Chapter 1 Images of the Multinational Firm

Simon Collinson and Glenn Morgan

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Introduction

Multinational enterprises (MNEs) are everywhere, connecting people and places as product and service providers, employers, investors, brand promoters, lobbyists. The economic scope and geographic spread of MNEs is large and expanding. They are a central part of the process of globalization which has characterized social, economic and political development over the last 30 years. The rationale for their existence, their impact on societies and environments, their role in transferring technologies, people, skills and wealth across national boundaries, and their involvement in political debates places them in the centre of our experience of the modern world. For these reasons, discussions of multinationals appear in many academic disciplines and courses.

This creates a problem for students, teachers and the interested lay reader. How are they to get to grips with the range of different approaches to multinationals? If they approach the topic primarily from the perspective of economics, they will get one set of views of the MNE; if they examine the MNE from a sociological or political perspective, they will get another set of views. If they dig deeper they will often find that there are few linkages between the diverse literatures that examine MNEs. They tend to operate in particular enclaves (some larger and more populated than others) which are based on their own assumptions and express little interest in or knowledge of other traditions.

The main aim of this unique collection of articles is not to synthesize or summarize the multitude of case studies and data, methodologies, frameworks and theories that try to capture, characterize, explain or predict the MNE. Instead we have brought together some of the leading authors in the study of MNEs over the last few decades and asked them to encapsulate their view of how such organizations work. In this introduction, we discuss three aspects of this project. The first aspect concerns the

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value of bringing such diverse approaches together in this format. Here we explain our understanding of the value of analysing different 'images' of the MNE. The second aspect concerns why this approach is peculiarly useful to the study of MNEs. The third aspect describes how the various images relate together and how this book can be used.

Images: Why and What For?

An 'image' is a representation of a phenomenon. As with any representation, it offers us a particular view so that we can think of the phenomenon being represented in a new way. Images, of their nature, are not claims to transcendental 'truth'. We can think of multiple representations of the human body in art and sculpture. Some artistic representations may aim for 'realism' but they still remain the product of the artist and the artist's attempt at representation. Many other images of the body particularly in the modern era make no claim to realism and in fact explicitly reject its tenets. Thus images proliferate without any obvious constraints on them. What makes certain images powerful is less to do with their realism and more to do with how, in particular social and artistic contexts, these images provide a focus for diverse audiences to reflect upon the nature of aesthetics, the nature of the human and the nature of social order. Clearly one of the most important reflections that they force is into the nature of transcendental truth and its perceived enemy, 'relativism'. If all images are representations, where does truth lie? We are now used to this proliferation of images and reflections in many spheres of our lives and social theorists have broadly labelled this shift as a move towards 'postmodernism' (Lyotard, 1984) or in some authors 'high modernism' (Giddens, 1992) or 'hyper-reality' (Baudrillard in Poster, 2001). From this perspective, it is how images help us to think about ourselves that gives them power and relevance in particular contexts.

We remain less comfortable about the idea of images in the scientific arena, particularly in the social sciences where the inherent contestability of concepts makes diverse images endemic in many disciplines, thus undermining claims to scientific objectivity and in this way the legitimacy of access to large public research funds. Most social sciences disciplines therefore contain a substantial proportion of researchers committed to the search for truth and another group more likely to feel comfortable with the idea of alternative images or paradigms illuminating different aspects of social reality through the stimulation of reflection and debate. The balance between these two perspectives varies enormously. When Gareth Morgan first developed the use of the idea of images to study 'organizations', it was in a context where organization studies had been predominantly driven by claims to truth built on methodologies that reflected as far as they could more natural science approaches built in large numbers, and developing law-like generalizations (Morgan, 2006: originally published 1986). Morgan, building on his previous work with Burrell on 'sociological paradigms' (Burrell and Morgan, 1978), proclaimed the value of images of organizations as a means to reflect on and debate the nature

of management, authority, control, values etc. Morgan found a receptive climate to his ideas as many others sought to broaden out the study of organizations to tackle new questions in new ways. The impact of postmodernist and poststructuralist philosophy within organization studies contributed further to this process.

For Morgan, the issue was what could be learned about organizations by developing particular images. How could particular images contribute to us understanding contemporary organizations and our role in them? Within this framework, it is possible to remain agnostic about the question of truth and relativism. The point of discussing organizations through the lens of 'images' is not to say an organization is 'a' or 'b' (and we can prove that according to scientific methodology); instead the question would be what if we think about an organization as *like* 'a' or 'b'? How does that resonate with our experience? How does it help us think about the organization? What questions does it open up that might be worth pursuing? How does it contribute to the debates which concern us about organizations – whether those are in terms of productivity or efficiency or more in terms of power and control? As Morgan states:

> 'a metaphor always produces one-sided kind of insight. In highlighting certain interpretations it tends to force others into a background role . . . metaphor *always* creates distortions. We have to accept that any theory or perspective that we bring to the study of organization and management, while capable of creating valuable insights is also incomplete, biased and potentially misleading . . . no single theory will ever give us a perfect or all-purpose point of view . . . the challenge is to become skilled in the art of using metaphor: to find fresh ways of seeing, understanding and shaping the situations that we want to organize and manage'. (Morgan, 1997: 4)

It is in this spirit which we present this collection of essays. In effect, we put aside or bracket off questions about the nature of social reality (ontology) and acquiring knowledge of that reality (epistemology). It is not that we believe these to be minor issues or insignificant; on the contrary, as Burrell and Morgan (1978) demonstrated in their book, epistemological and ontological commitments in effect drive theorizing down certain channels and shape the sorts of concepts and methods which we use in our analysis. However, our purpose here is not to engage in a confrontation of different philosophical positions, useful and worthy as that might be. In some ways that might be a next step for anybody who really wants to understand what underpins the images which are discussed here. But for this project, our purpose is to present these images as clearly and carefully as we can. Each author or pair of authors makes their own case as to how the image which they present provides an insight into the multinational corporation. This in itself is sufficient for us in this project, not least because the diversity and breadth of authors who have contributed is unique as far as we are aware. There are no other collections of work on multinationals which place so many diverse perspectives side by side. So we have not sought to blur those distinctions or to create a different 'battleground of ideas' by simultaneously evoking

the terrains of ontology and epistemology. The authors clearly take very different positions on these issues but as we have stated for the purposes of this project we have bracketed these questions off in order to concentrate on the images themselves. Anybody wishing for the 'truth' about multinationals will need to go elsewhere.

Finally, the need to reflect on the nature of images, or imagery, is heightened by their proliferation in the world around us. Particular implicit or explicit intentions, or agency, lie behind the presentation and dissemination of all kinds of images. The motivation underlying the portrayal of a specific image of an MNE may be political, social, economic or a combination of these. Whilst media, of whatever variety, has the primary function to attract attention, politicians, managers, trades unions and other interest groups have particular reasons for using media to portray certain images of MNEs. In the face of a real-world challenge to understand the nature, impact and future of MNEs some degree of reflection on the agency behind different images is necessary.

Images of Multinationals: Some Initial Considerations

According to UNCTAD's World Investment Report (UNCTAD, 2007) an estimated 37 000 MNEs, with 170 000 foreign affiliates, in the early 1990s, had grown to 77 000 parent companies with over 770 000 foreign affiliates by 2005. These affiliates employed about 62 million workers globally and generated about $4.5 trillion in value added. The amount of economic assets controlled through the activities of multinationals has often been compared to the GDP of countries. Anderson and Cavanagh (2000), for example, calculated that of the 100 largest economies in the world, 51 are multinational corporations and only 49 are countries.

Historically firms which could be described as multinational (in terms of having assets in different countries and trading across borders) have existed for centuries. Firstly they existed primarily as merchants or trading companies, e.g. the East India Company, the Hudson Bay Trading Company. In the nineteenth century, alongside the traders there emerged international companies seeking raw materials (such as oil, diamonds and gold, foodstuffs, minerals etc.) in different parts of the world. These activities were supported by a burgeoning network of international financiers and banks that facilitated the transfer of capital across national borders. In the late nineteenth century, the first manufacturing MNEs emerged, transferring technologies, capital and expertise across borders in order to access markets and reduce costs of production. Commentators such as Hirst and Thompson (1999) argue that the highly internationalized economy of the period up to 1914 under the hegemony of the British Empire and the pound sterling marked a high watermark of internationalization that, because of the catastrophes of World War One and the Depression of the 1930s, was not surpassed until the early 1990s.

Right from the start of these developments, commentators saw different consequences emerging from the expansion of FDI and multinationals. For many European imperialists of the nineteenth century, the 'white man's burden' considered in

terms of bringing 'civilization' and 'Christianity' to the world more generally was accomplished by the extension of the principles of trade, manufacture and commerce to new areas. This was a vision of progress in which both sides were seen to benefit. The division of labour encouraged specialization; some countries specialized in raw material production; others in the production of manufactured goods. Trade between the two brought higher economic benefits to both. From this perspective, the internationalization of economic activity might generate certain problems of equilibrium but in the main this was the world of Adam Smith writ large – the invisible hand of the market working to the benefit of all concerned.

Others saw a very different picture. In his essay on Imperialism which was highly influential for over 50 years, Lenin saw the drive of companies to expand overseas as leading in a number of directions. The first was an effort to weaken the collective institutions of labour in the European heartland by increasing the 'reserve army of labour' available to capital in developing countries which lacked trade unions and had repressive labour regimes. The second was that these companies demanded that their home governments guarantee them access to the markets and resources of these new locations. Out of this grew the competition between European powers that was known as the 'scramble for Africa' and also saw the French and the British compete over lands in the Caribbean, China and India. This competitive struggle became more intense as Germany, Italy and Russia became unified states and the Ottoman Empire, that held most of South East Europe as well as the Levant, the Arab peninsular and Egypt, began to break apart. Lenin saw this as the roots of the First World War, a position shared by some liberal thinkers such as J. A. Hobson whose work on Liberal Imperialism inspired Lenin. Hobson was a liberal who believed that large conglomerates and their allies in government were pushing countries towards war. In his view, open competitive markets were a necessary antidote to imperialism. In later years, the *New York Times* journalist, Tom Friedman invented a new version of the Gladstonian liberal belief that free trade prevented war when he argued that no two countries that had McDonalds have ever fought a war with each other since both got McDonalds.

Right from the start, therefore, there existed these two distinct images about the nature of multinationals – one that they were broadly progressive in their economic impact, serving to distribute the gains of a global division of labour and bringing areas into the global economy in a way that would bring improvement to their populations. The other view was that MNEs were involved in maximizing the exploitation of the workforce wherever it was based and in order to achieve this they looked for governments that would protect and support them, thus fermenting international rivalries and the potential for war.

Across the sub-fields of management and business studies, including strategy, marketing, finance and accounting, human resource management and operations, two terminologies began to develop with accepted assumptions, an associated set of methodological approaches, and legitimized measures of empirical reality. These would characterize both academic studies of multinationals and the imagery employed by the media, the public and policymakers, for some time to come. One

was around issues of performance, ownership, prices and costs, profit maximization, markets and hierarchies, internalization, rational agents and strategic intent; the other around issues of social relations, contexts, institutions, learning, interest groups, power, authority and exploitation.[1]

The economics discipline provided the concepts, theories and methods to anchor the approach taken by the first of these scholarly communities. It focused on issues of internal firm efficiency and organizational best practices, connected with a concern for optimizing external market positioning and relative competitive advantage in the context of firm internationalization. The latter group perceived multinational firms as organizational contexts for internal contests over goals, means and processes. A focus on conflicts between internal interest groups mirrored a concern over the contentious external political, economic and societal roles of multinational firms. Sociology and political science more loosely provided the theoretical foundations of this latter group, which has always been smaller and less coherent in its aims and approach than the former, more dominant paradigm. Although this portrayal suggests a clear-cut dichotomy, where there exists a continuum of perspectives and approaches to understanding the MNE, it is fair to say that studies have tended to cluster at the extremes of this range.

Theories of Multinationals: The Evolving Landscape

In the post-war period, these two views existed in different domains of academic study and policy discussion buttressed by distinctive methodological approaches. What is interesting, however, is how what for many years seemed to be an unbridgeable chasm has more recently become more like the development of a common ground of study even if there continues to exist a diversity of images. In some ways, the fact that this split became so deep is intriguing because in the 1960s and early 1970s two of the earliest significant influences on the debate on multinationals – Hymer and Vernon – sought to keep both sets of issues in view. Dunning (2001) in his survey of the key literature on IB activities describes how Hymer, as well as addressing the question of why firms should wish to control or coordinate activities across borders, also influenced Marxist scholars such as Baran (1966) and Radice (1975) as well as the dependency school of Andre Gunder Frank (1967) with his analysis of how the international firm was an exploiter and creator of monopolistic advantages. Similarly, Vernon, whose product life cycle theory explained how and why firms move across borders, produced a highly influential book entitled *Sovereignty at Bay* in which he tackled the question of the relationship between nation states and multinationals (Vernon, 1971). However, this sort of broad sweep approach to the study of multinationals began to be squeezed out as more specialist academic perspectives evolved.

For much of the period up to around 2000, it was the field of international business (derived initially from developments in economic analysis) which set the pace for understanding multinationals. Although studies of MNEs from more organizational

or sociological perspectives did not die out completely, they were not very influential either in terms of the academic debate or policymaking. Instead the study of MNEs became increasingly oriented around two main themes. The first was around the economic factors influencing their growth and development – a theme which tended to dominate up to the early 1990s. The second was around issues of strategy and structure, a theme emerging more strongly in the 1990s. In the rest of this section we discuss these two developments and then explain the gradual tensions which emerged within the field as these approaches struggled to deal with the evolving landscape of globalization in the late 1990s. It was this tension that stimulated a reawakening of interest in a more sociological approach to MNEs which is discussed in the following section of this introduction.

Economic Theories of the MNE

The most significant of these in the 1970s was the establishment of the internalization paradigm building on the work of Coase and Williamson in transaction cost economics. Why was it that cross-national activities became coordinated through international firm structures rather than simply through markets? The internalization of transactions within firm hierarchies emerged as a rational economic response to the failure of other forms of organizing transactions over national borders. Dunning describes this as '*the* question of the day' in the 1970s. He states that 'for much of the last two decades . . . the theory of internalization . . . has been the dominant explanation for the existence and growth of the MNE. It has natural appeal to microeconomists, business historians and organizational theorists' (Dunning, 2001: 42). Buckley and Casson (1976) is often seen as the key milestone text linking the transaction cost approach and internalization theory to the study of international business. Hennart, another of the main authors in this approach, summarizes the argument as follows:

> 'An MNE will expand abroad when it can organize interdependencies between agents located in different countries more efficiently than markets. This implies that three conditions must be met: (1) interdependent agents must be located in different countries . . . (2) the MNE must be the most efficient way to organize those interdependencies (otherwise we would have international market transactions) and (3) given condition (2) the costs incurred by MNEs to organize these interdependencies are lower than the benefits of doing so.' (Hennart, 2001: 132)

Hennart describes a number of phenomena that influence these decisions. In particular, he focuses on know-how. This has a broad meaning including knowledge per se and technology. Where know-how is to be transferred, only hierarchy (i.e. the creation of subsidiary relations) can ensure that it does not leak out to competitors (through opportunism or cheating), thus devaluing the proprietary knowledge of

the firm. Similarly a firm's reputation can be devalued if it franchises its knowledge out overseas to others who do not have the same incentive to protect its reputation as the firm itself does, a problem also where marketing and distribution is not controlled inside the firm.

Internalization theory has been supplemented by a range of other approaches which have picked up in more detail the geographical and locational issues which arose out of this analysis. The most well-known attempt to expand this form of analysis, retaining the basic insights of internalization theory but locating it in a broader context, was Dunning's 'eclectic paradigm' of MNE activity. The 'eclectic theory' of multinational activity identifies three elements influencing the why and how of MNE development. The first element consists of the competitive advantages of existing MNEs; Dunning labels these as ownership (O) advantages. They reflect the capabilities developed by the MNE in its home base. Here, Dunning drew into the analysis the influential work of Penrose on why firms do what they do, which later became a component of the debate on the 'core competences' of the firm and the resource-based view of the firm. The second element consists of locational (L) advantages of particular countries in terms of access to skills, knowledge, markets, technologies, raw materials and other resources that the firm requires. The third element consists of internalization (I) advantages as discussed previously.

Dunning's OLI paradigm provides a broad framework for a number of other developments in theories of multinationals. One increasingly important set of concerns which emerged from this was the focus on locational advantages. In particular, questions about the development of new technologies, products and processes outside the home base became increasingly significant. A central part of locational attractiveness lies in the ability to access specialist knowledge and skills that have emerged in particular geographical contexts. Thus Dunning's ideas linked strongly to emerging discussion of industrial districts and clusters, suggesting that MNEs are keen to locate in such contexts in order to upgrade their own skills and knowledge. More recent work on these processes has revealed that there is quite a subtle form of learning and exchange which goes on in such contexts. In particular the MNE has to build social capital, trust and networks with local firms if it is to benefit from agglomeration effects. It also needs to develop its own absorptive capacity so that it can access the tacit knowledge which underpins specific forms of technology, skill and knowledge. This in turn raises questions that derive from the internalization approach concerning how networks are to be governed, how to build alliances and linkages as well as how to use the market to access these capabilities.

In his contribution to this book, Dunning and his co-author Lundan emphasize the significance of the widening geographic distribution of the sourcing and deployment of competitiveness enhancing assets for MNEs. Moreover, as these strategic assets have become more knowledge and information-intensive, there are important changes in the organizational demands on MNEs. Together these trends place institutions closer to centre stage in studies of MNES. The authors suggest that not only are national institutions now more important as an influence on behaviour of MNEs, but MNEs are exerting a greater influence on national level institutions, and

thereby on the economic and social goals of countries. Dunning and Lundan present an image of the MNE as a 'creator, fashioner and respondent to institutional change'. Right from his earliest contributions, Dunning saw that the role of government was crucial in these processes. He was interested in how governments could shape a conducive environment for FDI and multinationals but also recognized that MNEs could affect the politics of the countries in which they were located. His arguments have been influential in policy circles such as UNCTAD and in more recent times he has explored issues of ethics (Dunning, 2005), a theme which he develops in his contribution to this book.

In his chapter, Cantwell, who has made a major contribution to understanding how technology and R&D interacts with the development of multinational corporations ('MNCs'), writing together with Yanli Zhang, considers the evolution of the 'innovative MNE'. The past 30 years have seen a structural and strategic shift from a situation where the main source of innovation and creativity in MNEs was at the centre, to one where innovation and competence creation is distributed across the MNE network. They examine the particular significance of this change for the role of MNEs in developing countries. The chapter re-evaluates Hymer's (1972) 'law of uneven development' which saw the dominant MNE role as reinforcing and perpetuating patterns of uneven development in the world. The interchange between MNEs and subsidiary locations, which have their own specific advantages, is more complex than Hymer proposed. Patterns of uneven development are therefore not as extreme or as self-perpetuating as Hymer suggested. Moreover, where it is linked to the activities of MNEs, uneven development does not result solely from centralized control in MNE headquarters. The fragmentation of production and modularization of technologies have created new opportunities for countries catching up technologically, and they have resulted in more complex 'bottom-up' links between 'centre and periphery' via the activities of MNEs.

In his contribution Collinson takes a similar topic, the role of MNEs in developing countries, and concludes that MNEs are major promoters of economic development. As noted by Dunning and Lundan, Collinson suggests that too little attention has been paid to the effects of MNEs on their host environments. He presents an image of the global firm as a key contributor to the innovative capabilities of host region firms in developing countries and therefore an important positive force for economic growth and social development in countries around the world. There is often a strong coincidence of interests between MNEs and host governments. However, he argues that MNEs usually perform this role unwittingly and often unwillingly.

Another significant figure in these developments has been Alan Rugman. Like Dunning, Rugman draws in an eclectic manner from different economic perspectives. In recent years, however, he has been particularly concerned to emphasize the regional nature of MNE activities. Developing his argument from a series of large scale databases which he has constructed, Rugman argues that the reality of MNEs is that most of their assets and markets are located within their home regions (defining these broadly as the Triad of the Americas, Asia and Europe; Collinson and Rugman (2008), Rugman (2005)). In his chapter in this book together with Verbeke,

he develops this argument as a way to critique those authors who emphasize national varieties of capitalism. Rugman and Verbeke review empirical evidence on the world's largest 500 multinational enterprises and show a strong intra-regional pattern of sales and assets, rather than a global one. They present an image of the MNE as a regional organization that requires regional, not global strategies. Part of this image views home region governments focusing on policies of social, cultural, and political harmonization to develop internal markets, as in the EU, and working towards economic integration, as in NAFTA and Asia. At the same time inter-regional business is likely to be restricted by government-imposed barriers to entry. They use this empirical evidence to argue against the 'varieties of capitalism' approach to international political economy (IPE) most associated with Hall and Soskice (2001). Whilst it may be valid to differentiate country conditions, including institutions, culture and politics, the authors critique the highly stylized view of globalization put forward by varieties of capitalism approaches and the limited attention paid to the activities and effects of MNEs. The image they present is clear-cut in terms of which empirical dimensions best characterize the MNE as an organizational form. The distribution of assets and sales in their view captures much of what we need to know because it informs a long-running debate regarding the competitive advantages of MNEs, demonstrated by the limited geographical spread of what they own and what they can successfully sell in competition with local firms.

Multinational Strategy and Organization

Whilst there were clearly implications for the management of multinationals in the economic theories developed, these were not necessarily made explicit. By contrast, by the late 1980s, there was increasing interest in organizational and strategic questions concerning the development of MNEs. One of the most influential attempts to create an enduring framework for this type of analysis was Bartlett and Ghoshal's (1989) *Managing across Borders*.[2] Their framework built on the work of the economists but drew out the strategic and organizational implications for managers. However it also took two very significant steps beyond the economists, firstly by incorporating a much more dynamic sense of the globalization processes that were then emerging and secondly by appreciating early on the centrality of innovation, knowledge and learning to the development of the MNE.

In relation to their initial framework, this was a fairly standard contingency model. Using the economists' notions it began from the idea that certain sorts of markets 'fitted' particular sorts of internationalization strategy on the part of firms and this led to a particular organizational configuration. Where national markets were very distinctive from each other, it made sense to organize the firm in a decentralized way as a set of national units sensing and exploiting local opportunities. Somewhat confusingly they called this model a 'multinational' firm. Where national markets retained some elements of distinctiveness but there was also a commonality, then the firm was likely to be a combination of centralized and decentralized processes

and functions, adapting and leveraging parent company competences as their key advantage. Thus knowledge developed at the centre would be transferred to overseas units. These firms they labeled as 'international'. Where markets were more or less standardized across countries, firms were likely to be highly centralized. Production was planned on a global basis to take advantage of economies of scale and then the outputs were delivered into national markets. These they labeled as 'global firms'.

Where they created new ground was with their fourth category – the 'transnational firm'. This firm sought to combine three advantages. It needed to be globally competitive so its production process had to achieve economies of scale, implying strong centralizing tendencies. However it also needed to be sensitive to local markets and responses to differences between contexts, implying elements of decentralization. Finally and most importantly, it had to leverage the knowledge and skills spread around its different parts in order to create learning and innovation. They therefore developed a vision of a firm which was global, dynamic, networked horizontally rather than just vertically and highly innovative (see also Nohria and Ghoshal, 1997).

The style of Bartlett and Ghoshal was to use simple case studies of companies in a rather unproblematic way (drawing evidence on the basis of unsystematic interviews and observations of senior managers). They could be justifiably criticized for what by most standards, even in the slippery world of business and management, could be described as 'methodological weaknesses'. However, in retrospect, it might be argued that they were producing their own 'images of multinationals'. They were not saying that all MNEs must be in one or the other category but rather that these types emphasize some interesting aspects of how MNEs are structured and are therefore good tools to use in looking in detail at any one particular case. Their concept of 'administrative heritage' emphasized that firms moved towards or away from these various models depending on their own history in terms of their founding contexts and the impact of early decisions on how to organize the firm. Their models are aids to thinking, not substitutes for it. In this respect they have been remarkably successful since their ideas continue to influence how MNEs are considered. What they did, however, was to identify the potential innovative capabilities of the MNE as lying in its very internal diversity. They recognized, that this potential was difficult to achieve and could result in a breakdown of the firm into competing units. So there had to be some delicate balancing between centralization and decentralization, between integration and responsiveness. Although organization structures played a part in this, they also emphasized the importance of creating a global management culture that kept the senior management of the transnational working together and coordinating the different parts of the firm. What was central here was their identification of the problem even if their solution did not go much beyond wishful thinking. Nevertheless the way in which they spelt out the problem has been fundamental to later developments.

Two strands emerged during the 1990s that developed these ideas. The first associated particularly with the work of Julian Birkinshaw concerned the relationship between subsidiaries and headquarters. The second was an attempt to bridge the gap

between organization theory and the study of MNEs associated particularly with the work of Eleanor Westney but also developing further as the influence of neo-institutional theory became more profound in US business schools, e.g. through the work of Kostova and Guillen. Both of these developments could be said to start to reposition the study of MNEs in a space where it was open to wider influences than transaction costs economics or even Dunning's eclectic theory.

Birkinshaw's work evolved quite closely out of Bartlett and Ghoshal; later indeed he cooperated with them on a textbook on transnational management (Bartlett, Ghoshal and Birkinshaw, 2006). He was particularly interested in subsidiaries and the degree to which they were active in developing their own strategies. Previous work in this area had tended to emerge from slightly different concerns from those of Bartlett and Ghoshal. In particular the work of Taggart, Hood *et al*. in Scotland had been stimulated by debates on 'branch plant economies' (Birkinshaw and Hood, 1998). In a context where governments were increasingly active in seeking to persuade multinationals to set up subsidiaries (by offering tax reliefs, cheap land and other forms of assistance), there was growing concern that MNEs were setting up subsidiaries for their own short-term advantage and that the MNEs were not generating much in the way of positive effects for the locations in which the subsidiaries were established. It appeared in a number of cases that once the advantages were phased out (particularly those to do with tax breaks), MNEs were likely to look elsewhere and were willing to close down their subsidiary, particularly where labour laws (as in the UK by the late 1980s) made this a relatively easy and low cost option. What was it that made subsidiaries put down deeper roots, to stick in particular locations and generate longer term positive outcomes for localities? Clearly part of the answer already provided by Dunning and his colleagues was that the locality had to have assets worth staying for. However, another part of the answer lay in the strategies which were pursued by the local subsidiaries (Birkinshaw, 1997). Birkinshaw particularly examined this point, labelling the process as 'entrepreneurship in the global firm', the title of his 2000 book. Birkinshaw's analysis was complex and consisted of trying to capture the dynamics of strategy formation in the headquarters, how this impacted on processes and structures inside the MNE and within this context how subsidiaries and their managers could strategize for advantage. Whereas in Bartlett and Ghoshal the internal environment of the MNE was diverse but essentially benign and cohesive, Birkinshaw produced a much more dynamic view of the internal structure, one where 'gaming' was occurring as subsidiaries played against each other for resources held by the centre. In Birkinshaw, this was a positive process that could be likened to an internal market producing overall efficiency gains to the organization as a result of competition. Ultimately, therefore, Birkinshaw retained an economic model of these dynamics and also avoided stepping too far beyond the boundaries of the firm into issues of social and economic power.

Westney on the other hand did begin to make these steps. Her edited collection with Ghoshal *Organization Theory and the Multinational Corporation* derived from a conference held in INSEAD in 1989 although the book itself was not published until 1993. It stands as the main effort during most of the 1990s to bring these two

areas together. Its authors included firstly the main contributors to the emerging 'transnational' paradigm (Bartlett, Ghoshal, Doz, Hedlund), secondly some emerging organization theory scholars (Westney herself plus van Maanen and Kilduff) as well as representatives of other strands of theorizing (Egelhoff with his information-based contingency approach to the structure of MNEs (see also Egelhoff 1982; 1993); Hennart with his transaction cost approach and Kogut with his effort to link national contexts and international competition). The editors described their goal as a 'bridge-building enterprise':

> 'This book represents not closure . . . but only a beginning. Our hope is that the book will trigger reflection and debate in the organization theory and international management communities – that perhaps it will generate some collaboration across the two fields – but above all else that it will stimulate mutual interest and further research that can benefit both fields.' (Ghoshal and Westney 1993: 20)

Westney herself with her previous interests in the history and development of R&D in Japanese enterprises picked up the developing theoretical field of neo-institutionalism, deriving from DiMaggio and Powell as well as Scott, and Meyer and Rowan. She introduced the idea of isomorphism from this field into the analysis of multinationals arguing that 'the MNE operates in many institutional environments and provides a context in which the nature and strength of isomorphic pulls within and across fields can be analyzed'. She used this to argue that the home institutional environment of the MNE created a pressure on the firm to conform to certain patterns of behaviour and structure. Thus when the MNE extended its operation to other contexts it inevitably created a situation of tension between the isomorphic pull of the home environment and that of the host environment. In this way, Westney was able to transcend the notion that integration or responsiveness were managerial strategies and instead to locate them as fundamental tensions in the nature of the MNE itself (Westney, 1990, 1993; Westney and Zaheer, 2001).

These insights were developed later in the decade in a series of papers by Kostova *et al*. (Kostova, 1999; Kostova and Zaheer, 1999; Kostova and Roth, 2002). Kostova has argued that the multinational subsidiary is in a situation of 'institutional duality'. On the one hand, it is pressurized by the headquarters to adopt a particular set of practices derived from the home base of the firm; on the other hand, the subsidiary is pressurized by its host context to follow local practices. The subsidiary faces the question of which set of institutions are more important to it – those that make it legitimate within the multinational or those which legitimate it in its local context? The greater the 'institutional distance' between the home and host countries, the greater the difficulty for the HQ of successfully transferring practices from one to the other (Kostova and Roth, 2002; also Xu and Shenkar, 2002) and the more likely host influences will prevail. Kostova and Roth's findings are that 'both dimensions of practice adoption, implementation and internalization, vary across foreign subsidiaries as a result of two factors – the institutional environment in the

host country and the relational context within the MNE' (Kostova and Roth, 2002: 227). By relational context is meant the degree of dependence, trust and identity between the subsidiary and the head office. In combination, institutional duality and the relational context produce four types of subsidiary response to head office initiatives – which they label as 'active', 'minimal', 'assent' and 'ceremonial' (p. 229).

Unlike Westney, Kostova was quite narrow and static in her analysis of institutions. Westney in her 1993 chapter used her knowledge of Japan and Japanese firms to show how there was ongoing adaptation and change in Japanese transplants. She resisted any temptation to resort to static indices of national culture derived from authors such as Hofstede and instead developed a very specific view of institutions and their historical evolution. She also emphasized the role of the state and politics and power in influencing isomorphic processes. Overall, Westney has sought to develop a view of multinationals which locates them in specific historical institutional contexts and looks at how over time they evolve and change as a result of organizational, institutional and economic pressures.

In her chapter in this book, Westney suggests that by drawing more systematically on developments in organization theory we can make the evolutionary model more explicit and stronger as a theoretical basis for understanding MNEs. Inspiration is drawn first from the work of Bruce Kogut and a few others that have examined variation and retention processes within the firm, building for example on Nelson and Winter's concept of routines. Second, a bridge is built between two very different empirical studies to present the MNE as an evolutionary system, with subsystems that co-evolve in interaction with each other and their differentiated environments.

Along with a small number of authors (such as Kogut (2001) and Guillen (2001)), Westney has pushed beyond the initial boundaries of international business scholarship into an analysis of MNEs which is much more sociological in conception, where the MNE is subject to external isomorphic pressures from distinctive institutional contexts and where managers and employees in different positions within the firm struggle to deal with the competing demands of the external market, the internal coordination processes and different institutional pressures.

Beyond the International Business Mainstream

Beyond this framework, there was relatively little interest in MNEs. The hopes of Ghoshal and Westney in 1993, that there would be more interaction between the different perspectives, tended to wither. Part of the problem was that international business analysis was given its intellectual rigour by its location within the Coasian framework. Although there were different perspectives, as has been discussed, the very labelling of them as 'eclectic' worked to devalue them from the point of view of economic theory. Similarly efforts to introduce neo-institutionalist theories which, at their heart, challenge efficiency logics, were always going to meet strong resistance in academic contexts where such logics are seen to predominate as an explanatory schema, which was how international business had increasingly positioned itself.

On the other hand, organization theory was equally uninterested in any rapprochement around the study of multinationals. Other than Westney herself it is hard to identify any of the main organization theory scholars of the time who took a serious interest in understanding the specific nature of multinationals. European organization theory was particularly parlous in this respect, a somewhat strange outcome given how diverse, innovative and open this field had become by the early 1990s. It was only gradually that this began to change. Partly this was stimulated by a growing sense that the arguments of Birkinshaw, Westney and others were actually creating new possibilities for organization theory that could meaningfully tackle the distinctiveness of MNEs. Partly, this was also stimulated by the ever growing importance of MNEs in public discourse about globalization and its impact on societies.[3]

However there were two specific developments which pushed this forward, particularly in the European context. The first was the effort to move industrial relations research in a more comparative direction, itself significantly stimulated by the project to create the European Community and the Single Market. The second was the renewed emphasis on institutional contexts or what became variously labelled as 'divergent capitalisms', 'varieties of capitalism', 'competing capitalisms'.

In relation to industrial relations, the discipline had become progressively more comparative over the 1980s and early 1990s (see e.g. Crouch, 1993; Streeck, 1992; Ferner and Hyman, 1998). There was a greater understanding of the differences between national systems of industrial relations. This was not just an academic development. It also linked strongly to debates in the EU concerning the development of the Single Market. If there was to be a Single Market covering the whole of the EU, ought there not to be a single social model that harmonized areas such as employment and industrial relations? Otherwise, it could be argued, employers will shift to contexts where labour is cheapest and least protected. The fall of the Berlin Wall and the opening up of Eastern and Central Europe increased concerns that employment would fall in the Western European countries and 'coercive comparisons' would be used to force unions in these countries to agree to a lessening of standards, conditions and rewards in order to avoid the loss of jobs to low wage and low social protection economies. The growing importance of China from the mid 1990s increased these arguments. Thus different industrial relations traditions affected how MNEs took decisions on location of production. Whilst EU policy developments were relatively limited, there were some which also raised the profile of industrial relations concerns. One of the most obvious was the EU initiative on European Works Councils which involved building on the German model of works councils in allowing employees within a multinational based in the EU to come together to discuss and be informed about the management strategy. In the US, the loss of manufacturing jobs in the 1980s and 1990s had similar effects. Protectionist arguments about building barriers to foreign goods, dismantling key provisions in the NAFTA agreements and generally supporting US manufacturing continue to be made, particularly at election time in US states where trade unions and working class Democratic politics remain strong. Thus the issue of how MNCs used different locations to reduce their wage costs led

to debate about the role of national governments, international organizations such as the ILO and trade unions in managing the public social consequences of private economic action.

These developments led in a number of directions, many of which started to overlap with the concerns of Birkinshaw and others regarding the relations between subsidiaries and MNE headquarters. One area concerned the whole dynamic of bargaining and power within the MNE that occurred as senior managers and trade unions negotiated over new investments, closures and relocations. It was inevitable, given the origins of industrial relations scholarship in issues of power and conflict, that the central focus would be on what Edwards and Bélanger in their contribution to this book describe as 'the contested terrain'. In earlier work, Bélanger along with colleagues from different countries, had studied ABB. In that discussion, it was shown that the powers of employees and managers depended firstly on the institutional context in which the subsidiary was located and secondly on the power and autonomy of the subsidiary in relation to the headquarters. The authors made no assumptions about unified interests either at the level of the MNE as a whole or inside subsidiaries. Instead they sought to understand the conflicts which arose. Indeed this makes an interesting contrast to the image of ABB presented in the famous matrix case developed by Bartlett (Bartlett, Ghoshal and Birkinshaw, 2006) where the emphasis is on managerial problem solving with little regard to issues of national context or the role of labour. Edwards and Bélanger stress, however, the interdependence of the various actors. The 'contested terrain' is one in which compromises occur and both sides settle for a time at least for less than they might have wanted. As the balance of power shifts for whatever reason, the terrain becomes more contested again and new conflicts emerge and new compromises have to be forged.

These arguments soon became strongly intertwined with broader institutionalist analyses of how multinationals develop. The most obvious cross-over point has been the work of Ferner (e.g. Ferner and Edwards, 1995; Ferner and Varul, 1999) who, over a sustained period of time, has engaged in researching the impact of host and home country institutional contexts on how the industrial relations and human resource policies of multinationals develop. In his early work Ferner drew directly on the work of Whitley (2007, 1999), whose analysis of national business systems had sought to describe how institutions shape the strategy, structure and competitiveness of firms on international markets. Whitley's early work in turn tended to follow Hu's argument that multinationals are 'national firms with international operations'; in other words that multinationals sought to impose their own set of processes and structures on their subsidiaries. They were therefore little different from national firms. Gradually, however, both of these authors moved away from this and began to consider how institutional influences in the host contexts impacted on the multinational. Ferner and his colleagues studied this empirically in a study which culminated in a book on American Multinationals in Europe (Almond and Ferner, 2006). This book revealed the depth of micro-politics which occurred inside the MNEs as different groups struggled over resources. Whitley's interest in organization structure led him in a different direction to consider how multinationals sought to organize

themselves across borders and whether it could be argued that they were developing a distinctive set of multinational capabilities (see e.g. the contribution of Whitley and others in Morgan *et al.*, 2001). In his chapter in this book, he meticulously considers how it is possible to identify the distinctive capabilities of multinationals that distinguish them from the capabilities generated inside firms located within specific national business systems. He argues that most multinationals are simply federations of national firms, leveraging skills and knowledge derived from these national contexts into different markets. Only a small number of managers in multinationals can be considered as transcending their national context and developing transnational skills. He is therefore sceptical about Bartlett and Ghoshal's notion of the transnational corporation (see also Whitley, 1999; 2007).

Loveridge also explores the MNE as comprised of multi-layered networks of relationships where the identities, aspirations and subsequent actions of both expatriate and indigenous managers can often differ and conflict. The agendas of individual decision-makers and the structure of inter-personal networks are not shaped solely by formal organizational goals, but by a more complex range of pressures than those proposed by functionalist and prescriptive analysis often found in the field of international business strategy. Loveridge examines the effects of organizational hierarchy and career expectations, formal education and tacit knowledge, and national and ethnic identity, in the shaping of intra-firm networks. These all underpin sociopolitical boundaries and support factional identities within interdependent transnational communities. More specifically, he suggests, they create obstacles to the information-exchange and recombination of ideas that support technological innovation and thereby competitive advantage. Innovation management is therefore presented as an on-going political process in which the ideologies of sub-groups intermediate in the interpretation and adjustment of strategic goals and actions across intra-firm networks.

A highly influential book in this debate has been Kristensen and Zeitlin (2005) *Local Players in Global Games*, which consists of a study of a single multinational, the dynamics of relations between its headquarters and three of its major subsidiaries. This book benefited from the depth of analysis which could be achieved by going into just one firm. It showed how micro-politics were developed and sustained by drawing on institutional resources in the wider social context. It linked this to issues of reform not just within the MNE but also in terms of reforming stock markets and reforming the monitoring of MNEs by various groups. Drawing together their interests in industrial relations, in history, in national institutional contexts and in changing levels of governance, the authors sought to connect the MNE to wider debates concerning the direction of social change. In the chapter by Morgan and Kristensen in this book, these themes are developed further. In particular, the authors emphasize that multinationals are searching for forms of cohesion and cooperation that can facilitate economic growth and development. However, these searches are undermined by different expectations about the purposes of the MNC. These differences are partly driven by different institutional contexts but they are also driven by different political and economic interests which reflect the growing

significance of financial markets in determining the strategies and structures of multinationals. Financial markets undermine the ability of managers to provide what have been called 'credible commitments' to their employees. Credible commitments in this context refers to the ability of the MNC to provide careers, skills and income rewards to employees which encourages those employees to commit their skills and energy to the resolution of organizational problems. Morgan and Kristensen suggest that MNCs face a problem similar to that of any emerging society – how to create a structure of institutions which balances the interests of the different groups which belong to it in such a way that the groups are willing to put aside fundamental differences and instead concentrate on building not a zero-sum growth system but a growth system that increases benefits to all groups over the medium term. Drawing on historical analogies, the authors argue that it is only when this is achieved that societies enter into virtuous circles of growth rather than remaining trapped into vicious circles of conflict and instability. They argue that there is no inherent need to be pessimistic about such a future. Social and economic progress inevitably takes time but there is evidence that MNCs are gradually being reshaped towards credible commitments both by internal and external pressures.

Sharpe and Mir, however, take a different view. They see multinationals as central actors in a continued process of exploitation and unequal exchange. They focus on how MNCs sustain their power through connections to powerful states and powerful social actors in particular societies and use these connections to ensure that they are able to shift location to places where forms of surplus extraction are highest due to the weak power of labour and countervailing forces to the dominant groups. They take a broad view of the social responsibilities of MNCs and show how in their search for profit, MNCs push commodification processes into ever more private realms, such as through genetic modification and biotechnology. The struggles and conflicts within multinationals and between MNCs and social movements is, in their view, destined to grow stronger as these clashes become more intense.

Bringing Themes Together

What is striking is how much common ground has emerged over the last decade between scholars from different backgrounds. We now have a much more nuanced appreciation of the complexities of managing multinationals than was the case 10 years ago. We have the makings of a framework in which economic imperatives can be linked to organizational processes and these in turn can be understood by reference to the micro-politics that occur as groups spread across different institutional contexts as well as different sub-units and different functions. Clearly not everybody would agree that this common ground is there or indeed is useful in any way. The chapter which we have included by Mir and Sharpe, for example, takes a resolutely critical line on MNEs stretching back to a long tradition of radical social theory that has been renewed by the impact of globalization and the diverse movements of resistance which have emerged in and around MNEs in different countries in the last

decade. Similarly in his chapter Alan Rugman dismisses national institutional effects and concentrates instead on markets and regions as the dominant frame of analysis. Many of the other contributions, however, do share similar concerns even if they express them in different ways. There is a shared interest in the internal dynamics of multinationals, and a search for explanations of how these internal dynamics are structured – what role is played by institutions, politics and power, market mechanisms and management control systems? How are these internal dynamics affected by the evolving external institutional context and the growth of new social movements that press onto the agenda issues of the environment, health and gender as well as older issues such as inequality and power? How do these processes affect innovation and competitive position? These questions raise the possibility of the field of MNEs consolidating more strongly across disciplinary boundaries that were previously rather impervious and drawing more explicitly on different traditions within the social sciences (see e.g. Henisz and Swaminathan, 2008; Jackson and Deeg, 2008). Of course, there are academic barriers to such a process as disciplines or subject areas such as those which exist in business schools tend to become their own self-enclosed communities with their own battles for power, prestige and reputation within themselves and also in relation to adjacent areas. However, there is real potential for increased dialogue on areas of common concern to the different disciplines.

Using This Book

One of our goals in this book is to provide a tool for those students and lecturers who want to create this dialogue, this single space. We have brought together many of the key voices that represent both the established and the emerging traditions in the study of MNEs. We have made them available in one book. We have sought to impose (loosely) a similar structure on chapters, asking authors to concentrate on developing their own distinctive approach and showing how it links to other literature as well as providing case vignettes which can be used as jumping off points for classroom discussion and debate. All the contributions presented here were written explicitly for this volume. This allowed us to create a common structure for each chapter, as well as a distinctive image of the MNE. Each chapter features an illustrative case study with related questions and a short list of recommended reading beyond the standard bibliography.

We have not sought to enclose the 'truth' about MNEs; to pin the MNE and eviscerate it looking for its inner essence. We believe that, at this stage, it is important to open things up rather than close them down – to invite people into the debate rather than to exclude them because they have not done (or read) x, y or z in advance. If the contributions are sufficiently stimulating, then we hope that readers will go on to extend their reading, back to some of the classics of the MNE literature as well as forward to some of the recent publications which may in 10 or 20 years themselves be seen as classics. In the meantime, test out the images; use them as ways to think about MNEs; relate them to your experience and to the reports which you see about

MNEs in newspapers, broadcasting media and on the internet. No doubt it will become clear that we have missed some crucial developments but then that is in the nature of the enterprise when one is trying to understand one of the most important influences on our social, political and economic life as is the case with the study of multinationals. Bon voyage!

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NOTES

1. This divide has been noted by others. Sullivan and Daniels (2004), for example, characterize the two camps in international business research as 'scientific' and 'humanistic'.
2. Other authors had begun to develop similar ideas around this time. The Swedish author, Gunnar Hedlund (1986; 1999), represented the most creative European contribution to these new perspectives even if his work (partly due to his early death) never became as widely known as that of Bartlett and Ghoshal. The tension between integration and responsiveness (centralization/decentralization) was also explored in authors such as Doz.
3. Taking this a step further it might be argued that the very dichotomous nature of the academic debate over MNEs, a core theme in this introductory chapter, has made international business studies less relevant for (or less interesting to) the 'real world'. Failure to advance the academic debate, partly by developing more holistic, multidisciplinary approaches, may have further sidelined academic discussion in favour of highly stylized and simplistic media-driven images of MNEs. Academic studies, as a result may be less influential in the public and policy debates which are driven by the growing significance of MNEs in an increasingly globalized world (Collinson *et al*., 2006).