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STRATEGY: GOING GLOBAL

CONVERGENCE, DIVERGENCE, HYBRIDIZATION

Learning objectives

By the end of this chapter you will be able to:

1. Define globalization and identify several misconceptions about it
2. Understand theories of the Multinational Enterprise (MNE)
3. Grasp different approaches to how multinational enterprises internationalize
4. Understand the phenomenon of being ‘born global’
5. Explain the strengths and weaknesses of different multinational global strategies
6. Understand supply chains and their political dimensions
7. Understand the specificities of the BRICs and their strategies
BEFORE YOU GET STARTED

We are in the epoch of simultaneity; we are in the epoch of juxtaposition, the epoch of the near and far, of the side-by-side, of the dispersed. We are at a moment, I believe, when our experience of the world is less that of a long life developing through time than that of a network that connects points and intersections with its own skein. (Michel Foucault, 1986: 22)

Introduction

Today, with the right digital devices and technology, anywhere can be connected almost everywhere. The powers of connectivity are not, however, evenly distributed. It is evident that there are global nodal points that concentrate the flows through which capital and investment move. These are centred regionally in the global economy: cities in the developed world, notably New York, Tokyo and London, channel many of these capital flows. The International Monetary Fund (IMF), in defining globalization, pays particular attention to trade and financial flows, as well as the movements of people and technologies across international borders. Trade is usually thought of as entailing the physical transfer of goods from one place to another in a very material sense (on ships, trains, trucks and planes). As steamships, railways, trucks, automobiles and jet airplanes gave way to the Internet as the major communication device, its distinctive modes of communication make the present wave of globalization different from the past because information now travels at the speed of light. Today, globalization also refers to the movement of immaterial things in the form of downloads, capital and culture, with financial flows being the most immediate, liquid and virtual manifestation of globalization.

In this chapter we will first discuss globalization as a complex of historical, cultural and economic phenomena. While contemporary forms of globalization might be based on new technologies there are plenty of precedents for the processes under consideration. Globalization is one of the most contested concepts of current times; the Occupy movement and protestors at Davos and World Trade meetings bitterly oppose it while politicians and captains of industry extoll its virtues of free trade and liberal markets. Critics and fans of globalization are to be found in the ranks of scholarship as well; meanwhile, in the real world, things become mashed up – glocalization prevails as a strategy of making the local global.

Multinational enterprises (MNEs) have long been a staple of the International Business (IB) literature and we outline some of the central arguments and models to be found there; later, we shall suggest these models are being superseded by emerging markets’ multinationals.

The key element in developing a global strategy is often regarded as arbitrage. Arbitrage can be leveraged over many markets; of particular interest is the labour market. Inescapable aspects of multinationals’ operations are issues centred on complex and frequently contested employee relations. On the one hand, multinationals can afford generous
terms and conditions in terms of local norms in their subsidiaries and branch plant operations. On the other hand, they often engineer supply chains at whose extremities there are practices that they might not want their customers and publics to know about.

Multinational–politics – the politics associated with multinational operations in terms of both centre – periphery relations between head office and subsidiaries as well as with national governments – are also an inescapable fact of multinational strategies. Typically, multinationals use mandates as tasks assigned to subsidiaries by headquarters or that are acquired independently by the subsidiary, with a specific time and content limitation placed on them, to frame the internal division of labour within a MNE. Framing a mandate does not mean that it necessarily is implemented: there is many an opportunity for translations of ideas to go awry as they move from inception at the centre to reception in the periphery of a multinational. To be implemented, a mandated change needs to accrue legitimacy, something that cannot be established by central fiat.

One commentator, *New York Times* journalist, Thomas Friedman, has regarded multinationals as making the earth flat. Others like Harvard Professor Ghemawat question this claim, insisting that the world is actually more spiky than flat; it is at best ‘semi-globalized’. Why Friedman is wrong takes us into debates about convergence, divergence and hybridity, debates that come to life when we look at the cases of the so-called BRIC economies – Brazil, Russia, India and China. These economies have a lot less in common than the BRIC label assumes. In particular, we focus on China, now the world’s largest economy. China has been at the centre of some important debates about innovative capacity and political structure, which we address. We discuss current trends in China, looking at strategies in the context of Chinese family businesses as well as the phenomenon of *Shanzai*, the local name for piracy and counterfeiting, which prompts us to ask: how innovative are Chinese enterprises? On this question, the answer to which is not yet apparent, much will depend for the future of globalization.

**Globalization**

**Globalization as Historical Phenomena**

Contemporary commercial globalization is usually seen as a late twentieth century phenomenon, although there is an argument that says that the world economy in the early twentieth century was almost as globalized as it is now. Hirst and Thompson (1996) suggest that the currently intensely interconnected economy is not unprecedented historically, albeit that the mechanisms of globalization differed – the telegraph instead of the Internet, for instance. From this perspective, globalization is just internationalization speeded up and in no way differs from processes that have been characteristic of trade in much of past human history. For instance, the age of colonialism by the end of the nineteenth century had produced a remarkably globalized world; one in which global trade flowed through schemes of imperial preference with currencies readily exchangeable because of the gold standard. This era of globalization ended in carnage and autarchy with the First World War and the Depression of the 1930s, giving rise to the Second World War.

In the past, steamships, railways, trucks, automobiles and jet airplanes spread global ideas, trades and peoples.
Today these forms of communication have given way to the Internet as the major communication device, making the present wave of globalization different from the past because information now travels at the speed of light. **Globalization** existed long before the Internet, however.

There are historically unique features that constitute globalization (Darwin, 2007: 7–8). Enumerated, they are the following:

1. The emergence of a single global market for most widely used products; especially for the supply of capital, credit and financial services.
2. Increased political intensity of interaction between states: with the exception of North Korea there are few states preferring autarchy.
3. The deep penetration of almost all cultures by global media, especially through the Internet and the ubiquity of leading brands promoted through these media.
4. Huge scale migrations and diaspora creating global networks and connections as a result of economic migrations and the effects of wars. Most refugees today are from Africa and the Middle East and, given their youthful demographics, the flows are not likely to diminish.
5. The dominance of the United States as a hyper-power after the bipolar arrangement of the Cold War era (1945–1989).
6. The dramatic resurgence of China and India as manufacturing powers, with deep reserves of population to draw on as consumers and producers in a domestic market (about 1.3 billion and 1 billion respectively).

The translation of historical imperialism into contemporary commercial globalization is usually seen as a late twentieth century phenomenon, although, as we have discussed, there is an argument that says that the world economy in the late nineteenth and early twentieth century was almost as globalized as it is now.

**Globalization as Cultural Phenomena**

Globalization intensifies social relations over ever-greater distances; it links different and previously separated peoples and places; it transforms spatial and temporal organization of global flows of power, people, ideas and things. Globalization is a relational process better thought of as globalizing, as a verb, rather than as a noun, because there may be nothing that corresponds to it; simply, it is a process rather than a thing.

In globalizing, flows and values of key resources, such as commodities as well as currencies, are subject to continuous change, such that flux seems the apparent norm. Although all senses of time are always relative and plural, not absolute, dominant contemporary flows of time associated with digital immediacy have become pervasive. Presence and immediacy hasten the adoption of dominant discourses as they can flow anywhere and everywhere simultaneously. Globalizing modernity is thus more than merely a globalization of economic forms but is a globalization of whole forms of life (Ibarra-Colado, 2008). Globalization transforms social as well as economic relations.

Almost all the basic strategy models for thinking about globalization derive from North American and European assumptions about the internationalization of business.
Hence, they tend to be rather ethnocentric, seeing globalization as a western ‘conquering’ of the world. These frameworks have historical roots in modernization theory, which was itself rooted in older notions of progress and evolution. European expansionism and the growth of trade and long-distance travel, as a force for globalization, may be said to have developed from early national trading companies, such as the East India Company. Indeed, much of what we later have come to think of as multinational global strategies were already prefigured in such companies. Seeing the world as something to conquer has been a part of the North’s dominant myth-making ever since the Euro-Asian world expanded greatly as a result of the voyages of discovery in the fifteenth century, of which Columbus’ is best known. The idea that the world ‘out there’ waswaiting to be conquered has been both instrumental in developing imperial worldviews in Europe and America and latterly in European and American business, as a constitutive part of competitive strategy.

Globalization as Economic Phenomenon

To the extent that globalization flows through multinational organizations it does so in two ways: through the export of their products and through the investment decisions that they make outside the home country – Foreign Direct Investments (FDI).

Global products require a process whereby the products or services are accommodated to local tastes or local tastes become accommodated to global products. The former strategy is that of MacDonald’s where significant local variations in the basic product may be found globally. The latter strategy is that of Coca-Cola – a coke is a coke everywhere – there are no local variations. Of course, to deliver either local variations or a universal product or service the organizations in question have to engage in FDI. Globalization occurs through the spread of global products and services through exports, licensing and franchising and, notably, through the mechanisms of FDI.

Globalization is carried in part by organizations that open up new markets and capture geographically unevenly distributed resources (Dicken, 2007b), including skills that emerge as a result of global domination by transnational organizations as well as from institutional entrepreneurship. Multinational corporations do not penetrate everywhere equally, in part because massive amounts of capital concentration are not pouring into the least developed countries. In fact, developed countries continue to be the bedrock of capital investment. It is only in recent years that FDI into developing and emerging economies has surpassed that flowing into developed ones, according to the annual reports of the United Nations Conference on Trade and Development (see the UNCTAD Annual Report 2014, https://unctad.org).

The role of the Internet in contemporary globalization is Janus-faced. On the one hand it enables many small companies to be born global, as we shall discuss; on the other hand, it enables some to become virtual monopolies straddling the globe, such as Amazon. The Internet has always been a highly political arena. In the early days of its development the Internet was seen as a great liberator, a power for empowerment, for democratization. Economically, its capabilities create rational individuals armed with perfect information acquired from the Internet able to pursue their interests relatively free of governments and geographical obstacles; people whose interest was primarily in getting what they wanted for the cheapest price possible. Micklethwaite
and Wooldridge (2000) saw this version of contemporary digital globalization as an unfettered freedom, working not just for multinationals but also for people more generally; globalization, they suggest, produces an economy close to a liberal’s utopia.

Today, virtually the whole world economy as a market is incorporated into a world system dominated by capitalism. Mediated by money, exchange can be subject to impersonal and precise division and manipulation and measurement of equivalents. Flows of capital promote seemingly rational calculation, furthering the rationalization that is characteristic of modern society. Contemporary flows of capital are increasingly digitally mediated, creating and extending immaterial capacities for the global translation of invention and innovation.

**Glocalization**

While globalization increases the ubiquity of objects, practices and experiences in increasingly homogenized, standardized and convergent modes, not everyone around the globe eats the same industrially produced foods, watches the same movies, and wears the same global chain store produced clothes. Globalization does not mean that local cultural differences are obliterated. The persistence and the wider dissemination of local products and tastes into ubiquitously global products, such as the translation of sushi from a Japanese delicacy to a global fast food or vodka from a northern European drink to a global taste, offer opportunities for strategic management. Often these processes are referred to as ‘glocalization’. Emerging markets’ local products can become global: think of guaraná, a fizzy and very sweet Brazilian drink made out of Amazonian berries. Once a specialty only to be found in Brazil it is increasingly available as a sports drink globally and, as such, it is an example of **glocalization**, a neologism coined by sociologist Roland Robertson (1982).

Glocalization is not just a cultural and consumer phenomenon. Multinational firms face disadvantages from lack of local knowledge relating to social, political and economic conditions in foreign markets (Beamish, 1994). In recent decades a preferred way for many organizations to deal with the lack of knowledge about foreign local environments and entry into such markets is to collaborate with firms already there: they go ‘glocal’. Glocal strategies are followed by organizations that seek to go global by entering into some form of local relationship with organizations in another country.

For instance, components for the iPhone are variously assembled in China, Korea, Taipei, Germany and the US, involving almost a dozen companies that are hard to pigeonhole with any national label. Sylvia Yanagisako (2002), in studying the Italian textile and fashion trade, noted that so many of the key processes had moved to China that she had to shift her research to Shanghai. If globalizing means that things that are quintessentially Italian are, in fact, produced by Chinese workers and managers, in China, then we can hardly be sure about the bounded and bordered provenance of anything organizational that we consume in the contemporary world. It is, truly, a hybridizing and glocalizing world in which hybrid strategies are emergent.

New hybrid models of ‘integrated networks’ (Dicken, 2007a: 301) are emerging that are post-national and that allow new forms of geographical advantage: managers speculate in London or Tokyo, manufacture in the PRC, move the headquarters to the benign fiscal system of the Netherlands, do Corporate Social Responsibility
in Uganda and launder money in Zurich or the Bahamas. Different countries position themselves on the basis of their valuable, rare, inimitable and non-substitutable national resources (Barney, 1991) and firms disintegrate their activities to take advantage of this specialization. In consequence, they globalize, decompose and re-compose (Clegg, 2011).

Globalization: Critics and fans

Pro-globalizers argue that the best chance of diminishing immiseration is through the incorporation of more spaces and peoples into processes of globalization.

Globalists argue that as a result of vastly more efficient agro-businesses, the planet is able to sustain a population of six and a half billion, which has doubled in the last 30 years, and that the huge growth in business has in part contributed to this increased population by providing more and better jobs and improved availability of foodstuffs. However, more does not mean equal shares; the benefits are hardly distributed evenly. For instance, the US consumes nearly 40% of the planet's resources such as food, oil and timber – but contains only 6% of the global population, of whom 30% are obese from consuming too much. This degree of concentration is one reason why many critics of globalization claim that it is really ‘Americanization’.

Critics of globalization point to the fact that not only are great swathes of the world's population barely incorporated into the global arena but that there are many obstacles and barriers to globalization erected by various interests. Amongst these are states and their governments; domestic industrial players, keen to protect themselves from global competition; trade unions, equally keen to ensure that the price of labour in the labour market is not cheapened and weakened by too global a flow of poor people who will enable employers to cut labour costs. Global society spreads with no regard for borders; the carbon footprint of the most globally advanced nations is warming the planet for even the poorest people on it, who barely contribute to warming.

Go Online: There are many barriers to globalization in practice in a word of nation states and trade blocs such as the EU and ASEAN. Some of these are discussed on the website www.hubpages.com. For a much fuller and more detailed discussion you can consult the 2011 Aarhus University PhD thesis by Christian Gormsen Schmidt, which is available online on the www.pure.au.dk website. An interesting video discussion of ‘Globalization – opportunity or risk?’ is available on the Deutsche Welles Global Talks webpage. Finally, there is a balanced discussion from a World Bank perspective on ‘Globalization and international trade’ which is available on the website www.worldbank.org.

Links to all these resources can be found on the companion website for this book at www.edge.sagepub.com/strategy2e.

Businesses born global

Businesses that are born global are companies that expand into foreign markets and exhibit international business prowess and superior performance, from or very near their founding. The affordances and opportunities offered by the Internet make it
quite possible for a small business to become a global business quite quickly.

Very early multinational organizations, such as the East India Company (founded in 1601), were global organizations from their inception. They were ‘born global’ as international trading ventures. In the past the international business strategy literature suggested that internationalization occurred as a result of an evolutionary model, in which internationalization was the outcome of a move from exports, to joint ventures, to fully owned operations (Johanson and Vahlne, 1977). Most of this literature focused on large and multinational organizations, as we shall see.

By contrast, born global firms begin with a global view of their markets, and develop the capabilities needed to achieve their international goals at or near the firm’s founding. Today, the most likely candidate firms for being born global are not the major national trading companies of the past but digital enterprises defining the present and the future.

Many companies in the digital economy have been global virtually from the outset. Facebook is a good example, as the film, *The Social Network* (Fincher, 2010), makes clear. More recently you might think of Airbnb or Uber. The point is, Internet start-ups are replete with born global firms: Atlassian in Australia, Skype in Denmark and Amazon in the United States are all examples that are quite familiar.

The concept ‘born global’ was first used in Rennie’s (1993) Australian report for McKinsey and Co, and it has been widely used and discussed together with similar concepts, such as, for example, International New Ventures (McDougall et al., 1994; Oviatt and McDougall, 1994; Knight and Cavusgil, 2005). The basic point is that it is not necessary to have evolved into a large firm to internationalize. E-commerce companies operating in a virtual domain overcome spatial and temporal barriers to undertake international operations quickly and cheaply.

A number of factors can be identified as contributing to the phenomenon of firms being ‘born global’, including more global market conditions, new developments in transportation and communication technologies, especially the Internet, and an increase in the available numbers of people with international experience. Additionally, born-global firms may produce standardized products but operate in a highly specialized niche.

**Distinctive Characteristics of Born-Global Firms**

Born-global firms possess the following distinctive characteristics, according to Tanev (2012):

1. High activity in international markets from or near the founding, with the founder’s vision playing an important role.
2. Limited financial and tangible resources.
3. Present across most industries, but mostly tech firms.
4. Managers have a strong international outlook and international entrepreneurial orientation.
5. Emphasis on differentiation strategy targeting niche markets.
7. Leveraging advanced information and communications technology (ICT).
8. Using external, independent intermediaries for distribution in foreign markets or engaging in direct sales.

There are a number of contextual factors that encourage born-global organizations. Fertile ground is provided by universities as anchor points as is the clustering of firms operating in the same industry. Dense flows of technological knowledge, experienced people and contacts with local venture capitalists follow. Having a small home market obliges firms to go global; in such cases the customers will often already be global multinationals. Being able to tap into global know-how through strong relations between the firms and foreign sales subsidiaries is also significant. It helps greatly if the product or service is easily accessed through digital delivery. Demanding local clients that will not settle for less than high-quality service are also important; beating the best in a demanding local market prepares an enterprise for going global. Having managers that already have global experience is also important as a lot less learning is required (see Tanev, 2012 for elaboration).

A born-global business is, of course, multinational by definition.

Multinationals – the agents of globalization

Globalists argue that globalization has created the liberalization of global markets and the design of a ‘flat’ or ‘borderless’ world – where flat and borderless are metaphors for an open market, conceived as a levelling of opportunities for all who compete in it. Yet, as critics are quick to point out, there is no inevitability about liberalization – it can as easily go into reverse as forward motion, and many of the elements of national responses to the Global Financial Crisis of 2008 suggest that we are currently in reverse with the emergence of austerity politics in many economies.

Economic liberalization and financialization were key elements in the models for globalization that prevailed until the Global Financial Crisis. In the light of that crisis, and the highly uneven world economy that has emerged subsequently, with the Eurozone and the UK in austerity politics, the United States recovering and the East Asian economies booming, we need to address globalization as a long-term process of transformation that is contradictory, uneven and eventful; likely to be as resisted as celebrated (Morgan, 2009: 557).

The main organizers of globalizing, above all, are the multinational corporations that own and control assets in more than one country, many of which have been in business for a long time in fields such as mining, retail, transport and property. It is their strategies of investment, production, marketing, contracting and employment that frame globalization. There are about 80,000 such firms in the world today, accounting for over 70% of world trade.

A few companies are truly global – they span the globe with a presence virtually everywhere. They are an important part of the effective infrastructure of globalization. They are centres of world trade and global communication and serve as conduits of cultural transfer, in which institutions and practices for dealing with global connectedness have been developed. Often they do so not as independent entities but through a strategy of broad-based alliances and networks.

Multinational organizations leverage localization from their globalization, in a synergy some analysts refer to as *glocalization*, as we have seen, doing so through
cross-investments and partnerships with national, regional and local companies that deliver deeper penetration of global markets. Strategies for glocalization constantly have to steer between a tendency to play to a set of values and beliefs that are believed to be widely shared around the world – the traditional basis for economies of scope and scale – but also have to be alert to the existence of highly specific values and beliefs that differentiate particular identities globally and regionally. For instance, the burgers sold by McDonalds in Israel are kosher, in India they are not made of beef and in Muslim countries they are certified Halal. After Qantas joined an alliance with Emirates airways to fly the London route through Dubai it changed all of its foodstuffs so that they contained neither alcohol nor pork in deference to the sensibilities of their new partner airline and its co-shared passengers. Meanwhile, Emirates airlines do serve alcohol on their planes in deference to the sensibilities of their non-Muslim and non-teetotal customers. In each case, local sensibilities rooted in a specific religious culture shape and are accommodated to the service offerings in question, demonstrating how local cultures frame global offerings, glocally.

Multinational organizations are usually seen as strategically premised on producing goods and services that can be readily implanted in new contexts. Multinational organizations are conduits through which economic, military and cultural flows and global networks are created. Multinational organizations’ global connectedness sees their elites try to channel and therefore control the effects of their global connectivity, reconfiguring spatial organization of the global economy and culture, disorganizing as well as organizing what might have seemed previously settled modes of life.

Theory of the MNE and FDI

The origins of the modern theory of the MNE are usually traced to Stephen Hymer’s (1960/1976) PhD thesis. Hymer had asked the question ‘why do MNEs exist?’, meaning why is integration through Foreign Direct Investment (FDI) often selected by firms over potentially less hierarchical alternatives for cross-border business, such as exports and/or licensing of a technology or other advantage to foreign firms? Hymer felt that for a number of reasons FDI afforded better returns to firms on the basis of reasons mostly related to market power and monopolistic advantages. In addition, he had argued that FDI helped reduce cross-border inter-firm rivalry and served as a means of international risk diversification.

The major post-Hymer contributions have been the theory of ‘internalization’ of markets by MNEs as a result of high market transaction costs and, more recently, the evolutionary, resource-based and/or dynamic capabilities (DCs) views. Unlike Hymer’s focus on power and monopoly, both of these major perspectives focus on mostly efficiency-related reasons for ‘internalization’.

Classic contributions on ‘internalization’ included Buckley and Casson (1976), who emphasized the role of intermediate product market failures (such as markets for technology and innovation which are notoriously flawed) and Williamson (1981b) who emphasized bilateral interdependencies and hold-ups (hence protracted negotiations) induced by asset specificity. These were said to increase market transaction costs, hence making it more efficient for firms to internalize the cross-border transaction and therefore become MNEs.

Teece (1976) focused on differential cross-border resource-transfer costs, while Hennart (1982) suggested that the MNE could be seen as an organization that coordinates cross-border interdependencies more efficiently through employment relationships than through output markets. These interdependencies involved knowledge and reputation,
intermediate products (such as raw materials, agricultural inputs, parts and components), as well as distribution and even financial capital (Hennart, 1982).

The evolutionary, resource-based and learning-dynamic-capabilities perspective drew on works by Penrose (1959, 2009) and developed and integrated these with transaction costs arguments (Teece, 1981, 1982) as well as the partly Penrose-inspired work of the Scandinavian school (Johanson and Vahlne, 2009) that emphasized learning and the role of 'psychic distance' – this refers to the distance in mentalities between different cultures in terms of their world views. In addition, the ‘evolutionary theory' of Kogut and Zander (1993) emphasized the importance of knowledge and the advantages of its intra-organizational versus inter-organizational transfer.

The resource-based and learning-dynamic-capabilities perspectives – discussed in Chapter 3 – emphasizes the role of history and path dependence in the derivation of advantages, as well as the capabilities of entrepreneurial management in creating and leveraging cross-border resources, which, in Barney's (1991) terms are Valuable, Rare, Inimitable and Non-substitutable (VRIN). John Dunning’s (1980, 2001) classic ‘Ownership, Location, Internalization’ (OLI) framework also stressed the important role of location (Dunning and Lundan, 2009). For Dunning all three aspects of the triad must be present for an MNE to appear. A firm must have the following characteristics:

1. Ownership: Own an advantage
2. Location: Identify a foreign location with suitable locational advantages
3. Internalization: Find it more profitable to internalize production than undertake an arms length transaction, such as licensing, franchising, or using a distributor (see the ‘make or buy’ discussion in Chapter 5)

The OLI triad, according to Dunning, explains why and where a firm will become an MNE.

More recent theories such as Pitelis and Teece (2010) question the emphasis of some internalization theories on market failures, stating that in many cases MNEs create and often co-create markets and supporting business ecosystems with other actors, such as suppliers, buyers, the government and, indeed, with competitors. They named this co-creation capability as the Dynamic Capability *par excellence*. The business and institutional context within which OLI related decisions are taken as well as the need to bring into the analysis of the MNE the role of demand, such as that of consumers but also the total demand in an economy and its fluctuations, has been stressed by Jones and Pitelis (2015).

**Multinational strategies**

Buckley (2003) sees the advantages of multinational strategies in terms of their ability to deviate from models of perfect competition in goods markets through product differentiation, marketing skills and administered pricing. Additionally, MNEs have access to factors such as knowledge, capital and skill, especially as these are embodied in managerial expertise. They enjoy economies of scale due to vertical integration that enable unit costs to be dramatically reduced and standardization to be practised, further driving down costs. By moving inside national territories they are able to accord with local laws that might limit their capacity to trade as outsiders.

There are at least five different models of global strategy promulgated in the international business literature:
1. Decentralized federation; multinational strategy. According to Bartlett and Ghoshal (1995), this is the typical European model that developed between the wars, although to characterize a single European model is perhaps a little too coarse-grained. The decentralized federation was seen to characterize an era of tariff protection and quotas; to get round these, firms would establish different national subsidiaries to produce inside the protectionist regimes. These flows of trade, people and capital were basically devised to get around the obstacles to more global flows that states erected. In an era of primitive communications technologies, subsidiaries thrived with a great deal of autonomy, constrained largely by personal relations and financial controls. The end result was a portfolio of different national subsidiaries, within which local learning was largely contained. Moreover, due to constrained resources sourced locally, the ability to respond to local markets may be limited. Responding, decisions may be made wholly in terms of local relevancies, which may not always serve the interests of the centre. For instance, there may be duplication of effort as each periphery replicates functions locally, on a small and more costly scale, with a degree of resistance to innovations from rival centres in the federation.

2. Coordinated federation; international strategy. The post-Second World War era was characterized by widespread US penetration of European and other markets with technologically more sophisticated products than were available elsewhere. Typically, these companies were professionally managed by trained MBAs using sophisticated management control systems. The result was highly centralized management. The flow was largely one way, of Americanization as globalization. Centralist assumptions about where innovation and ideas came from and went to became widespread. While this model might advance efficiency, in terms of standardization, it limited the opportunities for local learning to feed back into the parent organization. Also, functional management becomes dominant at the local level because of their key transmission role in translating central company skills, knowledge and capabilities.

3. Centralized hubs; global strategy. For Japanese firms that internationalized from the 1970s onwards the idea of continuous improvement was at the heart of strategy. Japanese firms emphasized quality, cost and feature advantages. They were able to offer more features, at better quality, for less cost, due to tight central control of product development, procurement and manufacturing. In addition, they made extensive use of new managerial approaches, such as just-in-time manufacturing, delegated ringi-ko decision-making and an innovation culture closely tied to the shop-floor and to a management highly loyal to the company that employed it (Clegg, 1990). At least initially, an export-based model of growth led this strategy, although by the 1980s, many Japanese firms were establishing overseas subsidiaries in countries such as India, the UK and the US, giving rise to a whole literature on Japanese inward investment, especially in the UK (Elger and Smith, 1994). Knowledge and learning tended to be tightly coupled in Japanese core organizations. In the case of Japanese organizations, centralization is reinforced by culture, as it is rare for non-Japanese managers to move from the peripheries and gain positions in the core. Local managers are pressured to conform to the expectations of their home context while also being subjected to the transfer
of practices from the multinational organization. The head office managers transfer practices, people and resources to subsidiaries in order to try and maintain control and achieve objectives while local subsidiaries may resist these transfers or develop them in their own interests.

4. **Matrix organizations; binary strategy.** The matrix organization attempts to achieve the benefits of both project and functional forms of organization (Galbraith, 1971). Davis and Lawrence (1977) define a matrix as any organization that employs a multiple command system that includes related support mechanisms and associated organizational culture and behaviour patterns. The principles of matrix structures have been applied widely in organizations, such as engineering-oriented firms that do business through a number of distinctive projects (Khandwalla, 1977). Many organizations have adopted various types of matrix structures (Sayles, 1976). By definition, the matrix is a grid-like organizational structure that allows a company to address multiple business dimensions using multiple command structures. In order to ensure that people focus simultaneously on two or more organizational forces a system of dual reporting relationships is put in place. It is an attempt to structure flows where they are directed within the organization as a global enterprise. Kotter (1996) researched more than 100 matrix organizations in the 1980s and found that few were successful. Minor disagreements could blow up into major turf wars, characterized by conflict and confusion over who should be responsible for what; information log jams occurred, because of the multiple reporting channels, and a loss of accountability due to international barriers of time, distance, language and culture.

5. **Integrated network; transnational strategy.** A fully transnational organization has developed multidimensional perspectives, distributed, interdependent capabilities and flexible integrative processes. Each individual centre might be a champion for a particular global competence, process, product or knowledge within the overall network. Relatively autonomous centres are able to translate local issues and concerns into flows of information around the network; having a high degree of standardization of business models connecting the different elements in the network ensures a coordinative capacity for managing system-wide responses with local calibrations. Top management needs to be focused on centralization, formalization and socialization as three interdependent management processes. Centralization will require strategically managed interventions from time-to-time; formalization will mean developing a procedural mechanism that must evolve with individual national and management roles; while socialization means that the organization must constantly be aware that it is managing a complex multiculturalism, both in terms of national and intra-organizational differences. Clearly, there is ample room for political misadventure in such a complex balancing of powers, cultures and management devices.

Based on developmental models such as the above, there is a pronounced tendency in the international business literature to see the world as increasingly homogenous. According to Buckley (2003: 699), multinationals are perfectly placed to exploit the differences in international integration of markets. The existence of regional goods and services markets enables firms
to exploit economies of scale across several economies. Differential labour markets enable costs to be reduced by locating the labour-intensive stages of production in cheap labour economies.

The result is that horizontal integration is assisted by

regional goods and services markets, vertical integration by differentiated labour markets and distribution of key raw materials. Strategic trade and foreign direct investment can be seen to take place within this framework. (2003: 699)

Top-level strategic managers of global organizations typically seek to have:

- Unrestricted access to resources and markets throughout the world
- Freedom to integrate manufacturing with other operations across national boundaries
- Coordination and control of all aspects of the company on a worldwide basis
- Maximization of shareholder value
- Minimization of tax liabilities by establishing corporate headquarters in low tax regimes, such as Dutch Antilles or the Cayman Islands
- Low levels of government regulation in the markets in which they operate

To have a successful strategy for entry into a foreign market – one that is not in the home territory of the business in question – means that the enterprise must be better at doing what it is doing than other businesses that already do what it does and that are domiciled in the country in question. Moreover, it must be the case that they can do so profitably.

The key element in developing a global strategy is often regarded as arbitrage. Sometimes arbitrage entails a strategy of transfer pricing. Arbitrage can also occur when multinational organizations are able to exploit exchange rate movements profitably by switching production into cheaper currencies. To be able to exploit the global opportunities for profit that arbitrage offers, a multinational organization needs strategies that enable it to have maximum flexibility in locating production, know-how and knowledge, as well as the ability to react rapidly to threats and opportunities. Reactive ability will be limited by the necessity of abiding by the rules of the states in which they invest, if only because firms are not always so liquid that they can easily move. Arbitrage is also facilitated by different state administrations competing for foreign direct investment. If the local state does not provide what the global investor requires, mobile capitalism can threaten simply to exit the scene and set up where the benefits sought can be ensured.

The national diversity of operations has become a source of advantage, an advantage that Kogut (2002: 265) refers to in terms of ‘embedded options’. A further
distinction can be made between ‘across-country’ and ‘within-country’ options. Across-country options refer to arbitraging of borders, such as shifting production, arranging tax accountabilities, utilizing lower cost labour or transferring innovation from one country to another. How economically successful these across-country strategies are is highly variable since the conditions of arbitrage that prevail at a decision-point may not prevail when the strategy comes to maturity. Within-country options, on the other hand, refer to establishing a platform, such as brand-recognition, from which later investment strategies can develop.

Multinationals and the politics of employment

Cheap labour markets do not tell us all we need to know about multinationals but they are certainly an important political consideration. Over the past 30 years, globalization has had profound effects on international power structures and the strategies of business organizations, consequently influencing the political organization of work by corporations and resistance by collectivized labour. Of particular significance has been the expansion of multinational corporations whose influence has extended beyond their immediate activities through the proliferation of complex production networks spanning national boundaries (Josserand, 2004; Parker and Clegg, 2006; Banerjee et al., 2009; Clegg and Carter, 2009; Clegg, 2011). Millions of workers today, working at the end of multinational supply chain strategies in the ‘Third World’, are at risk of labour and human rights violations ranging from poor working conditions to human trafficking and slavery (ILO, 2008).

In Asia, supply chain networks associate multinationals with local small and medium enterprises, as well as a mix of government agencies belonging to countries characterized by various levels of democracy and authoritarianism, resulting in malpractices that range from unacceptable working conditions to practices such as human trafficking (ILO, 2008). The regulation of labour standards in global supply chains (James et al., 2007; Lakhani et al., 2011; Lee, 2016) through international labour movements and activist networks is receiving increasing attention (Risgaard and Hammer, 2011; Kaine and Wright, 2013). However, existing mechanisms that seek to deprive unethical businesses of patronage, such as consumer pressure and activist networks (Wright, 2011; Donaghey et al., 2013), fail to address some of the most unacceptable labour issues. Company audits can assist in identifying unethical practices but do not consistently produce timely or lasting results, especially as many companies do not cooperate with audit. Diplomatic efforts on the part of governments and the International Labour Organization (ILO) are often counter-balanced by trade agreements that largely focus on goods, services and investment to the exclusion of labour standards.

Alongside workplace-based strategies, unions have developed a renewed focus on international collaborations through a range of global strategies involving the Internet (Carter et al., 2003) but such efforts are difficult to conduct in the absence of a local representative base. While making a contribution, these actions have not achieved a fundamental improvement of labour conditions in the region or globally.

Due to the fragmentation of production, neither state action, labour power, nor consumer action match the power of capital (Donaghey et al., 2013). Multiple
jurisdictions, the prevalence of migrant workers, geographically fixed representative institutions and the proliferation of non-standard employment relationships combine to create a challenging regulatory environment. Different types of regulatory attempts have sought to improve labour standards ranging from activities of international institutions such as the ILO, international framework agreements, social movement activities, private initiatives of MNEs and labour clauses in multilateral trade agreements (Meardi and Marginson, 2013; Berliner et al., 2015; Marx et al., 2015).

Efforts so far have been unsuccessful in triggering expected improvements (Clarke and Boersma, 2015). While the proliferation of global supply chains has been blamed for the multiplication of malpractices in non-democratic countries (Fisher et al., 2010), they may, conversely, provide new opportunities for the organization of labour resistance. Resistance seeks to force authorities to listen to the voicing of what are largely considered non-issues (see Chapter 11).

According to the code of Social Accountability (based on ILO core standards), there exists a ‘requirement to facilitate parallel means of independent and free association and bargaining’ (O’Rourke, 2006: 903) in countries where it is not possible to form free trade unions. However, ‘this provision remains highly controversial as it is not clear exactly what qualifies as effective parallel means of representation in countries such as China’ (O’Rourke, 2006: 903). Repertoires of collective resistance to global capital face difficulties in scaling up from local struggles to have an international impact (Heery, 2009).

The embedded nature of labour systems in non-democratic and authoritarian regimes limits the capacity of external efforts to trigger change. Improvements to working conditions are difficult to effect from the outside, necessitating interventions from within, interventions that can then be supported by outside networks and skillful collaboration, particularly using social media to organize boycotts of multinational organizations implicated in scandals. Informal structures and networks enabled by
widespread information technology can perform communication functions without traditional formal organizations and may even be more effective in some situations (Diani, 2000).

**Multinationals and centre–periphery power dynamics**

The balance of power does not always lie with the centre, with the MNE headquarters. As Dörrenbächer and Gamelgaard (2006: 209) suggest, ‘a career-oriented subsidiary manager’, especially an expatriate, may well manage to decline mandate requests from headquarters where they calculate that there is a career advantage in doing so. The loyalties of expatriates will usually differ from those of host country nationals or third country nationals, with the assumption usually being made that expatriates are more loyal to headquarters (Harzing, 1999).

Host country nationals’ loyalties tend to be regarded as allying more with the fortunes of the subsidiary. Consequently, it has been argued that third country nationals will be more balanced in their outlook on the micro-politics of subsidiary/headquarters relations. These dynamics have a significant qualifying effect on more structural and deterministic explanations: actors’ micro-strategies can accelerate or impede central projects and their reasons for pursuing those strategies they choose may not align at all with the assumptions made at headquarters.

Dörrenbächer and Gamelgaard (2006: 210–212) provide a short story that nicely illuminates micro-political dynamics. A German engineer managed a German automobile company's French subsidiary. He greatly expanded its technical expertise and sought to utilize the expanded knowledge resources through additional financial investment. The request was blocked at headquarters because the company was increasingly focusing on short-term increases in shareholder value that additional investment would jeopardize. The engineer's approach was based on technical improvement to a flexible manufacturing system through R&D that both added and cost value. However, the company was moving from its roots in German engineering excellence and closer to a shareholder value model: they had different rationalities and their clash produced considerable conflict. The engineer did not lose totally and was able to maintain the flexible production system.

The strategy of imposing conformance with a central financial performance-related strategy is often used by headquarters to discipline subsidiaries; depending on the degree of development of locally embedded resources and networks, such as technical expertise and R&D, subsidiaries may follow a successful subversive strategy and create a space for more autonomous and local strategy (Morgan and Kristensen, 2006).

In MNEs the majority of politics around the strategy process relate to mandated change in headquarters/subsidiary relations (Crozier and Friedberg, 1980; Dörrenbächer and Gamelgaard 2006: 206). Typically, at headquarters level, one would expect board members, the strategy team, and selected functional managers to be involved; as adversaries to the changes being mandated one would expect to find subsidiary managing directors and their appropriate functional managers.

Other parties will surround subsidiary managers with strategic interests:
• Significant shareholders seeking more efficient exploitation of their assets in the business through changing international cost, service and regulatory environments
• Trade unions, who resist measures that run against the strategic interests of those members that they represent
• Governmental agencies seeking to secure investment opportunities
• Non-governmental agencies with a remit to protect specific strategic interests, such as the environment or child labour
• Suppliers, for whom the changes represent hard-to-comply-with specifications
• Customers who may be dissatisfied with the changes made to a favourite brand, product or service.

How subsidiary managers might manage or ignore these local pressures may not be a matter for calculation at the supra-local level of the corporate centre but it can pose real struggles and challenges for local actors. Often these struggles and challenges are not recognized at the centre and an inability to manage them conveniently is seen as a sign of local failure rather than of the complexity of local environments.

All large organizations are complex by definition. They have more extensive divisions of labour, a greater number of reports to authorities, and are often structured as complex divisional structures. Complexity is multiplied when the organization in question works across national boundaries.

Think of international business operations where there is significant spatial separation of core from peripheral business units. There will be geographical, political, socio-economic, cultural and religious boundaries separating the core from the peripheral actors and action. Not only will there be extensive politics around who controls and has access to what resources but there will probably be quite different understandings of the rules of the games to be negotiated between participants, especially host governments and MNEs. Boddewyn and Brewer (1994) argue that host governments represent both strategic risks and opportunities: governments may appropriate value from MNEs but they can also protect them (e.g., Boddewyn, 1975, 1988, 1993; Moran, 1985; Rugman and Verbeke, 1993; Eden and Molot, 2002). What they cannot always do, or choose to do, is to protect their citizens from multinationals.

**Multinational mandates**

Mandates are tasks that are assigned to subsidiaries by headquarters or that are acquired independently by the subsidiary, which have a specific time and content limitation placed on them, and which frame the internal division of labour within a MNE.

Any MNE comprises a highly complex configuration of ongoing micro-political power conflicts at different levels. Social actors and groups inside and outside the firm interact with each other and create temporary balances of power. Sometimes external organizations can succeed in changing organizational mandates. Think of the role of activist civil society organizations shaping pharmaceutical company testing procedures on animals, or their impact on mining companies’ interactions with indigenous communities (Morgan and Kristensen, 2006: 1473).
**IN PRACTICE**

**Mandate change: Who wins when good intentions prevail? The soccer ball case**


The link takes you to a seemingly ‘feel-good’ story about a major mandate change wrought in an industry by media, NGO and industry stakeholders. It concerns the basic tool of the world’s most popular game: the soccer ball. The majority of the world’s hand-stitched soccer balls are produced in Sialkot, Pakistan (Cummins, 2000: 4, 27). Until relatively recently, most of these balls were hand-stitched by child labour. On 6 April 1995, a CBS news documentary showed that the soccer ball suppliers employed child labour in dark and dank one-room workshops. The CBS report was picked up by other mass media around the world. In 1996, a campaign against the exploitation of child labour was launched. By 1997 manufacturers in the global soccer ball industry announced a project to eliminate child labour in collaboration with carefully selected civil society NGO partners. The industry successfully positioned itself, in the eyes of the western media and consumers at least, as a constructive actor working to remove the bane of child labour while preserving the Sialkot soccer ball-manufacturing cluster. However, the benefits for children were questionable and the majority of women had to drop out of the workforce. The unintended consequences of removing child labour from the manufacture of these balls and thus preserving the brand value of the global business names that marketed the balls was a loss of income, disruption to family life and withdrawal from work of women, effects that were never given significance by NGOs, the industry or the western media. The child labour was reduced – but at what cost?

**Questions**

1. Analyse the case, focusing on its politics in various locales.
2. Who do you think were the winners?
3. Who do you think were the losers?
4. Elaborate the evidence and the analysis that enables you to draw these conclusions.

Mandates relate directly to the control of resources and the steering of potential actions; hence, mandates bestow different propensities for exercising power in internal relations within MNEs (Cyert and March, 1963; Pfeffer and Salancik, 1974; Birkinshaw and Riddervåle, 1999). When mandates change there is immense potential for conflict within MNEs because the relative power relations of the different subsidiaries and the *centre* change in consequence. Any change can be simultaneously a process of downgrading and upgrading: as one subsidiary shifts to a more or less demanding task all others change relatively in their relations with each other and the *centre*
(Dörrenbächer and Gamelgaard, 2006). Shifts in these relativities can translate directly into changes in status, careers and incomes – things often hard fought for.

**The politics of mandates**

MNEs are inherently political entities in terms of their relations not only with competitors and in the way that they organize themselves; they cannot avoid having political relations with the governments and civil society organizations that interface with them.

Governments in both host and home countries want to accrue as much value as they can from MNEs in terms of tax, investments, employment, knowledge production and minimize as much as possible any disutility that the MNE activities might create, such as pollution, despoliation or social upheaval. As resources with which to bargain they can use whatever location specific resources they have available, such as talent pools, natural resources or infrastructure.

External stakeholders, such as civil society bodies and NGOs, usually want to ensure that local resources are not unduly exploited, whether labour, the environment, or political and social capital. They can mobilize public opinion and communicate specific messages about specific firms and their legitimacy.

**Multinational mandates and the problem of implementation**

Implementation is complex and difficult in any MNE because it is an internally differentiated set of intra-organizational and extra-organizational linkages in which resources are constantly being exchanged. The complexity of the networks makes it difficult for any nodal point in the network to know where the most critical resources reside. As Bouquet and Birkinshaw (2008: 485) note

> new technology can bring power to its inventor, but only to the extent that it can be brought to the attention of people who, through their direct and indirect connections, can facilitate its identification and deployment to other parts of the corporation (Andersson et al., 2007; Andersson and Pahlberg, 1997).

Those closer to the centre are more readily able to achieve such a bringing to attention compared to those further out in the periphery (Prahalad and Doz, 1987).

The greater the degree of both corporate embeddedness of a subsidiary, as well as its degree of external embeddedness in its host nation, the more probable it will be that it has a more advanced mandate within a MNE.

The fact that a strategic mandate may be set centrally does not necessarily minimize the creative and positive resistance of the margins suggest Bouquet and Birkinshaw (2008: 491). Subsidiaries can:

- Develop new products or bid for new corporate investments.
- Build profile through stronger relationships with other parts of the global company.
- Most radically, subsidiaries can seek to ‘break the rules of the game’ (Markides, 2000).
The capacity for subsidiaries to break the rules of the game depends on the structural relations that prevail within corporate empires. A great deal of corporate action in an MNE is simultaneously decentralized and linked to corporate strategy. Local actors will use the resources the MNE provides to seek local advantages over local rivals while the MNE will use the locals to tap into networks and mobilize resources that they would not otherwise access.

Implementing alliances between local and supra-local actors will often be difficult to accomplish, Bouquet and Birkinshaw (2008: 481) note because:

1. Some countries have levels of corruption that clash with norms of acceptable behaviour in the larger MNE system (Alvaro, 2006; Doh et al., 2003; Rodriguez et al., 2005; Uhlenbruck et al., 2006b).

2. Other countries have an investment climate that is unattractive to foreign investors (Kessing et al., 2007); for instance, where there are unstable political conditions (Henisz, 2000), such as many of the countries in Africa (Harbeson, 1995) and other resource-poor countries that struggle to attract investments, let alone value-added activities, from multinationals.

3. Where subsidiaries operate at the periphery of the world economy (Harzing and Noorderhaven, 2006), subsidiary activities can easily be misunderstood or perceived to be of little significance (Galunic and Eisenhardt, 1996; Brown, 2004; Prahalad, 2004); for instance, they have few location-specific advantages (Dunning, 1981) or can be located in relatively depressed industrial areas (Dawley, 2007).

4. Small or youthful operations can rarely demonstrate a proper track record (Birkinshaw, 1999), or are constrained by relatively small market sizes, limited purchasing capacities, inadequate infrastructures.

Subsidiaries that seek to improve their local standing in the MNE and host nation will need to be able to demonstrate that they can deliver corporate objectives and plans; provide strategic information and knowledge on local competitive developments; and generate innovations that can be spread through the global corporate empire. Subsidiaries that cannot exploit these sorts of resources will be unlikely to exercise much power in the web of MNE relations.

EXTEND YOUR KNOWLEDGE

The full story on subsidiary and multinational power relations can be found in the downloadable journal article by Cyril Bouquet and Julian Birkinshaw (2008) ‘Managing power in the multinational corporation: How low-power actors gain influence’, which you can read on the companion website for this book at www.edge.sagepub.co.uk/strategy.

IN PRACTICE

Norsk Hydro – a truly multinational firm

Norsk Hydro Asa is a Norwegian aluminium and renewable energy company, headquartered in Oslo. Hydro is one of the largest aluminium companies worldwide. It has operations in some 50 countries around the world and is active on all continents.

Svein Richard Brandtzæg is the CEO Norsk Hydro Asa. Previously Svein has held several international leadership positions within Norsk and he is now responsible for a business area with more than 12,000 employees in the sectors Rolled Products, Extrusion Eurasia, Extrusion Americas, Precision Tubing and the business unit Automotive Structures.

For Norsk Hydro multinational operation is embedded in the organization, the staff and processes. They see it as an inevitable aspect of business. Svein links strategy very closely with organizational change on a global scale; for Hydro strategy is the constant process of having to adapt to the continual changes that occur in the external environment.

From the top management down, where a Strategy Team exists in this centralized organization, through to the active involvement of line managers, Hydro utilize those leaders who can exercise strong decision-making, influence and communication skills, and have the ability to execute and implement strategy. Nowhere was this need for communication and understanding more important than when Norsk decided they had to exit the magnesium market despite being the industry leaders; a bold change for any organization but one that was absolutely necessary.
Questions

1. Which of Norsk Hydro’s characteristics make it a truly global and multinational organization?
2. According to Svein Richard Brandtzæg, how do you go about constructing and implementing a global strategy?
3. What is Hydro’s competitive position in the different markets it is operating in?
4. What were the reasons for changing Hydro’s global strategy? Why did the management decide to exit the global magnesium industry?
5. What are the implications and consequences of leaving an industry in a global competitive market environment?
6. How can multinational organizations achieve a continuous responsiveness to changes in their environments?
7. How does Svein Brandtzaeg see the future of strategy making? What is Hydro doing today to be prepared for future?

All models of the MNE (Hedlund, 1986; Ghoshal and Bartlett, 1990; Forsgren et al., 1995) suggest that the practices of foreign subsidiaries are constrained by different contextual rationalities to those of the supra-local MNE (Geppert, 2002; Geppert et al., 2003):

- Subsidiaries have to adapt to the institutional factors and national business systems characterizing the markets in which they operate (Geppert and Matten, 2006; Geppert and Williams, 2006; Rosenzweig and Nohria, 1994)
- Subsidiaries have to find ways to translate corporate ideals into a tangible set of local practices that effectively bridge the expectations of the head office, if they are to exert any influence on MNE decisions.
- Without legitimacy, subsidiaries will have little influence on corporate decisions (Westney, 1993; Kostova and Zaheer, 1999; Tempel et al., 2006).
- Not only must subsidiary managers seeking to engage in the MNEs have legitimacy, they must, according to the VRIN model, also have some control over resources that are scarce, not substitutable, in demand in the centre and competitively sought elsewhere.

Subsidiaries and legitimacy in strategy

In order to be implemented, any mandated change must accrue legitimacy.

The process of legitimation involves far more than merely developing an agreed strategy at the top level of the organization that the strategy team regards as appropriate or desirable: it also means implementing it, even against resistance from stakeholders.

MNEs often seek to legitimate mandate changes by making a competition of them; bids framed in terms of a change mandate are invited from subsidiaries within
Legitimacy has been defined as ‘a recognized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs and definitions’ (Suchman, 1995: 574).

The more legitimacy subsidiary powers can accrue to their actions the greater the probability of their being engaged in corporate decisions (Mitchell et al., 1997). However, their very distance from strategic centres makes this difficult. MNE strategic managers are often far removed from subsidiaries, culturally, geographically and in terms of time zones.

What is a clear strategic plan at headquarters becomes much more confusing if the specificity of all the national regulations, policies, norms and infrastructure systems that the firm is engaged in have to be factored in. Where subsidiaries are only loosely committed to the firm or where practices are believed to deviate from parent company objectives, they will often fail to secure legitimacy.

Where subsidiary companies can develop unique bundles of resources and capabilities that are particularly in demand, according to the VRIN model, (Birkinshaw and Hood, 1998) they can enter into significant positions in MNE circuits of power. To do so they make themselves more central by becoming more interlinked in MNE networks, because it is centrality that makes resources valuable, not just having them.
Multinational diversification and competitive advantage

As noted earlier, diversification was one of the main factors originally employed by Hymer (1960/1976) to explicate the MNE. From a strategic point of view diversification into new territories is principally a means for gaining competitive advantage and is more likely to occur when:

- Firms possess high endowments of intangible resources such as knowledge (Delgado-Gomez et al., 2004; Nachum and Zaheer, 2005)
- Firms are in information-intensive industries seeking intangible resources such as knowledge, for example, when western technology firms enter places such as Bangalore, India (Hitt et al., 2006)
- Firms’ Top Management Teams have an elite education, lower average age and greater international experience (Sambharya, 1996; Tihanyi et al., 2000; Wally and Becerra, 2001; Herrmann and Datta, 2005)
- Firms are owned by institutional investors, professional investment funds and pension funds.

Oligopolistic positioning of multinationals in advanced economies enables the development of sophisticated product-improvement cycles, through economies of scale, research and development, and innovation, competitive pricing and branding (Bartlett and Ghoshal, 1987, 1989). Together with the ability to exploit supply chains, these are seen to reduce transaction costs (Williamson, 1975b, 1981a, 1985). The combination of cheaper transaction costs and sophisticated innovation is what provides multinationals with their competitive edge.

The contemporary scene: Flat horizons or differentiated vistas?

Thomas Friedman (2005), celebrated New York Times writer, has proclaimed that the world is ‘flat’! In his book The World is Flat: A Brief History of the Twenty-first Century he analyses globalization in the early twenty-first century. The title alludes to what he sees as the eclipse of historical and geographical divisions that are becoming increasingly irrelevant in a world of increasingly free trade, enabled by the Internet. In such views, the multi-divisional, increasingly multinational, organization becomes seen as the pinnacle of a universal model of corporate evolution for all advanced economies based on Chandler’s (1962) initial framework. As Spicer (2006: 1467) notes, ‘The debate about organizational globalization is split between those who argue that organizational logics converge on a single Anglo-American model, and those who contend that organizational logics continue to diverge into national types’. To models of converging and diverging organizations we will add the possibility of hybridizing. We shall look at how each approach understands the global economy, beginning with those arguments that emphasize convergence.
Friedman’s flat earth view is old hat. *The Economist,* ever alert to potential trends, suggests that the best days of the multinationals, when strategies were relatively easy and relatively similar, are behind them. In the past, multinationals benefited from rising consumption and industrial investment, the availability of low-cost labour and more globalized supply chains. These are of declining competitive advantage. Discussing a McKinsey Global Institute (MGI) report (Dobbs et al., 2015) *The Economist* (2015) notes the following:

1. Corporate profits more than tripled in 1980–2013, rising from 7.6% of global GDP to 10%, of which Western companies captured more than two-thirds.
2. The after-tax profits of American firms are at their highest level as a share of national income since 1929.
3. More than twice as many multinationals are operating today as in 1990, making for more competition.
4. Margins are being squeezed and the volatility of profits is growing. The average variance in returns to capital for North American firms is more than 60% higher today than it was in 1965–1980.
5. Corporate profits, on present projections, may fall from 10% of global GDP to about 8% in a decade’s time.
6. The number of American firms listed on stock exchanges has fallen from 8,025 in 1996 to about half that number now: businesses are becoming more concentrated in ownership and less likely to be publicly listed.

What are the reasons for these transformations? A major reason is the rise of emerging-market competitors in the *Fortune 500.* In 1980–2000 they comprised 5% of the list;
today they represent 26% of the list. The 50 largest emerging-world firms have doubled the proportion of their revenues coming from abroad to 40% in the most recent decade. Second, the rise of high-tech companies has seen China’s e-commerce giants Alibaba, Tencent and JD.com rapidly raised to global prominence. Powerful digital platforms such as Alibaba, in turn, serve as a launching pad for thousands of small and midsize ‘born-global’ enterprises, giving them the reach and resources to challenge larger companies.

The most prosperous national sectors and survivors are those focused on ‘idea work’ (Carlsen et al., 2012). Labour- and capital-intensive industries offer little competitive advantage against emerging-market rivals whereas idea-intensive firms in media, finance and pharmaceuticals as well as logistics and luxury cars, continue to flourish. The ‘idea sector’, as MGI defines it, accounts for 31% of profits generated by Western companies, compared with 17% in 1999.

Profits are shifting from heavy industry to idea-intensive sectors that revolve around R&D, brands, software, and algorithms. Sectors such as finance, information technology, media, and pharmaceuticals – which have the highest margins – are developing a winner-take-all dynamic, with a wide gap between the most profitable companies and everyone else. Meanwhile, margins are being squeezed in capital-intensive industries, where operational efficiency has become critical.

New competitors are becoming more numerous, more formidable, and more global – and some destroy more value for incumbents than they create for themselves. Meanwhile, some of the external factors that helped to drive profit growth in the past three decades, such as global labor arbitrage and falling interest rates, are reaching their limits.

As profit growth slows, there will be more companies fighting for a smaller slice of the pie, and incumbent industry leaders cannot focus simply on defending their market niche. Our analysis of thousands of companies around the world shows that the top performers share three traits: they invest in intellectual assets, they play in fast-growing markets, and they have the most efficient operations (Dobbs et al., 2015).

Increasingly, old advantages will not secure new futures. The rise and rise of emergent markets’ multinationals, although these may have setbacks from time to time, is likely to continue. Brazil, for instance, is not often thought of as a highly innovative economy but in its São Paulo based core regional economy it clearly is. Brazil is a major industrial innovator with firms such as Empresia Brasiliera de Aeronáutica (Embraer), the third largest aircraft company globally.

Globalization: Hybridization or convergence?

Globalization mingles and mashes up cultures, with hybrids being the result; it makes curry the English national dish, and sees the niqab become a garment of affirmation – or protest and subjection, depending on perspective and politics – worn around the world (Clegg et al., 2014). It sees young people from global cities fly to the Middle East to become a part of Isis’ jihad, courtesy of global airlines and airports. Anti-globalization groups are just as likely to use the technologies of
globalization, such as the Internet and mobile phones, to articulate protests against it, as are the proponents. Islamic State, for instance, shows a high degree of digital capability.

For some observers, globalization signals convergence. We are sceptical. The world is not converging, as we shall argue in this chapter. The present epoch of global integration is one in which there is an entanglement of disparate trajectories that irreversibly dissolve any autonomous entities such as specific societies, cultures or civilizations. Globalization involves permanent struggles over identity, sovereignty and autonomy. Islamic State is as much a force of and for trajectories of globalization as is Coca-Cola. We are not seeing a homogenization of the world or a sharp opposition between the ‘global’ and the ‘local’. While there are dynamics that are integrating the world there are others that simultaneously fragment, differentiate and stratify the world as radically unequal and decentred (Middell and Nauman, 2010).

**IN PRACTICE**

**Global investments**

London is now one of the most expensive cities to live in, to buy or rent property, in the world. There are a number of factors that have produced this situation, with one of them being the explosion in property prices in the city. One reason for this is the fact that property in global cities such as London has become a way of channelling global wealth into investments that are increasing at an exponential rate (see [www.businessinsider.com.au/london-property-market-and-home-prices-analysis-rics-cml-cab-data-and-interest-rate-rises-2015-11?r=UK&IR=T](http://www.businessinsider.com.au/london-property-market-and-home-prices-analysis-rics-cml-cab-data-and-interest-rate-rises-2015-11?r=UK&IR=T)). The fact that London property prices are increasing so rapidly is seen by many observers as one of the effects of globalization as wealthy people from overseas with considerable capital bid up the prices of even quite
ordinary accommodation (see www.thestandrewseconomist.com/2015/12/07/is-foreign-investment-in-london-to-blame-for-property-prices/). Clearly, as the revelations of the ‘Panama papers’ reveal, many tycoons and world leaders have built substantial property portfolios in London property (see www.theguardian.com/news/2016/apr/05/panama-papers-world-leaders-tycoons-secret-property-empires). The impact of globalization on London property is dramatic – but there are many less dramatic ways in which globalization makes itself felt.

Questions

1. Think about the region that you live in. Are there any signs of the impact of globalization in that region?
2. Looking at the impact of globalization, has the impact been largely positive or negative do you think?
3. For whom do you think, and in what ways, has the impact been largely positive?
4. For whom do you think, and in what ways, has the impact been largely negative?

Globalization: Convergence

The ‘universalistic’ theories of strategy and organization associated with Chandler (1962), Channon (1973) and Dyas and Thanheiser (1976) apply to Europe, according to Mayer and Whittington (1999) and Whittington and Mayer (2000). The convergence theorists stress the emergence of dominant models of divisional structure based on financial markets and professional management in Anglo-Saxon contexts. If we focus only on large-scale quantitative-based research work that deals in Fortune 500 type companies we will tend to see convergence, in part, as an effect of the standardized data sets used.

Convergence theorists argue that organizational logics are becoming increasingly similar. Organizational logics are the outcome of different strategies; they are sense-making frames that provide understandings concerning what is legitimate, reasonable and effective in a given context (Guillén, 2001a: 14; see also Biggart, 1991: 222–224; MacDuffie, 1995; Biggart and Guillén, 1999). When strategy is aligned with action it produces a shared organizational logic. Typically, organizational logics are thought of in terms of an implicit business systems model, because, suggests Spicer (2006), they tend to be embedded in shared spaces, such as the nation state (Granovetter, 1985). Some argue that this is because of the functional efficiency of certain strategy/structure models (Donaldson, 1999, 2000, 2001); others argue that it is because of processes of institutional isomorphism, where, because dominant and prestigious models are dominant and prestigious, they are widely imitated – not because they are necessarily efficient but because they are held in high regard.

The factors that are seen to be leading to convergence are creating a ‘disembedding’ of multinational organizations from national space and seeing them re-embedded into a global space (Giddens, 1990). A number of factors are seen to be driving this disembedding:

1. Real-time technology (Castells, 1996).
2. Volatile capital flows that circumvent the reach of nation regulation (Strange, 1996).
3. Geographically homogeneous consumer demand across the globe.

4. Pressures from international standards (Brunsson and Jacobsson, 2001) on how an enterprise should be managed to ensure ‘quality’; how enterprises should deal with the environmental impact of their operations; how they should manage their risks, knowledge and complaints made against them; how they should keep their accounts and ensure regulatory compliance and probity in other ways (Higgins and Hallström, 2007).

5. Increasing homogeneity of the nation state form, the professions and scientific reason (Meyer et al., 1997).

Because they are subject to these convergent pressures firms become increasingly disconnected from national economies (Ohmae, 1990, 1995) and a largely American-inspired model organization that legitimates shareholder governance, short-term antagonistic employment relationships, short-term price-driven buyer-supplier relations and individual training (Hall and Soskice, 2001) is adopted. The strategy/structure researchers seem to favour this model, drawing equally on cultural learning as the decisive factor in divergence, in which unique institutional advantages assert themselves, and a form of determinism in which the functional efficiencies of US models see them emerging as dominant.

Multinational organizations need to be able to do what they do more efficiently and effectively than local organizations; otherwise, local firms would always be winners due to their deep immersion in local laws, institutions, cultures, norms, etc. Local embeddedness is something that every transnational has to overcome because, at least initially, it is this that has produced the customer preferences of their prospective consumers.

Kogut (2002: 266) suggests that expanding internationally improves firm performance by providing an enhanced incentive for firms to invest in intangible assets, such as copyrights, patents, trademarks and brand loyalty, as well as intellectual property intangibles such as know-how and knowledge. Perhaps most important of all is the accrual of human capital – experienced personnel familiar with local ways of doing business in the multinational who can translate this knowledge globally and learn while doing so. The contemporary multinational is best seen as a network of subsidiaries (Kogut, 2002), linked through networks and global collaborative initiatives that provide global competitive advantage.

Globalization: Divergence

Kostova and Zaheer (1999) argue that establishing multinational subsidiaries opens up the possibility of ‘institutional duality’. On the one hand, headquarters pressure them to adopt their desired practices while the subsidiary is pressurized by its host context to follow local practices. Thus, it has to deal with a double and conflicting set of legitimation expectations about strategy. The greater the ‘institutional distance’ between the home and host countries, the more dualism will be experienced (Xu and Shenkar, 2002), and the more likely host influences will prevail (Morgan and Kristensen, 2006).

Recent studies, especially in what is known as the business systems literature (Whitley, 1991, 1992, 1994a, 1999) and related theory (Djelic, 1998; Hall and Soskice, 2001), argue for more than institutional duality, noting that economic transactions are always locally embedded (Granovetter, 1985), shaped by nationally specific factors, such as structures of ownership, buyer-supplier relations, labour relations
and legal infrastructure (Hall and Soskice, 1999). Moreover, divergent state institutions, such as national industrial relations and tax systems, the financial system, skill development and control, and culturally specific values such as trust and authority relations, produce divergent, nationally specific organizational logics (Whitley, 1999). Many empirical studies document that organizational logics differ markedly across advanced capitalist economies (Wade, 1990a; Whitley, 1992; Fligstein and Freeland, 1995; Storper and Salais, 1997; Fligstein, 2001; Gullién, 2001).

National differences in terms of business practices are seen to influence how firms develop with respect to strategy and structure. Nationally embedded business systems (Whitley, 1999: 117–136) have specific features that globalization can exacerbate (e.g. Hall and Soskice, 1999) because these function as unique competencies in the global market (Biggart and Guillén, 1999). The fact that most Japanese people live in small apartments meant that when it came to the miniaturization of domestic electronic components, such as hi-fi systems, firms had a considerable advantage over those in cultures such as the United States, in which suburban sprawl and larger dwellings were the norm. When Apple needed to learn about miniaturization early in its career it formed an alliance with Sony to do so.

Not all national business models are equal. Capelli (2009) noted the ascendance and dominance of the US business model for most of the twentieth century. At its core were a number of assumptions: corporate ownership and managerial control as opposed to family ownership, more often found in Europe and in Chinese family businesses, for instance; large-scale mass production methods, rather than more flexible production; open markets and informal oligopolies in contrast to the more formal cartels that were common in Europe and to a lesser extent in Asia; multi-divisional form structures, compared with more informal organizational family-based business; a form of workplace-based collective bargaining with largely instrumental – rather than political – trade unions. As Capelli notes, these business arrangements were both imposed on the defeated powers after the war (although with strong national characters, we might say) and spread through example and learning.

While the decade of the 1980s may be said to have been the decade of learning from Japan (Kono and Clegg, 1998, 2001), in the 1990s and the new century US models were reinvented in terms of ‘financialization’ of value and ‘flexibility’. The former meant the ascendency of models of shareholder value and ‘incentivization’ of executives through stock options and other financial packaging; the latter the ‘network’ model that emerged from California’s Silicon Valley from the 1980s onwards, seen by many commentators as indicative of future strategy. If one compares it with the corporate American model whose heyday flourished in the 1950s and the 1960s, they are sharp contrasts with each other (See Table 7.1).

The core of the Silicon Valley model is its project basis that depends for its success on a ready pool of known, mobile and highly technologically qualified labour that can learn and move fast (Saxenian, 1994; Bahrami and Evans, 1995; Casper, 2007). The project form also encouraged the roles that venture capital plays; risks could be spread and realized with relatively low transaction costs. The strategy is one of backing ideas that will disrupt, reconfigure or create markets, forming projects to develop them and rapidly realizing gains or moving on quickly. These project-based knowledge networks seem to be quite specific to certain sectors of business activity, such as highly knowledge specific and highly trained technological expertise in areas such as information technology, biotechnology and nanotechnology. Moreover, they rely on a specific kind of infrastructure of defence contracting, large pharmaceuticals or a sophisticated health-based industry ready to buy-in innovation, and research-based universities with
either private, state or a mix of funding, to supply the knowledge-based personnel in a national innovation system (see Chapter 4).

**Globalization: Hybridization**

Knowledge and innovation are increasingly being outsourced internationally; moreover, new firms from emerging-market countries are increasingly diversifying into international markets. Companies such as the Indian conglomerate Tata, through their subsidiary Corus, owned and controlled significant overseas assets, such as British steel mills, which they are presently divesting at the time of writing.
Global investments and the learning that accompanies them can produce cross-fertilization and hybridization (Abo, 1994), with a translation of practices occurring from one place to another (Czarniawska-Joerges and Sevón, 1996). Spicer (2006) notes such translations occurred when Japanese total quality management moved into the USA (Abo, 1994), when North American scientific management and British human relations moved into Israel (Frenkel and Shenhav, 2004; Frenkel, 2005) and when North American corporate governance moved into Germany (Buck and Shahrim, 2005). In each case what was being globalized changed as it was adopted in situ. Recently, the focus on translation of business practices has been on what a consultant termed the BRICs – newly emerging economies, in this case, Brazil, Russia, India and China, although sometimes other emerging economies such as South Africa, are spotlighted.

The BRICs and strategy

The collective term BRIC was developed, as we have said, to describe the 'emerging economies' of Brazil, Russia, India and China, all of which departed in various ways from a convergence in their business models with those dominant in the US, with the central government controlled China doing so most evidently. When Jim O’Neill, the Chief Economist for Goldman Sachs coined the term in 2001, he bundled these countries together as large emerging economies that he anticipated would become increasingly important in redefining the global economy. With new players came new approaches to strategy, translating the terms of existing models.

The BRICs have not evolved similarly. Brazil and Russia are in deep economic crisis, in part due to their mutual resource dependence and in Russia's case, the effects of sanctions imposed as a result of its recklessly nationalistic foreign policy adventures. China's economy is slowing while India's still maintains momentum but is hindered by major legacy issues in terms of infrastructure, posing massive opportunities for reform of sclerotic institutions.

The collective categorization device of BRIC might lead one to suppose that these countries are likely to demonstrate increasingly convergent organizational forms; overall, the soubriquet of the BRIC countries constitutes a meaningless category, precisely because the category encapsulates four vastly different countries, Brazil, Russia, China, and India, which share, at best, only a tendency for their largest domestic organizations to adopt a common conglomerate form. Each has distinct institutional histories and trajectories, just as was the case for the established global powers.
All transitions from pre-modernity to modernity, from a society dominated by feudal agrarianism to one dominated by industry, have been based on historical access to massive resources at minimal cost to the state.

1. **Brazil** was the last state in the Americas to abolish slavery and in its early plantation economy and long history of protectionism it followed the early US model.

2. **Russia**: The Soviet Union gained control of resources of labour and nature through collectivization and state capitalism. Modern Russia inherited the legacies of the Soviet Union, which in some respects, regarding collectivization, were a model for China.

3. **India** retained many of the elements of a colonial state bureaucratic superstructure that it inherited from British institutions.
4. **China** initially followed a Soviet model but with disastrous demographic and economic consequences in the 1950s and 1960s. After 1979 it became more open to controlled foreign investment and developed a globally export-oriented economy in parallel with the state-owned enterprises sector.

**BRIC: A Useful Category?**

- There are considerable differences between the BRIC countries. India has a dynamic market economy and democracy emerging from a Soviet-style planned economy, with a strong and globally represented manufacturing base; it is politically stable; it enjoys democratic government; it represents huge regional diversity and strong regional identities. It has a youthful and fast growing population. Russia, by contrast, is a far more corrupted state with the semblance of democracy dominated by the executive and by politically favoured oligarchs that are largely resource-based; while it is politically stable it has dangerous undercurrents of Russian nationalist neo-fascism. It is also suffering a demographic collapse constituting an increasingly ageing population that is distinct from the other BRIC countries, one for which, short of pandemic conditions, there is no historical precedent (Jackson and Howe, 2008: 10).

- Brazil was until relatively recently a military dictatorship, albeit one that has succeeded in democratization and a relative defeat of runaway inflation, once the scourge of Brazil; corruption, which was the hallmark of the Fernando Collor de Mello presidency in the early 1990s, remains a major problem, especially in the political systems of the national government and the states (Brum, 2016). It has large and dynamic internal markets, huge regional diversity and resources aplenty. Its government is social democratic. Communication infrastructure is better in Brazil than in India, Russia or China.

- Each of these BRIC countries has seen the state promote imperfectly competitive markets to achieve growth simultaneously with protectionist policies, which has created a characteristic conglomerate organization of business groups that has evolved to serve many markets and offer a diversity of unrelated markets, such as the Votorantim Group in Brazil, Haier in China, Alfa Group Consortium in Russia and Tata in India. Each of these conglomerates share common structural elements. Within each there exists a core group of manufacturing and banking enterprises surrounded by a wide web of financial institutions, and manufacturing and distribution across a broad basket of unrelated products. In each case, this structure is a reaction to the context of centralized economic planning from which these conglomerates emerged. These conglomerates developed to deal with less than wholly competent governments and problems arising from hopelessly underdeveloped markets. The organizational forms of these dominant groups look more like the Korean *Chaebol* than they do recent dominant US models.

The changing reality of BRIC investment globally limits the applicability of much of what we accept as knowledge about globalization strategies because so much of this knowledge has been based on large manufacturing firms based in the United States. We don’t know if this knowledge is applicable everywhere where there is high institutional distance between home and host countries. Recent work by Cappelli
and his colleagues (2011) suggests that there are now opportunities for the United
States and other major developed economies to learn from innovations in countries
such as India.

Both India and China have institutional contexts in which government and its
agencies have been important in steering development (Dunning and Narula, 1996).
Being foreign in these strongly nationalist contexts can be a liability, especially when
the institutional distance between home and host country institutions is large; where
languages, religions, laws, cultures, folkways, norms and mores all differ sharply.
For instance, in situations where political imperatives dominate all other institutions,
including legal processes, there are widespread opportunities for foreign businesses
to land in trouble. Where there is a huge and impenetrable bureaucracy to circumnav-
igate in order to do business the risk of taking short cuts that line some importuning
official or middleman’s pockets is always present. Local practices and governance
standards in the home base do not necessarily coincide (see van Iterson and Clegg,
2008 for the case of the Australian Wheat Board and Saddam’s Iraq); the same provisos
hold for high profile cases in China (Rio Tinto) and India (Lockheed), while the prob-
lems of an absence of due process and natural justice are legion in Russia where out
of political favour plutocrats can be easily imprisoned if the state deems it necessary.
In Brazil, allegations of corruption have recently rocked the political elite with charges
of corruption being laid against past presidents Lula (Simoes, 2016) and Rousseff.

China and India are the strongest emerging markets; consequently, both outward/
inward foreign direct investments (FDI) from/to them are significantly on the rise.
Recently, in both India and China, a number of firms have begun to internationalize;
as global players in international markets they are developing the capacity to organ-
ize their overseas operations systematically and seeking to integrate their existing
practices into new acquisitions (Hansen, 2005). Both Indian and Chinese capitalism
display elements of what has been referred to in the literature as ‘late development’,
an argument initially applied to Japan and subsequently to the emergent economies of
East Asia, notably Taiwan, South Korea, Hong Kong and Singapore. Late coming firms
within these countries engaged in outward investment to gain knowledge of practices
in technology and business in the more developed economies (Matthews, 2002: 471).

Building on initial competitive advantages, such as low labour costs, East Asian
firms developed higher-value products to move into more sophisticated markets –
classic cases being Korean firms such as LG and Samsung. International investment is
a means of addressing initial competitive disadvantages for firms in such economies.
In the case of Haier, in China, the firm began to go global because the municipality
in which it was located promoted its conglomeration of other firms; once established,
the firm learnt managerial methods from a combination of German engineering
principles and textbook knowledge of Japanese and American management. The
emergence of the firm, now a major player in the global white goods industry, was a
story of hybridity.

A similar hybridization appears to be at work in India. Cappelli et al. (2011) note
that many Indian managers have been trained in Western business schools and took
back the ideas that they had learnt. As they returned they developed a different way,
partly similar but also partly different, of organizing and doing business. Indian manag-
ers, they suggest, are more holistically engaged with their employees than in the west;
they innovate in and out of adversity and, because of the context of relative poverty,
they are able to develop ‘out of the box’ value propositions. They do so by placing their
emphasis not so much on shareholder value but on community, country and family.
China – organizations and global strategies

Some western commentators, such as Jacques (2009), see China as a harbinger for modernity’s global future. Jacques (2009: 29) argues that the proposition that ‘there is only one modernity and it is western’ is fallacious. As he puts it, ‘Far from western universalism we are entering the age of contested modernity.’ China’s modernity helps constitute many of the possibilities of contemporary global flows of goods, credit and commodities. He sees this as presaging a new divergence rather than it being a convergence on already existing business systems.

Some other western observers, such as Hutton, remain sceptical about the strategic innovative potential of Chinese enterprise. As Hutton (2007b: 4) states:

China must become a more normal economy, but the party stands in the way. Chinese consumers need to save less and spend more, but consumers with no property rights or welfare system are highly cautious. To give them more confidence means taxing to fund a welfare system and conceding property rights. That will mean creating an empowered middle class who will ask how their tax renminbi are spent. Companies need to be subject to independent accountability if they are to become more efficient, but that means creating independent centers of power. The political implications are obvious.

Hutton’s (2007b) view is that if the Chinese middle class is to develop more confidence and entrepreneurial energies, developing new organizational forms, it will mean greater taxing of incomes and profits to fund a welfare system as well as concessions on property rights. That will mean companies being subject to independent accountability as centres of business power and more efficient markets. For Hutton (2007a; Jacques and Hutton, 2009) ‘China’s economic and social model is dysfunctional. It is not just corrupt and environmentally dangerous. It is wildly unbalanced and lacking in innovation.’

Go Online: The potential for corruption in the People’s Republic of China is clearly signalled in the revelations about China in the Panama Papers. You can read more about this in an article by Juliette Garside and David Pegg on The Guardian website titled ‘Panama Papers reveal offshore secrets of China’s red nobility’.

You can find a link to this article on the companion website for this book: www.edge.sagepub.com/strategy2e.

In China four factors have combined to create the conditions of the current national business strategy:

1. The state owns all the land.
2. China has easy access to global raw materials both from foreign direct investments in Africa and through open markets in Australia and Latin America.
3. The Chinese government controls an endless supply of cheap and highly exploitable labour.¹

4. China, as the most significant creditor state, is the source of massive capital inflows into the US, servicing its indebtedness, in part to consume the global flow of commodities that are produced in China under authoritarian developmental state conditions readily available and exploited by foreign capital.

It is China that exercises centrifugal force in the contemporary world economy and China cannot be assumed to be converging with dominant Western organizational forms, despite the extensive trade, tourist, investment and educational links that exist. Huge regional variations make the notion of ‘China’ as a unitary state deeply problematic. It is characterized by demography that makes the absorption of a surplus, rural and youthful population in large-scale organizations (in which its military bureaucracies are at the forefront) an absolute imperative. Its provinces are larger than most European countries and its large cities are much larger than their European counterparts. The regions are more important than the whole.

Translation of ideas about organization flow into China through two main conduits: the state and foreign direct investment. China is a corrupt state subject to absolutist party domination with no real semblance of democracy. Recent anti-corruption campaigns have been designed by central political figures in part to disgrace political opponents within the Communist party as well as to weed out corruption. These campaigns are having unintended consequences for entrepreneurship. Much of the entrepreneurship occurring in areas such as construction was linked to the bribing of public officials for permissions. With the crackdown, housing investment is falling and large numbers of speculatively built apartments remain empty, with sales slow. Real estate decline has translated into substantial decreased demand for commodities and energy.

In many Chinese industries, particularly in the state sector, there are high levels of underutilized capacity that a hesitant government, fearing a loss of legitimacy and aggravation of a slowing economy, is reluctant to act on. These problems are feeding into economic activity more broadly: steel is massively overproduced as are coal, ships, cement and energy generation – both carbon and clean.

The capacity usage rate in the power, metals and mining sectors has fallen to around 70% or less and in the beleaguered shipbuilding industry, it is even lower, at about 60%. Up to three-quarters of China’s coal mining companies are losing money, and painful as it will be, many mines will be closed, entailing the loss of hundreds of thousands of jobs. (Magnus, 2016)

Under these conditions a great deal of what passes for strategy in Chinese state-owned enterprises occurs not so much at the corporate level but at the levels of national and regional politics.

¹In addition to well-publicized resistance such as Tiananmen Square in 1989, there are considerable subordinated ethnic, religious and local contestations, often condensing around peasant resistance to local bureaucracy, taxation and corruption. Individual resistance also occurs; local riots, often over local corruptions and taxes, are not uncommon. The state in China is not as monolithic as it sometimes appears to be to outside observers; much local resistance occurs. Scandals often are associated with supply chain subcontracting. The practices of Apple’s subcontractor, Foxconn, in Shenzhen, reveal extreme cases of child labour, excessive overtime, authoritarian management, sexual harassment, falsified records and suppression of rights (Hickman, 2010; Yinan, 2010).
It is the state, since the late 1970s, that has orchestrated translation of market ideas and in doing so freed up the resource capabilities that underlie China’s dynamic organizations. The state has built an export-oriented economy largely dependent on foreign investment, which is, in turn, often implicated in local corruptions; it is politically unstable, with government by the Communist Party and many of its leading state-owned enterprises closely linked with high officials in the People’s Liberation Army. The energy requirements of its rapid modernization have led to widespread pollution, which a substantial rise in the use of green technologies will not quickly abate.

The Chinese state is marked by strongly regionally regressive tax policies of the central state as well as a low level of official tolerance for various forms of regional autonomy. The Chinese state is ‘a loose system of bureaucratic institutions and practices … an imaginary of legitimate power, an ideological construct that is an historical product of discourses that shape perceptions of domination and coercion’, as Pieke (2004: 518) suggests. One corollary of this is that there is little in the way of robust civil society outside the state.

Facing an extremely weak development of civil society, including a weak system of NGOs, or of democratic decision-making outside the Communist Party (which actually is internally very competitive), the Chinese Central Government sees the free flow of information as the biggest threat to the legitimation of their power. Giving up attempts at domestic control of media communication is one of the last things the Chinese government would compromise. Google was eventually persuaded to move out of China as a result of the contradictions of both ‘doing no evil’ and accommodating with the Chinese government’s control of communication flows.

**Current Trends in China**

**Chinese family businesses**

Domestically owned industry tends to be dominated by Chinese family businesses. These were in the recent past characterized by owner control and relatively simple hierarchies, primarily financed from reinvestment of profit, lacking professional management, with low capital intensity, not fully functionally integrated, with little or no product and market development (Carney, 1998: 156). Carney (1998: 157) saw the ‘desire for family control and income … [as] likely [to] inhibit the development of organizational capabilities since it deprives the firm of the research, marketing and human resources assets needed to compete in technologically advanced markets’. An indigenous organizational ecology based on firms that are ‘highly diversified and are organizationally segmented into separately managed units’ (Hamilton, 1996: 291–292) premised on webs of countless personal relationships (Fei, 1992: 32; see also Yeung, 2000) developed from this domestic industry.

Today, many firms are evolving from a simple familial model in which they were subcontractors, to more complex network modes of organization. The familial form is being transformed by the employment of a growing stratum of professional middle managers. University graduates are being employed in larger numbers than hitherto, mainly in product development and design departments and in technical positions. Liaison with universities is being cultivated to access research and development facilities and to ensure access to the best and brightest technical graduates. In consequence, day-to-day control of manufacturing operations is being delegated (Chan and Ng, 2000). With day-to-day operations under the control of professional managers, the owners are able to focus their attention on business development opportunities either
independently or with US, European and Japanese partners whose branded goods they have been manufacturing for several years. New business development opportunities include the key long-term objective of developing own branded products not only for the Chinese but also the US and European markets. With few exceptions, however, Chinese brands are at present globally unknown: they are sustained by an enormous domestic market and so are barely visible overseas. Despite the organizational network innovations that may be producing them, Chinese brands are not known globally for their uniquely innovative or creative content; largely they are ‘me too’ brands or have been bought in, such as Lenovo.

One form of innovation in China that is widespread is the copying or plagiarism of overseas brands for local consumption.

**Shanzhai**

Copying other firms’ products and brands is a well-known business strategy. In China it is elevated to new heights and goes by the name of *Shanzhai*.

Basically, the Shanzhai economy is a pirate economy in which ideas are stolen and things copied. While premised on imitation as theft, however, the imitation can lead to innovation. Technologies and customer expectations co-evolve in an innovation network; for example, mobile phones have features built into them to suit local conditions such as the lack of reliable electricity supply: solution – put a torch in the mobile.

Although every Shanzhai company differs, they have a number of features in common. Their focus is on the domestic market and adapting ideas for the market. Because they do not have to innovate the basic product or respect licensing laws they are able to achieve very short cycle times in introducing products. Costs are kept low for this reason although quality is often not as good as the originals that are copied.

**How Innovative are China’s Businesses?**

The major actor in China’s globalization, apart from the state and a very loose network of provinces, regions, counties, cities, towns and villages, is foreign direct investment (FDI). In terms of FDI, a large part of China’s attractiveness is its low labour costs as well as close access to suppliers, customers and markets. Essentially, most firms from outside China are there to access these factors. In such a state-society constituted as a very loose network of relations it is FDI that connects China with globalization.

Globalizing investment strategies in search of low labour costs as well as close access to suppliers, customers and markets means that a great deal of what global consumers purchase today is made in China. Its manufacture has meant an unparalleled boom in resource-based economies elsewhere and increasing levels of domestic saving in the PRC. Hutton (2007b: 4) sees this saving as in part a response by highly cautious consumers with no property rights or welfare system. Low interest rates in the core economies of the world economy have helped push consumer demand for Chinese manufactured goods, creating a more empowered Chinese middle class whose surplus wealth has created a highly speculative market in shares and property.

China’s globally oriented economy is materialized in what Gallagher (2007) terms ‘market nationalism’ and is fuelled by strictly regulated FDI. Many of its state-owned enterprises represent forms of state capitalism more befitting of fascism than an ideal communist society, yet in its interstices entrepreneurial strategic interest groups of differing normative hues and characteristics populate niche spaces (Heberer, 2003).
The business systems that are developing in China are not yet innovative for the world in a similar way to the systems that emerged from early twentieth century America. China’s state enterprises and PLA-owned firms are dominated by coercive management systems and exploitative labour relations premised on basic US models, with strong state direction in economic development, mobilization of resources and the picking of winners in industry. Nonetheless, China over the past 30 years has seen considerable functional, political and social pressure (Oliver, 1992) for the deinstitutionalization of Maoist norms, aiding the development of a new hybridity (Gamble, 2010).

One endogenous element in Chinese hybridity has been the development of an indigenous organizational ecology based in part on firms that are ‘highly diversified and are organizationally segmented into separately managed units’ (Hamilton, 1996: 291–292) based on webs of countless personal relationships, rather than a framework of organizations (Fei, 1992: 32; see also Yeung, 2000). In rural areas this Chinese network model of social relations, *cháxíegeju*, has proven to be dynamic in terms of business development and, contra Hutton, innovation (at least organizational innovation).

**Innovation in China**

Innovation in China can be seen in various ways. For one thing, a Chinese company, Huawei Technologies, is now the number one filer of patents under the Patent Cooperation Treaty. There are a number of ways in which innovation is occurring, although one should express a caution: in a country whose provinces are larger than most European countries, and whose large cities are much larger than their European counterparts, it is virtually impossible to generalize.

1. **Endogenous innovation:** Firms are evolving from a simple familial model in which they were subcontractors, to more complex network modes of organization. The familial form is being transformed by the employment of a growing stratum of professional middle managers. As noted university graduates are being employed in larger numbers than hitherto, mainly in product development and design departments and in technical positions. In Wenzhou, by 1990 more than 3,000 families were involved in producing lighters through more than 700 private family businesses, with a division of labour between them. Their costs diminished and they entered the world market, to outcompete Japanese and South Korean firms. There are numerous such highly competitive, family-based networks, usually clustered in a geographical area, with high flexibility and low costs, and also, increasingly, high levels of knowledge and technology. In the rural area of Shengzhou by 2002 more than 1,000 family-based firms made 250 million neckties a year. In two years they invested about AUD$ 25 million in new technologies and collaborated with European designers and quality experts enabling them to deliver ties to the big fashion houses, such as Armani. They collaborate with the fashion industry on design via software over the Internet and make new products from new designs in 24 hours.

2. **Exogenously introduced innovation:** As well as endogenous sources of institutional innovation, exogenous innovation translated through strategic alliances with Western multinational firms are crucial sources of technology, capital and market resources for the transformation of Chinese family enterprises into more open structures integrated into the production networks of MNE countries (Zhang and Van Den Bulcke, 2000: 142). It is joint ventures that are doing most global product research in China, with local firms more engaged in product development or adjustment for local
markets, while the state-owned enterprises are hardly innovative at all (van der Windt et al., 2009). Exogenous innovation translated through strategic alliances with Western multinational firms are crucial sources of technology, capital and market resources for the transformation of Chinese family enterprises into more open structures integrated into the production networks of major MNE countries (Zhang and Van Den Bulcke, 2000: 142).

3. Institutional innovation: Liaison with universities is being cultivated to access research and development facilities and to ensure access to the best and brightest technical graduates. In consequence, day-to-day control of manufacturing operations is being delegated (Chan and Ng, 2000). With day-to-day operations under the control of professional managers, the owners are able to focus their attention on strategic opportunities. These opportunities might be explored independently in the domestic market or be born in association with overseas partners, usually from the major MNE regions of Japan, the US or Europe. Locally developed brands, often shanzai in origin, will be unlikely to go global unlike joint ventures.

4. Patents: Zhang and colleagues (2010) present data showing that the amount of IP registered through patents is both changing in form and increasing in number in China. It is becoming less a matter of imitation and more genuinely innovative.

Typically, researchers of China follow what Tsui (2006: 2) calls the ‘outside in’ approach that seeks to apply existing theories in the Chinese context. The assumption is that while management and organizations are universal phenomena the general theory can be informed by the specificity of political, cultural or other contexts (Whetten, 2009: 49). As an approach this is limited, especially with respect to China and its ubiquity. As Child (2009: 64) suggests,

The problem with much of the research that has been conducted in this vein so far is that the theories applied are a-contextual and, therefore, inherently insensitive to context. As a result, empirical research comparing China with other countries has not generally incorporated measurements of the respective contexts in its a priori design but, rather, has brought in context as a post hoc explanation for differences that are found.

In contrast to ‘outside in’ Tsui (2006) identifies the ‘inside out’ approaches. As Child (2009: 65) says, to do such research requires a

[D]eep knowledge of China and the subtleties of its norms and institutions. It calls for time to be spent in the country, ideally using a grounded approach through observation within organizations and discourse with their members … [that] … is resource- and time-consuming, even applied to only one country. An even greater challenge comes from the fact that the outward intention of the ‘inside out’ approach also requires some comparison outside China, aimed at confirming or refuting the proposition that the Chinese context is different from that found elsewhere. The extent and nature of any such differences can also contribute to an assessment of how far the concepts and explanations offered by foreign theories can encompass Chinese management. Organizations having units both in China and elsewhere may provide appropriate settings for this
kind of enquiry because they should allow both for close and detailed understanding and for cross-national comparison while keeping other contingent factors relatively constant.

Summary

The twentieth century was the American century in many ways, not least in terms of the development of dominant models of global strategy, which we have reviewed in this chapter. The dominance of North American theories, models and practices of strategy has given rise to a significant degree of debate about whether or not these are culturally embedded and politically dominant models or really the best way of organizing global business. The jury is still out on this but it is notable that the business systems literature would seem to suggest that the US models have a fairly limited remit and that, in the wake of the Global Financial Crisis, US models will be likely to have diminished legitimacy especially in so far as they have elements of financialization implicit in them. While US models work well for Anglo-Saxon liberal market economies their purchase is far weaker when applied to emerging nations with coordinated market economies. On balance the trends in strategy appear to be neither processes of convergence nor divergence but rather ones of hybridization. Hybridization develops where firms follow glocal strategies – that is they try to go global by entering into some form of local relationship with organizations in another country.

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EXERCISES

1. Having read this chapter, you should be able to say in your own words what the following key terms mean:

   • MNE
   • Globalization
   • Glocalization
   • Hybridization
   • Multi-divisional form
   • Arbitrage
   • Multinational corporations
   • Decentralized federation
   • Centralized hubs
   • Matrix organizations

(Continued)
2. Why is investment in another country likely to be more difficult than investing at home? What are some of the models that can be used to make such investments?

3. How meaningful is it to talk of the BRICs?

4. What models of global strategy are available to multinationals?

(CASE STUDY)

Infomedia

STEWART CLEGG

Infomedia Ltd is a publicly listed Australian company that has become a leading supplier of electronic parts catalogues for the global automotive industry. The company is headquartered in Sydney and has support centres in Melbourne, Europe, Japan, Latin and North America. While not ‘born global’, it quite rapidly became so.

The company first expanded into international markets by partnering with other businesses, before distributing more of its product itself through wholly owned subsidiaries. As is typical in many such enterprises, its customers dragged Infomedia into the world market. Infomedia was founded in January 1990 and initially distributed other parties’ software under the name of Infomagic but later transformed into a software development company. Today, Infomedia’s electronic parts catalogues have become the global standard for the automotive industry, shipping to more than 50,000 dealers in over 160 countries and 25 languages.

The seed of Infomedia was the purchase of the intellectual property for Apple software that enabled the conversion of automotive microfiche and books into user-friendly, digitized catalogues for electronic parts. The inventor of this software, Wayne Sinclair, joined Infomedia as its lead program engineer. Infomedia soon secured its first client, Ford Motor Company Australia, and by December 1990 had developed its first product: Microcat. While others in the market were selling hardware and software packages on five-year contracts, Infomedia offered monthly subscriptions with no obligation to continue purchasing. Subsequent Australian clients were acquired through Nissan and Daihatsu.

Infomedia’s first export opportunity arose in 1996, when Ford invited the company to attend a meeting with Ford Europe. The challenge for Infomedia was quickly to produce a catalogue in 17 languages and to beat large competitors. Infomedia’s founder, Richard Graham, decided to show Ford Europe what Infomedia could do, so he flew part of his team to Europe, where working from different countries they pulled the product together and made their first export sale in September 1997.
Infomedia’s first international success was critical in several respects. First, it marked the beginning of the company’s profitability. Secondly, it vindicated the generous and crucial assistance that Infomedia had been receiving from Austrade. Thirdly, it initiated Infomedia’s partnering with distributors (Clifford Thames in Europe and the USA, DHL in Europe).Fourthly, the company’s relationship with Ford propelled it in succeeding years into Japan, Canada, the USA, and then all of Ford’s emerging markets.

Infomedia’s rapid international expansion meant that it went from having a distribution of 19 markets, mainly in Europe, to over 100 worldwide. In 2002, Infomedia completed its first foreign acquisition: a division of US technology services company EDS. This acquisition gave Infomedia a license to serve General Motors, which it combined with its previously obtained license to serve Toyota.

By 2004, Infomedia’s growth and development was prompting it to shift away from its original business model of third party distribution towards direct dealings with original equipment manufacturers (OEMs). Infomedia was increasingly finding that automobile manufacturers wanted to talk to them directly.

In July 2004 Infomedia established a new entity in Europe to directly manage its in-country relationships with the OEMs. In September 2005 the company also established an entity in North America to do the same. All European customer service is performed in Sydney headquarters, which operates two shifts in a call centre that covers business hours across all international time zones.

So what have been the key determinants of Infomedia’s international success? According to CEO Gary Martin, Infomedia’s competitive edge can be attributed to its superior technology, its low-cost and agile production and its Australian foundation.

While competitors produced on PCs, Infomedia made use of Apple Macintoshes. These allowed for better catalogue design and search capacity, as well as language switching without rebooting.

Additionally, Infomedia demonstrated that it could operate at a lower cost and faster turnaround of product than competitors. Indeed, Infomedia has had to educate one of its major distributors, who was used to a much more leisurely turnaround. In Martin’s words: ‘Distributor education is always a big one’.

Finally, Infomedia has taken advantage of its Australian origin. On the one hand, Infomedia can draw on Australian businesses’ reputation of being somewhat rough but highly effective. On the other hand, being based in Australia’s time zone and in multicultural Sydney enables Infomedia to employ a multilingual workforce that operates globally tomorrow, today.

Source: www.nswbusinesschamber.com.au/?content=/channels/International_trade/Import_Export_assistance/Growing_exporters/casestudy_infomedia.xml

QUESTION
Identify a case of a company such as Infomedia from your own country from any sectors. What key factors in the case have enabled it to become an MNE?