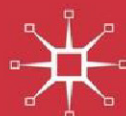


Multinationals, □ Institutions and the Construction of Transnational Practices

Convergence and Diversity
in the Global Economy

Edited by Anthony Ferner,
Javier Quintanilla and
Carlos Sánchez-Runde



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Contents

<i>Preface and Acknowledgements</i>	vii
<i>List of Contributors</i>	ix
1 Introduction: Multinationals and the Multilevel Politics of Cross-National Diffusion <i>Anthony Ferner, Javier Quintanilla and Carlos Sánchez-Runde</i>	1
2 Towards a Political Economy Framework: TNCs as National and Global Players <i>Jacques Bélanger and Paul Edwards</i>	24
3 Theorizing the Role of the International Subsidiary: Transplants, Hybrids and Branch-Plants Revisited <i>Tony Elger and Chris Smith</i>	53
4 Accommodating Global Capitalism? State Policy and Industrial Relations in American MNCs in Ireland <i>Patrick Gunnigle, David G. Collings and Michael J. Morley</i>	86
5 Emerging Motivations for Global HRM Integration <i>Sully Taylor</i>	109
6 Patterns of Integration in American Multinational Subsidiaries in Europe <i>Valeria Pulignano</i>	131
7 Who is Hybridizing What? Insights on MNCs' Employment Practices in Central Europe <i>Guglielmo Meardi and Andras Tóth</i>	155
8 Globalization and Labour Market Segmentation: The Impact of Global Production Networks on Employment Patterns of German and UK Clothing Firms <i>Christel Lane and Jocelyn Probert</i>	184
9 Global Networks or Global Firms? The Organizational Implications of the Internationalization of Law Firms <i>Glenn Morgan and Sigrid Quack</i>	213

10 Structuring the Transnational Space: Can Europe Resist Multinational Capital? <i>Richard Hyman</i>	239
<i>Index</i>	256

Preface and Acknowledgements

This volume presents a selection of papers originally given at a conference on *Multinationals and the International Diffusion of Organizational Forms and Practices: Convergence and Diversity within the Global Economy*. The conference was held at IESE Business School, Barcelona, in July 2004. It was a companion event to an earlier conference held at Leicester Business School, De Montfort University in 2001.

The aim of the Barcelona gathering was to push forward the development of the burgeoning field of research on the diffusion of practices and policies within multinationals. The substantive focus was – predominantly but not exclusively – on the terrain of employment relations and human resource management practices, policies and processes. Conceptually the emphasis was on understanding the value and limitations of a comparative institutionalist approach to the study of cross-border transfer in multinationals.

Conference contributions explored the processes whereby organizational structures, policies and practices are diffused internationally in the context of ‘capitalist variety’; the ways in which structures and practices are adopted, adapted or hybridized in the host; the ‘politics’ of diffusion, manifested in the interplay of interests, power and negotiation at different levels within the multinational and beyond it; the way in which the multinational’s behaviour is both shaped by and shapes institutional arrangements in the spheres in which it operates; and the interactions between the institutional levels of the company itself, the national business system, and the global economy. The papers collected in this volume have been selected from the conference contributions on these themes. They have been thoroughly revised and developed by the authors for publication.

We are very grateful to the invited keynote speakers – Professors Ron Dore, Richard Hyman, Wolfgang Streeck and Sully Taylor – whose presentations provided a stimulating and provocative framework for discussion at the conference. Two of their papers are included here. We owe a considerable debt of gratitude to IESE whose generous support for the event contributed greatly to its success; and to the administrative staff of IESE who faultlessly organized the conference. In particular, we would like to thank Christine Ecker for her dedicated and professional efforts. Finally, we gratefully acknowledge the financial support provided by the Departament d’Universitats, Recerca i Societat de la Informació of the Generalitat de Catalunya, and by the Ministerio de

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Leicester Business School and IESE, September 2005

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1

Introduction: Multinationals and the Multilevel Politics of Cross-National Diffusion

Anthony Ferner, Javier Quintanilla and Carlos Sánchez-Runde

Introduction

Over the last decade or two, scholars in the fields of international employment relations and organizational behaviour have devoted considerable energies to arguing that systematic differences in the behaviour of multinational companies (MNCs) are significantly shaped by their embeddedness in distinctive national-institutional complexes, both of their country of origin and of the host business systems in which their subsidiaries operate. More recent analyses have explored MNCs' behaviour as the complex outcome of the *interaction* between influences from the parent national business system (NBS) and those deriving from the host NBS. Such work has drawn heavily on the comparative institutionalist perspective whose variants include the 'societal effects' school (e.g. Maurice and Sellier, 1986), national business systems theory (e.g. Whitley, 1992), and the 'varieties of capitalism' approach (Hall and Soskice, 2001a).

This approach to MNCs may be seen as a necessary antidote to two contrasting conceptual tendencies: on the one hand, more deterministic strands of globalization theory, with their underlying assumption or implication that a general cross-national convergence of management styles and practices was in train; on the other, the simplistic analyses of observable national differences in the behaviour of MNCs in terms of cultural 'values'. The comparative institutionalist approach was thus fighting a war on two fronts, against a lack of attention to continuing national diversity, and against the analytical impoverishment of existing attempts to understand the sources of national variety.

However, having at least partially achieved its purpose, and having won some degree of acknowledgement of its underlying premises at

least among European international business scholars, the approach rapidly ran into conceptual limits. The criticisms have provoked significant development of the comparative institutionalist approach over recent years, and this volume brings together some illustrative strands of thinking. The following sections sketch the main lines of attack against the limitations of early attempts at understanding MNCs in institutionalist terms, and set out the ways in which the analytical arguments are being developed. Thereafter, the contribution of the chapters in this volume to the development of these themes is discussed.

Multinationals between globalization and diversity: analytical developments

MNCs and the evolution of national business systems: beyond comparative statics

The legitimate concern of the national-institutional approach to show the distinctive historical development paths of different business systems has been frequently criticized for overemphasizing stability and continuity at the expense of analysis of the mechanisms of institutional transformation. This was encouraged by the attention paid by many of the exponents of national business system analysis (e.g. Lane, 1994) to the conditions that maintained the integrity of national institutional arrangements through the 'interlocking' of institutional complexes. Streeck and Thelen (2005; see also Thelen, 2003; Djelic and Quack, 2003) suggest that models of system change tended to rely on 'punctuated equilibrium' notions of abrupt systemic breakdown followed by reinstitutionalization. This bias leads to the danger that studies of MNCs (and other phenomena) across NBSs become exercises in 'comparative statics'.¹

In recent years, there has been increasing awareness that comparative analysis must deal with moving targets (e.g. Morgan, 2005), and that MNCs themselves play an important role in national-institutional evolution. They are, to adopt the terms of Streeck and Thelen (2005), institutional 'rule makers' as well as 'rule takers', shaping system dynamics through engagement at a number of levels, not least through their direct or indirect influence over the priorities and strategies of public policy-makers. This is illustrated in this volume by the chapter by Gunnigle *et al.* in the case of US MNCs in Ireland, and that by Bélanger and Edwards on relationships between Canadian-based MNCs and their domestic political elite. More indirectly, it is reflected in Hyman's analysis EU policy-making and of the ongoing struggle to

impose a neo-liberal model of European integration in the interests of transnational capital.

MNCs also operate at the micro-organizational level to shape institutions, by transferring practices that subsequently diffuse to other firms within their organizational field, through what the new institutionalists would call 'mimetic isomorphism' (DiMaggio and Powell, 1983), eventually becoming part of the taken-for-granted cognitive frameworks concerning appropriate ways of doing things. An example would be various innovations in the management of employees' pay and performance initially diffused to the UK by American MNCs.

Streeck and Thelen's (2005) more general point is that institution-building is not a periodic phase in a cycle of rupture and re-establishment, but rather an ongoing process in which institutions leave 'space' for actors to contest the nature and meaning of the institutional framework they inhabit (see also Morgan, 2005). Even the most highly regulated systems leave such space, and MNCs, as powerful actors, have the capacity to exert a strong influence over the evolution of institutions. An example would be their role in shaping the day-to-day functioning of the works council in German subsidiaries, eliciting new behaviours and roles more suited to their purposes (e.g. Muller, 1998).

Despite these shifts in emphasis, however, it is important not to throw out the NBS baby with the bath water. To say that institutions are dynamic and evolving, and that institutional creation and re-creation is a continual process performed by active agents (including MNCs), is not to deny that there are significant and persistent differences between national-institutional systems; nor that persistent differences have a 'path-dependent' aspect, in that past institution-building constrains present choices (e.g. Mahoney, 2001); nor that, at any given time, many fundamental elements of an institutional complex are simply not 'up for grabs'. Such continuities mean that it still makes sense to engage in comparative analysis of NBSs, seeing practices in the context of the 'institutional complementarities' (Hall and Soskice, 2001b) that shape alternative ways for economic sectors to organize themselves within and across national boundaries. At the same time, it is necessary to be alert to the ways in which the processes and actors being compared (including MNCs) themselves have a dynamic impact upon institutional frameworks within which they operate. The chapters by Lane and Probert, Meardi and Tóth, and Morgan and Quack in this volume illustrate the continuing importance of attending to 'varieties of capitalism', albeit varieties that are dynamically evolving.

Multilevel analysis and the interaction of institutional effects

The predominant focus of comparative institutional analysis of MNC behaviour, for understandable reasons, has been on the institutional domain authoritatively coordinated by nation-states (e.g. Hall and Soskice, 2001). But this has been criticized on a number of grounds.

First, the comparative institutionalist approach has been accused of failing to see the global-systemic wood for the national-institutionalist trees (e.g. Strange, 1997), overemphasizing national diversity while underplaying the powerful global dynamics driving the world business system. Against this it could be argued that national diversity is in fact a key constitutive mechanism driving innovation within the world economy: allowing MNCs to 'leverage' difference in the search for competitive advantage, and providing the basis for the emergence of new poles of innovative development based on local institutional advantages and specific circumstances.

Nonetheless, the analytical question remains of the relationship between NBSs and the global system, particularly as supranational levels of institutional regulation become increasingly important. Not only do these interact in rather complex ways with national systems (e.g. Djelic and Quack, 2003), but they also, increasingly, call into question the analytical distinctiveness of the national business system level. Underlying this perception is the argument (see e.g. Ó Riain, 2000) that with the decline of the postwar model of international organization based on 'embedded liberalism', the ability of nation states to insulate national economies from global forces – notably through the provision of decommodified welfare services – has been compromised. Increasingly, the role of the 'competition state' (Cerny, 2000) has been to prepare national economic actors for the rigours of international competition, not least through the re-marketization of state services. However, as Hyman argues in this volume in relation to the model of European integration, the degree to which such processes respond to some ineluctable economic logic rather than to the choices and strategies of social actors, is open to question.

Second, intermediate levels of analysis both above and below the national business system have tended to be neglected. In the first place, subnational arrangements may carry as much specific weight as national institutions in influencing the embeddedness of MNCs. Peculiarities of local labour markets, power elites, resource bases, and so on, may generate influences significantly different from, and even at odds with, those of the national domain. This is particularly the case where national systems make provision for distinctive formal

institutional arrangements at subnational level, as, for example, in federal systems; but also where there are wide disparities in political culture, economic level, and so on, within a single national state (as between northern Italy and the Mezzogiorno, or between western and eastern Germany). Such disparities widen the 'space' for actors to develop variant practices within a given institutional arrangement. In the second place, processes of regional integration raise questions about the complex interactions between national, regional and global levels and the institutional constraints and possibilities that result, an issue that Hyman's chapter again explores.

Third, the geographical or territorial dimension of institutional arrangements – whether global, regional, national or local – is only one that is relevant for understanding the international diffusion of organizational forms and practices in MNCs: equally important is the way in which industrial sectors are structured in a way that cuts across territorial demarcations (e.g. Colling and Clark, 2002). Pressures for convergence and divergence may occur at the level of the sector rather than at territorial levels. Nonetheless, sectoral institutionalization may well be interwoven with national arrangements, as when different business systems organize sectors according to distinctive national-regulatory regimes (Hollingsworth *et al.*, 1994).

Finally, the 'micro-organizational' level of the individual MNC itself needs to be seen as a distinct level of analysis, operating within and across higher-level institutional spaces but not totally shaped by them, with the MNC acting both as institutional rule taker and rule maker. This theme of the MNC as an institutional actor is taken up in the following section.

In summary, therefore, current developments in research on MNCs seek to construct an integrated analytical framework capable of accommodating both the global dynamics of the system and the distinctive national (and regional, sub-national, and sectoral) dynamics of the constituent parts. Given the multiplicity of levels of analysis of MNCs in institutional context, a key conceptual task is to map the complex linkages between different levels. Some progress has been made in this respect in recent years, especially in conceptualizing relationships between the global system and other institutional levels. A key concept, for example, has been that of 'dominance effects' (Smith and Meiksins, 1995), which conveys a sense of hierarchy of national states and multinational players within the global capitalist system as a whole, manifested in the way in which MNCs from hegemonic states tend to diffuse practices to less dominant hosts, while the latter see an interest

in emulating such practices. The contributions by Elger and Smith and by Bélanger and Edwards in this volume tackle the theme of multilevel analysis explicitly, the latter focusing in particular on the 'macro-level'.

The MNC as powerful players in transnational institutional space

One of the criticisms that may be levelled at the comparative institutionalist approach to MNCs is that the emphasis on national-institutional influences and their interaction has somewhat obscured the reality of MNCs as powerful actors operating across institutional boundaries, with their own transnationally defined organizational logic, structure and strategy. They are, in short, not merely the micro-level product of competing macro- and meso-level institutional influences from sector or NBS.

It is the very fact that MNCs constitute, in the term of Morgan *et al.* (2003), 'transnational social spaces' that are inherently segmented across geographies that has impelled them to develop strong bureaucratic and 'cultural' mechanisms for ensuring their internal organizational coherence and their ability to act in a coordinated way across institutional domains.

Moreover, MNCs are capable of considerable influence on the institutional contexts with which they interact, at times being active shapers of the rules of the game at global, NBS, and sectoral levels (see e.g. Sell, 2000). MNCs powerfully shape what the theorists of the 'new institutionalism' refer to as the 'cognitive' and 'normative' pillars (Scott, 1995) of global, regional and national institutional frameworks, moulding perceptions of what are 'legitimate' ways of doing things and the taken-for-granted cognitive schema that underlie models governing international economic activity.

Streeck (e.g. 1997) has suggested that, at the level of NBSs, MNCs are increasingly powerful because of their capacity for 'regime arbitrage', that is their ability to move their operations from one NBS to another in search of institutional conditions that best suit their operating requirements. NBSs are driven towards more voluntaristic regimes in response to MNCs' demands for incentives, and states increasingly lose the capacity they typically had in the epoch of 'embedded liberalism' to build a general regime capable of compensating losing sectors within the national polity for the detrimental consequences of economic change and development.

However, it is important also not to exaggerate the extent of MNC power. There are at least three countervailing tendencies. First, much foreign direct investment is not efficiency-seeking (e.g. focusing on the

search for low-labour-cost locations), but market-seeking, and may have to locate in a particular national territory in order to serve that territory effectively. Thus the scope for regime arbitrage is constrained. Against this, however, the creation of regional economic spaces, notably the EU and NAFTA, has diluted the market-seeking constraint on MNCs since they have a wider choice of national host within a unified regional market. But in turn, such regional spaces allow the possibility of building supranational institutional regulation that can reduce differences between national arrangements and hence limit the capacity of MNCs to engage in regime arbitrage (see Hyman's contribution in this volume).

Second, as Streeck notes,² states may actively counter the footloose tendencies of MNCs by stimulating the growth of development 'poles' around scarce and specialized competences for which geographical proximity generates important agglomerative effects. Thus within specific sectors in particular geographical locations, FDI, once there, will be increasingly 'sticky'. Consequently, the power of states and political authorities to negotiate with MNCs over the terms of their presence will be significantly greater. More generally, efficiency-seeking behaviour may lead MNCs to search for specialized skills, rather than for the lowest possible labour costs and weakest social regulation. Their locational strategies do not, therefore, inevitably encourage a 'race to the bottom', especially given the relative success of other actors in contesting the ideological norms and labour practices associated with such a race.

Third, while the MNC may be a powerful actor capable of coordinated interventions, it is also a somewhat fragile construct whose unity of action may be undermined by internal sources of fragmentation and by strong centrifugal forces. This theme is further developed in the following section.

Disaggregating the MNC: interests, actors, and the micropolitics of transnational diffusion of forms and practices

Amoore (2000: 183) has commented on the 'essentially "contested" nature of the firm', riven by tensions between the 'competing social forces' – 'managers, financiers, shareholders, suppliers and a diverse range of labour groups' – who compose it. Internationalization, moreover, multiplies the points of tensions. This theme has increasingly become a commonplace of studies of MNC behaviour. These organizations are not unitary, monolithic structures but shifting coalitions of interests subject to complex micropolitical dynamics

(see e.g. Becker-Ritterspach *et al.*, 2002; Edwards *et al.*, 1999; Elger and Smith in this volume; Ferner and Edwards, 1995; Ferner and Tempel, forthcoming; Kristensen and Zeitlin, 2005).

The interplay of interests within MNCs is shaped by various, interdependent, dimensions of international operation. First, the power of different levels or units reflects their structural location within the global value chain coordinated by the MNC. Units exercising a strategic role on behalf of the corporation as a whole are likely to have greater structural power than those whose operations are less central to the economic objectives of the organization. Likewise, as Pulignano shows in her contribution to this volume, the relationship with sister plants and the degree to which the role of a subsidiary is easily transferable and replicable elsewhere is an important determinant of subsidiary actors' strategies, interests, and power resources.

Second, internal micropolitical forces are fundamentally and specifically shaped by the fact that MNCs operate across, and interact with, different national-institutional domains. Thus subsidiary actors draw resources from the national-institutional framework in which they are embedded in order to negotiate their role and position within the wider MNC. Such resources may include the provisions of regulatory frameworks (e.g. on employee representation) that allow them to resist or to bargain over the terms of corporate policies; membership in local networks; traditions of action; location-specific skill-sets, and so on. Kristensen and Zeitlin (2005), for example, show how managers and union representatives in the Danish subsidiary of a UK MNC exploited their links into local institutional arrangements for skills training and their ability to form alliances of interests with tight local networks of supplier and customer firms, in order actively to 'strategize' over the subsidiary's role within the MNC as a whole. Likewise, Meardi and Tóth in this volume show how European subsidiaries were able to develop useful competences within the MNC on the basis of skills that had earlier been developed in response to the peculiar institutional conditions of the command economy.

Third, the growing organizational complexity of MNCs, structured into international business streams, global business functions (such as manufacturing, R&D or procurement), geographical regions, and complex matrix combinations of these, generates the potential for the further segmentation of interests across and between national institutional domains. MNC actors can, for example, define their interests at the level of the national subsidiary, or of the global function, of the global business stream, or of the supranational regional territory

(or some combination of these). Moreover, such international organizational structures do not merely create interests but are themselves *reflections* of the playing out of interests as different groups challenge for dominance. As the operational challenges facing MNCs create changing patterns and relationships between these different organizational levels (see e.g. Ferner *et al.*, 2004), there is scope for kaleidoscopic variation in the definition and interplay of organizational interests.

In short, therefore, MNCs are diverse coalitions, fragmented not only between competing social forces but across national-institutional domains, and along various 'horizontal' cross-national organizational dimensions, leading to the pervasiveness of a micropolitics with distinct characteristics that reflect the international dimension of MNCs' operations.

Mapping organizational boundaries

The conceptualization of MNCs as segmented transnational arenas of micropolitical activity links to another emerging strand of literature which emphasizes the 'fuzziness' and permeability of MNC boundaries as forms of organizing international economic activity. The focus on MNCs as the prime unit of analysis in the field of employment relations has been criticized explicitly by writers such as Bair and Ramsay (2003), and implicitly by much of the recent work on 'global commodity chains', stemming from the insights of Gereffi and Korzeniewicz (1994). The point is that understanding the global organization of labour and employment relations requires more attention to boundary-spanning global value chains, rather than merely to the intra-organizational management of labour associated with MNCs themselves. MNCs may be only part, and often a relatively small part, of chains of international economic activity that encompass a number of firms integrated by a variety of different mechanisms. As the chapter by Lane and Probert in this volume demonstrates, such value chains may coordinate complex international divisions of labour between different specialized productive functions in the *absence* of MNCs (in the sense of corporate actors with productive operations in more than one country). Dominance within the chain is defined primarily through market relations between nominally independent actors rather than by classic internalized 'hierarchy'.

On the spectrum from the traditional model of the hierarchically integrated MNC to the internationalized global value chain without MNCs are a variety of intermediate organizational forms. Joint ventures and strategic alliances involve MNCs in relatively stable relationships

with other actors who may be competitors. Such forms have grown in importance as a result of a number of economic and political factors, including the opening up of new markets (notably central and eastern Europe, and China) to which access may be easier through joint ventures with local actors; and through the desire of MNCs to share the investment costs of developing new technology-intensive products in fast-evolving consumer markets, and/or the costs of penetrating new geographical territories. Such cooperative relationships give rise to sophisticated inter-organizational networks (which may extend to other non-corporate actors such as universities) through which knowledge is created and diffused (e.g. Tregaskis, 2003).

Finally, even within the boundaries of the MNC, increasing emphasis is being placed, notably within the organizational learning literature, on the fuzzy, non-hierarchical network-type linkages necessary for the creation and dissemination of complex organization-specific forms of knowledge capable of providing international competitive advantage for the MNC (e.g. McKern, 2003). Taylor's contribution to this book argues for the increasing importance of such network structures in the future organizational role of the international human resource management function in MNCs, based more on the creation of 'social capital' and trust relations between different organizational actors than on hierarchical control systems.

The contributions in this volume

The chapters in this volume examine the above themes from a variety of analytical and empirical perspectives. Their primary empirical focus is on the field of employment relations and human resource management in relation to the cross-border organization of productive activity within multilevel institutional contexts. However, some chapters are concerned with the more generic underlying issue of international organizational behaviour, rather than with employment relations issues *per se*.

Bélanger and Edwards develop a 'political economy' framework for analysing MNCs as 'political systems', albeit with a clear emphasis on capital accumulation. Their focus is on the 'macro' level of the relationship between MNC as a whole and higher institutional levels, notably the national state. In line with the theme outlined above, they see MNCs as powerful, active shapers of their transnational environments, not only through control of material resources, but also through the ideological power to influence assumptions about how the global

system should and does operate. Nonetheless, MNCs face states and other actors with countervailing power and hence must negotiate over the terms of their relations within a multilevel and contested institutional terrain characterized by competing and sometimes contradictory logics. Of these, Bélanger and Edwards stress the tensions between the logic of accumulation and competition – on an international or global scale – and that of legitimation, the latter generating significant constraints on MNCs' freedom of action. The outcome is a complex pattern of cooperation and rivalry between states and MNCs.

The case of Canada is used to exemplify these themes, and to show how even a national state as highly integrated economically with its dominant neighbour is able to generate its own distinct power resources. The authors point to the active and independent role – despite the country's increasing economic integration with the US – of the Canadian elite, with its dense social networks and strong interpersonal ties, in shaping and defining Canada's place in the world economy, hence the Canadian state's room for manoeuvre *vis-à-vis* powerful MNCs. Canadian MNCs are able to draw on this national resource to create support structures as 'national champions' in order to become global players within the international economic system.

The authors end with a plea to carry forward the agenda of a political economy perspective on MNCs by incorporating more systematic comparative analysis of the processes and outcomes of politics not only at the macro-level but within the MNC itself, including the micro-level of the relationship between management and employees in the cross-national 'politics of production'.

Elger and Smith provide an ambitious synthesis of different levels of analysis. They stress the importance of a range of influences on management 'repertoires' in MNCs, stemming from the institutional arrangements of national business systems, the 'system effects' generated by the fundamental social relations underpinning a global system of competing capitalisms, and the 'dominance effects' that express the influence of practices emanating from dominant economies, sectors or firms in the global system. The impact of the different types of influence on work practices depends on micropolitical processes of negotiation between groups and individuals at different organizational levels within the MNC.

Elger and Smith deploy this framework of system, society, and dominance effects to analyse the transfer of work and employment relations practices in Japanese manufacturing MNCs in the UK, using detailed longitudinal case studies. They show how the distinctive interests and

power resources of the protagonists influence policy outcomes in different subsidiaries. Corporate MNC policy, on new investment or on rationalization of production internationally, shapes the context of organizational micropolitics in the subsidiaries, since these occupy different roles in the MNC and have different relationships with HQ and with sister operations. Within these structural parameters, subsidiary managers have significant autonomy to interpret and implement higher-level policy.

Elger and Smith measure their findings against three contrasting conventional models of the subsidiary: the transplant, the hybrid and the branch-plant. The first of these assumes the unproblematic transfer of competitively superior Japanese practices. The second emphasizes a mix of home and host societal effects, reflecting the fact that some elements of the parent system clash with host societal effects. The third focuses on the subordinate and dependent role of the subsidiary within the international value chain integrated by the MNC and assumes that only limited elements of a work organization system are likely to be transferred.

First, the authors suggest, there may be wide variation in the degree to which subsidiaries regard corporate production and work 'repertoires' as models for transfer and emulation. This depends on their role within the wider corporation. But more importantly, the scope and applicability of dominant repertoires have to be worked out in detail by subsidiary actors, creating space for negotiation and interpretation. As a result, transplantation, where it occurs, is a dynamic and contested process.

Second, while the image of 'hybridization' is closer to the authors' conceptual framework, it does not adequately characterize the micropolitics of transfer. Elger and Smith emphasize the uncertainties and tensions of policy formation in subsidiaries, and the differential distribution of benefits that is the source of contestation. Much depends on the degree to which individual subsidiaries have access to international corporate networks that provide power resources and means of influence over the transfer of policy repertoires.

Third, while the authors recognize elements of the branch-plant image in the creation of routine, vulnerable assembly operations, and in the power of local management over a subordinate labour force, the image also has analytical shortcomings. Subsidiaries vary in their relationship to the wider corporation, and attention to the specific details of evolving corporate strategy, local product and labour markets, and power resources of local actors is necessary to explain the pattern.

Moreover, even in favourable circumstances, and in the absence of collective employee voice, management's control of the local workforce is limited and problematic.

Gunnigle, Morley and Collings use detailed case studies to examine the evolution of the industrial relations practice, especially in relation to union recognition, of US MNCs in Ireland against the background of changing state policy toward foreign direct investment. Ireland is a particularly interesting host given the extreme degree of 'internationalization': almost half the manufacturing workforce is employed in companies under foreign control, and MNCs are therefore important shapers of institutional context. Gunnigle *et al.* find a varied picture of union recognition, with a strong sectoral effect. MNCs in the ICT sector, for example, have always been strongly anti-union, a policy driven from the corporate centre. But the authors also find examples, in the pharmaceutical and healthcare sector, of MNCs characterized by 'double-breasting': their earlier-established plants have union recognition and collective bargaining, but later facilities were set up on a non-union basis.

This pattern is related to phases in the evolution of public policy, and particularly to the stance of the key Irish institution dealing with inward-investing MNCs, the Industrial Development Agency (currently known as IDA Ireland). In the early phase of expansion of foreign investment in Ireland, the IDA and the main employers' association adopted a policy of encouraging union recognition and 'pre-production' agreements laying down the respective spheres of union rights and management prerogatives. By the 1980s, the IDA had changed to a more neutral stance towards recognition, downplaying the earlier pluralist bias of policy. This reflected the Irish state's desire to compete for new waves of foreign investment in sectors with non-union traditions, notably in ICT. The findings underline the fluidity of public policy and the adaptability of the NBS over time as it accommodates to the changing interests of MNCs.

The chapter thus illustrates a form of implicit 'arm's-length' bargaining between MNCs and nation states in which public agencies, sensitive to the realities of power relations, make the case for modifications in policy without the necessity for strong and direct pressure from MNCs themselves.

Taylor examines two emerging and mutually reinforcing trends that she sees as likely to further the global integration of the international HRM function in MNCs. The first is the need to leverage organizational learning across borders. Knowledge resources and the speed of their

development and dissemination are increasingly seen as crucial factors in the international competitive advantage of MNCs. But organizational learning poses considerable problems of coordination and control, given the dispersion of resources throughout the operational units of the MNC, the instability and complexity of information flows, and the involvement of multiple organizational levels in cross-border knowledge diffusion. As a result, Taylor argues, MNCs need to focus on the creation of *social capital* within the global internal networks of the MNC. Social capital is defined as the stock of active connections among network members, based on trust, and on shared values, behaviours and meaning systems.

Second, there are increasing pressures on MNCs to pay attention to the agenda of 'sustainability' as part of the company's global strategic imperative. Sustainability is seen to encompass the pursuit of economic, social and environmental goals in such a way as to avoid prejudicing future capacity to satisfy needs. MNCs are increasingly driven to take account of the principles of, for example, *environmental* sustainability, for reasons to do with organizational competitiveness (e.g. the efficient use of resources, and the potential market opportunities for 'green' products and processes); to maintain organizational 'legitimization'; and to satisfy increasing external demands for firms to meet social obligations as well as to achieve economic goals.

Both tendencies have implications for the international HRM function. Increasingly, Taylor predicts, it will be drawn into providing the mechanisms for ensuring that the sustainability and organizational learning agendas are met. Both, for example, require innovation, with implications for the nature of organizational skills, and thus for recruitment and training strategies; both imply certain structures of rewards and incentives for employees; both have implications for the development of an international corporate culture.

Taylor sees these two trends as mutually reinforcing tendencies; for instance, social capital helps both organizational learning and the innovation needed for sustainability. Her argument is more prescriptive than other contributions, concerned with what HR as a function should be doing to adapt to the powerful global tendencies she identifies, more within the international HRM traditions of the international business literature. Nonetheless, it resonates with several of the themes outlined above. First it relates to what Bélanger and Edwards describe as the 'meso' level – the dynamics of different core management functions at the global level of the MNC, in this case the global HR function. Second it shows pathways through which developments at the

global corporate level, namely the organizational learning and sustainability agendas, are harnessed in the development of functional roles. Third it implicitly underscores the need for actors at the level of the firm to engage in purposive action – including micropolitical action – in order to realize the potential of broad structural trends; for example, the possibilities of social capital formation depend on overcoming the reluctance of MNC actors in different locations to share knowledge widely with counterparts in other locations and at other organizational levels.

Pulignano looks at the international transfer of employment relations practices in a US MNC. Her concern is with the sources of local subsidiaries' leverage *vis-à-vis* their parent, seeking to integrate an institutionalist approach with an organizational perspective. She presents case studies of five British and Italian subsidiaries in three international business units whose global headquarters are in Europe. She argues that local actors in the subsidiaries exploited national-institutional differences in the regulation of employment relations in order to strengthen their bargaining position with higher levels of the MNC. But they also took advantage of cross-subsidiary organizational differences.

While policies on pay and performance, on management–union relations, and on training and recruitment practices were generally centralized and standardized, there was scope for local adaptation of employment practices. The extent of local autonomy depended on how organizational and institutional effects interacted. Pulignano points to such organizational factors as whether European or American managers predominated at international business unit HQ. European managers tended to have a more refined understanding of institutional variety within European operations, while US managers tended to be less tolerant and understanding of such variations.

These organizational factors *interact* with national-institutional effects since the approach to employment relations is influenced by the framework of the country hosting the business unit HQ. Thus the fact that one HQ was located in the Netherlands, with its statutory framework of employee participation through works councils, was seen as encouraging positive business attitudes towards the European works council. At national subsidiary level, organizational factors, such as the strength of the subsidiary's performance in comparison to rival plants, interact with institutional factors, such as the degree of legislative protection of employees' rights. Thus the stronger position of Italian managers in negotiating with business unit HQ partly reflected the stronger framework of national legal obligations regarding wage

determination, collective bargaining and employee representation rights; while at the same time, central management was more tolerant of local adaptation of policy given the strong competitive performance and strategic role of the Italian subsidiary. In short, Pulignano explores the role of agency and actors' interests within the interacting structural determinants of NBS and organization-specific factors.

In their chapter, Meardi and Tóth, in common with Pulignano, highlight the importance of the agenda and objectives of actors in the subsidiary. Their study of the transfer of work organization practices, by an Italian MNC to Poland and by a German company to Hungary, challenges the assumption common in the literature that corporate headquarters of MNCs push through their country-of-origin practices in the face of host-country institutional constraints and subsidiary resistance. Meardi and Tóth suggest that MNCs may be attracted, rather, by the 'permissiveness' of the environment, allowing them to experiment and innovate free of the constraints of the home business system. But the authors' main contribution is to examine the diffusion of work practices in situations where transfer is *not* a goal of corporate actors. They focus on what they term 'pull hybridization', that is diffusion that occurs as a result of the attraction of parent-company practices by the subsidiary. As they stress, this concept puts the focus on the agency of different groups within the MNC. The interests, strategies, and power resources of subsidiary actors may be used to encourage rather than to inhibit diffusion – even where corporate actors in the MNC do not intend to diffuse.

Meardi and Tóth also throw interesting light on ideas of regime arbitrage, suggesting in their Hungarian case study that the exploitation of differences in NBS institutional arrangements does not necessarily involve a levelling down in work conditions, or creation of sweatshops in low-labour-cost locations, but may entail a 'levelling-up' of employment conditions and skills in the subsidiary.

Through their case studies, Meardi and Tóth refine notions of subsidiary capabilities, finding unexpected sources of competitive advantage in apparently weak hosts. In Fiat's Polish subsidiaries, for example, the experience of workers in coping with the chaotic conditions of state socialism helped them to hone the ability to respond creatively and flexibly to unforeseen events in production. This unusual skill-set allowed the Polish plants to become models for innovations in lean production and quality management for the Italian operations.

The authors demonstrate the subtleties and complexities of the transfer process, and the 'layer cake' of interactions between organizational

actors and the wider national-institutional context of which they are part. A question their analysis will raise is how far such a portrayal also characterizes transfer processes by MNCs from more aggressively self-confident parent business systems, whose strategic approach to transfer may be more 'missionary' in nature.

Lane and Probert examine an industry – clothing – which is integrated globally by firms that are for the most part not themselves MNCs. Moreover, production operations that in other industries would be performed within an integrated global firm are outsourced, for the most part to firms located in developing countries. The chapter raises questions, therefore, about the organization of sectors globally into national and transnational firms, and the interrelationships between them. Unlike most studies of the industry, the research by Lane and Probert focuses not on the role of developing countries within the global value chain but on the actors within the developed countries who orchestrate the chain. Their key argument is that this general global process of outsourcing does not have a uniform impact on employment relations and the labour market within the developed countries. Rather, the impact is profoundly shaped by the national-institutional context, particularly of skills and competences, in different countries. This is because institutional context shapes the sets of business competences available to firms and the range of competitive strategies open to them. The authors thus explicitly locate themselves, in this respect, within the 'varieties of capitalism' literature.

Lane and Probert illustrate their general argument through detailed studies of the industry in Germany and the UK. They show how the two countries have responded markedly differently to the general process of job loss and outsourcing of production to developing countries that have characterized the industry over recent decades. In Germany, for example, firms are more likely to possess a high level of employee skills and qualifications; to have a high proportion of white-collar and technical staff; to occupy high-value-added niches in the value chain; to have the ability to create global brands; and to exercise close control over the outsourced segments of the global value chains they coordinate. By contrast, firms in the UK industry tend to have lower-skilled workforces with a higher proportion of blue-collar employees; have little capability for export; and occupy more subordinate positions in the value chain. Moreover, unlike Germany there is a significant informal sector in the UK serviced by low-paid and low-skilled, often ethnic minority, workers.