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## **Power Relations within Multinational Corporations (MNCs)**

### **Introduction**

The impact of MNCs in the current international political economy is clearly massive in terms of issues such as investing through FDI, influencing state policy, political parties and elections in various legitimate and illegitimate ways, shaping local institutions, upgrading local labour markets and networks of suppliers, building markets and consumers, affecting the rights of employees, contributing to or detracting from the tax base, intervening in debates on regulatory measures and global public policy. However, evoking an entity such as the 'multinational' is potentially misleading. Not only does it ignore the variety of types of multinationals but it also implies a unified actor capable of acting in 'its interests' as a whole and representing the power of a single group of actors. From inside the organization, the situation looks more complicated. There are multiple social groups inside this 'black box' which are pursuing complex sets of interests, some shared and others conflicting. These groups are constituted through shared material positions inside the multinational and outside. Taking a unified focus tends to prioritise actions at the head office of the firm and assumes that all power is centralised there with the rest of the organization being merely a passive recipient of strategies driven by the top management elite. It does not sufficiently take account of the idea that branches and subsidiaries can be active participants and entrepreneurs in shaping the strategy of the multinational (Birkinshaw 2000). The MNC is an arena within which these actors pursue their interests and engage in conflict, accommodation and adaptation. Senior management in MNCs control certain resources (most importantly legal rights over the location, disposal and coordination of corporate property together with access to capital for investment). They can implement particular organizational and management control structures – for instance subsidiaries for production and/or research and development, branch offices for marketing and sales, subsidiaries created for purposes of legal indemnity and tax minimization and without any production, research or sales associated. These structures are embedded in specific and distinctive institutional contexts that create potential coalitions of interests across the boundaries of the firm into the local economy where local actors respond in a variety of ways to the controls of the head office. Such divisions therefore create many potential inter-office conflicts within the multinational corporation and senior managers may find these act as barriers or constraints on their ability to set strategic direction and implement operational processes and procedures.

In order to investigate these inter-office conflicts inside the multinational, the chapter is structured in the following way. Firstly, the concept of the multinational corporation is defined and discussed in relation to understanding the complexity of this internal structure and its embeddedness in specific institutional contexts. In the second section, the concept of transnational social space is introduced as a way of making sense of this diversity. The multinational is a defined social space with its own characteristic modes and mechanisms of coordination that bind together different groups and locations in vertical and horizontal relationships. At one level, therefore, the identity of groups and the power resources which they possess are defined by their position within the organization. Their fate is bound up with that of the MNC as a whole and the actions of the top management. At another level, identity, power, resources and interests are also socially embedded and rooted in specific institutional contexts. Thus multinationals are characterised by 'institutional duality' (Vora and Kostova 2007; Kostova et al. 2008) that is, the difference in terms of expected modes of behaviour and the conflict over which mode predominates which one has to adapt. Institutional duality has vertical (between the head office and a subsidiary) and a horizontal dimension (between

subsidiaries linked together through internal supply chains or other mechanisms). It is in this distinctive transnational social space that inter-office conflicts, politics and power emerge within the multinational (Dörrenbächer and Geppert 2011). The chapter examines the sorts of conflicts which emerge between actors in these various parts of the organization and how this is related to the issue of institutional embeddedness. It seeks to identify the factors which enable some subsidiaries to pursue their own interests within (and potentially outside) the frame of the MNC and those factors that creates passive subsidiaries which are subject to the dominance of other actors and particularly to the decisions of the head office. This relates to the way in which certain subsidiaries are institutionally embedded within contexts that support them and enable them to develop distinctive capabilities versus contexts where subsidiaries are weakly embedded and drawn to locations simply by government subsidies, the presence of cheap labour and open access to consumer markets. The chapter argues that by understanding subsidiary locations and institutional settings as well as the position of the subsidiary in the overall strategy and structure of the MNC, it is possible to identify different forms of inter-office conflicts and their impacts.

### **Defining the multinational**

The term multinational is usually applied to any firm which engages in activities beyond its home base. Such activity does not have to be investment in an overseas production facility, though that tends to be the key issue for most political economists (see also De Beule and Jaklič in this volume). It could be exporting or trading where sales offices are established overseas; it could be licensing or franchising to overseas operators; it could be operating a branch office that manages advice, purchasing and services in relation to intermediaries, customers, suppliers and clients in overseas markets. It could be activity in just one other country or it could be with 100 other countries. It could involve massive investment in plant and equipment as well as in managing a local labour force as with overseas production or it can involve a limited number of local employees acting as a conduit back to the home office, as in many overseas sales and marketing offices but also in branches of global consultancy, accounting and auditing firms (where project teams are brought together for specific purposes and timeframes and then dissolved with employees moving across national boundaries regularly). Multinational financial institutions are different again as assets and liabilities are spread across countries in ways which do not necessarily reflect the distribution of employees and offices. It is easy to see therefore that the degree of ‘multinationality’ or ‘internationalization’ ranges very wide. Efforts have been made to provide a measure of this feature of the internal environment of the multinational but in the main they have concentrated on manufacturing multinationals.

The Transnationality Index developed by the United Nations Commission on Trade and Development (hereafter UNCTAD) collects data on three aspects of a manufacturing multinational’s activities and then constructs a score of overall transnationality which enables it to draw up tables of the most internationalized non-financial companies. The three measures which it uses are a) percentage of assets based outside the home base, b) percentage of employees based outside the home country and c) percentage of sales by value made outside the home base. Aggregating these scores together gives a score out of 100. In the 2016 World Investment Report, UNCTAD placed Rio Tinto as number 1 on the Transnationality Index with an aggregate score of 99.2 per cent of assets, employees and sales outside its home base where it is registered (the UK). This reflects Rio Tinto’s business in mining, quarrying and minerals undertaken mainly in the developing world but its continued location of its HQ in London also reflects London’s place as a financial centre with

a longstanding position within global capitalism and British imperialism. An interesting contrast is Volkswagen, a German company with huge overseas investment, making it the 8<sup>th</sup> largest multinational in terms of its total overseas assets but only 67<sup>th</sup> in terms of the transnationality index because it still retains large numbers of employees and assets in Germany. Such data gives an initial indication of the spatial dispersion of multinationals and in this way identifies the potential extent of inter-office conflict which may occur.

Other authors, particularly Rugman, have argued that multinationals are usually regional in nature (Rugman 2005, Rugman 2003, Rugman and Collinson 2004). Using a simple Triad model of the world economy and focusing mainly on sales data, Rugman and his collaborators have argued that very few multinationals are present in all three regions of the Triad (the Americas, Asia and Europe). More likely they have substantial presence in their home region plus one other with very little activity in the third. Whilst this data points to the significance of spatial dispersion within the multinational, it is still relatively difficult to identify details. For example, Honda which is ranked 13<sup>th</sup> in terms of assets held overseas has 67 per cent of its workforce outside Japan but in how many places is that concentrated? As well as its Japanese operations, Honda has three plants in the US (opening its latest factory in Marysville, Ohio in 2014) plus one in Mexico (as part of its NAFTA strategy), one in the UK (for the EU market), two factories in China (in joint ventures with local companies), two in Thailand plus a number of other smaller units in South America, South Asia and Turkey. By comparison, General Electric which has a similar percentage of overseas employees (62 per cent), has a much more complex structure with many more divisions, products and sites. On its website, General Electric states to have operations in 130 countries. In most manufacturing multinational, therefore we see a range of different subsidiaries. Some of them will be large local employers with high levels of assets invested, some of which are specific to the local combination of labour, markets, regulations and technologies; others will be producing for global or regional markets; some subsidiaries may possess research and development facilities or be designated as a cluster of excellence or lead site in a particular product or process for the MNC (Frost and Birkinshaw 2002). These positions all make a difference to the ways in which a subsidiary can develop and sustain its own interests in conflicts with head offices and other parts of the MNC.

This complexity increases when the focus moves from non-financial multinationals to other sorts. For example, how do we understand the degree of internationalization of financial institutions? Goldman Sachs is present in what it describes as all the major financial centres in the world. It has offices in 36 countries with more than one branch in big countries like China and the US and around 38,000 employees – much less than manufacturing companies but its market capitalization is huge (around \$80bn) and its assets under management \$1.29 trillion in 2016. In contrast, Chinese banks are currently ranked highest in terms of total assets but with limited international presence.

Another important set of multinationals are categorised under the heading of professional services firms. They consist of three main groups of firms – accounting and auditing firms (the big four – EY, PwC, KPMG and Deloitte), law firms (the magic circle based in London Allen & Overy, Clifford Chance, Freshfields Bruckhaus Deringer, Linklaters and Slaughter and May; together with their New York Wall Street equivalents) and the large management consultancies (Accenture, McKinsey, Bain etc.). Each of these have slightly different spatial dispersion patterns. Law firms tend to follow closely the financial institutions and are present in financial centres. Accounting firms, primarily because of their auditing function with multinationals, tend to keep offices in most major countries. Management consultancies vary

depending on whether they are specialist, ‘strategy’ consultants such as Boston Consulting (which tend to follow the financial institution/law firm model of locating in financial markets where key multinationals are co-present) or are engaged in bigger corporate reorganization projects where they tend more to the accounting model of being present in many locations (see the discussions in Boussebaa and Morgan 2008, Morgan and Quack 2005, Morgan and Quack 2006b; also for wider discussions see Kipping et al. 2016, Empson et al. 2015).

Even this sort of approach does not complete the analysis of the internal space of multinationals. Subsidiaries and branch offices are the standard units to describe this process, distinguished by the level of activity and the required degree of legal incorporation to facilitate establishment in a foreign country. But it is important to note how processes of financialization over the last two decades have created another ‘shadow’ set of entities, the purpose of which is neither manufacture nor marketing and sales but instead arbitraging tax and legal regimes in contexts where financial flows are relatively unconstrained. In relation to tax and the multinational firm, there are two processes at work. The first is to move the registered corporate headquarters to an advantageous location. This may be a country which has a low corporate tax rate or through enabling the multinational to offset certain expenses, the eventual tax payment is reduced dramatically. This in turn can be related for example to creating a corporate entity in a location where intellectual property rights and revenues generated from IPR are minimally taxed. By transferring within the multinational, ownership of these rights to this location, the multinational minimizes its liabilities even though there is limited activity in this place and the actual intellectual property was generated elsewhere. The second and associated process is to create Special Purpose entities or vehicles (SPE/SPVs). These SPVs are usually set up as trusts or some other form of corporate structure in a tax haven so that their ownership is concealed for tax purposes. The SPV purchases assets from the originating firm, thereby improving the main firm’s balance sheet and reducing its risk. In law, the SPV is a separate entity holding its own assets and managing its own risks and tax liabilities though in reality it purchases management services and liability guarantees from the originating firm. The main firm has no shares in the SPV; the SPV is owned by a separate group of entities who are guaranteed a dividend from the assets: ‘In short, SPEs are essentially robot firms that have no employees, make no substantive economic decisions, have no physical location and cannot go bankrupt’ (Gorton and Souleles 2006, p. 559)

In theory, SPVs are not part of the multinational but as the financial crisis showed with SPVs set up by financial institutions, when their assets fail to perform, responsibility reverts back to the original company. However, what is important here is that even though both these sorts of entities may be small in terms of numbers employed, they are a powerful weapon for the head office in terms of its dealings with subsidiaries (and outside stakeholders).

As Prechel has argued, the consequences of these economic and political processes has been to generate hugely complex organization structures in most multinational firms with subsidiaries, branch offices and SPVs being generated for a variety of reasons (Prechel et al. 2008). Traditionally some form of multidivisional structure dividing along product and/or geographical lines has been seen as resolving the problems of coordination by maintaining lines of management responsibility and spans of control (Chandler 1990, Chandler 1977). Senior managements control the main sources of capital investment and in this way shape key decisions at local levels in terms of expansion and growth. They set various key performance indicators (KPI) that are then cascaded down to the division level and then translated into goals for subsidiaries etc. Integrated financial, accounting and management information systems track variance and highlight failures to achieve KPIs on a continuous

basis, leading to remedial action of various sorts – restructuring, closure, sell-off etc. However, these processes require the exercise of power, both power *over* potential resisters and power *to* perform such complex tasks. How is this power generated, performed and exercised and with what effects?

### **Transnational social spaces**

The multinational has various forms of actual and potential connectivity between locations. These forms of connectivity are both vertical and horizontal. Vertical connectivity describes the way in which headquarters, regional/product divisions and subsidiaries are linked together. There can be a variety of such linkages: financial, accounting and management information systems, capital budgeting decisions, organization structures, hierarchical relationships of decision-making, centralised human resources policies, performance appraisal, recruitment and selection, training and development, centralised production systems (such as the Toyota model), efforts to create a dominant corporate culture, the use of expatriate managers to control subsidiaries etc. Horizontal connections can emerge from the movement of people around different parts of the firm, from the creation of clusters of excellence inside the multinational which attracts people from other divisions and subsidiaries, from the development of informal networks amongst managers, from cooperation on complex new products or projects. This transnational social space is therefore populated by a range of mechanisms and processes which occur within the boundaries of the multinational and make it distinctive from other firms and their social spaces (Morgan 2001).

However, although it is a particular form of space it is not disconnected from other forms of social space. In particular, multinationals draw on the resources of local institutional contexts and actors occupy a dual position as a result of this. On the one hand, social actors are participants in the processes of the multinational social space but on the other hand, the frames, capacities and capabilities which they bring into the multinational are crucially shaped by their institutional location. Thus the way in which they respond and interact with the multinational's transnational social space is shaped by this local embeddedness. Much recent research has focused on this tension and how this leads to inter-office conflict.

A clear illustration of this appears in the path-breaking study of a single UK based multinational by Kristensen and Zeitlin (Kristensen and Zeitlin 2005). The MNC on which they focus is headquartered in the City of London and had a number of manufacturing subsidiaries in the early 2000s. They focus particularly on three plants which were producing similar outputs and which the headquarters was increasingly monitoring in terms of performance as they wished to rationalize the number of sites. The sites were in the US, Denmark and the UK. The Danish site was a recent acquisition of a long-standing production base which had moved over a period of a decade from being a Danish owned independent firm to being purchased by a multinational and then sold on again to the multinational being studied by Kristensen and Zeitlin. It had lost its independence due to highly competitive market conditions which had undermined its financial stability even though it was recognised as a high quality producer. It was highly organized by a group of shop stewards who led a workforce that was very skilled in manufacturing. These shop stewards together with the senior managers had recognized that if they became part of a large MNC, they might be better able to withstand market uncertainties as well as have access to internal markets and finance. Drawing on Danish institutional resources such as the training system and the high level of responsibility given to employees to develop incremental improvements in processes, the plant soon became known throughout the MNC as highly productive. Some of its skilled

workers and managers (known as the ‘Danish mafia’ to other parts of the MNC) were transferred by the HQ to other plants in order to teach them how to be as efficient and productive. This plant had a strong local identity and whilst it was performing well according to the performance indicators of the headquarter, its leadership (both managers and shop stewards) were seeking to act strategically in their own interests. For example, they hid some of the resources from the HQ in order to provide them with some organizational slack that could be used for developing new products.

By comparison, the UK plant which had been the core of the company in the past was declining. The local training institutions for apprenticeship had declined since the 1970s; trade unions were weakening and even though there had once been a proud tradition of manufacturing, the plant was in decline. Local actors had few resources to counter this trend. They increasingly just fulfilled orders and were not able to establish themselves as important for the future growth and development of the MNC in the same way that the Danish plant was doing. In the US, similar processes of decline had occurred but there was a strong local market for the multinational’s products and a combination of local trade unions, local firms and local government initiatives were trying to rebuild the plant. The different sites within the multinational were linked together through this competitive struggle but their fates were being shaped by the sorts of institutional resources which they could bring to the competition for future investment and growth as opposed to shrinkage and closure. The Danes had made themselves essential to the company, the British could be cut free without any real impact on the company and the US plant was on the edge and could go either way.

Kristensen and Zeitlin, however, took their study further because they treated the HQ also as locally embedded. It was locally embedded in one of the key sites of global capitalism – the City of London. In their interviews with senior managers, they found that these managers knew relatively little about the capabilities of their different plants: they had access to KPI data etc. but little knowledge of the specific features of local contexts that were driving these processes. Instead, they were mainly concerned about how they appeared to the financial markets and the financial institutions which were invested in them. Their over-riding objective was to return quarterly figures which satisfied the markets. They followed the logic of ‘downsize and redistribute’ (Lazonick 2009), in other words: if it was advantageous to the financial returns to close plants and this left them with funds that could be redistributed to the shareholders in the form of dividends or share buy-backs leading to rising share prices, then senior managers in the London HO would do this. This reduced money for investment within the firm but given that returns over the medium and long-term from such investment were subject to high levels of uncertainty, ‘downsize and redistribute’ was the preferred model, starving the MNC of long terms investment in innovation.

Over the years, therefore, HO managers had increasingly been carrying out a programme of rationalization that implied a dual strategy. On the one hand, where divisions or plants failed to meet KPI objectives, they would be placed on trial and set in competition with other plants and if they continued to ‘fail’ they would either be sold off at a substantial discount (often to a management buy-out or to a private equity partnership) or closed. On the other hand, they would buy from other companies that were engaged in similar divestitures where they felt able to consolidate production into one location and create greater efficiencies or where the purchase enabled them to control a larger market share and therefore loosen competitive constraints on pricing.

For the managers in the head office, this was their life, engaging with other financial directors of MNCs and working with banks and financial institutions to create deals. They did not need detailed knowledge of products or product markets. Indeed few of them had been trained in that way. They had often come through elite universities (and schools) into generalist MBA programmes at top international business schools such as Harvard, INSEAD etc, moving from there into banking and/or consultancy before ending up in a senior management position in their mid 40s in a multinational company. Once there, they could expect to stay on a merry-go-round of shifting to other multinationals, taking on part-time non-executive director roles and joining the various prestigious associations and social bodies which underpin network activity amongst elites. Not noted by Kristensen and Zeitlin but increasingly prominent over the last decade has been the growing sophistication of financially driven capitalism as discussed earlier in terms of learning how to arbitrage tax and legal structures, including the use of tax havens in order to extend the focus on financialization as the core of the US/UK model of the multinational (Morgan 2014) which is deeply locally embedded as well.

As a result, the MNC was a site of continuous manoeuvring where actors were pursuing different types of strategies and engaging in negotiations and conflicts with others to achieve those goals. Whilst not all conflicts were inter-office, many were and this reflected the different institutional resources which actors could draw on. The following section discusses in detail these resources and their impact on inter-office conflicts.

### **Building power in the local context: subversive strategists and Boy Scouts**

How do actors acquire the identity, resources and capabilities to pursue their own set of interests and challenge senior managers within a hierarchical, coordinated structure such as a multinational where there are multiple mechanisms controlled by the head office to structure, monitor and discipline subsidiary units? The answer to this lies in the double embeddedness of social actors in the transnational space of the MNC: actors are embedded in the organizational structure of the MNC but they are also embedded in their local institutional context.

The nature and strength of local embeddedness varies across institutional contexts. In very broad terms, the more institutions shape labour towards skilled work with a high knowledge content and the ability to be proactive in resolving production problems and engaging in incremental innovations, then the more potential there is for labour to be valuable to multinationals rather than expendable. Where, on the other hand, labour is relatively unskilled and easily replaceable with cheaper labour by relocation, then local actors struggle more for survival within the MNC's structure. Yet, the latter can be modified where large scale relatively immovable assets are involved or where there is a significant home market in the location, especially if it is geographically distant from the MNC home location or distinguished by important non-tariff barriers, for example as for Western MNCs in China (Kristensen and Morgan 2007, Morgan and Kristensen 2006, Dörrenbächer and Geppert 2009). In those contexts where the labour force is highly skilled, there are also likely to be strong relationships with suppliers. Whilst many supply chains are predominantly transactional and global, research on global value chains has shown that collaborations between suppliers and main firms to improve products and processes is often likely to be more long-term and relational materialised in part through co-location or the presence of key actors inside the production process (Gereffi et al. 2005, Van Biesebroeck and Gereffi 2008, Henderson et al. 2002, Yeung & Coe 2015, Yeung 2016, see also the Chapter by Campling

and Selwyn in this volume). Many large firms have therefore grown and developed in close proximity to key suppliers and when they internationalize, they often require key first-tier suppliers to come with them and co-locate again. This facilitates the exchange of knowledge, the development of joint learning and the upgrading of products as well as embedding the subsidiary more firmly into its context.

Key social institutions that are important here are education and training systems such as those in many parts of Northern Europe such as Germany and Denmark where employers, trade unions and the state join together to provide up-to-date comprehensive systems of learning for employees. Firms and employees make investments in training which pay off in terms of the abilities of the workforce and their involvement and commitment to the improvement of production. Such systems are reinforced by strong labour representation in setting wage rates across firms and sectors which discourage poaching and opportunism as well as supplier networks that rely on similar institutions (Streeck 1992, Lane 1995).

Such systems are expensive to run. Training costs are high; wage and other employment costs are high. Developing long-term relational networks with suppliers rather than price-driven transactional ones increases cost. Regulatory regimes governing labour markets, supplier relations and corporate governance are strong. Rules on lay-offs and employee consultation playing a central role in shaping what managers can do in response to crises. Maintaining relationships with suppliers at times of crisis also puts pressure on costs. Why do firms and multinationals from other contexts invest under such circumstances? They are only likely to do so where they believe that they can recoup the costs of investment through being able to extend their market share and their margins through a pricing policy based on innovation and quality rather than being the cheapest offer in the market. A deep and strong 'community of fate' is created between the local actors that makes the survival of the firm essential and this provides a level of commitment, skills and flexibility that the MNC HO can take advantage of as long as they meet their part of the bargain.

Keeping this balance between the different interests within both home and foreign MNCs, is the result of a complex process of negotiation and power between local actors and head offices. On the one hand there is a relatively strong local coalition of forces that stretches out from the plant into local institutions of education and training (and also often into local banks and local technology transfer institutions). This coalition of forces provides the framework for the continual updating and improvement of employees skills within the firm that is valuable to the MNC. It is also the source of a specific identity that is partially inside and partially outside the plant and this identity enables the development of a strong 'voice' component in negotiations with managers (Bouquet and Birkinshaw 2008). 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 such as works councils. Trade unions frequently challenge MNC decisions over wages and work conditions, closure or restructuring, using expert advice and their members to articulate alternative approaches to those presented by management. In the European Union, where cross-national works councils are legitimate and possible, this facilitates a process of negotiation between employees in different subsidiaries and has effects on identity and solidarity more widely, even if these remain relatively limited in terms of constraining multinational management. In such contexts, resistance to head office decisions can emerge. Research shows that management (Dörrenbächer and Gammelgaard 2010, Dörrenbächer and Geppert 2011, Hauptmeier and Vidal 2014, Greer and Hauptmeier 2016, Becker-Ritterspach and Dörrenbächer 2011) has engaged in 'concession

bargaining' and 'whipsawing', forcing trade unions and employees to agree to certain concession on wages, work conditions, pension and welfare provisions and contracts (with the growth of a secondary, temporary labour force alongside the core employees) under the threat that if they do not then the company will relocate to a more favourable low cost, low regulation environment (Zagelmeyer 2011, Roche et al. 2015). However, it is also clear that in such contexts, employees can be effective in holding back the pressures because their skills are valuable to the MNC. Whilst middle level tasks can be outsourced and taken offshore, core tasks and the development of the latest models and processes will often remain fixed because of the amount of investment that has taken place. Long established processes of cooperation across firms, institutions and employers tend to continue to fix advanced R&D and early model development to these locations. Where the local actors inside the firm are strongly linked to institutions outside the firm: that is, 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 (Kristensen and Lilja 2011). 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, Bélanger et al. 2013, Almond and Ferner 2006). 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.

Local managers are more likely to be present where an existing local firm is bought by a multinational as an ongoing concern. A family firm where the family has decided it wants to sell out or where a long-standing subsidiary is divested to another MNC because it no longer fits the direction of the original owner (even though it is potentially profitable or could be made profitable by being part of a larger more focused group). Where local managers survive in control of subsidiaries they are more likely to feel solidarity with other employees as they are all dependent to varying degrees on the local investment. However this can be a temporary situation whilst the acquirer decides how to proceed. For local managers to remain in control beyond this period requires the ability to show that they can perform above and beyond the head office expectations as happened with the Danish subsidiary described by Kristensen and Zeitlin (2005). In these contexts 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 'managing from a distance' through abstracted accounting and management information systems, then local employees have the potential for building alternative strategic plans which can be held back and kept invisible from the head office until an appropriate occasion arises, for example when cuts are being discussed. Morgan and Kristensen (2006) have labelled such subsidiary strategies as 'subversive'. Subversive strategies are easier to achieve where the management of the subsidiary is tied into the fate of the local area rather than being separate and relatively disinterested in the survival of the local subsidiary and its network of suppliers and institutions.

By contrast, HO strategies which place senior managers into subsidiaries who are predominantly drawn from the home base, enable the HO to enforce conformity to their policy through these 'strangers' and weaken the ability of local actors to develop their own strategies. These managers may be more interested in building an international career, preferably making it into the top management positions where their contacts are predominantly with financial markets or with the dominant owners. For example, where subsidiaries are greenfield operations, the MNC HO involvement in management is likely to be high. Asian multinationals from Japan and more recently China, tend to prefer greenfield

investments and are therefore likely to use high numbers of expatriates in the early stages, particularly as they tend to transfer their own model of production overseas and are little interested in local processes. Where the HO exercises a strong influence in this way, Morgan and Kristensen describe this a 'boy-scout' strategy, which means that the local subsidiary tries to conform to the expectations of the head office and not challenge it (Morgan and Kristensen 2006).

Building power to develop subsidiary strategies that may offer alternatives to head office expectations requires both 'voice' and 'visibility' inside the MNC and more widely (Bouquet and Birkinshaw 2008, 2011). Where specific skills and capabilities in the subsidiary are articulated within the MNC, the subsidiary gains legitimacy to be an active strategist influencing both the HO and other subsidiaries. This can be linked to networks of specialists inside MNCs where transfers of knowledge, equipment and processes lead to the recognition of specialist expertise embedded in particular localities and subsidiaries. This also relates to the external environment: the more actors in the local institutional 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.

By contrast, there are many contexts in which labour is weak and divided (due to lack of supporting institutions), where skills are limited and assets are moveable (such as in simple assembly plants). These branch plant assemblers have been characteristic of light electrical goods where in order to get behind tariff barriers, MNCs squeeze concessions out of governments to keep taxes low and to access subsidies for land and buildings cheaply. Limited investment in machinery occurs enabling the firm to move its operation quickly and easily if conditions change, for instance as happened with European enlargement, allowing Japanese assemblers to move from the UK to cheaper locations in Poland. In such conditions, it is hard to develop the level of identity necessary to fight back against such moves and it is very difficult to build a case within the MNC for sustaining a branch assembly plant since there are no specific skills that fix the investment in one location. In these contexts, local actors in the external environment look at the subsidiary entirely through the lens of the legitimating ideology of MNCs bringing employment with associated spillover gains. 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. Of course in some contexts, this is reinforced by close and corrupt relations between local officials and MNC managers enabling them to run their operations with limited regard for human rights, health and safety regulation, stable wage systems etc. 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.

In these contexts, the subsidiary is unable to pursue even a Boy Scout strategy. It is passive and subject to head office power and lacking support from local and national institutions for the development of any more activist role. If there exists some weak institutional supports, then these may be reactivated at moments of crisis, calling for government engagement. For example, the threat in 2016 by Tata Steel to close the Port Talbot blast furnaces in South Wales became a major political issue because it would have meant the end of steelmaking in this area and a substantial reduction in UK steel making per se. It would have devastated the local community that had become increasingly reliant on this plant and its suppliers as the main source of manufacturing employment in the area. Tata justified the closure in terms of overproduction in the global steel market and particularly in China which had brought prices down and reduced demand for their product. The trade union and local employees have had

to accept significant decreases in employment, a major reduction in pension benefits and a commitment to increase productivity and keep costs down in order to persuade Tata to invest in modernization and keep the plant open. The power that the employees were able to exercise was limited and required national government support. Steel manufacture has clearly changed hugely over years and no steel industry has been shielded from restructuring and change but as Herrigel shows, there are different ways in which this restructuring can occur and a weak labour force undermined by lack of investment and training, weak bargaining power due to changing trade union and labour market regulation undermines the possibility for positive strategies and leaves workforces usually as passive recipients of head office demands (Herrigel 2010).

In summary, the power of local subsidiaries to challenge head office depend on the types of challenges. The first type is as a subversive strategist, meaning that subsidiaries develop an autonomy within the MNC and strategize actively for its own interests. This can mean staying inside the MNC and increasing influence there through the development of key expertise and networks. The second type is the Boy Scout strategy – pushing hard to meet the objectives of the head office so as to remain a valuable part of the firm. Thirdly there are the passive subsidiaries which simply try to conform to the role they are allocated without either trying to extend or deepen that role because they lack the distinctive capabilities, skill, fixed assets and institutional supports. Nevertheless they may not lack the ability to respond during moments of crisis. They can be unpredictable in their responses and may be able to organize coalitions of resistances temporarily. On the other hand it is clear that there are many closures or run-downs of subsidiaries that are managed with limited collective resistance due to a combination of fatalism and coercion.

### **Inter-office conflicts, elites and the role of capital**

Finally it is important to focus more explicitly on the top management of multinationals and the sorts of goals and objectives which they are pursuing. The increasingly important role of financial markets and financial elites is crucial though it needs rather more careful consideration than is sometimes given. As discussed earlier, the complexity of MNCs increasingly relates to the sophistication of finance and funding mechanisms. In a world where there are a variety of tax regimes, tax havens and arbitrage possibilities it allows for substantial gains as well as a variety of locations for subsidiaries and offices (Palan et al. 2013). The responsiveness of MNCs' structure and strategy to the requirements of financial markets also reflects the centrality of shareholder driven capitalism in many contexts (Froud et al. 2006, Engelen et al. 2011). Failure to produce accepted returns at three-monthly meetings with analysts will place firms under the threat of takeover. Many multinationals respond to this by the frequent trading and restructuring of their assets of firms. This is a quick way to grow the firm (usually through bond issues and borrowing) as well as to shrink the firm and deliver returns to investors. The diversity of financial markets allows large firms to borrow and expand. Takeovers are generally welcomed by shareholders of the acquired firm due to the premium on the share price which is usually part of the bid. Other more limited options exist. 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: MNCs with strategies to concentrate, consolidate or expand into new markets by making such purchases; private equity firms borrowing and using investors' funds

in order to buy businesses which can be aggressively restructured to make a profit; 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 (Froud and Williams 2007). As an effect, subsidiaries may have a future outside their current position within a particular MNC (see for example Kristensen and Lilja 2011, who show these shifts in ownership occurring in MNCs and their subsidiaries in Finland whilst the productive unit remains).

Not all MNCs are able to exercise a bit more independence in terms of how far they engage with this financial market dynamic. Most obviously the close coordination between financial institutions, shareholder value driven processes and the consequences for subsidiaries etc. that characterizes UK and US multinationals is less prominent in firms from other contexts. Japanese capitalism, for example, in spite of some recent changes, remains defined by long-term employment and senior management cadres that are embedded in the firm from an early age. Finance remains subordinated to long-term interests in developing new products and processes (Jackson 2009). Alongside this, however, goes a continued dependence on plants and suppliers within Japan for these new developments and overseas subsidiaries being tightly controlled from head office. Thus whilst there is likely to be more stability in a Japanese subsidiary than a UK or US one, there is also a greater lock-in. This is likely to lead to more dependence and tighter mechanisms of control as the Japanese multinational has made substantial investments in the assets and does not expect to move out just because of short-term fluctuations. German multinationals share some of this with their focus on technical expertise and the development of top managers through long-term experience within the technical side of the company. There is conflicting evidence on how far the profile of the German senior manager in a multinational is changing towards a more financial orientation, yet this group is internationalizing by more overseas experience and (to a lesser extent) encouraging non-Germans to rise in the organization (Ferner and Varul 2000). German multinationals seem more open to engaging with local institutions, for example to upgrade skills so that they can work a form of high quality production outside their home base. This is coupled with a recognition that it is possible to work with trade unions in a cooperative way rather than being resistant to their presence as happens in some US companies.

Even more autonomous from financial markets are the growing number of Chinese MNCs, now amongst the highest spenders in FDI (Nolan 2013, Peck & Zhang 2013). Some are state owned or state-controlled companies, others are family owned concerns with some free-floating stock but invariably in a form that does not allow the firm to become the subject of a hostile takeover bid. Emerging research on Chinese MNCs indicates that they are highly centralized with key decisions taken at the Chinese head office and implemented by Chinese expatriate managers who take the central role in overseas subsidiaries. Chinese trade unions moreover are dominated by the Communist Party run All-China Federation of Trade Unions which is supportive of government policy and dampens worker resistance to employers rather than facilitates it (Friedman 2012, Friedman and Lee 2010, Smith and Pun 2006). As might be expected, the presence of 'subversive strategists' in such a context seems highly unlikely as it does in many other emerging economies where government suppress labour unions and employer protest in order to encourage FDI (Nguyen 2015). More generally, it is the case that most emerging market multinationals are owned and controlled by families and individuals using complex corporate structures that allow them to draw on public funds without ceding control (Guillén 2015). The opaqueness of ownership and finances more generally (hidden

through off shore accounts, nominee companies etc.) means that any potential weaknesses can be concealed until a final crunch (like the Eike Batista empire in Brazil that once made him the country's richest man and has now collapsed due to debts). Such MNCs can be vociferous deal-makers, buying and selling parts of their group for quick profits. Subsidiaries are kept in the dark, decisions are sprung on them and the whole deal done before opposition can be mobilized.

The development of financial markets has therefore made the terrain for inter-office conflicts increasingly complex (Morgan 2014). Senior managers and owners develop the strategy and objectives of the firm in a variety of ways now that they are able to access global financial markets easily. More research is needed on how these different ownership structures impact on the transnational space of multinationals and what it means for actors in different subsidiaries.

## **Conclusions**

In this chapter, the goal has been to look inside the 'black box' of the multinational. Firstly it is important to recognize the degree of diversity amongst multinationals in terms of spatial dispersion and that this varies across broad sectors such as manufacturing, finance and professional services. To capture this process, the concept of 'transnational social space' was introduced with an emphasis on the borders between this and other spaces. Within this bordered space, there are a whole range of structures, procedures, processes and technologies which create both actual and potential vertical and horizontal linkages. These processes and the structure of subsidiaries and branches are often explained in terms of market access and asset-seeking activity (see the Chapter by de Beule and Jaklič in this volume) but the chapter argued for the increasing importance of tax and legal arbitrage for the creation of postcode or shell companies in tax havens and elsewhere. Thus the structure of the multinational is made even more complex by the growth of financialization. However, these structures are always institutionally embedded in particular social contexts. The actors in these local contexts have their own interests deriving from the historically constituted pattern of institutions and actors and this is the source of the tension between the transnational coordination and control mechanisms instituted by the head office and the actual reality of conflict, competition and instability as social actors struggle over the meaning of these mechanisms for their own situation. The chapter discussed the nature of these local institutional contexts and how far they facilitated the development of activist strategies in the subsidiary. It also considered the circumstances under which strategies were likely to be non-existent and the subsidiary was primarily passive in the face of the exertion of head office control and the actions of local governments tied closely to supporting employer suppression of workers' representations.

Researching multinationals from this perspective has developed considerably over the last decade, extending analysis from the economic factors involved in off-shoring to an examination of the micro-politics of multinationals and the conditions under which subsidiaries can develop different sorts of activist strategies and conditions under which they are passive in the face of head office power. Many more such studies are required to understand this better. As well as manufacturing multinationals there remains the question of how these phenomena emerge in financial and professional services firms. Very few studies have attempted to look at this and why and how different offices come into conflict within these multinational firms (though see Boussebaa et al. 2012, Morgan and Quack 2006a,c, Morgan et al. 2006). Examining multinationals as transnational social spaces offers plenty of

opportunities for understanding further the role of these actors in the international political economy.

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