands of the local host environments* the subsidiaries operate in, especially when autonomy and thus power resources of host country managers are not in line with the external environment. In the highly influential work of Bartlett and Ghoshal on the evolutionary model of the MNC, the role of power relations is hardly explicitly mentioned but implicitly understood as being instrumental for the management of the MNC. The key question is *how much power needs to be centralized at the HQ level* and how much power needs to be shared with subsidiaries in order to be able to effectively manage the international operations. This question becomes even more prominent in the authors’ discussion about the final so-called transnational stage of “evolution,” when balancing global efficiency

and local adaptation is seen not just as a task of structural change but also as a task of managing culture and building “global mindsets” to enhance coordination and control (Bartlett and Ghoshal 1989). The bias towards top-down power structures and the neglect of political processes in mainstream evolutionary studies becomes apparent when considering the case of ABB, which was seen as the closest ideal-typical model of the transnational firm (Bartlett and Ghoshal 1989). But the company then ceased to experiment with transnational matrix structures. Ironically, as Westney stresses, the “influence of host country management ‘waned’ from the mid-1990s on, and the much-vaunted balance of business, geography and function eroded” (2009: 129). In short, balancing global and local demands within the MNC is a dynamic political process which is capable of both reinforcing and undermining established power structures, issues which have been widely ignored by mainstream evolutionary scholars.² Additionally, Bélanger *et al.* (2003) stress, also in reference to Bartlett and Ghoshal’s study, that the research methods of their study are not suitable for critically reflecting on power relations and politics within MNCs, criticizing that the applied “methodology appears to be dependent on the intentions and formal discourse of the main corporate leaders” (Bélanger *et al.* (2003: 473). Unfortunately, further developments of the evolutionary framework, e.g. by Nohria and Ghoshal (1997), who suggest studying MNCs as “differentiated networks,” seem to even further neglect the role of power and politics in the MNC. Based on the normative mantra it is assumed that managers can learn to effectively create and manage transnational cultures, and that as a consequence of improved “effectiveness” of management “inter-functional and cross-divisional conflicts, the dysfunctional effects and illegitimate aspects of politics and power will hardly ever appear – they may even disappear” (Dörrenbacher and Geppert 2006: 253).

To summarize, mainstream evolutionary approaches to the study of the MNC opened up the black box of hierarchical structures within the MNC by focusing on how internationally operating firms can be better managed and organized. However, because of a bias towards efficiency and the normative, rather simplistic belief that political “dysfunctions” can be eliminated through more effective management, this approach overlooks the dynamics of political processes and the role of social agency.

² There are of course exceptions, as we will discuss later. Here we refer in particular to the seminal paper of Doz and Prahalad (1991) and the work of Birkinshaw and colleagues on subsidiary mandate change. Most of the work of the latter scholars, however, remains closely linked to the evolutionary model of the MNC, and theory building on politics and power in the MNC has been limited.

Research on subsidiary entrepreneurship: explicit focus on power and politics in the MNC but still largely drawing rationalistic views

The work of Hedlund (1986) was pioneering as well as inspiring for IB scholars, including Bartlett and Ghoshal, when developing their ideas about the evolution of MNC strategies and structures. In comparison to mainstream IB research, Hedlund made us aware that the strategic approaches of MNCs are more dynamic and might switch back and forth between more or less hierarchical control and coordination mechanisms, which he called “heterarchy” (see also discussion in Collinson and Morgan 2009). It is important to note that *heterarchy* is not the same as what economic studies discuss under the label of market coordination, but instead points to the strategic choices and roles of subsidiaries, which cannot be fully controlled by the HQ. This observation is picked up and developed further by IB scholars, including Birkinshaw (1996, 2000). Accordingly, Andersson *et al.* (2007: 802) suggest conceptualizing MNCs not as a hierarchies, but as “federations,” where both HQ and subsidiaries “are involved in a perpetual bargaining process.”

A key contribution of these IB studies in terms of politics and power within the MNC is their emphasis on the fact that subsidiary managers actively influence relations with HQ when negotiating charter changes, rather than just passively responding to HQ demands. It is also stressed that subsidiaries have and develop different roles, which provide them with *critical resources* for increasing their mandates when bargaining with the HQ (e.g. Birkinshaw 1996). An illustrative example of how MNC power relations and the political strategies of subsidiaries to gain influence at the HQ level is conceptualized and analyzed in this research stream is provided in the study of Birkinshaw and Ridderstråle (1999). Conceptually, the authors draw on ideas of organizational power found in contingency and resource dependency theories. They introduce the metaphor of the “corporate immune system” within the MNC to demonstrate how established power relations influence entrepreneurial initiatives by subsidiaries and why some initiatives are accepted and others are rejected by the HQ. The functioning of the corporate immune system is explained at three levels: (1) the power of the HQ, (2) the power position of the subsidiary with the MNC in comparison to fellow subsidiaries and (3) internal and external market success of initiatives. Even when subsidiary power is seen as crucial for entrepreneurship within the MNC, the HQ is understood – in reference of Weber’s (1947) classical definition of bureaucratic power (Birkinshaw and Ridderstråle 1999 – as the holder of central *authority-based power*, having an ultimately “legally granted authority