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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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## Politics and Power in the Multinational Corporation

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The current financial and economic crisis has negatively underlined the vital role of multinational companies (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. It 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. This book examines how issues of power and politics affect MNCs at three different levels: the macro-level, the meso-level and the micro-level. This wide-ranging analysis shows not only that power matters but also *how* and *why* it matters, pointing to the political interactions of key power holders and actors within the MNC, both managers and employees.

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## Foreword

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### The MNC as a political organization

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Ram Mudambi, Temple University

I will argue that the business firm is properly viewed as a political system and that viewing the firm as such a system both clarifies conventional economic theories of the firm and ... suggests some ways of dealing with classical problems in the theory of political systems generally. (March 1962: 663)

Organizations, particularly large ones, are like governments in that they are fundamentally political entities. To understand them, one needs to understand organizational politics ... (Pfeffer 1992: 29)

The above quotes exemplify the reality of the functioning of all large and complex organizations. Large business firms in general and multinational corporations or companies (MNCs) in particular form a large and important set within this group. Yet most theories aimed at explaining the functioning of business firms, both in strategic management and economics either ignore the political dimension of the organization, or treat it as an aberration. In the mainstream literature, the strategy of business firms has traditionally been accepted to be the creation and maintenance of competitive advantage.

As noted by Mintzberg (1979), the operation of a business firm gives rise to both cooperation and conflict. Conflicts can arise between owners and managers in the division of the value created by the firm as well as amongst managers in the struggle for power and control rights within the firm. It is this latter set of conflicts that is the subject of this very topical volume. These conflicts have been analyzed within two quite disparate perspectives, namely agency theory and resource dependency theory. Both of these perspectives have been extensively developed in independent literatures. However, while these literatures have much to offer each other, these links have hitherto been underdeveloped.



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Within the agency perspective, conflict amongst managers has been framed as one where managers at headquarters are the principals and managers in operating divisions are their agents. It is recognized that MNC subsidiaries pursue their own interests and are not a mechanical instrument of headquarters' will. More importantly, "the local interests of the subsidiaries may not always be aligned with those of the headquarters or the MNC as a whole" (Nohria and Ghoshal 1994: 492). However, while the agency perspective incorporates autonomous decision-making by subsidiary managers, their decision-making autonomy may be categorized as discretion in the sense of Williamson (1996). Headquarters delegates or "loans" decision rights to subsidiary managers, but retains the power of veto, i.e. the ability to overrule any subsidiary decision.

In contrast, the analysis of power in the management literature has been based on the basic notion that "power is the ability to get others to do something that they would not otherwise do" (Dahl 1957) and that the successful exercise of power requires that it be based on a set of "legitimizing principles" that are specific to the organization (Weber 1968). This is the basis of resource dependency theory, which posits that power is (a) based on the control of resources that are considered strategic within the organization (Pfeffer and Salancik 1978); and (b) is often expressed in terms of budgetary and resource allocations (Mudambi and Navarra 2004). Resource dependency theory is externally focused in the sense that "power is held by divisions that are the most important for coping with and solving the critical problems of the organization that arise from its environment" (Pfeffer and Salancik 1978). Organizational survival in a competitive environment provides a logical basis for this position, since organizations that fail to address their critical problems will disappear.

On the basis of the foregoing discussion, it is clear that agency theory and resource dependency theory are two pillars upon which to understand decision-making by managers in MNCs. Both these theories find voice in the constituent chapters of this volume. But the editors of the volume go further, by recognizing that applying these theories to the MNC requires acknowledging its unique contextual subtleties. These arise from the fact that the MNC is embedded in multiple local contexts, giving rise both to opportunities and challenges (Meyer *et al.* 2011). These local contexts can generate firm-specific advantages ranging from R&D and marketing-based knowledge (Mudambi 2008) to efficient employee relations (Tüselmann *et al.* 2006; Williams and Geppert, this volume).

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## Foreword

The multiple embeddedness perspective (Meyer *et al.* 2011) provides a cohesive framework to view the three constituent parts of this volume. First, the strategies and functioning of German MNCs cannot be understood without recognizing their social embeddedness. Second, ignoring contextual issues, headquarters–subsidiary relations reduce to a simple conflict between global (headquarters) versus local (subsidiary) optima. Recognizing the importance of local contexts emphasizes the role of rationalization (Dörrenbacher and Gammelgaard, this volume) and hence the importance of boundary spanners (Mudambi and Swift 2009, Schotter and Beamish, this volume). Third, national identities and home and host country culture are critical issues underlying MNC political processes and decision-making.

All three sections of this collection provide us with novel approaches to understanding decision-making within MNCs. Hence they give us new insights into the functioning of the world's largest business enterprises.

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