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The Multinational as a Corporate Form: A Critical Contribution from Organization Studies

Glenn Morgan

Introduction

In the study of international business as a specific field within management, multinationals are conceptualized as rational economic actors taking decisions about locational strategies on the basis of issues of efficiency and profitability (Rugman, 2009). In the process, they diffuse capital, technology, knowledge and skills across the world. These investments are perceived to have positive spill-over and learning effects which help draw locations into the global economy and gradually shift populations out of poverty. This perspective supports in general the principle of free trade, the removal of barriers to free trade and the development of a global structure that reinforces free trade through the World Trade Organization and associated inter-governmental treaties. It supports the rights of multinational corporation (MNC) management to decide on firm strategy and assumes that these decisions will lead in the end to a trickle-down effect of economic and social benefits. It dismisses the actions of employees and governments to resist and reshape these policies as ineffective and counter-productive.

Critical management studies of the MNC have challenged this view from a variety of perspectives (see the discussion of the different perspectives in Collinson and...
Morgan, 2009). It is not unusual for critiques to simply reverse the mirror – in other words to argue that MNCs are primarily about senior management decisions but contrary to the proponents of globalization’s benefits the consequences of this process are negative – the exploitation of employees and environments, the extraction of value into the hands of financial capital. In this chapter, the aim is to suggest something different from both these perspectives by emphasizing that the multinational as an organization is the site of ongoing struggles between, on the one hand, actors in the MNC headquarters who control access to key financial resources and local actors in subsidiaries who exercise power over the process of production of goods and services for markets. The chapter explores this struggle which is embedded in the degree to which actors inside MNC subsidiaries are able to strategize on their own account against the demands of the MNC HQ. Is it possible for subsidiaries to resist and what are the consequences of this resistance? Thus the aim here is to open up the black box of the ‘multinational’ which is kept closed both by economists’ insistence on perceiving the firm as a unitary rational actor and by the opposite tendency of perceiving the firm as an instrument of globalization and exploitation. Instead, the MNC here is presented as a transnational social space characterized by mechanisms of hierarchy and domination but also defined by the ongoing efforts of different social groups to contest that hierarchy.

The chapter proceeds in the following sections. Firstly, it describes how the concept of the multinational has moved in management and organization studies from one that simply assumed a hierarchical set of relations with subsidiaries as mere enactments of the HQ towards a view of subsidiary ‘activism’. Secondly, it explores in more depth the social, economic and institutional basis of subsidiary activism; it
identifies a variety of underlying conditions which facilitate or inhibit forms of subsidiary activism. What matters is the degree to which actors in local contexts can create collective capabilities and powers that enable them to strategize to achieve such benefits. Clearly, in a highly financialized form of capitalism, this is difficult to achieve. Most contexts are likely to reveal more limited spill-overs that are distributed unequally and therefore contribute.

**Strategy and Structure in Multinationals**

The international business literature on multinationals as expressed in textbooks in international business perceives the management and organizational issues involved from a highly centralized perspective (e.g. the contributions in Rugman, 2009). It assumes that power and authority reside in the headquarters and therefore key decisions about strategy and structure will be made there and will be passed down into and implemented by the subsidiary and branches of the firm. However, it is also cognizant of the problem of knowledge and information asymmetry. The headquarters may be all powerful but they are not all knowing. It cannot know the details of particular markets, in terms of consumer tastes, regulations, work conditions etc. This knowledge may be held more clearly in subsidiaries and branches and the resulting information asymmetry creates a dilemma for the MNC which is reflected in its strategy and structure. On the one hand, one of the key advantages of the MNC is scale. Because it is producing for a number of markets, it can build larger units for the production of goods and services and achieve higher economies of scale. The more a firm can standardize its products and services and materialize them in large plants or offices, the more competitive it becomes. This argues for a ‘global’ decision-making process
whereby the firm decides the best location for the production of its goods and services, and exports from this base to all its main markets. In this model, the MNC assumes that variation across localities is limited or irrelevant. It does not need ‘local knowledge’; it can use the knowledge it has developed in its home base about how to organize production and sell products and services to do so on a global scale. On the other hand, national markets are often subject to different expectations from retailers, consumers and industrial markets as well as consumer tastes and different regulations, thus making global standardization difficult. Furthermore, states may set import taxes at levels that equalize the price of products from outside its boundaries and in this way support and sustain employment internally. These two tendencies have been analysed in terms of the dynamic between integration (the global imperative) and responsiveness (adaptation to consumer tastes, particular regulatory patterns, networks relationships in local markets) (Doz and Prahalad, 1984).

The key implication which arises from this for orthodox international business research is that MNC headquarters and subsidiaries have different roles and relationships depending on the strategic purposes defined by the MNC. This is an important development because it shows that not all subsidiaries are the same – it is necessary to consider their distinctiveness in order to understand how far they embed into the local community, diffusing skills, technologies and learning outside the boundaries of the subsidiary. Or are they on the contrary primarily isolated and alien units in the locality without any sorts of roots or positive spill-overs?

In a highly influential framework, Bartlett and Ghoshal identified four models of organization that responded to different emphases between standardization and responsiveness (Bartlett and Ghoshal, 2002):
Begin Table 2a.1

<table>
<thead>
<tr>
<th>Low local responsiveness</th>
<th>High local responsiveness</th>
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<tr>
<td><strong>Low Global Integration</strong></td>
<td><strong>High Global Integration</strong></td>
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<td><em>International</em></td>
<td><em>Global</em></td>
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<tr>
<td>Skills and knowledge in headquarters transferred to subsidiaries in local markets</td>
<td>Highly efficient: production organized on a global scale to maximize economies of scale in standardized products</td>
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<tr>
<td><strong>Multinational</strong></td>
<td><strong>Transnational</strong></td>
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<tr>
<td>Main focus on the national markets; little integration of production, management skills or knowledge across national contexts</td>
<td>Production planned to maximize economies of scale but local contexts remain central, so that products are adapted to local contexts and learning is transferred across subsidiaries</td>
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From this perspective, it is clear that the different types of firms presented by Bartlett and Ghoshal imply different types of vulnerability and strength in subsidiaries. An important element in this is the nature and scale of the investment which the MNC has made in the local subsidiary. The larger the investment, the stickier it is and the less likely that the MNC will exit, particularly where this involves ‘greenfield’ investment – that is, where new capital has been used to establish a new subsidiary. By contrast ‘brownfield’ investment refers to investment which is the outcome of a merger or acquisition thus bringing no new investment into productive facilities.

**Subsidiary Strategy: From Voice to Politics**

In Bartlett and Ghoshal, the dynamic actor is the MNC HQ which sets the framework within which subsidiaries are embedded. However, this was clearly to understate the
degree to which subsidiaries could strategize to respond to the HQ and to their vulnerabilities. Within the orthodox literature on MNCs, this has been explored in terms of how subsidiaries strategize across a number of fronts (Birkinshaw, 1996; see especially the work of Julian Birkinshaw: Birkinshaw and Hood, 1998; Birkinshaw, 2000; Birkinshaw and Lingblad, 2005). One is to make themselves more valuable to the MNC by gaining mandates that make them key to the overall mission of the MNC, for example, by holding a central place in the development of a certain technology, process or product. This requires that they compete against other subsidiaries in internal market processes when new investments are being considered. Another strategy is to make themselves visible to the HQ by ensuring that their role in the MNC is fully appreciated; they look for a ‘voice’ in wider strategic debates and innovations in the MNC (Bouquet and Birkinshaw, 2008; 2011).

Orthodox business school analysis of multinationals has therefore recognized the need to incorporate a perspective from subsidiaries into its analysis. Subsidiaries in this view can take strategic action to alter their position within the multinational in terms of its significance for the MNC. A subsidiary can develop its position as a source of specialist knowledge or highly efficient production that makes it essential to the HQ and to the operation of other subsidiaries. It can also develop the perception of its value to the MNC by engaging in various activities to promote itself. In this way, the MNC continues to invest into the local subsidiary. Where subsidiaries fail to do either of these things they make themselves more vulnerable to either closure or rationalization or spin-off. Thus we can understand processes of investment, divestment, closure and growth inside the MNC as responses to the interaction between, on the one hand, the
demands of the MNC HQ and the strategies which it sets for subsidiaries and, on the other hand, the responses of those subsidiaries to these demands.

Recent research, however, has not been satisfied with this formulation of the processes described. There are a number of critical points which can be made. Firstly, the categories of HQ and subsidiary are treated unproblematically and without any analysis of the heterogeneity of the social actors that constitute these categories. Secondly, and associated with this, there is an assumption that the assets and resources which the actors utilize inside the MNC are essentially derived from the MNC itself. In other words little attention is paid to the external institutional setting of the MNC and its subsidiaries. Only by putting the MNC and its actors back into this institutional setting is it possible to make sense of the powers and capabilities which different actors bring to conflicts over investments, mandates, concession bargaining etc. From this perspective, the degree to which a subsidiary and locality continue to receive investment from the MNC is not the happy by-product of rational economic decision-making but the result of intense political struggle between different actors drawing on unequal resources in a competitive and uncertain market environment.

In relation to the first point about the interests and actors which constitute HQ and subsidiaries, it is necessary to note that the constitution of these two arenas are inter-dependent as well as separate. They are firstly interdependent because characteristically MNC HQ send senior managers to run subsidiaries. This makes it difficult to define a simplistic difference of interest between the HQ and the subsidiary. There are a variety of models of this process at work. Japanese multinationals, for example, tend to send Japanese nationals to their subsidiary and these take the key positions in terms of strategy and production. Host country nationals are generally
employed to manage HRM and marketing and sales strategies. The ruling elite of the Japanese MNC stays Japanese and its overseas managers constitute the eyes and ears of the company in the host country (Whitley et al., 2003). US and UK multinationals on the other hand have increasingly developed the model of an international management cadre which is heavily socialized into the HQ view of the world (since it makes its careers by moving around and up the various subsidiary structures in the hope of eventually reaching a senior position in the head office). This international management cadre is increasingly made up of a range of nationalities which share a standard pre-socialization in international business schools, consulting firms, accountancies etc (Almond and Ferner, 2006). Thus, it is necessary to go deeper into the subsidiary to understand how interests and strategies are formulated there. Where there is a strong and powerful tier of managers either from head office (as in the Japanese case) or from the international management cadre (as in the US/UK case), then it is likely that this will influence the strategies pursued by the subsidiary. Such subsidiaries are likely to play the game which the HQ dictates – this may mean competing for new investment and for possible growth but it may equally well be about closure and reduction. In this perspective, local spill-overs and learning effects are predominantly dictated by head office requirements, a situation which leaves local actors relatively powerless. In other contexts, however, the dominant managerial group in the subsidiary may be locals who perceive a community of fate with other employees in the firm and are therefore willing and able to strategize for the development of the subsidiary, either within or exceptionally outside the current MNC (as discussed in Kristensen and Zeitlin, 2005).

However, the literature from organization studies suggests that this perspective has to be balanced by a focus on other social actors within the local context (Bélanger et
Considering, firstly, the actors internal to the subsidiary – what strengths and capabilities might they have which could counteract or develop alternatives to the strategies which the MNC HQ seeks to impose? There are a number of elements to the answer to this question – the degree of internal solidarity within the workforce, the degree to which this is institutionalized in specific practices and procedures, the degree to which this is linked to distinct capabilities, the degree to which this is reinforced and legitimated in the external environment and finally the degree to which exit is a sensible option for actors in the subsidiary. These issues are in turn related to the nature of the external environment in two respects; firstly, the range of alternatives for the collective capabilities of the subsidiary outside of its location in the MNC and, secondly, the degree to which actors in the local environment are able to support the actors inside the subsidiary or are themselves captured by the discourse of the MNC HQ.

Degree of Internal Solidarity: this refers to the degree of shared commitment amongst the workforce in the subsidiary. The weaker this solidarity the easier it is for the MNC HQ to impose its own policies on the subsidiary. This has already been partially discussed in relation to the question of subsidiary senior management; where these are predominantly drawn from the home base or from a cadre of identified international managers, then this group is more likely to conform strongly to HQ policy. This is not an inevitable aspect of MNC subsidiaries; it partially depends on whether the subsidiary is a greenfield/new build operation (in which case MNC HO involvement in management is likely to be high) or if it is an existing entity acquired from previous owners (which in
turn may be another MNC or a variety of other others such as private equity, family firm, MBO etc). Internal solidarity is also affected by the nature of the labour force, including its skill, gender and ethnic composition, its degree of turnover, the variability of employment contracts etc. Kristensen and Zeitlin show that where the workforce has long-term shared relationships in the subsidiary, this makes it more possible to articulate different interests from internal management and from the MNC HQ (Kristensen and Zeitlin, 2005).

**Degree of Institutionalization of Internal Solidarity:** this characteristic puts the emphasis on the significance of trade union and other forms of employee representation in the workplace. Where trade unions are recognized and have the capacities to develop their own perspectives, then this provides a possible base for the development of collective interests, particularly when there are institutionalized forms of representation, eg in works councils or in other forms of bargaining (Hansen-Miller, this volume). Trade unions frequently challenge MNC decisions over closure or restructuring, using expert advice and their members to articulate alternative approaches to those presented by management (Ferner, 1997). Where as in the European Union, cross-national works councils are legitimate and possible, this facilitates a process of negotiation between employees on different subsidiaries and has effects on identity and solidarity more widely even if these remain relatively limited in terms of constraining multinational management (Marginson et al, 2004; Greer and Hauptmeier, 2012; Keune and Marginson, 2013).

**The Role of Distinct Skills and Capabilities:** where employees are highly skilled in particular production processes and have knowledge of these which is often more
accurate than that of MNC HQ which rely on accounting and management information systems to provide their understanding, then local employees have a stronger potential for building alternative strategic plans for a subsidiary than in cases where the workforce is essentially unskilled or semi-skilled working in a highly Fordist system of production.

The Degree to Which Specific Skills and Capabilities in the Subsidiary Are More Widely Recognized and Legitimated: where other subsidiaries in the MNC are reliant on the specific skills and contributions of a particular subsidiary, this reinforces its solidarity. This can be linked to networks of specialists inside MNCs where transfers of knowledge, equipment and processes lead to the recognition of specialist expertise. This also relates to the external environment; the more actors in the external environment recognize and legitimate the special skills of employees in the subsidiary, the more they are likely to offer support to them, by providing training and other facilities to maintain that leading edge. This may also lead local actors to accede to demands from the MNC HQ for more support for the subsidiary as a whole eg tax breaks, grants, infrastructure improvements (Marginson and Meardi, 2010).

Exit Possibilities for Employees: where exit possibilities are limited, then local employees share a common fate. This creates a defensive form of solidarity and commitment to the survival of the subsidiary which may involve concession bargaining through management whipsawing tactics. Where exit possibilities for individual employees are high, usually related to there being something like a cluster of companies working in the same area and competing for valuable high quality labour, then it is the
MNC HQ which has to find ways to keep people in the subsidiary by increasing rewards and opportunities.

Exit Possibilities for the Subsidiary Itself; the current system of financialized capitalism is one in which there is frequent trading of and restructuring of the assets of firms. This takes many different forms and these forms expanded in scope and significance in the period up to the 2008 financial crash. When an MNC engages in restructuring, its worst option will be closure in terms of the loss it takes though quickest and in some circumstances, simplest. Other ‘sell’ options are more preferable. On the sell side, MNCs under pressure to reduce costs and restructure continually evaluate the contribution of their different subsidiaries and businesses. This can lead to the sell-off of product divisions, of geographical divisions or at the level of a business division, the sale of certain subsidiaries and units in order to exit a particular declining market or to concentrate activities in larger units. On the buy side, there are a variety of potential buyers, ranging from MNCs with strategies to concentrate, consolidate or expand into new markets by making such purchases; there are private equity firms borrowing and using investors’ funds in order to buy businesses which can be aggressively restructured to make a profit; there are management teams willing to engage in buy-outs (MBOs) to separate themselves from the heavy overhead costs of MNCs. Some of these buyers, most particularly private equity and MBOs, also have a strategy of turning into a seller somewhere down the line in the short to medium term. The point here is that subsidiaries may have futures outside that of their current position within a particular MNC (see, for example, the discussion of MNCs and their subsidiaries in Finland in Kristensen and Lilja, 2011, which shows these shifts in ownership occurring whilst the productive unit remains). The question, however, is
whether that future is one decided in financial markets and in the MNC HQ or whether the subsidiary itself has sufficient solidarity, power and influence to impact on future ownership. This relates to the final issue.

The Degree to Which Actors in the Local Environment Are Able to Support the Actors inside the Subsidiary or Are Themselves Captured by the Discourse of the MNC HQ: in some contexts, local actors in the external environment look at the subsidiary entirely through the lens of the HQ. They assume and accept the economic rationality of decisions flowing from the HQ and do not challenge them. In some societies this reflects issues of corruption and control, ie MNCs capture local officials and these officials act as brokers for them with other institutions such and regulators or tax authorities in order to maximize the MNC advantage. The legitimating ideology is that the MNC brings employment and therefore the idea that local actors inside the subsidiary or in the immediate environment would have any grounds for challenging the HQ would be dismissed. In relatively transparent systems without so much overt corruption, there would be more of a tension between accepting the MNC HQ decision and listening to local actors. Where the local actors inside the firm are strongly linked to institutions outside the firm, ie to the local government, to trade union collective organizations, to networks of other firms and education, training and financing institutions, then there is more chance of alliances bringing together internal and external groups to challenge HQ policy (Dörrenbächer and Geppert, 2011; Kristensen and Lilja, 2011; see eg the cases discussed in Kristensen and Zeitlin, 2005). However, the degree to which this can be effective will be further affected by the nature of policy at the national governmental level (Almond, 2011). Where this is predominantly a neoliberal approval of globalization as directed by MNC HQs, then local resistance will find it difficult to
survive but if there are national forces that can support ‘local’ struggles, the impact will be more complex, eg in France.

Conclusions

This paper has argued that a proper appreciation of the multinational corporation must go beyond economists’ models of rationality and efficiency and simple models of the positive effects of globalization. However, it also needs to go beyond fatalistic views that local actors are powerless to resist the decisions of MNCs. Clearly, the predominant weight of power and influence goes to those who can accumulate the largest financial resources and have the ability to shift them quickly both across geographical space and also between different types of assets. The history of modern capitalism has been a history of the struggle between owners and employees over limitations to the power of money and markets. As money and markets have extended, new pools of labour have become incorporated without the benefit of the forms of protection established in developed economies over decades of such struggle. MNCs have found it relatively easy to place into these locations subsidiaries that make use of low levels of workforce solidarity, low levels of institutionalized collectivism, low skills etc. This has enabled MNCs to increase their profitability by shifting employment to cheaper areas and subjecting employees in developed areas to concession bargaining.

However, there are countervailing powers that can be exercised on the MNC if the workforce in the subsidiary is sufficiently solidary and is supported by internal and external institutions. Extending existing mandates within the MNC derives from the ability of the employees to develop special competences that are valuable to others inside the firm or connected to it through production chains. Such competences often
rely on the existence of local labour markets, local training institutions and local welfare systems that provide individuals with the opportunities to learn and develop skills that can be put to use in creating these high levels of expertise. The subsidiary which is created in this way evolves a reputation – in its local context, amongst its customers and amongst other parts of the MNC – that gives it a distinct identity which can in theory at least carry on through changes in ownership. Thus local actors here have the possibility of building and surviving through different forms of ownership in a competitive and financialized capitalism because they are capable – in their own right – of producing something that is valuable and valued.

These are the two extremes of MNC subsidiaries. On the one hand, and by far the more numerous, are the subsidiaries which are dependent on the MNC HQ, have very little solidarity of their own, very little existence of their own. These are vulnerable to the MNC switching assets and there is very little that can be done other than a continuous race to the bottom. At the other end, far less in number but nevertheless important, are those subsidiaries that are strongly embedded in local institutions and in networks of customers and suppliers which go beyond the MNC. Their existence whilst still precarious given the nature of financialized capitalism has more stability so long as they are capable of sustaining their distinctive competences. This may not always be possible because of the control and coercion which the MNC HQ exercises but in a context where there are supportive external institutions and internal actors sustain their solidarity, the possibility exists that such subsidiaries can survive the waves of restructuring and ownership change which characterize contemporary capitalism.

Many subsidiaries lie between these two extremes. MNCs cannot always liquidate or sell on large assets, particularly where these have been greenfield sites. Nor
can they risk falling foul of governments in large markets by closing down operations due to corporate restructuring driven by cost-cutting logics. On the other hand, employees may not see any alternative to the current system of MNC ownership and may engage in concession bargaining, driven to protect what they have rather than strategize about developing new products and services that could enable the locality to become stronger, the networks deeper and the future more autonomous.

In conclusion, the multinational corporation is necessarily a hierarchical space dominated by financial interests in the headquarters but the internal space itself is much diverse and subject to conflict and struggle. Furthermore the boundaries of the internal space are permeable; the connections (or lack of them) between internal actors and external actors and institutions is crucial to understanding how this hierarchical transnational space is subverted, challenged and reconstructed. This permeability is also reflected in the ease with which subsidiaries as assets can be transferred between different financial entities. A critical theory of the corporation therefore needs to take account of this transnational social space, its internal diversity and boundary permeability in order to understand the dynamics of MNCs and their effects on local economies (Morgan, 2001). This points to the way in which such accounts of multinationals can engage on a policy level where issues arise about MNCs closing or divesting from local areas as well as the importance of providing a framework for FDI that maximizes the embeddedness of the subsidiary in to the local institutional context whilst still ensuring that it has connections to global markets, either internally through the MNC or externally through sales to other MNCs or to direct to customers. In recent years the USA has sought to reduce the possibilities of states and other local actors constraining the rights of MNCs to enter and leave sites; The Transatlantic Trade and
Investment Partnership Treaty which is being discussed between the EU and the USA introduces the Investor–State Dispute Settlements (ISDS) which allows companies to sue governments if those governments’ policies cause a loss of profits. Thus MNCs can shift the terrain of power by influencing how international treaties create obligations and responsibilities for different actors.

Overall, the MNC may seem like an unaccountable Leviathan but it is constituted by diverse actors with different sets of interests. Whilst power is unequally distributed in the MNC, it is possible to oppose fatalism in the face of MNC decisions and instead aim to build alliances that can harness the positive elements of the MNC, such as the transfer of technology, capital and knowledge as well as the access to global markets, to the benefit of local communities.

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