Global, National and Local Practices in Multinational Corporations – Towards a Socio-political Framework¹

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Abstract

This paper intends to shed some light on strategies and power resources of subsidiary managers and employee representatives involved in ‘charter changes’ and the implementation of ‘best practices’ developed elsewhere. Research shows that local managers face a dilemma in that they need both internal legitimacy (within the MNC itself) and external legitimacy (within the local context). We argue that the power resources key actors draw on in the (internal) decision-making processes of ‘charter changes’ are intertwined with certain (external) national business system (NBS) characteristics, an aspect often neglected in North-American research about MNCs. We identify three key influences, which restrain or empower local management and employees in their ability to make strategic choices and gain power within the MNC. They are (1) the overall strategic approach of the multinational group, (2) the strategic position and the economic performance of the subsidiary itself and (3) the degree of institutional embeddedness of the subsidiary in the host country. Comparative mini-case studies are used to illustrate the effect of local management and employee representatives’ empowerment on their ability to retain skills and work practices supportive of a diversified quality production process in the face of MNC pressure to adopt global ‘best practices’ based on more standardised production processes.

Key words: socio-political issues of subsidiary management, strategic choice, social embeddedness, national business systems, charter change, best practices

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1. Introduction

In this paper, we want to shed some light on how local managers and employee representatives in subsidiaries deal with the coercive institutional pressures from MNCs for more global consistency and standardization and how the degree of company social embeddedness in a particular national business system influences local strategies and politics of resistance. The national business systems (NBS) approach argues that within the same business system we will tend to see similar strategic and political practices. However, it is also important to understand how local managers influence and interpret the rules of the game and develop local sources of power enhancement within the multinational corporation (MNC) itself. The question of whether and how MNCs are moving towards greater global integration is dependent on the strategic approach and politics of both headquarters (HQ) and subsidiary management.

This paper develops a socio-political framework integrating the opposing arguments of discourses about the ‘global enterprise’, a topic of mainstream international management literature, and ‘divergent capitalisms’, a debate predominantly led by European scholars. However, both discourses see economic organisations as mainly structurally determined, despite their different focus on either global or national influences, and both give little consideration to the influence of key local managers and employee representatives. We emphasise, in contrast, the power, politics and strategic choices of local management and argue that these are also influenced by the social context of company-specific institutions and the degree of societal embeddedness of the company and its actors.

Firstly, we briefly review the main arguments in the globalisation and national business systems approaches about global and national business practices in MNCs (section two). We will then assess the present debate on societal practices in MNCs from the perspective of the national business system approach (section 3) and then focus the discussion on the role of key local actors (managers and employees) within MNCs (section 4). This provides the analytical framework for the discussion of three key influences found in our comparative case study based project, which point to three major power resources for local management to resist and contest the pressure to globalise local practices within MNCs (section 5).

2. Globalization, 'best practices' and the 'global enterprise'

The globalisation approach strongly resembles earlier debates on the impact of industrialisation on organisational convergence (Pugh and Hickson, 1997). Whereas the early 'convergence' argument was more related to structural aspects such as technological and economic change, more recent approaches stress that globalisation is also driven by a convergence of business culture and policies.

It has been claimed that MNCs are becoming 'placeless' as national identity is replaced in global corporations by the commitment to a single unified global mission (e.g. Ohmae, 1990). Similarly, research in strategic management (e.g. Whittington and Mayer 2002) stresses that the organisational structures of global firms will inevitably follow the Anglo-Saxon model of capitalism with a multidivisional organisational structure and the main focus on shareholder value. Continental European models of the capitalist firm, although occasionally successful in the past,

have now 'lost out' to the Anglo-Saxon business model (ibid). Moreover, MNCs increasingly use shareholder-value as a key measure of corporate performance in their business units and, it is argued, the more global company operations become, the more likely companies are to use similar tools, such as downsizing, to achieve performance goals based on shareholder value (see e.g. Hirsch-Kreinsen, 1998; Hunt, 2000; Bakan, 2004).

In line with these arguments, Mueller (1994) stresses that it is not only business structures and strategies which work against the effects of national business systems but also organisational processes and practices. These so called 'organisational effects' are understood as global change management patterns emerging through learning across borders and the internationalisation of 'best practices'. Examples for organisational effects are the diffusion of 'best practices' through benchmarking, global manufacturing strategies and the diffusion of technologies and knowledge.

The globalisation debate has of course influenced the debate about HRM as an organizational strategy. The earlier focus on the Japanization of production and its implications for the management of employee resources, which was particularly marked in the UK due to the influx of Japanese manufacturing companies in the 1980s and 1990s, has given way to the promotion of Anglo-Saxon, chiefly US, approaches to HRM to support international competitiveness in the wake of Japan's financial crises. Earlier studies of Japanization were overoptimistic about the extent to which Japanese practices were transferable to different national contexts (Oliver and Wilkinson, 1997) and were followed by studies emphasising the limits to transfer and the considerable modifications that had to be made to adapt such country-specific

HRM systems (Elger and Smith, 1995; Palmer, 1996; Sharpe, 2001). The current dominance of US HRM perspectives forms part of a longstanding debate, which focuses on market-led convergence and the direct transfer of US HRM practices by US MNCs together with their emulation by other companies keen to become market-leaders in their own right (Lane, 2003; Lucio et al, 2001; Mayrhofer and Brewster, 2003). The question of what US-style HRM actually is in practice, however, often remains unanswered, (Mayrhofer and Brewster, 2003).

Leading scholars predict not only the emergence of homogenous structures and HRM practices, but also of a global corporate culture, replacing national home and host country identities. The development of ‘global mindsets’ (Gupta and Govindarajan, 2002) and ‘transnational management mentalities’ (Bartlett and Ghoshal, 1989) are understood as crucial management tasks in the making of the ‘global firm’.

The globalisation discourse can thus be summarised as follows: MNCs are becoming increasingly stateless enterprises. Corporate structures and strategies are following Anglo-Saxon business patterns, as they increasingly ascribe a higher role to corporate finance and shareholder value. Divergent interests and local power resources of key subsidiary managers and employee representative bodies are played down or are ignored altogether by this discourse.

3. National business systems and enduring societal practices in MNCs

European institutionalist research raises some real doubts about whether global economic, cultural and institutional forces will actually lead to greater convergence of

local practices. Researchers in this tradition have provided evidence over the last 20 years or so that economic organisations are not just shaped by one type of capitalism, the Anglo-Saxon model. In comparative cross-national studies, national business systems (Whitley, 1997), national specific 'industrial orders' (Lane, 1989) and 'societal effects' (Sorge, 1996) are seen as creating alternative paths of organising businesses and management. The key thesis of these approaches is that historically grown national institutions such as the financial, educational and industrial relations systems of a country are interdependently linked with the characteristics of business organizations in that country and exert an influence on, for example, their strategy, structure, technologies and employment relations. A key finding is that the degree of 'embeddedness' i.e. interdependence, cohesion and integration of institutions and business organisations in the Anglo-Saxon model of capitalism is much lower than in other capitalist countries such as Germany and Japan. Thus, the implementation of global best practices and the ability to change local practices in subsidiaries situated in highly integrated national business systems will be more restricted and less radical than in less integrated systems because, for example, the specific national system of industrial relations often gives local managers more possibilities to influence decision-making processes within the MNC.

Whitley (1999), working from a sociological perspective, has demonstrated the close interconnections between the national business system, institutional characteristics and the firms' governance systems, capabilities and workplace systems. Whilst Hall and Soskice (2001), using an economics approach, come to similar conclusions about the interconnected nature of macro and micro level characteristics in different business systems. Both pieces of research point to the major differences between

collaborative business systems, or in Hall and Soskice's terminology, coordinated market economies, such as the German system, and the compartmentalized or liberal market economies, such as the UK. Whilst the former promote common technical communities in specific industry sectors with considerable levels of employee autonomy and involvement in problem diagnosis and solution as the key to organisational success (Whitley, 1999, p.91; Hall and Soskice, 2001, p.10-11, 58), the latter rely on market relationships, so-called arms length relationships, with extensive unilateral control by management (Hall and Soskice, 2001, p.29-30).

Institutionalist scholars highlight the fact that there are still strong national effects on local practices in globally operating companies. On the one hand, the MNC's country-of-origin influences practices within MNCs (Noorderhaven and Harzing, 2003), such as strategy, structure and HRM practices (Ferner and Quintanilla, 1998) as well as modes of control (Harzing and Sorge, 2003). On the other hand, host country effects influence the application of MNC policies and practices on the ground. Thus studies show that, even when MNCs do apply best practices globally, such as the team-working concept, local adaptation of these practices is still necessary. An example of this is found in recent research comparing team working in German, French and British subsidiaries of MNCs in the automobile sector, which draws attention to the enduring role of the national business system patterns of the host country (Woywode, 2002). Differences in the systems of education and industrial relations, for example, led to a 'higher qualification of German employees compared with their French counterparts' which allowed for a 'higher degree of polyvalence, more frequent job rotation and a higher degree of group autonomy in German car manufacturing plants' (ibid. p.515). Earlier studies carried out in the UK, Spain and Germany also showed

significant differences in the way team-working was implemented due to very different NBS characteristics including the systems of education and training as well as very different industrial relations characteristics (see Carr, 1994; Murakami, 1995; Ortiz, 1998; Streeck, 1996). These findings are replicated by research in other industry sectors such as banking, where the polyvalence of German employees has led to greater levels of autonomy than, for example, in France, despite both countries implementing the lean banking concept (Haipeter, 2002).

To summarize, compared to the globalisation discourse, which stresses the diffusion of global best practices worldwide and, with it, a top-down process of convergence of strategies, structures and culture, European institutionalism emphasises the continuing impact of different national business practices on MNCs. One reason for this is ‘the relative weakness of international institutions’ (Whitley, 2003, p. 31) compared to the institutional framework of the nation state, which makes it very unlikely that national business practices will lose their influence on most of the internationally operating companies.

4. The socio-political underpinnings of local practices: Who pulls, how and why?

The discourses about the importance of global practice and the enduring impact of national business practices in MNCs, however, tell us very little about how local managers and employee representatives develop, negotiate and even resist the implementation of global best practices. There is a tendency in both approaches to neglect local managers and employees, their interests and the dynamics of conflict and change at the local level of company (Tempel and Walgenbach, 2003).

Westney's (1993) concept of 'conflicting isomorphic pulls' in MNCs can be used to show that both arguments focus primarily on external 'isomorphic pulls' on local practices in MNCs. Whilst the globalisation approach is mostly interested in showing that MNCs transfer global practices across borders due to the forces of an increasingly globalized business environment (referred to as 'global pull'), NBS research shows that pulls from the diverse national institutional contexts still influence practices in MNCs in the form of home country/host country effects (referred to as 'national pull'). However, there are also 'pulls' coming from the managers and other key groups within the multinational organisation itself. Kostova and Zaheer (1999) point out that MNCs always require legitimacy in 'both institutional environments': the external (home and host country) and the internal (MNC) environments.

Westney's research raises the issues of the complexity of decision-making and legitimacy in MNCs but fails to address the active role of the MNC managers as decision-makers, especially at the local level, a fact criticised by Kristensen and Zeitlin (2005). North-American institutionalist scholars of the MNC have an increasingly shared definition of what is the most desirable model for a modern multinational, namely the development of more 'global, international, transnational companies' (see Westney, 1993, p. 64). This follows the global organisational effect approach and ignores the 'conflicting pulls' in MNCs.

We would contend, however, that the implementation (or non-implementation) of the global policies of the MNC is a controversial and deeply political process (Ferner, 2000), reflecting often conflicting contextual rationalities (Geppert et al., 2003a) and

leading to tension (Ferner and Qunintanilla, 1998). We would like to take Westney's concept further and ask:

- *Who* does the 'pulling'? (i.e. role of key local managers and employees)
- *How* they 'pull'? (i.e. their local strategies and politics)
- *Why* they 'pull' ? (i.e. their own locally based interests).

These questions raise the central issue of power and politics in MNCs - a field of research 'often downplayed' (Ferner, 2000) in the academic discourse on international management and the emerging global enterprise. We would argue that strategies, politics and power resources of local management are becoming an increasingly important issue as MNCs develop more global strategies and best practices (Mueller, 1994), which include 'transnational network'-like structures and relationships (Nohria and Ghoshal, 1997) and 'global mindsets' (Gupta and Govindarajan, 2002). Even where MNCs have applied more traditional bureaucratic control practices, these have not worked automatically, but have been underpinned by often informal political processes (Ferner, 2000). Power relations and political control over uncertainties and scarce resources have always been crucially important factors in the operation of MNCs (Doz and Prahalad, 1993) but this is even more the case in the structurally disintegrated, multi-focused and network based relationships currently being developed in MNCs.

In our view then, the degree of global integration is not only a question of environmental fit with impersonal economic, technological cultural and institutional environmental pressures, but also a matter of power resources and the politics of managers and other key groups within the local subsidiaries. They are able to

influence the rules of the games in the MNC's move towards greater convergence and integration. However, the questions about how and why these groups decide to influence the manner in which global practices are implemented will vary significantly between subsidiaries. Therefore, the key interest of this paper is to develop a better understanding of the socio-political underpinnings of local practices. We especially want to address the question of how the degree of interdependence and social embeddedness of the host country subsidiary in a particular national business system (NBS) helps to support the political strategies of local managers and employee representatives to resist or shape the implementation of global practices. National business systems, we argue, provide local managers with different power resources, which support some strategies and politics while at the same time discouraging others. Employee representative bodies, often in coalition with management, also play a key role in this process and we give some examples of this in our comparative discussion of the empirical findings.

Besides the degree of national institutional embeddedness or integration of subsidiaries, there are two other important factors to consider in determining important sources of subsidiary power: the strategic decision-making approach of the MNC as a whole and the strategic importance of the local subsidiary for the MNC and its performance (Birkinshaw and Hood, 1998). Recent studies of the management of multinational subsidiaries show how host country subsidiaries can operate as relatively autonomous units influenced by their local business environment and thus can constitute sources of local variation in the globalisation process (Belanger et al., 1999). They are often able to develop a more active role within the management process of MNCs than is normally assumed. This is the focus of studies analysing

‘multinational subsidiary evolution’ (Birkinshaw and Hood, 1998), ‘subsidiary initiatives’ (Birkinshaw and Fry, 1998) and ‘entrepreneurship in the global firm’ (Birkinshaw, 2000), which all focus on the idea of subsidiary choice and the change or maintenance of subsidiary ‘charters’ ‘in terms of markets served, products manufactured, technologies held, functional areas covered or any combination thereof’ (Birkinshaw and Hood, 1998: 782). This research stream emphasises primarily the optimal fit of subsidiary structures and processes with the local task environment, but also takes into account social and communication issues, such as the structuring of negotiations over charter responsibilities. Thus, the enhancement of existing charters takes place primarily via company specific power relations and internal competition between local subsidiaries. However, there is less consideration of the interdependence between the opportunities to make strategic choices to enhance charter profiles and particular national institutional contexts. As we will see later, the loss or enhancement of charters is not just a question of more or less successful competition between subsidiaries nor is it solely driven by the HQ (Birkinshaw and Hood, 1998). Local institutions also influence the politics of charter competition and the issue of whether a subsidiary is able to retain or enhance its mandates. Our Anglo-German comparison reveals that nationally specific forms of production, authority sharing and employment relations provide managers with more or less power resources enabling them to actively shaping ‘charter changes’ or not within MNCs.

To sum up, the power resources and political strategies of local managers and employee representatives to influence the local implementation of global practices are constrained by company specific institutional settings such as the overall strategic decision-making approach of the MNC, subsidiary performance and the strategic

importance of the subsidiary for the MNC, as well as by the degree of institutional embeddedness of the subsidiary in a particular NBS. Those factors differ significantly between Germany and the UK, as we will see in the next section.

5. Socio-political processes of implementing global strategies at the local level:

Three mini case studies

In the following section we will discuss three case studies, which illustrate how and why local managers and employee representative bodies are able to influence the ‘globalisation’ of established local practice. We draw on material from an Anglo-German research project about change management in three of the four key players in the lifts & escalators sector, an American, a Finnish, and a German MNC. Table 1 provides an overview of the three companies and their basic characteristics. All three MNCs have subsidiaries in Britain and Germany which allowed for paired comparisons (Sorge and Warner, 1986, pp. 37-46) on the subsidiary level. Our research is based on 30 expert interviews at subsidiary and HQ level, as well as corporate documents and material in the public domain about the companies and the industry (for further details of research methods used see Geppert et al., 2003a). We have published papers about various aspects of this research elsewhere (Geppert et al., 2002, 2003a,b) and want to confine ourselves here to the questions raised earlier in this paper: how does the overall strategy of the MNC as well as the institutional environment of the NBS at subsidiary level influence the power and politics of local managers to enhance or deplete their charter responsibilities?

Insert Table 1 about here

Methodologically, we see local practices as the basis of our analysis, because we believe that the process of globalisation cannot be fully grasped by restricting analysis to the macro-level of society or MNC headquarters, which will often lead researchers to stress convergence. Therefore, we take the local as a starting point for any consideration about the global (Maurice, 2000). Such an approach allows us to study both how globalisation can lead to an increasing similarity of social practices and where there is continuing scope for local practices and their socio-political nature. The key question we consider is whether local management and employee representatives have the power resources and strategic choice to influence, resist and negotiate the process of globalisation. According to Child, strategic choice can be defined as a decision-making 'process whereby power-holders within organisations [*in this study the subsidiary*] decide upon the course of action' (Child, 1972, 1997). However, in order to avoid the conceptual problem of voluntaristic 'reductionism' (Clark, 2003; Whittington, 1988) where managers can wishfully shape the world as they like it (Child, 1997), we isolate company specific and national institution induced constraints, which can be both supportive or unsupportive for local management and employees in their bid to influence 'global isomorphic pulls'. These institutional constraints are not understood as objective and determining, but as 'enacted environments' (Weick, 1979), which constrain and enable certain political strategies of local actors. Thus, from a process perspective, the 'impacts' on subsidiary choice and politics, discussed in the cases below, should not be understood as 'isomorphic pulls' determining local practices, but as constraints introduced via cognitive, social

and political processes within a nexus of power relations (Clark, 2003; Geppert and Clark, 2003).

Key influences on local management and employee representatives' ability to shape the implementation of MNC global strategies

Case 1: The influence of MNC strategies on local management's ability to shape the implementation of MNC global strategies

Case 1a: The Finnish MNC: a centralised, imposed global strategy

A centralised, imposed strategic decision-making approach as applied, for example, in the Finnish MNC significantly challenged the power and restricted the strategic choices of local management. The imposition of its standardisation strategy on the German subsidiary, the last subsidiary to be integrated into the company model, put enormous pressure on the earlier high level of autonomy enjoyed by the subsidiary, which, as a formerly independent company, had been bought by the MNC as a business learning organisation. Its area of expertise was in the customised escalator manufacturing business, an expertise local management now saw as being undermined by the MNC's globalisation strategy. The struggle of local management in Germany to maintain control of the subsidiary has been intense and is still ongoing. The implementation of the company model is part of Finnish HQ attempts to rationalise operations and the subsequent reorganisation is seen as a threat to both skills and jobs by German staff. The mistrust generated has led to communication problems between the Finnish managers on the one hand and the German managers and workforce on the other, as well as to various forms of resistance to the company

model from all levels of local management and the works council and employees. Examples include resistance from German engineers in research and development to the new finance and accounting driven culture in Finnish companies, which makes it easier for (HQ) management to turn down engineers' ideas for investments and concentrate on the priorities of international investors (see also Moen and Lilja, 2001). There has also been resistance from subsidiary management, which was gradually replaced by Finnish managers sent from the HQ and resistance from the works council to any changes to the wages system or methods of work organisation as part of the implementation of the new company model. Details of this conflict are covered in case 3.

A recent study has highlighted the significance of whether a subsidiary deals with the local or global market for its autonomy in HRM (Fenton-O'Creevy et al., 2003). The decision by a MNC to use a subsidiary to serve the global market on its behalf provides a powerful incentive for the MNC to centralise control (ibid). The Finnish case provides an illustration of just such a process. The global mandate being given to the German subsidiary was based on a standardised system of production for the global market. This was seen as an attack on the subsidiary's technical and engineering expertise shared by all the employees, who had previously been used to supply engineering solutions to plants throughout the MNC. The attempt to impose a standardised global model led to severe conflicts and a power struggle between local management and works council and the MNC HQ. The emergence of a 'battlefield' (Kristensen and Zeitlin, 2001) centred on the power distribution between the HQ and the subsidiary and the contestation of local power resources of engineering expertise and workforce skills, which the new MNC strategy was now calling into question. In

its new global market approach, the HQ is not so much interested in sharing knowledge or mutual learning with local managers, as in the tight financial control of subsidiary operations. Thus an imposed centralised strategic approach or ‘non-negotiated attempts at imposition of systems’ increases the likelihood of the emergence of ‘battlefields’ if it undermines existing levels of subsidiary autonomy and can lead to rather instable, tenuous and conflicting HQ-subsidary relations (Ferner, 2000)., which undermine the overall performance of the MNC as a whole.

Even in this case, there were still sources of subsidiary power, which local management and works council could bring into play. These are investigated later in case 2a.

Case 1b: The German MNC: a negotiated, decentralised strategy

The German MNC investigated was operating in its home business system and illustrates the characteristics of German manufacturing based on diversified quality production. Its subsidiaries across the world have a local not a global focus and are therefore less subject to centralised control, as this would impair their ability to respond to local market pressures (Fenton’O’Creevy et al., 2003, p.9). For the purposes of this paper it sheds some light on the question of why and in which circumstances the power resources of local managers and employee representatives are strong. This goes beyond the issue of institutional embeddedness and shows that negotiated and decentralised strategic approaches are crucial where companies are aiming for the upper market segment and more customisation. In such cases the

knowledge of local subsidiaries is highly relevant and the possibilities of global standardisation and central control are limited.

The German MNC has recently embarked on a cautious internationalisation process but still follows a 'local responsiveness' strategy of local differentiation among its foreign subsidiaries. The company has major manufacturing locations worldwide and focuses on DQP technology in its German subsidiaries, whilst the more standard components manufacturing is subject to constant pressure from potential Eastern European locations (Girndt and Meiners, 2002). HQ management representatives in Germany emphasized the relative autonomy of subsidiaries worldwide to run their own operations:

'Fundamentally, we have always followed a very decentralized philosophy and believe that our subsidiaries are in a better position to know their own markets and how best to sell their products on the market and their services; that they can do that most successfully. There are only a few specific areas like the uniform reporting system, some R&D, which we need to centralize; in everything else our subsidiaries are relatively free if they perform well. If they don't, then we have to step in but basically they should have the freedom to develop their business in a sensible way.'

This perspective is supported by our data from the German manufacturing subsidiary. Innovations have been introduced including the recent introduction of lean production into the lift-manufacturing site, which involved the abolition of traditional organisational hierarchies on the shop floor and their replacement with group working. It was, however, successfully achieved via negotiation with the stakeholders

in the local organisation. Although the changes have led to some reduction in the autonomy of the shop floor, the continuing high level of decentralization in the German MNC can well be understood as a general feature of the home country. A recent study by Lane (2000), for example, shows that German MNCs allocate more resources and competencies as well as organizational and financial autonomy to their subsidiaries to develop networks in host countries similar to those existing in German industry. In addition, studies have highlighted the fact that German MNCs are the least effective MNCs in terms of their direction over the policy of their acquisitions and the level of integration of their subsidiaries (Child et al., 2001). This partly reflects their lower level of experience in managing international subsidiaries and also their wish to preserve and learn from the competences of their subsidiaries.

The negotiated, decentralised approach was also reflected in the German MNC's dealings with its British subsidiary, which, however, resulted in the closure of the large-scale manufacturing operations in the UK and the shift to decentralised service centres. These were seen by the British management of the subsidiary as the best way forward in view of their relatively poor performance levels. This transition is discussed in more detail in case 3.

This case illustrates that, compared to the imposed and centralised approach, where inter-organisational learning and knowledge sharing across borders appears to be problematic, a negotiated and decentralised strategy not only supports the development of strong local power resources at the local level of the subsidiary, but is also important for companies, which want to enhance learning across borders because it is based on a more pluralistic organisational culture, where divergence is seen as

driver for more explorative learning processes (Geppert and Clark, 2003). This contrasts with the rather universalistic model of the 'global enterprise', where the dominance of exploitative learning approaches can cause severe conflicts and lead to power battles that hinder knowledge sharing (ibid).

Case 2: The influence of the subsidiary's strategic position and its performance within the MNC on local management and employee representatives' ability to shape the implementation of MNC global strategies

Case 2a: The strategic position of the subsidiary

The strategic position of the subsidiaries within the MNC can give them some power to protect local expertise and work to successfully resist the imposition of standardised practices, as the case illustrations of the Finnish MNC show. Here, in the conflict between local managers in Germany and the HQ, the German subsidiary has been drawing on its strategic position within the MNC itself to promote a different rationality to that of the parent company. The aim of the German subsidiary is to legitimate the continuation of its own actions as a customised escalator manufacturer; if this is successful, however, it could seek to influence the broader strategic direction of the company as a whole in its role as the leading R & D centre. The parent company has enforced its direct personal authority on the subsidiary via the importation of Finnish managers from the HQ to enforce the company policy. However, they still face a long battle to impose the social norms to support the Finnish MNC's formal control mechanisms in a business system hostile to its goals of global mass production. As mentioned in section 3, a key component of the German system of national comparative advantage has been the close cooperative

collaboration in the workplace based on the extensive autonomy of a highly skilled workforce (Hall and Soskice, 2001, p.24). Management has relied on the skilled workforce for firm growth, task performance and problem solving; in practice there has been limited separation between management and the workforce (Whitley, 1999, p.108-9). All these characteristics of the traditional German manufacturing model were evident in the German subsidiary. The Finnish MNC also has to tread carefully due to the strategic importance of the German subsidiary's R&D and technical competences for the MNC as a whole. The manager leading the task force responsible for the implementation of the company model worldwide referred to the HQ 's high emphasis on financial control in strategic management decisions but sees the need for the Finnish HQ: *'to take the foot off the pedal a little bit in that area and try to be more supportive rather than supervisory in that respect'*. Otherwise, there is a real risk of the Finnish MNC losing the host country advantages of its German subsidiary, which were the reasons for its acquisition in the first place. An example of this is the removal of certain German engineers from the R & D area because they were seen as *'too German'* in their orientation. The engineers were still insisting on using their expertise to develop customised, highly engineered solutions for specific customers and resisted changes to the product structure and manufacturing processes entailed in the promotion of the new company model. In other words, the Finnish managers saw the engineer's national interests as blocking the HQ's aim of global rather than local market development.

However, the strategic position of the subsidiary within the MNC based on its research and development and technical expertise provided local management with some power resources to thus far maintain their original charter responsibilities

despite the shift in the overall strategic approach of the MNC towards the globalisation of local practices.

Case 2b: Subsidiary performance

Birkinshaw and Hood (1998) have shown that performance related ‘track records’ are also important power resources. Ferner (2000) also argues that ‘poor performance’ will significantly weaken the political influence of the local management. This was illustrated in two of the British subsidiaries and can be quite clearly related back to the UK host country institutions, which are not supportive of manufacturing companies. Hollingsworth (p. 145-146, 1997), in his study of the US system, has argued that liberal market economies, where firms are not embedded in a rich institutional environment, do not have the capacities to support flexible systems of production nor high quality production in traditional industries. Similarly, both Whitley and Hall and Soskice argue that the reliance on classical market contracting in countries like the UK and US, together with the relatively impoverished institutional environment, inhibits cooperative, collaborative action of firms, which could support complex manufacturing and construction (Whitley, 1999, p.3 & p.23; Hall and Soskice, 2001, p.25). We investigate this issue further in case 3.

Interviews with local management in the British subsidiaries showed that they did not have the power resources to argue the case for the retention of manufacturing units in the UK (nor did they appear to wish to) since the performance of the UK subsidiaries of the American and German MNCs was poor compared to other units in the MNC. This was in contrast to the German subsidiaries, where local management was able to negotiate restructuring and outsourcing policies to maintain high-level manufacturing

and engineering competences in Germany. The decision to close all manufacturing units in the UK was understood by local British managers as the only possible strategy to meet increasing HQ demands to improve economic performance. In the American MNC, this process included the laying off of all manufacturing staff, the closure of manufacturing sites and the establishment of a centralized customer care centre at a different location, where the company hired new, less qualified and cheaper staff. As a result, the number of staff was about 50% of what it was before the reorganization. The British subsidiary of the German MNC opted for a model with decentralized regional service centres and tried to retain the former staff, although the layoff of 10% of the workforce was seen as inevitable. In both cases, local management in the UK stressed in our interviews that their reorganization measures were the only rational answers to cheaper, more efficient manufacturing locations in Eastern Europe or Asia within their respective multinational groups. They focused their attention, therefore, on influencing the structure and operation of the customer care centres, which were viewed as the future for the British subsidiaries.

This approach is in line with the overall trend in manufacturing in Britain to close down manufacturing facilities and concentrate on the financially more lucrative service functions: *‘Manufacturing accounts for less than 19 per cent of the economy and the figure is getting smaller. The tail doesn’t wag the dog...’* (Financial Times, 2001). Compared to their British counterparts, the German subsidiaries were not only ‘better performers’, but also in a much stronger strategic position to negotiate wide charter responsibilities. The poorly performing British subsidiaries were only in a position to reduce the amount of charter divestments by concentrating in the future on service and maintenance functions only.

Case 3: The influence of the degree of institutional embeddedness of the subsidiary in the host country environment on the ability of local management to ability to shape the implementation of MNC global strategies

Case 3a: Subsidiary operating in a highly integrated NBS

The German business system is a highly integrated system and is described by Wever (1995) as adopting a 'negotiated approach' in contrast to the Anglo-Saxon unilateral approach. It shows a marked departure from the neo-classical free market model and operates on the basis of institutional and organizational linkages, which promote the negotiation of adjustment issues between the major stakeholders, including the employees (ibid. pp.11-14). A key characteristic of the German NBS is that major institutions are more interdependent than in the Anglo-Saxon model of capitalism (Hall and Soskice, 2001; Tempel and Walgenbach, 2003; Whitley, 1999) and institutional features are collaborative (Whitley, 1999). Hall and Soskice's study, for example, demonstrates the inter-linkages between national institutional infrastructure, corporate strategy and firm behaviour as a result of institutional complementarities i.e. a particular type of coordination in one sphere of the economy develops complementary practices in other spheres (Hall and Soskice, 2001, p.14). Thus, in the German system, the principle of 'strategic interaction' is reflected both at macro and micro levels with 'dense networks linking the managers and technical personnel inside a company to their counterparts in other firms' (ibid, p.23) and an internal structure of the firm based on collaborative and cooperative modes of action (ibid, p.24). Similarly, Whitley (1999) points to the close connections between firms' competitive strategies, internal structures and external relationships. He argues that institutions, which encourage adversarial relations between competitors, as in the UK

market based system, encourage similar connections between, for example, elements of the production chain and between employer and employees (ibid, p.33) and vice versa in institutions, which encourage collaboration. Our study revealed within the German subsidiaries, a high level of functional integration between R&D, sales and service and manufacturing with a cross fertilization of ideas between the three areas, compared to the British subsidiaries, where freestanding manufacturing functions could easily be closed down. Whitley points out that market types of ownership as in the UK encourage strong ownership boundaries and the absence of any overlapping between units (1999, p.36), firms are run as a portfolio of separate units, bought and sold as financial performance dictates (ibid, p.106). The high level of integration in Germany, however, gave the American MNC's German management confidence that their role will continue to be important for the MNC. Its HR Director argued that purely manufacturing plants can be moved quite easily but not manufacturing plants tightly linked to engineering and R&D centres.

The case of the Finnish MNC illustrates some of the problems faced by MNCs when they seek to globalise local practices in subsidiaries, which are in a highly integrated NBS. This is particularly the case where local management has gained extra power resources through good subsidiary performance and an important strategic position within the multinational group. The MNC was confronted with a works community built upon on high level engineering skills, both in the German subsidiary and, to a lesser extent, in their British subsidiary, which as part of the acquired German company, reflected German engineering traditions, even using the German terminology, but was not involved in R & D activity. The existence of technically based works communities is seen as an integral part of the German business system.

Hall and Soskice, for example, point to the high level of investment in company-specific assets in coordinated market economies, which means that ‘firms and workers have common interests to defend’ (2001, p, 58), whilst Whitley argues that alliance forms of ownership have promoted risk sharing and mutual dependencies between all stakeholders, particularly between employers and employees (1999, p.40-41). Works communities in German manufacturing are based on technical expertise, which shapes both managers’ and employees’ identities and interests (ibid, p.102-105). Thus, despite the parent company’s use of its power resources in the form of a team of Finnish HQ managers sent to occupy key management posts in the German subsidiary, resistance was continuing from other sectors of the works community. As shown earlier, engineers in R & D were resisting the new standardised production model, whilst the works council and middle management succeeded in thwarting the full implementation of the company model by using the works council’s legal rights in the areas of wages, control procedures, shifts and working hours and work organisation. HQ management respondents were vociferous in their complaints about the ability of the works council to block and influence the implementation of particular elements of the company model, which had included the standardisation of 80% of all business processes including job descriptions and recruitment practices as well as work processes. They resented the fact that they have to ‘*constantly go running to the works council to seek their permission to change things*’ but had been forced to acknowledge that there was no way round adherence to the extensive legislation on the role to be played by workforce representatives inside the company. Whitley argues that management in Germany traditionally recognises the importance of employees and the fact that their distinct rights and interests should be reflected in decision-making since they depend on their skills and commitment for company

performance so it is usually less important that these rights are enshrined in the Works Constitution Act (1999, p.70, 80-82). However, as we can see in this case study, where foreign owners ignore or seek to overturn these interdependencies, the legislation can provide a useful fallback position for management and employees.

The Finnish management interviewed referred to the new company model as leading to *'a hell of a lot of problems'* as employees saw the changes as *'all bad'* and were resisting their implementation not only through their legal representative body, the works council, but also in their daily work practices by non-adherence to new procedures i.e. not inputting data into the new SAP system at all or not doing it properly so the information the MNC receives is not trustworthy. In HQ management's view *'it is normal for the works council to be obstructive'* and they could find no way round the obstructions:

'Yes, we wanted to make a lot of changes but in actual fact we've changed relatively little.... certain things planned for in the model could therefore not be introduced here...we have to look for new solutions.'

This case seems to demonstrate that the institutional embeddedness of subsidiaries in a highly integrated NBS gives local management and employees and their representative bodies greater bargaining power to resist the globalisation of local practices, where this is seen as detrimental to the competitive advantages of the subsidiary. Hall and Soskice argue that *'deliberative institutions'* in coordinated market economies such as powerful employer associations and trade unions, extensive networks of cross shareholding and legal and regulative systems upholding

collaboration 'can provide the actors. with strategic capacities they would not otherwise enjoy' (2001, p.12). Compared to the British subsidiaries, which had mainly operational charter responsibilities, all three German subsidiaries in our sample played a strategic role in their MNCs. However, foreign owners may see certain characteristics of the German NBS as more of an obstacle than an advantage. Thus, Tempel referred to the case of a British MNC in the pharmaceutical and chemical sector, which decided to circumvent Germany and invest in other countries because of the constraining nature of German industrial relations (Tempel, 2002).

Case 3b: Subsidiary embeddedness operating in a weakly integrated NBS

Our research underlines, in contrast to the tight integration and interdependencies of the German business system, the high level of compartmentalization of British business units (Whitley, 1999, p.61). This is shown in a low level of commitment and cooperation between firms and between employers and employees and a high level of mobility of operations. Whitley points to a lack of integration and systematic coordination of activities in British firms (ibid, p.61), which, together with the absence of legal constraints on management's use of the labour resource and the weak rights of employee representative bodies, means that it is relatively easy for MNCs to close down their British manufacturing operations and cherry pick the most profitable area of the subsidiaries, which, in the case of our subsidiaries, was the services side (Geppert et al. 2002). In the view of the HR Director of the American MNC in the UK, Britain '*is probably the easiest country in Europe to do different kinds of things [i.e. laying off personnel, the authors]. We really didn't have many obstacles.*'

The unilateral management approach to restructuring, characteristic of Anglo-Saxon management systems, together with the weak collective employee rights in the UK, facilitated a rapid restructuring process. Whitley points out that changing patterns of work organisation in the UK is easier than in Germany since they are '*not as tightly integrated with national regulatory institutions*' (1999, p.115). There was little support from management within the UK NBS for a continuation of (badly performing) manufacturing operations in the UK and no examples of alliances between local management and employee representative bodies to resist closures. In the UK, the national and occupational socialisation of local management towards finance and service priorities and the weak legal position of the trade unions as well as an institutional framework, which promotes adversarial relations rather than cooperation and collaboration, as shown earlier, meant the formation of a joint alliance to resist the elimination of manufacturing, as we found in the German subsidiaries, was not an option.

Recent research on corporate government by Armour et al. (2003) points to some evidence that the UK NBS may be moving away from a sole focus on shareholder value, which has worked to the detriment of employees as well as other groups, towards a consideration of wider stakeholder interests, which will favour the inclusion of employee voice in the restructuring process in the future. We found, however, little evidence of this during our fieldwork.

6. Conclusions

This paper has developed three key aspects, which influence the ability of local management and employee representatives to make strategic choices and negotiate 'charter changes'. We found firstly that the overall strategic approach of the MNC influences strategic choice, power and policies of the local subsidiary. The more the strategic decision-making approach of the MNC is decentralised, the more strategic choice local subsidiaries have to develop idiosyncratic power resources and local practices. A more negotiated approach gives subsidiaries more room for bottom-up development of local strategies and policies, which can help to avoid conflicts and political struggle. The more the MNC applies a centralised strategic decision-making approach, the greater is the possibility that local choice and power resources will decrease. This can lead to conflict and political struggle between local subsidiaries to enhance or just to maintain their original charter responsibilities.

In line with e.g. Birkinshaw and Hood (1998) we showed, in addition, that a strong strategic position and good company performance of the subsidiary within the MNC can provide local managers with a greater bargaining power, even when the company seeks to use an imposed and centralised approach to develop increasing global standardization of local practices.

As a key finding, we argue that the greater the degree of social embeddedness of the local subsidiary in a highly integrated business system, the more problematic the implementation of global practices and the more idiosyncratic local politics and power resources will be. The greater the social embeddedness of the local subsidiary

in a highly integrated business system, the greater is the power of local subsidiaries to influence the implementation of global management practices. However, if the local subsidiary is in a weakly integrated Anglo-Saxon type business system, the power resources and strategic choice to resist and influence the implementation of global practices are limited.

Insert Table 2 about here

Table 2 illustrates these effects on the roles played by local management and employee representatives in the implementation of MNC strategies. Extensive involvement of local actors was found in the German plant of the German MNC, where local management and the works council played an active role in both the development and the delivery of a DQP response to new market pressures. The plant occupied a strong strategic position within the MNC with its close links to R & D and was a strong performer. It was, of course, embedded in the German NBS, which is supportive of DQP strategies.

However, in the German MNC's UK subsidiary, restricted involvement of local actors was found. The subsidiary did not occupy a strategic position within the MNC as a stand-alone manufacturing unit and was a poor performer compared to other subsidiaries in the group. The UK NBS is also not supportive of manufacturing companies so that it was easy to close down the UK manufacturing operations. However, due to the negotiated decentralized strategy of the parent, local British managers were able to develop their own ideas on the new customer services focus.

The contestation of MNC strategies was very marked in the German subsidiary of the Finnish MNC and HQ management have been forced to adopt a 'German solution' to the implementation of their global strategy. The important strategic role of the subsidiary, its strong economic performance and its embeddedness in a tightly integrated business system supportive of manufacturing and, in particular, of customised craft production gave local actors power resources they were able to deploy to enforce a more negotiated local solution.

The passive acceptance of MNC strategy occurred in the British subsidiary of the Finnish MNC, where the subsidiary accepted the new company model and, despite misgivings, implemented it in the UK. However, although the UK NBS is not supportive of manufacturing, this subsidiary, alone among the British subsidiaries we investigated, continues to manufacture escalators. We explain this with reference to the fact that it continues to draw strength from its close links to its former German parent company, now the German subsidiary contesting the Finnish MNC model of global standardised production.

In terms of the implications of different NBSs for HRM in both the MNC HQ and subsidiary level, the more highly integrated systems, such as the German NBS, appear to force MNCs to adapt their global strategies to the national context and this leads to greater securities for labour in terms of skills reproduction security, representational security and work security (Standing, 1997). In such systems there are clear limits to the commodification of labour and the use of unilateral and so-called 'hard' HRM practices by management. This is underscored by recent work by Gospel and Pendleton (2003), which contrasts the UK and German systems of capitalism,

particularly the influence of finance and governance systems, and their effect on the management of labour policies and practices. Their findings point to the continuing influence of diversified quality production on employment patterns, training and workforce development in Germany (p.566), the development of firm-specific human capital and the promotion of employee commitment via employee voice in the form of the works councils (p.567). The important labour management outcomes are security of jobs and internal labour markets with high levels of skill formation (p.568-569). German managers, they argue, are able to exercise greater levels of strategic choice about how the firm and employees are managed than in the UK, where the management imperative is to heed shareholder value (p.567). They are also forced by law to take into account employee interests as a key stakeholder in the firm and have also been able to take a long-term view and invest more heavily in R & D, training and HR development than in the US and the UK (p.565-566). This helps to explain the strategic importance of our German subsidiaries for their MNCs as global centres for R & D and also their superior performance to their equivalent UK manufacturing establishments. This illustrates the interlinkage between our three key influences on local actors' power resources and the respective NBS. An anomaly is the Finnish MNC's choice of Germany as a centre for the development of a standard global product, even one of high quality. Hall and Soskice point out that companies invest in Germany primarily for quality control, skill levels and incremental innovation capacities (2001, p.57). Whilst Whitley argues that there is a close interrelationship between work systems and employment strategies in firms so that firms would not normally pursue a Taylorist work organisation whilst seeking long term commitment from manual workers and investment in their skill development (1999, p39), something the German subsidiary was well aware of and it was resisting the

imposition of more Taylorist operating practices. An explanation for the mismatch found in the Finnish MNC's German subsidiary could perhaps be explained by looking at the history of its acquisition in Germany, whereby the German company was bought to operate as the MNC's R & D centre for escalator production, an area the parent had no expertise in. The German subsidiary will still be the R & D and manufacturing centre in the new global strategy but both German management and employees saw the new strategy as wholly negative since it will, in their view, undermine their national source of competitive advantage based on a technical community of high level engineering expertise.

Finally, we want to come back to our three 'pull' questions, (the who, how and why pulls), underlining a socio-political framework of strategic decision making in MNCs. First of all, the reasons why and how certain key local actors, managers and workers' representatives, have more (or less) leverage 'to pull' is heavily influenced by the actors' strategic position within the multinational group. That fits well with earlier studies of power and politics in organisations, stressing that the ability to solve dependency problems and to control relevant resources of uncertainty increases the power and influence of certain actors and groups of actors (see e.g. Crozier, 1964; Pfeffer, 1994). Secondly, our paper emphasises the influence of national institutions on local power relations and politics in MNCs, on who does the pulling. We have seen that subsidiary managers and employees based in countries with well-established industrial relations and education systems, such as in Germany, are more likely to develop pro-active micro-political approaches of both negotiation and resistance. In contrast, British subsidiary management developed rather passive political approaches, not just because of their weaker strategic position within the MNC, but

also because they could not rely on the same level of solidaristic support from societal institutions as their German counterparts. With reference to Kostova and Zaheer's (1999) argument that local managers need both internal legitimacy (in the MNC itself) and external legitimacy (in the local context), we would like to add that the power resources key local actors draw on in decision-making processes relating to 'charter changes' remain intertwined with certain (external) NBS characteristics, an aspect often neglected in North-American research about MNCs. That leads, thirdly, to the question of emerging transnational institutions and whether they provide socio-political space for active negotiation of and resistance to globalization strategies in the implementation at local level. A proper answer to that question is of course going far beyond the scope of this paper, but recent research on emerging transnational institutions, such as European works councils (see e.g. Hancke, 2000), raises doubts about whether these new arrangements will support a more solidaristic organisation of local interests and the participation of a broad variety of local actors across national borders in strategic decision-making processes. Thus, the influence of NBS characteristics will continue to be important in understanding local responses to globalization strategies in MNCs.

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	American MNC	Finnish MNC	German MNC
Globalization policy	Centralistic and fairly strong, but long established	Extreme centralistic and strong, integration policy following recent growth by acquisition	Rather decentralized and weak
Market strategy	Cost leadership in the mass market, standardized products	Technology leadership in the mass market	Quality leader in the upper segment of customized and small batch production
Total number of employees worldwide	63,000	23,000	28,500
No. of countries with overseas subsidiaries	200	40	102
Percentage of employees abroad	84 %	94 %	93 %
Size of German subsidiary: <ul style="list-style-type: none"> • sales (in Million Euro) • employees 	<ul style="list-style-type: none"> • 700 • 4000 	<ul style="list-style-type: none"> • 243 • 1800 	<ul style="list-style-type: none"> • 421 • 1822
Size of UK subsidiary <ul style="list-style-type: none"> • Sales (in Million Euro) • Employees 	<ul style="list-style-type: none"> • 144 • 2700 	<ul style="list-style-type: none"> • 205 • 1295 	<ul style="list-style-type: none"> • 120 • 800

Sources: Annual Reports 2001 and interviews by the authors

Table 1: The three case study companies

1-MNC Strategy	2-Strategic Position and Performance of Subsidiary	3-Extent of Institutional Embeddedness	<i>Influence of Local Actors in Strategy Implementation</i>
Negotiated decentralized	Strong	Strong	<i>Extensive involvement</i>
Negotiated decentralized	Weak	Weak	<i>Restricted involvement</i>
Imposed centralized	Strong	Strong	<i>Contested strategy implementation</i>
Imposed centralized	Medium-strong	Weak	<i>Passive acceptance of strategy</i>

Table 2: Three key effects on local actors' influence to shape the implementation of MNC strategies

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