Research Conference

“MANAGEMENT OF CHANGE IN MULTINATIONAL COMPANIES: GLOBAL CHALLENGES AND NATIONAL EFFECTS“

- DOCUMENTATION -

Venue:
Humboldt Universität zu Berlin
16/17 November 2001

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- List of Participants

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- Schmidt, G.: “Standort Deutschland” versus “Modell Deutschland”.

PROGRAMM

FRIDAY - 16 NOVEMBER 2001

9. 00-9. 15 Welcome and Introduction

SESSION I: CHANGE MANAGEMENT IN MNCs: NATIONAL AND GLOBAL EFFECTS

9. 15-10. 00 Professor Dr Arndt Sorge
(University of Groningen, The Netherlands)
Management of Change in MNCs:
Some Implications from the Societal Effect Approach

10. 00-11. 15 Dr Mike Geppert, Dr Dirk Matten, Dr Karen Williams
(European Business Management School,
University of Wales Swansea, UK)
Change Management in MNC:
How global convergence intertwines with national diversities

Comment: Dr Christel Lane,
(University of Cambridge, UK)

11. 15-11. 30 Coffee Break

11. 30-13. 15 Open Discussion of the Papers given in Section I
(Introduced by Comments from Senior Managers of Companies from the Sample of the Anglo-German Research Project)

13. 15-14. 30 Lunch-Break

SESSION II: MNC: POLITICS, CO-ORDINATION AND CONTROL

14. 30-15. 15 PD Dr Karin Lohr, Florian Becker-Ritterspach, Knut Lange
(Institut für Sozialwissenschaften,
Humboldt Universität zu Berlin, Germany)
Co-ordination and Control Mechanisms and their Impact on Change Management
15. 15-16. 00  Dr Tony Edwards (Kingston University; UK)
  Structure, Politics and the Diffusion of Change Management Concepts in MNCs

16. 00-16. 15  Coffee Break

16. 15-18. 45  Open Discussion of the Papers given in Section II
  (Introduced by Comments from Senior Managers of Companies from the Sample of the Anglo-German Research Project)

19.00  Dinner

SATURDAY - 17 NOVEMBER 2001

SESSION III:  GLOBALISATION AND THE IMPACT ON THE DESIGN OF NATIONAL BUSINESS SYSTEMS

9. 00-9. 45  Professor Dr Gert Schmidt
  (University of Erlangen-Nuremberg, Germany)
  Globalisation - the 'German Modell' of Industrial Relations on Trial!

9. 45-10. 30  Dr Martin Brussig
  (Centre of Social Research, Halle, Germany)
  Extending the perspective: Small and medium sized enterprises as partners and competitors to MNCs

10.30-11.00  Coffee Break

11.00-12.15  Open Discussion of the Papers Given in Section III
  (Introduced by researchers of the Anglo-German Research Project)

12.15-13.00  Concluding Discussion and Conference Wrap-Up

13.00  End of the Conference
Preliminary Remarks

The research conference on “Management of Change in Multinational Companies: Global Challenges and National Effects” from 16th to 17th of November 2001 was funded by the Anglo-German Foundation. As organisers and in the name of all participants we would like to express our thanks for the funding. Without the financial support and commitment of the Foundation it would have been impossible to organise the conference. The presentation and discussion of new empirical data makes a significant contribution to two of the Anglo-German-Foundation’s Research Areas: “Employment and Unemployment” and “Adjustment to European and Global Change”.

Moreover, we also would like to express our particular thanks to the firms we investigated. Without their support, their openness and friendliness we would not have been able to conduct the empirical research, which is the basis for generating new scientific findings.

Last but not least we would like to thank all speakers and participants who have - with their papers and comments - contributed to very fruitful discussions and to the overall success of the conference.

The conference was held at Humboldt-University in Berlin and jointly organised by researchers from the Institute for Social Science of the Humboldt-University as well as from the University of Wales, Swansea.

The purpose of the following compilation is to document the course of the conference as well as its results for the Anglo-German-Foundation. In addition, it also aims to provide all participants with the conference material for review and further research. The papers in the appendix of this the documentation are working papers and in a preparatory stage for publication. In this context we would like to refer to the forthcoming book entitled “Challenges for European Management in a Global Context-Experiences from Britain and Germany” to be published by Palgrave in 2002. The publication is being edited by the Welsh research group (University of Wales, Swansea) and will include four papers from the conference- those given by Martin Brussig, Mike Geppert et al., Karin Lohr et al. and Gerd Schmidt.
Objectives of the Conference

(Karin Lohr, Humboldt-University, Berlin/Mike Geppert, University of Wales, Swansea)

The aim of our workshop was to provide a deeper understanding of how change management in MNCs influences the pace and direction of the so-called globalisation process. At the centre of interest was the question of whether these change concepts are globally developed and implemented or whether national differences prevail in how change management processes take shape.

One aspect of the workshop was the presentation and discussion of our Anglo-German research project investigating the processes of organisational change and innovation in multinational companies operating in a heavy engineering sector. We seek to broaden our horizons and knowledge and invited experts in the fields of cross-cultural comparison in Europe to this conference.

The conference started with a brief introduction of the research projects ASYS (Humboldt-Universität) and GLOBE (University of Wales).

ASYS: “Development and formation of work-systems in an intra- and inter-organisational perspective in multinational corporations”

At the heart of the project “ASYS”, undertaken by the German research group, is the idea that the international competitiveness of companies depends on the development and implementation of innovative organisational and production concepts. We investigated these processes in international engineering companies, including their headquarters, and tried to highlight what makes for successful management of change.

ASYS is funded by the German Research Foundation (DFG) and is a part of a broader research complex entitled “Regulation and Restructuring of Work in Times of Globalisation and Decentralisation” (“Regulierung und Restrukturierung der Arbeit in den Spannungsfeldern von Globalisierung und Dezentralisierung”). At the heart of the research project lies the investigation of interactive patterns and processes that constitute the development and formation of work systems. To empirically grasp the development of works systems (or of organisational forms) we focused on reorganisation activities as an expression of such formation processes. Thus our research focus was to identify and classify reorganisation activities (i.e. actors and interaction patterns) and to investigate if and how similarities and differences between and within MNCs can be attributed to differences in

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terms of embeddedness, that is micro-level (in the corporation), meso-level (industry) and macro-level (national institutions and globalisation pressures) embeddedness.

The study adopts a multiple case study approach. The justification for this embedded case study approach flows primarily from two aspects of the research question. That is: 1) the depth of analysis it requires and 2) the processes perspective it involves. Thus, given our prime research interest to investigate patterns and interactive processes that are seen underlie the formation and development of works systems, qualitative case studies appeared to be an appropriate means to gain an in-depth and holistic understanding of such intricate processes.

**GLOBE: “Globalisation, Organisational Behaviour and Environmental Management”**

The GLOBE research group was founded in 2000 and is already an important and growing branch of research in the School. The Group is led by Dr M Geppert and also includes J Boggis, Dr D Matten, Dr K Williams and two postgraduate students. The objectives of the group are to produce and disseminate research output of high quality in the fields of globalization of corporate activities and organizational behaviour.

The aim of the group is to bring together the expertise of its members in both joint and individual research projects. As research on globalization issues involves an interdisciplinary input, the group sees special value in the different backgrounds of its members, which are social sciences and organization theory (Geppert), business administration, business ethics and environmental management (Matten) and human resources and industrial relations (Boggis, Williams).

Key achievements of the group are the joint research study with the **WSYS Project** ("The Design of Work Systems and the Role of Corporate Governance Structures: A Comparative Analysis of German and British Heavy Engineering Companies"). Group members also pursue individual research interests. So, for example, Geppert is undertaking research on management and organizational development in transforming societies and is one of three convenors of the Standing Working Group "Organisational change in transforming societies" for the 17th EGOS Colloquium in 2001 Lyon, France. Together with Clark (Royal Holloway College), he is currently editing a Special Issue of Human Resource Development International. Matten is also working on globalization and the theory of the firm, an interdisciplinary project linking management science to political sciences and philosophy, and is conducting empirical and conceptual research work in globalization and corporate
environmental policy. Boggis has undertaken extensive empirical research in manufacturing industry, looking at the effects of globalisation on approaches to collective bargaining and on the intensification of work in the textile industry and has published her work in the journal ‘New Technology, Work and Employment’. Williams is looking at the industrial relations implications of different forms of change management in MNCs.

The Course of the Conference

Keynote Speech: Management of Change in MNCs: Some Implications from the Societal Effect Approach

Professor Dr Arndt Sorge (University of Groningen, The Netherlands)

At the outset of his presentation, Sorge stressed the importance of heuristics and the eclectic character of the Societal Effect Approach. He then elaborated the core principles of the approach. Among these were firstly, the concept of interdependencies and the interactive relationship between any subspaces and subsystems of society; secondly, the reciprocal and mutual constitution of actors and spaces and thirdly the concept of non-identical reproduction. The first principle stresses that both different societal sub-systems, such as the political system, the economic system etc., and societal sub-spaces, (spaces of functional meaning which are not crystallized into institutionally distinct sub-systems), constitute each other through their cross-influencing relationship. These interrelationships take on distinctive forms in different societies. The second principle highlights the relationship between actors and spaces: Social actors are seen to be continuously engaged in the structuring of spaces and in turn being structured by them, in a non-deterministic and reciprocal relationship. Thirdly, the principle of non-identical reproduction underlines that as time unfolds actors and spaces reproduce each other in a non-identical way. This implies a dialectic relationship between stability and dynamics or continuity and change. Sorge then demonstrated the implications of the Societal Effect Approach’ for the management of change in MNCs by looking at what happens when artefacts – be it sofas or organisational forms of best practice - are exported from one context to another. That is, when artefacts are transplanted they enter the interdependencies of a specific societal context and thereby evoke societal effects. Put differently, the transplanted artefacts have to be integrated or re-contextualised. They will be modified by and in turn modify the context into which they are re-embedded. There is a pervasive, ever-present and inevitable process of endogenization, whereby artefacts, whatever they are, become de-contextualized from a more specific context of origin and in the course of
diffusion. re-contextualized within the interdependencies characterizing the society that receives them. By and large, de-contextualization holds some germs of convergence, but re-contextualization implies divergent evolution of artefacts and their setting. Finally, he pointed out that MNCs are to some extent aware of these societal effects and take them into account by choosing certain locations for their subsidiaries and by devising location specific distribution strategies.

Discussion

- Heuristic value of the approach: tautological explanation of societal differences through societal effects?
- Difference between national and societal effects
- Explanatory power of the societal effect approach for investment-decisions in MNCs
- Transferability of best practice

Session I: Change Management in MNCs: National and Global Effects

Change Management in MNCs: How global convergence intertwines with national diversities Dr Mike Geppert, Dr Dirk Matten, Dr Karen Williams
(European Business Management School, University of Wales Swansea, UK)

In their paper Geppert et al. distinguish between global and national contextual forces which have low context (e.g. economic and technological) and those with high context (institutional and cultural) dimensions. In this sense, they assume that change management processes at the local subsidiary level of MNCs are guided by both low context factors, including global economic or technological forces such as the introduction of global products, production, budgeting or benchmarking systems, and also by more national specific design of work systems in terms of product development, market strategy, work organization and skill development. On the basis of case studies, the global, group-wide strategies of MNCs and their implementation at the subsidiary level were discussed. The main focus in the presentation of the company case studies was how these global strategies and their global effects, as defined above, are realized and implemented in the different national contexts of Germany and Britain. The main conclusion of this study was that the more globalized the
strategies and structures of a MNC are, the more it allows for and relies on national specifics to play a key role in its global portfolio of national subsidiaries. Thus, it was argued that globalization ultimately reinforces the importance of different national contexts.

Comment on the paper of Geppert et al.: Dr Christel Lane, (University of Cambridge, UK)

Christel Lane was invited to comment on the paper of Geppert et al. Her review provided the authors with some helpful notes on how to improve the conceptual ideas and the structure of the current research paper. Moreover, she raised some more general issues, which were important for both the German and British research team in order to complete the project in 2002 and for the broader audience. Lane’s comments and suggestions were focused on issues such as, whether, given that one objective of the paper is to illustrate changes being introduced by MNCs, there are good reasons why change is more important than continuity in MNCs, the understanding of the term ‘globalisation’, how the paper assesses influences flowing from the national business system and the methodology of cross-national research approaches.

Discussion

- Methodological approach, comparability of cases
- Discussion of concrete empirical findings and interpretation differences between GLOBE and ASYS
- Ambiguity of definitions (global effect, societal effect, national effect, change-management-processes, globalisation)
- Role of globalisation for change management-processes: Strategy or Ideology?
- Mixture of global/societal effect vs. Americanisation
- Globalisation and De-nationalisation?
- Role of global competition for the closure of British firms
Comparison of Different Co-ordination and Control Forms in MNCs

PD Dr Karin Lohr, Florian Becker-Ritterspach, Knut Lange (Institut für Sozialwissenschaften, Humboldt-Universität zu Berlin, Germany)

The paper *Co-ordination and Control Mechanisms and their Impacts on Change Management* presented by Karin Lohr, Knut Lange and Florian Becker-Ritterspach dealt with the influence of co-ordination- and control (C&C) mechanisms on change management. The core question of the paper was: can different reorganisation pattern in three MNCs be related to specific C&C-mechanisms in the respective corporations? As a first step, a framework for analysing dominant patterns of reorganisation as well as empirical findings in terms of these patterns were outlined. Then an analytical framework for categorising C&C–mechanisms (based on Harzing 1999) and the corresponding empirical data was presented. After these preparatory steps it was possible to show and explain the connection between specific C&C-mechanisms and patterns of reorganisation. Core findings about these connections were: 1.) C&C-mechanisms mainly influence operative reorganisations (restricted to local units) and 2.) C&C-mechanisms are themselves becoming more and more a target for reorganisations; 3.) While direct C&C-mechanisms, where the way of achieving a target is prescribed through either personal-centralised or bureaucratic control, leave little authoritative resources (autonomy, decision making power) to local units, indirect C&C-mechanisms (especially output control) tend to limit allocative resources (time, money, experts etc) in local units. Finally, it was stressed that there are also factors that influence the choice of C&C-mechanisms. These are mostly related to strategy (global integration vs. local responsiveness) as well as ownership structures of the respective corporations (threat of a hostile take-over can vary considerably).

Discussion

- Methodological Approach
- Explanation for MNCs choosing different co-ordination- and control-mechanisms:
  - country of origin effect, strategy, ownership structure
- Role of different stages of internationalisation, age of the organisation, task environment
- Analytical categories of the typology
- Role of competition in MNCs
- Space as a resource

**Structure, Politics and the Diffusion of Change Management Concepts in MNCs**

Dr Tony Edwards (Kingston University; UK)

The major subject of the paper *Structure, Politics and the Diffusion of Change Management Concepts in MNCs* presented by Edwards/Ferner is the influence of Wall Street – as part of a country of origin effect - on the management of the employment relationship in US MNCs. According to their findings, the American financial system supports a distinctive short-termism, a strong orientation towards quarterly financial targets as well as short-term movements in share prices. The consequence is an erosion of job security and internal labour markets. However, there are differences between the MNCs as firms manage to retain a certain degree of independence from financial markets through different shelter mechanisms. In addition, powerful actors in MNCs are able to influence elements of the financial system. In sum, there is a bi-directional relationship between structure and political processes. Hence, Edwards/Ferner argue that research needs to focus on the interaction between structural forces and the agency of organizational actors at the micro-, meso- and macro-level.

**Discussion**

- European bias vis-a-vis American Governance
- Employees as shareholders – polarised consequences
- Differentiation between American governance systems and Americanisation
- Role of different shelter mechanisms against capital market influence
- National difference with regard to shelter mechanisms
- Role of actors and institutions in warding off capital market influence
- Americanisation or globalisation of governance systems
- Impacts of short-termism
Globalisation - the 'German Modell' of Industrial Relations on Trial!
Professor Dr Gert Schmidt (University of Erlangen-Nuremberg, Germany)

The paper of Schmidt discussed the impact of globalization and internationalisation strategies of multinational companies on the German model of the Welfare State. On the one hand, it was shown that the consensus model of German industrial relations has been weakened and that, to some extent, ‘the ideology of the market has cleared the markets of ideologies’ in the new Germany. On the other hand, Schmidt presented empirical results, which question the convergence of the ‘German model’ towards the model of Anglo-Saxon capitalism. His survey shows that leading German managers do still want strong unions, are aware of the pitfalls of giving up the Welfare state and, of course, see the advantages of having one of the lowest rates of industrial action in Europe. In his conclusion he distinguishes three strategic orientations of German management: 1. The strategy of conservative remodelling in the traditional blue collar based industries such as Bosch, 2. The strategy of aggressive remodelling in white collar based industries such as IBM Germany (which aims to replace elements of the ‘old model’) and 3. The strategy of radical remodelling in knowledge based enterprises such as SAP (which aims to get rid of the ‘old model’).

Discussion

- Relevance of the German model for industrial relations
- Possibility of regulating competition in the global economy
- Role of national effects in terms of producing variety
- Historical development of liberalisation, which already started in Germany in the 1980s
Extending the perspective: Small and medium sized enterprises as partners and competitors to MNCs

Dr Martin Brussig (Centre of Social Research, Halle, Germany)

The paper of Brussig/Gerlach: *Extending the perspective: Small and medium sized enterprises as competitors and network partners of MNCs* focused on globalising SMEs and their relations with MNCs. The case study rests on the MNC Volkswagen and a SME from Saxony. In 1998 VW established a new production site in Poland. The SME under research followed this move and also founded a new company in Poland.

At the outset of the study two alternatives hypotheses are presented concerning the possible relationship between the MNC and SME, that is as either competitors or network partners. For each possibility one hypothesis is put forward. The first concerns SMEs as competitors and states that: If SMEs are the “hidden champions”, then MNCs should learn from SMEs and adapt to the organisational models SMEs embody. However, in the course of the presentation this hypothesis was rejected as the SMEs’ globalisation activities were rather reactive than anticipatory. The second hypothesis concerned SMEs as network partners and stated: Within networks, MNCs provide support to SMEs to increase the chances of a successful globalisation of the network. However, there was also not much evidence for the second hypothesis as in the empirical data the support of the big partner for the small partner was fairly weak. Instead, it was more a case of implicit trust rather than explicit support for the specific SME in the process of going global. A possible explanation for the lack of explicit support and the implicit trust was seen as a societal effect.

Discussion

- What makes the case distinctive or nationally specific?
- Role of societal effects
- Typology of the form of co-operation
- Relations between SMEs and MNCs as a result of outsourcing strategies
- Consequences for SMEs’ behaviour in globalisation
Concluding Discussion

Dr Dirk Matten, (European Business Management School, University of Wales Swansea, UK)

The workshop concluded with a brief resume of the major outcomes of the papers and, most notably, the extensive discussions of the presented research. Four aspects were highlighted.

First, the workshop shed specific light on the relevance of qualitative research methods in the field of international business research. On the one hand, the proficiency and value of qualitative research could be identified in all the contributions, on the other hand, the papers revealed, to varying degrees, the considerable traps and pitfalls of this research school. In doing so, the workshop has been very helpful in refining approaches and methodology in this growing area of research. Furthermore, the debate underlined the innovative potential and necessity of research which focuses on the analysis of the role of *actors* and management *processes* in MNCs. In this, the general orientation of the participants towards the “societal-effect school” represents a distinct and comparatively new approach to a field, which, has so far has been dominated primarily by a structural and “economistic” focus.

A second red thread through the workshop was the phenomenon of interdependencies, which are increasingly becoming an object of research in MNCs. These interdependencies, as already highlighted in Sorge’s introductory paper, occur at various levels:

- The interdependency between global effects and national effects: national business systems are increasingly shaped by globalisation, an example being the Finnish business context which is presently undergoing significant changes away from a strongly forest dominated domestic industrial structure towards a economic arena which is becoming more and more integrated into global markets and global technological rationalities.

- The interdependencies between national business systems and firm specifics: especially in research focusing on country-of-origin effects, it is often quite complicated to differentiate between effects which originate in a certain national context and those effects which simply originate in certain characteristics of an organisation.

Thirdly, the papers and the discussion strove to get a clearer grasp of the “globalization” buzzword. However, the workshop seemed to develop a consensus that, instead of working towards a ‘proper’ definition of this extremely multifaceted phenomenon for the field of research, globalization should be seen rather as a “theme”, as Schmidt put it at one point, than a clearly definable phenomenon. The definitional problems became even trickier due to the
use of “globalization” in many contexts as just another word for “Americanization”, or even a synonym for “Capitalism” in general.

Fourthly, and finally, the two day workshop provided all participants with the challenging and encouraging task to develop, improve and refine research agendas which work towards typologies in international business research. Though this objective was identified as not being without certain risks, research into certain distinctive patterns in MNCs promises to be particularly rewarding. Those patterns were discussed in various areas:

- Patterns of internationalization or globalization of MNCs: are there certain reoccurring and characteristic ways in which MNCs carry out their internationalisation strategies?
- Patterns of endogenization: are there certain characteristic ways in which artefacts are endogenized from one national context into another one?
- Patterns of headquarters-subsidiary relations: are there specific and characteristic, re-occurring patterns of hierarchical relations between various units in MNCs across different national contexts? This was a specific field of research reiterated by various papers throughout the workshop.

The workshop can be regarded as a milestone in various aspects. It was a forum for the presentation of recent empirical research in Anglo-German aspects of international business research and, as such, provided an important platform for exchange among the researchers involved in this field. Furthermore, the workshop contributed to the extension of the research frontier in international business research in general, focusing on the specific, yet largely unexplored, potential of institutional, context sensitive approaches in the field. It was a consensus among all participants, reiterated in a final wrap-up discussion, that the concept, design and organisation of this workshop made a valuable contribution to the stimulation of the various research projects, both ongoing and future ones, of all the participants.
Appendix
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CHANGE MANAGEMENT IN MNC:
HOW GLOBAL CONVERGENCE INTERTWINES WITH
NATIONAL DIVERSITIES

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1. **Introduction**

More than three decades of research in international business have brought about an immensely great and diverse body of literature on transnational organizations. Not only the sheer number of studies but also the diversity of approaches, methods and theories used lead to a situation where the field looks rather fragmented, providing often irreconcilable views on the issues discussed (Boddewyn and Iyer, 1999; Buckley and Chapman, 1999).

This also seems to be the case in the present debate on the impact of globalization on the multinational corporation (MNC). On the one hand, it is argued that MNCs can be regarded as “stateless” (Parker, 1998), “transnational” (Bartlett and Ghoshal, 1989) or “highly globalized” (Lane, 2000) organizations that are even no longer or to an increasing lesser degree shaped by their respective national environment. This is one extreme position, recently under attack from different angles. On the other hand, the relevancy of national and/or regional environments for the activities of MNCs are regarded by others as key factors, amounting to the very denial of globalization (Rugman, 2000) on the other extreme of the spectrum.

In this paper we argue that both groups of authors have a point. But we also want to go a step further: while we admit that there is a strong force towards global conformity in MNCs we acknowledge at the same time, that national environments still have a dominant influence on MNCs, both at headquarter (HQ) and subsidiary levels. The focus of this research project is how precisely global forces and national influences come together in shaping the management processes within MNCs. In addressing this problem the paper takes a cross-national perspective and focuses mainly on change management processes (CMPs) in British and German subsidiaries of three leading multinationals in the same industrial sector.

Organizational change and learning have been key issues in the debate on globalization and its consequences. In this sense, Bartlett and Ghoshal see their “transnational solution” as a key tool to enable worldwide learning and change (Bartlett and Ghoshal, 1989: 66-71). In this sense, our project looks at change management processes and investigates their key actors, originating ideas, enactment, political dimensions and success in MNCs. However, contrary to studies which are focused on the “transnational solution” as the universal outcome of change in a more internationalised business environment, our study draws attention to the issue of how global and national effects influence the design of the work systems at the subsidiary
level and will show that there is no one way of globalizing. Instead, our research indicates that
global forces and national societal influences cannot be separated from each other, but are
intertwined. Even though our analysis in this paper will primarily focus on the cross-national
comparison of the impact of change management processes on work system design at the
subsidiary level, our research also indicates that the societal institutions of the country of
origin of the MNC as a whole have a significant influence on its coordination and control
strategies.

2. Theoretical Background

In a recent paper John Child has given an overview of the state of the art in international
business research (Child, 2000). The presented analysis is quite helpful in positioning our
research so we will draw on Child’s framework in relating our work to the literature thus far
(see Figure 1).

Figure 1: Theoretical Basis: Bridging the gap in international management research
Child characterizes the various approaches according to the criterion of “their sensitivity to nations or regions as analytically significant contexts” (Child, 2000: 30). Consequently one can identify research that pays high attention to national contexts (“high context” perspectives) and those that refer to universal rationales and are insensitive to specific national contexts (“low context” perspectives). Low context perspectives see corporations structured by their environment which in most cases consists of markets. Along these lines, beginning with Chandler, various authors such as Bartlett/Ghoshal (1989) and others (see Rank, 1999 as an overview) have conceptualized the “multiunit business enterprise” as the dominating, transnationally homogeneous pattern of organizing. Recently, Whittington and Mayer have argued that, even in Europe, despite a variety of national differences, this American Chandlerian multiunit business enterprise model is increasingly the standard organizational form for corporations as well (Whittington and Mayer, 2000). Next to these economic factors, low context perspectives stress the role of technology, especially information technology, in leading to global organizations which become increasingly homogeneous. Finally, Child identifies the common assumption in low context theories that all human beings are common in their needs and motivational structures as a third powerful pillar of these low context approaches. “High context” perspectives, on the other hand, see organizations as institutionally deeply enrooted and socially embedded into their respective national contexts. National cultures and national institutions significantly influence organization and MNCs that work in different national contexts and the massive opening up of the Eastern European and Asian economies have given considerable significance to these research perspectives.

The interesting point - from the perspective of our research - about Child’s analysis is, however, that he identifies the need to integrate both perspectives when doing research in transnational organization. Globalization, on the one hand, strengthens the argument of “low-context” perspectives as it leads to an increasing world-wide convergence and standardization of market conditions, technologies, HRM practices and decision making processes in corporations. On the other hand, globalization also makes differences in national cultures and institutions even more visible as it brings these often diverse contexts closer together. So he concludes:

“The question therefore arises as to how and where, within an overall trend toward globalization, national cultures and institutions will continue to shape organizational forms and behavior” (Child, 2000: 54-55)
Globalization is unarguably a vital force that shapes organizations, however national contexts remain powerful drivers in that process. The focus of our research lies exactly here as we intend to shed more light on this research question posed by Child. In our research we deliberately take into account “low context” perspectives as brought forward by Bartlett/Ghoshal, Whittington and many others. The trends towards convergence and world-wide standardization of organizational structures and practices are clearly visible in the companies in our sample. Therefore we take this “low context” perspective as a starting point of our research, but at the same time we intend to broaden the analysis by integrating “high context” perspectives as well.

Nonetheless, we think that low-context approaches focus too much on particular structural configurations of MNCs rather than processes, key actors and their strategic choices (Geppert et al., 2001a). This stream of research on the subsidiaries of MNCs is heavily influenced by ideas which see transnationals as differentiated networks in the sense of Bartlett/Ghoshal as well as Nohria/Ghoshal (Bartlett and Ghoshal, 1989; Nohria and Ghoshal, 1997). More current work on the role of subsidiary initiatives and change management in subsidiaries in order to develop new markets and product innovation indicates the emergence of a growing independency of subsidiaries from headquarters’ decision making (Birkinshaw and Fry, 1998; Birkinshaw and Hood, 2001). However, the research of our German colleagues indicates that control and coordination by the headquarters takes quite different forms in each of our MNCs (Becker-Ritterspach et al., 2001). Thus, in our sample, the headquarters are still playing a vital role in decisions about change management measures and are not just devolving their power resources to regional centers within a then differentiated multinational network as indicated by research on the “transnational solution”.

Therefore it is inevitable, given our interest not only in global rationalities but also in national contexts, that we build on other streams of research on MNCs than just the low context perspectives. A first stream of research in the “high-context” perspectives focuses on the identification of the effect of the MNC’s country of origin on its operations in different national environments (e.g.Edwards and Ferner, 2000). This research perspective sheds light on the fact, that MNCs’ strategies are strongly influenced by the cultural and institutional context of their home country, as evident, for instance, in Japanese MNCs that have operations in Europe (Morgan et al., 2001). In our research we specifically focus on the institutional environment such as the legal framework, ownership structures, educational
system, industrial relations etc. of the country where the MNC HQ is based and investigate how they influence the strategy of the whole multinational group. The project intends to identify the conditions and processes that lead to a specific “country of origin effect”.

In analyzing these country of origin effects we extensively draw on a second stream of research, which is the national business systems approach, mostly linked to names such as Whitley (Whitley, 1992), Lane (Lane, 1992) or Sorge (Sorge, 1995). However, this approach does not only help to explain the influence of the national business system on the whole multinational group, such as Morgan et al.’s work in comparing British, German and Japanese MNCs (Morgan et al., 2001), but it also helps to explain influences of the respective national business system on the national subsidiaries of the MNC which is the perspective of this study. Furthermore, this position may be helpful in explaining differences in how multinational groups share work and competencies internally as these were quite significant in our research.

Thirdly, there is a stream of research which one might call “global organizational effect approach” (e.g. Mueller, 1994; Parker, 1998; Lane, 2000). This perspective acknowledges the limitations of national societal effect approaches in explaining and integrating the effect of globalization on the harmonization and standardization of certain elements of the national business context. Not only does globalization affect the national business environment, but it also shapes the processes within the multinational group. Thus, approaches such as Mueller’s stress that the organizational development of global manufacturing strategies and diffusion of technologies, knowledge or best practices, such as benchmarking, will undermine national institutional societal effects (Mueller, 1994: 419-421). Moreover, Lane criticises the fact that researchers of national societal effects ignore the impact of global MNC specific factors “on domestic institutional structures and the danger that it might blow apart the whole societal syndrome and thus undermine the social coherence of current German models of production organization and industrial relations” (Lane, 2000: 207).

3. **Change management process of the MNCs: Intertwining of globalization and national effects in the designing of subsidiary work systems**

Even though our study does indicate some global or transnational organizational effects at the level of the multinational groups, we find no evidence that that national institutional effects
are weakened. In our approach we intend, similar to Child (2000), to analyze how global effects and national effects come together within the change management processes at the national subsidiary level in Germany and the UK. However, the approach taken here is different to Bartlett/Ghoshal’s (1989) and Nohira/Ghoshal’s (1997), who compare the transnationals internal structuring by using the concept of a “differentiated network”. We do indeed share their assumption that research in MNCs can gain considerably from such a perspective, but do not see any evidence for their view that transnational networks are less hierarchically organised with the headquarters losing control. That is why we want to answer the question about how the global effect shapes the MNC’s activities, which will involve a research perspective which focuses mostly on change processes which transmit global effects from the MNC’s headquarters down to the level of the subsidiary. In looking at the global effect, we will also address the question of how the global effects influence the national business system of the country of the subsidiaries, and in this way indirectly influence the change management processes within the MNC.

Whereas Morgan et al. (2001) in their study about MNCs as organizations discuss the impact of global and national effects on the works system of the MNC as a whole, we concentrate our research mainly on the subsidiary level and ask as Sorge has (Sorge, 1996), how change management strategies within the multinational group lead to the identical or non-identical reproduction of national work system patterns.

Following Child (2000), who sees research oriented toward change and development consistent with his “evolutionary framework for cross-national organizational analysis”, our research into change management processes in MNCs is concerned with the potential dynamics over time of high context and low context factor influence and how this relates to the design of work systems at the level of national subsidiaries. However, we distinguish between global and national contextual forces which have both low context (e. g. economic and technological) and those with high context (institutional and cultural) dimensions. Consequently, our hypothesis is that change management processes at the local subsidiary level are guided by both low context factors including global economic or technological forces such as the introduction of global products, production, budgeting or benchmarking systems, and also by more national specific design of work systems in terms of product development, market strategy, work organization and skill development.
For the analysis of global and national effects in the following study we will refer to them as two specific effects. By the “globalization effect” (GE) we describe all influences on the organization which derive from the ongoing globalization process. We understand globalization as the process of denationalisation of social interaction as a result of ongoing political deregulation, accelerated economic (neo-) liberalization of trade and foreign direct investment, rapid technological advances in transportation and communication systems and, on the social field, increasing convergence of global cultural systems and educational models (McGrew, 1997; Zürn, 1997; Held and McGrew, 2000). As such, globalization affects especially those factors which are the focus of research in the “low-context” perspective (markets and products), and leads to a global convergence in economic policies, markets and the cultural and institutional framework of business. The globalization effect, by some also called “transnational effect” (Child and Yan, 2001), works towards (as Ohmae indeed calls it as well) the “denationalization” of companies and products (Ohmae, 1990). Likewise, Bartlett and Ghoshal (1989, 16-17) stress that the evolution of their transnational solution requires transitional structures to enable worldwide learning and, through the development of a global culture, a new management mentality.

The contrast to the globalization effect then is the “national effect” (NE) by which we understand the impact of national culture and institutions on the corporation. This effect includes the influence of national institutions such as educational and financial systems or governmental institutions (Lane, 1992; Whitley, 1992) but we will look especially at nation-specific differences in work systems, ranging from mass production at one extreme to diversified quality production at the other (Sorge and Streeck, 1988). Furthermore, our research suggested strong national peculiarities in the relevant market characteristics: national differences manifest themselves in whether the competition in a market is more price oriented or quality oriented.

Starting from the assumption that low context and even high context factors do not directly determine decision making processes of local managers, we assume that they have some autonomy in terms of strategic choice and power resources to design their work systems at the national subsidiary level (Geppert et al., 2001b). We tried to show in this earlier work that the extent of plant autonomy of national subsidiaries is directly linked to their national business system. The national institutional context gives German subsidiaries superior power resources and strategic choices compared to their British counterparts in the same multinational group.
and across all of the three analyzed MNCs. Based on the empirical findings of this study, this paper compares similarities and differences in work system design in six German and British subsidiaries in relation to the change management strategies implemented within the MNC.

For our comparative analysis of work systems design in British and German subsidiaries of three MNCs we draw on the conceptualization of “work systems” outlined by Sorge (Sorge, 1993) and Whitley (Whitley, 1999). Work systems are the central object of our study where the impact of GE and NE are manifested. They can be conceptualized in more general terms as distinctive patterns of interconnected characteristics of (a) task organization and control, (b) workplace relations between social groups, and (c) employment practices and policies (Whitley, 1999:90). More specifically, work systems have their concrete manifestation in (1) the organizational structure (which can be differentiated by function, market, geographical region or products), (2) the organizational processes which contain communication flow, coordination control mechanisms, political and power relations, (3) the technologies used and (4) the employment practices and policies of the MNC (Sorge, 1993: 4-5). In the empirical discussion of our company cases we relate our analysis of change management processes mainly to the latter four components of work systems in German and British subsidiaries. Despite our analytical focus on the Anglo-German comparison, we are aware that change management processes in the subsidiary’s work systems design cannot be described without reference to their economic and social relations within the MNC as a whole. Thus, the function, design and performance of a particular national subsidiary influence its power potential and scope for strategic choices within the multinational group (Geppert et al., 2001b). Therefore, far from neglecting the MNC level of analysis, we see the strength of our perspective in the fact that we can better understand how global forces and national influences come together and shape the design of change management processes at the national plant level.

4. Research Design and Methodology

Figure 2 shows how we assume these two major effects outlined above work in the context of the MNC. If we look at the upper part of Figure 2 we have both GE and NE working in the home country of the MNC. GE on the one hand affects the corporation directly by shaping the international business environment of the MNC. On the other hand, GE also affects strongly the national business environment: depending on the conditions of the national business
system, some countries are quite significantly exposed to pressures toward international convergence. So, for instance, the Finnish capital market has been subject to rapid and powerful influence from international investors during recent years and has lost much of its traditional national characteristics (Tainio, 2001), which manifests a significant influence of the GE on the NE in this national context. Furthermore, there is a dialectic effect to globalization in that it stresses the awareness of cultural differences and thus the need to care for nationally specific needs (Child, 2000: 51; see also Sorge, 2000) – a phenomenon that becomes particularly important at the subsidiary level of the MNC.

![Figure 2: Research Design](image)

CMPs are determined by the general strategies of the MNC, mainly at HQ level. Subsequently, these changes are implemented within the subsidiaries, in our case the subsidiaries in Germany and Britain. These change processes become manifest in concrete changes in the work systems of the subsidiaries. In our research we identify the various CMPs
taking place and their specific effects on the work systems. However, these CMPs are influenced and shaped by both GE and NE in the same manner as GE and NE influence the HQ of the company. The difference is that the nature of the NE (and also the strength of the GE) in our comparative research in Britain and German are significantly different. This enables us to draw conclusions by comparing nationally differing results of the same group-wide change processes within the multinational group.

The idea and design of the research project to analyse change management processes in MNC was jointly developed by the our research group in Swansea and researchers from the a group at Humboldt University in Berlin. To analyse these issues we have used the following methodology. We selected three of the four major global players of a relatively small business sector, Lifts & Escalators. All have headquarters in different host countries; Amy in the USA, Jukka in Finland and Karl-Heinz in Germany. All three companies have national subsidiaries in Germany and in the UK. Worldwide, there are only 4 (some argue 5) global players in this branch, so that our sample covers a representative share of the global market. Furthermore, the whole industrial sector is heavily affected by globalization on the market as well as on the manufacturing side. However, despite these global challenges, there is still a strong manufacturing focus in this heavy engineering industry and, thus, in our companies. Consequently, we assume that this importance of manufacturing exposes the companies quite intensively to what we defined as NE.

We applied mainly qualitative research methods. As an Anglo-German research team we developed interview guidelines and semi-structured questionnaires in German and English for managers involved in or responsible for change management measures in their companies. Our analysis is based on in-depth expert interviews with CEO’s and managers responsible for change management at the MNC level (in the headquarters and its functional subunits) and at subsidiary level in both countries. Moreover, works councillors and union representatives of the Lifts & Escalators industry were interviewed in both countries. In co-operation with our German partners we have conducted ca. 25 interviews so far, and studied official documents of these companies as well as newspaper and internet sources. In the interviews the following topics have been covered:

* general information about the company
- questions were related to issues such as education and career background of the interviewee, company performance and profile, number of employees and qualification structure, assessment of the company’s competitive situation
- *past, present and planned reorganization and change management processes*
  - questions were related to issues such as reasons for adopting these measure, actual aims of these measures, who was involved, obstacles and barriers to the change process, emergence of different views about these measures, the scope of these measures (whether it affects the MNC as a whole and other subsidiaries or just the local plant)
- *starting points of change*
  - questions were related to issues such as who initiated these measures, the role of the headquarters, the role and influence of local management, key actors in this process, who communicated with whom
- *assessment of what are the positive and negative aspects of the plant’s location in a particular national context*
  - questions were also asked about the influence of the MNC’s country of origin.

5. **The case studies**

In the following we will analyze the three MNCs in our sample in the light of our theoretical framework. This will first of all involve an analysis of the global, group-wide strategies as they manifest themselves in CMPs which are later implemented at the subsidiary level. The second and main step is to analyse how these global strategies and their global effects, as defined above, are realized and implemented in the different national contexts of Germany and Britain. This will involve a detailed analysis of the various elements of the respective national work systems of the subsidiaries. In this way we can identify how global effects are implemented on the national level and how this process is influenced and shaped by national effects.
5.1. The American MNC

Global convergence as a continuous change process

Amy shows the typical signs of an American company and throughout our field work, all interviewees perceived the corporate culture as being dominantly American. This applies not only to the general culture in the company but also to the style of management and decision making and use of American English, the latter point proving to be particularly significant for the German interviewees. As a division of the 57th largest American corporation, Amy is part of a typical (Chandlerian) multidivisional corporation with other divisions operating in technology-oriented branches, most notably the aircraft industry. Managers perceived the accounting and budgeting systems of the company to be the dominant coordination and control mechanisms throughout the multinational group. The shares of Amy’s group are broadly scattered and performance on the stock market is seen to have direct influence on the short term plans of managers in the subsidiaries. This pressure is intensified by the fact that Amy is part of a conglomerate in which other divisions have suffered from downturns in general economic development which puts Amy under even more pressure to overperform the losses of those divisions in order to maintain the conglomerate’s standing on Wall Street. A typical national characteristic, furthermore, is the fact that the main market for Amy is still the American home market, a fact strongly reflected by the interviews in both countries. Finally, this manifestation of the NE also applies to the strategy of the group which is regarded as extremely centralized, leaving only little space for bottom-up initiatives. To sum up, in this American MNC we found all the major characteristics of what can be seen as the NE of America, which are backed up by numerous other research findings (e.g. Edwards and Ferner, 2000; 2001).

Analyzing these characteristics of the whole multinational group from the perspective of globalization, we see that the specific American NE strongly coincides with the GE. Amy clearly shows a strategy that works towards the convergence of markets and towards globally standardized products. Quite significant is the extent of insensitivity to national differences, which not only is visible in the enforcement of one common business language but, coincidentally, in the fact, that a country like the UK is organized in the same group as the Southern European countries, a fact which was commented on by managers as absurd and ridiculous. It is not surprising that it is especially the American NE that is identical to the GE
if we analyze it from our theoretical perspective: the dominant factors shaping the business policy of Amy are economic and technological in nature. These are only influenced and shaped to a small degree by national contexts (“low-context”-variables).

This dominance of the GE within the entire MNC manifests itself in the CMPs which were being implemented in the entire group during the last three years. The German, as well as the UK interviewees, both stressed that, rather than having discrete changes in the work systems (like our Finnish company), change is an ongoing, constant pressure in the drive to greater efficiency in Amy. Given recent pressures from the multidivisional group, Amy is part of a big MNC rationalization effort and has decided to cut a significant number of jobs, reducing its global manufacturing plants by more than half (to 16) and reducing its research and development (R&D) sites by more than two thirds to 6 worldwide (Iwer, 2000).

Major changes in the work system, however, took place on the technological level in the radical move towards standardized products and a world-wide one-brand strategy. This affected both the UK and Germany, where, as remainder of past acquisitions, Amy still operated in both with two smaller national brands until 1999. On the structural level, an interesting development was in the closure of the European headquarters of Amy in Paris and centralizing its functions in the HQ in the US. This can be interpreted as another clear manifestation of the GE as Amy further centralized the strategic elements of the work system and prevented stronger regional (in this case European) influences. Numerous managers in the subsidiaries particularly endorsed this view; Amy is regarded as being anxious not to create another center of power outside the US.

The British subsidiary: getting rid of a ‘poor’ manufacturing image by developing a strong service orientation

Moving on to the subsidiary level in the UK, we can identify one major CMP during recent years (apart from the realization of the one-brand strategy which was mainly achieved in conjunction with the other CMPs). Amy UK closed down all manufacturing sites and restructured the entire organization as a sales- and service-only organization with a centralized customer-care center. The UK subsidiary had been under performing for some time and, given the ongoing rationalization pressure within the whole MNC, it was clear that
significant changes had to be made. However, the member of the board interviewed in the British subsidiary stressed that they had had considerable liberty in how to achieve a better performance. So the decision to close down the manufacturing sites in Britain was not taken in the US but in Britain itself:

“Amazing isn’t it, nobody would ever think that a company would propose closing their own branch, but we did.”

Human Resource Director Amy UK

The reasons given for the decision were, on the one hand, the perception that “we in Britain” are not good at manufacturing and, most interesting, the fact that in the UK the institutional framework makes closures an easy option:

In the UK it is probably the easiest country in Europe to do different kinds of things. We really didn't have many obstacles, the way we approached it is obviously you have to go through the formal process, even in the UK information consultations, discussions, union agreement and then dealing with the individual employee and what we try to do is to make sure that the employees are treated as best as we can.

Human Resource Director Amy UK

The way the British subsidiary of Amy implemented the CMPs, which the HQ’s performance requirements caused them to adopt, reveals that the NE has a significant influence. Furthermore we think that our data shows that the NE by no means works in a deterministic way but that there is a clear choice for actors in the subsidiaries as to which measures they take. So in the case of Amy, UK managers clearly took into account the constraints and weaknesses (poor manufacturing performance, low level of skill development, low social esteem for manufacturing and engineering in the UK) and the strengths (weak institutional barriers to redundancies, Anglo-Saxon in service-culture) in their decision. This is even underlined by the fact that another national characteristic was wilfully disregarded: managers were aware of the fact that closure of manufacturing in the UK is a significant competitive disadvantage since public and private investors projects like the Jubilee Line in London or the Canary Wharf development still strongly cherish a “buy British” sourcing preference, which led to a loss in market share fro Amy UK after the closure of manufacturing sites.

Looking at our research question and asking how GE and NE shape CMPs in the work system, the dominant impression is, of course, that the initiative to change clearly grew out of the pressure coming from the HQ. Pressure for global convergence, standardization and
rationalization forms the starting point of change. When looking at the way different areas of
the work system have been changed, however, we see that actors have a choice and that these
choices reflect their perception of the national background. Major changes took place in the
area of the technologies used and in the area of employment and human resources. In
explaining the change from manufacturing to exclusively service technologies, all our
interviewees clearly reflect the characteristics of the British business system (as
“compartmentalized”, Whitley, 1999:60), especially the low level of skills, low productivity
of manufacturing and the trend towards service industries in general. Furthermore, the weak
regulatory environment allowed global strategies to have a very significant impact on the
subsidiary. So we can conclude that in a business environment characterized by weak national
institutions, the GE has a rather strong impact. However, local managers have choices in
implementing CMPs and these choices reflect the actors’ perceptions of the major strengths
and weaknesses of the national business environment.

The German subsidiary: cultivating German ‘virtues’ in an US-American MNC

On the surface, our research in the German subsidiary of Amy shows a quite significantly
different picture. The most striking difference is that – apart from cutting the second minor
brand besides “Amy” - there has been no identifiable discrete CMP in the two manufacturing
plants as well as in the administrative center of Amy Germany. Despite considerable pressure
from the HQ level, the German managers responded to questions about change more by
referring to “general”, “continuous” or “permanent” pressure to change rather than actual
concrete measures taken within the last years. It is exactly in this ongoing incremental change
process that the most significant influence of the GE is visible. It manifests itself at work
system level most clearly in the organizational structures and processes. The German
chairman boasted that they have “no organization chart” as the company is a “dynamic” entity
not to be restricted by formal hierarchies, a view which managers identified as a clear
American influence. The same applies to other structural elements of the work system within
the company, most notably the coordination- and control system, which is clearly labeled
“American” in its emphasis on rule by financial benchmarks, budgets and performance
targets. The same applies to the short-term orientation of business decisions which German
managers perceive as particularly constraining and inappropriate.
We have 80000 elevators in maintenance. I cannot renovate them all at once. That is an investment program for 10 years. And given the short-sightedness of our American friends they simply do not take any notice of this situation. You know, we are now forced to think much more short-term in introducing new procedures.

Director Service Center Division, Amy Germany

On the other hand, they see themselves as having considerable liberty with regard to the methods and technologies by which they realize the goals of the HQ. It is exactly this which leads to the most significant differences between the work systems of Amy in the UK and Germany. The most significant differences lie in the technological area and the structure of the human resources. Germany has two production sites, one producing mostly key electronic components for the entire multinational group and another specializing in heavy duty escalators for which it is the only remaining production unit within the whole multinational group. Furthermore, they have extensive R&D capacities at both plants so that the German managers regard their country as the leading unit worldwide in the entire multinational group on the technological level. When asked for the reasons for this situation, all interviewees refer to the textbook features of the German business system: high level of skills, excellent vocational system and high productivity. It even appears in some of the interviews, especially on the second hierarchical level below the national board, that they regard themselves basically as a German company that still has its roots in the company Amy acquired no less than 50 years ago. So, on the work system level, Amy Germany still appears very strongly to be a German company, that happens to be part of a wider US-conglomerate. This does not only apply to the technological aspect, also the human resource practices reflect the same strong national orientation, perhaps with the exception of an “Amy-university program”, which leads to international exchange of young high potential employees within the multinational organization.

Comparing the UK and German subsidiaries we tend to the conclusion that both cases show what Child named the “dialectic” influence of globalization in organizations. Amy has a considerably tight global strategy which results in a significant GE on the national subsidiary level. Nevertheless, national contexts have very strong implications in realizing the global strategy, which in the end stimulates rather than threatens NEs. Within the global group, the national peculiarities are “used” in ways in which they best contribute to the overarching corporate goals. Since the NE in Britain and Germany is quite diverse, the resulting organization of the subsidiaries and the work systems are equally diverse, leading to an
example of the new British service economy on the one hand and to a typical German manufacturing and technology driven organization on the other.

5.2. The Finnish MNC

Finnish MNCs: from forest to free trade?

When looking at the CMPs in the entire group of Jukka we had quite a number of ambivalent findings, which seem to reflect relevant transitions in the contemporary Finnish economy. As Lilja et al. have pointed out, the entire Finnish business system is characterized by the fact that its roots lie in the forest industry. This has led to a number of very strong characteristics in the national context, the most important ones for our study being orientation on ownership and long term profits ("patient capital"), strong priority for technological innovation and a strong preference for consensus and cooperation in business policies, especially with regard to employees (Lilja et al., 1992, see also Laurila and Ropponen, 2001). However, these characteristics have been recently coming under considerable pressure to change. Finland has opened its economy strongly towards global markets, which has especially significant consequences for the ownership structures of companies (Tainio, 2001). Moving from bank- and family-owned patterns to a shareholder dominated ownership structure, the Finnish business system is presently undergoing a significant shift towards “low-context” influences of international capital markets. Consequences include a “financialization” (Tainio, 2001) of organizations, short term horizons for business decisions and a stronger focus on shareholders’ rather than employees’ interests.

This transition in the Finish national business system is quite visibly reflected in the strategic orientation of Jukka. The company is still owned by a family that controls 2/3 of the voting shares. Though the recent strategy towards global standardization of management processes made it necessary to relocate the HQ to Belgium, the company still has a HQ in Finland where the owners live. This is even more bizarre in the light of the strong pressure towards standardization, harmonization and rationalization that generally dominates the strategies of Jukka as a whole. Furthermore, there is a clear focus on technological excellence and Jukka prides itself on being the first mover in several key innovations in the lift and escalators industry (e.g. the machine-room-less elevator). There is a clear focus on technological excellence; in terms of technology Jukka wants to be the “best in town”, as one of the senior executives put it. This orientation is very typical for the Finnish national business system as
recent studies on Finnish high-technology companies such as Nokia and others have identified (Lilja and Tainio, 1996). This strategy, however, contrasts with the goal of developing a mass product in the form of a standardized global escalator which to some extent contradicts this strive for technological excellence. Finally, with regard to consensus and employee orientation the same transition manifests itself in Jukka’s approach. Various interviewees stress the fact that Finnish managers indeed have a rather inclusive approach to management:

A Finn would never bang on the table. They simply don’t do that. A decision in Finland is not taken, it just emerges somehow. If you tell that to a German, he’d say: ‘I just can’t imagine that.’

Technical Director and Director R&D, Jukka Germany

On the other hand, Jukka is increasingly seeking to change this style of governance to one which is clearly oriented to the achievement of the strategic financial goals of the company without any compromise with stakeholders such as employees. Short term constraints increasingly force the managers to move away from this Finnish style of consensual decision making. The following quote shows quite clearly the learning processes of Finnish managers in adapting their national culture to the constraints of a globalizing organization.

Well, there are ways to overcome that [resistance to change], it takes a lot of information, a lot of hand-holding and so on. And then there are some people who will even never, just never get convinced and then it’s those people typically who become the casualties of the war. But, of course, it depends on how much time you have in your hands to make changes. OK, if you have a lot of time then you really can go deep into the individual issues of people and so on. If you don’t have it, unfortunately, sometimes companies have to make shortcuts and that can be very tough.

Managing Director (Finnish nationality), Jukka Germany

This quote reveals quite clearly the emerging contemporary pattern of communication and decision-making in Finnish MNCs as one where a strategic framework is set by the top (mostly Finnish) managers of the HQ and of the local companies. Discussion and participation of local managers about the ways in which these measures can be applied more smoothly are welcomed. Thus, there is some space for participative decision making at the local subsidiary level, but less possibilities to alter the basic ideas behind the change
management strategy. These issues are not discussable, but should be locally acknowledged without any compromise.

The influence of globalization on the national Finnish business context can be traced in the corporate strategies of the multinational group of Jukka. Although, as we pointed out, certain characteristics of the Finnish national context still prevail, Jukka is a company that deliberately sets out to be a global company and its strategies clearly reflect the orientation to the “low-context” environment of global markets and global manufacturing systems. This is presently the dominant force in the corporation’s CMPs. The group has had its most significant growth during the last 10 years through acquisitions, so that the dominant strategic orientation is the global integration of the MNC. There is a clear view of globalization as the dominant imperative of all impending change processes in the corporation, as the following quotes from three senior executives in the HQ, in Germany and Britain show:

‘Global' means trying to standardise not only products but processes throughout the world, operations of the corporation.

Globalisation does lead to convergence eventually, it’s not divergence, ...convergence definitely.

The CEO calls it ‘globalisation’ but I see it as a “harmonisation”, harmonisation of business processes.

A further indication of this strong shift toward low-context strategies is the fact that many respondents characterized the organization as strongly “controller” driven and it appears that Jukka is trying to develop its strategies towards a level of global integration at which a company like Amy has already been operating for quite some time.

Global change management processes

The strong pressures towards globalization manifest themselves in the ongoing CMPs in the company. Both subsidiaries had to implement what we identified as three major CMPs, which

* This assessment was given in a discussion of this research by Professor Kari Lilja, Helsinki School of Economics, during the ‘ESRI Thematic Research Workshop on Changing Contextual Constructions of Economic Rationality’, September 15-18, 2001, Portoroz, Slovenia.
led and are still leading to major changes in the work systems of the respective subsidiaries. First, there is the implementation of what is called a “Jukka-model” of doing business. Basically, this concept differentiates the organization into a part that is oriented towards the market (“front line”) and a part that is oriented towards manufacturing (“supply line”). The aim of this model is to standardize all business processes world wide. Furthermore, it aims to abolish national entities and subsidiaries as such, and orientate the corporation either towards the (globally integrating) market or to the economic rationalities of the internal production processes. Consequently, this model manifests the MNC’s orientation towards low-context environments of global economic and business rationalities. The second major CMP operates along the same lines, this is the global introduction of a standardized financial reporting and controlling system based on tools provided by the software company SAP. Apart from encouraging further convergence of global business processes, this CMP shows the strong orientation towards financial performance indicators as the central tool for management within the MNC as a whole. The third significant CMP is the implementation of a world wide standardized escalator product line, which again is an expression of the corporate drive towards convergence and harmonization. However, it was this decision which had quite diverse effects in the two national subsidiaries of our sample.

**Jukka in Germany: national specific patterns of resistance to change**

The implementation of the new “Jukka model” and the implementation of SAP – both processes being implemented more or less simultaneously – had a massive influence on the work systems at Jukka’s German operations. This pertained especially to organizational processes and the technologies used. The general impression from our research is that the German subsidiary was extremely successful in resisting and obstructing these processes from the very beginning with the result that Germany became the very last entity of the entire multinational group where these changes were being implemented, leaving senior managers still struggling with major problems at the time of our interviews. The reasons given for this from the perspective of the Finnish HQ were twofold: On the one hand, they see the “Jukka-model” as codifying the (Anglo-Saxon) orientation towards management processes which strongly clashes with the German functional approach to management. This could well be interpreted as a clash of GE with NE in a major part of the subsidiary’s work system. The second group of reasons was more politically motivated. There was a strong resistance among
the senior management of the German company, which was an independent, profitable company before being taken over by Jukka in 1996. Finally, the enforcement of the “Jukka-model” and the new software system was only achieved by a (almost) complete replacement of the first and second layers of management in Germany by “Jukka-ites” (as one interviewee put it), who were senior executives from the multinational group, the majority being Finnish nationals.

This process sheds specific light on our research question of how GE and NE are intertwined in MNCs. The power base of the German management clearly lay in the fact that certain parts of the work system, the R&D know-how, the engineering capacity and the highly skilled and efficient production workforce were key to Jukka’s global strategy. Germany, though not a “hot-bed” of Jukka culture (quote from a HQ representative), provides the entire multinational group with engineering know-how and is the leading in R&D location world-wide. These typical textbook features of a company reflecting the strength of the German business system can clearly be identified as NEs (Warner and Campbell 1993). German managers were quite skilful in playing on their specific, nationally flavoured power resources. So, with regard to the third CMP of introducing a global standardized escalator, they were able to ensure that their location in Germany became one of the three plants world wide to produce this new standardized product. In this, the situation in the German Jukka plant resembles the situation in the German Amy plant: national strengths are explicitly not “standardized”, or “harmonized” out of existence, but there is a struggle to integrate them into the global trend towards convergence of management systems. This struggle can be very well observed in our data: Jukka wants to preserve German know-how and expertise on the one hand, but wants to make them fit into standardized, globally harmonized work systems. The case of Jukka reveals the considerable need for the use of power in order to achieve this transition in a strong institutional and cultural context. Strong national resistance, by the way, was not only visible in the processes described, the German codified system of industrial relations, most notably the works council (Betriebsrat), also proved to be a major obstacle in implementing the new work system.

The (preliminary) solution to this conflict was the massive introduction of Finnish executives, in other words, a use of organizational power in order to neutralize the subsidiary power based on knowledge and skills. This strong position of a group of Finnish nationals, sometimes referred to as a “Finnish mafia”, is also reiterated in other studies on the Jukka
organization (Marschan et al., 1999) However, the GE which becomes manifest in this forceful implementation of new work systems in Jukka Germany still has a national flavour, reflecting the transitory state of the Finnish business context of Jukka’s HQ: a powerful tool in “getting a grip” on the German subsidiary is the shared language and cultural values of the new management team:

One could well say, that given our size and role in the global market, we have an overrepresentation of Finnish managers, that’s for sure. I am certainly an exception here... ehh... one of the few cases in such a position... ehh... as a non-Finnish [...] I know of some information which is only discussed amongst the Finnish management and with me [...] Well, the highest level of secrecy is: ‘only among Finns’, and after that, some confidents might be included [laughs]…

Technical Director and Director R&D (German nationality), Jukka Germany

This finding – again confirmed by other projects on Jukka (Marschan et al., 1997; 1999) - reveals the rather paradoxical situation, that even in implementing globalization, and thus trying to decrease, if not abolish, the relevance of national contexts in the management processes, it is the very national background of the actors of globalization which becomes a key resource in doing so. Jukka’s management strategies in this sense are fuelled in the most powerful way by those very factors, whose abolition is the explicit and avowed goal of the strategy itself.

**Jukka in the UK: Why are they still manufacturing there?**

One of the most striking research questions during our field work focused on the fact that Jukka UK runs the only plant in the UK in the whole lift&escalator sector that still manufactures on a large scale (except from Karl-Heinz UK that still produces a very few highly customized and unique lifts for the upper market segment). When comparing Jukka’s subsidiary in Britain with the one in Germany, it is striking how little difference there is between both companies, given the different national contexts of both locations. The reason lies in the fact that the British subsidiary has been a part of the German subsidiary of Jukka (and its predecessor) since 1973. Consequently, the Managing Director of Jukka’s plant in the UK called his company a “German” company, which particularly applies to the work system in the UK. Over a period of more than 10 years after the acquisition the German owner built up a very efficient production and engineering plant in the UK, investing heavily in vocational training of workers, production facilities and engineering skills. In fact, still today the British
technicians in the plant use German measures, standards and much of the “technical language” is German as well. This strong influence of the former German owners established a subsidiary whose entire work systems, especially in the area of the technologies used and the employment practices and policies, in no way reflect the peculiarities of the British national context. Consequently, the resistance against the CMPs of Jukka was equally as high as it was in Germany, and again, it was only the retirement of the Managing Director in 1999 which enabled the massive reorganization process to introduce the “Jukka-model” and the new software systems. In particular, the engineering and manufacturing staff perceived the new policies as “edicts” imposed on them so that the globalization strategy of Jukka had to be implemented quite forcefully. However, our impression, especially when interviewing the new Managing Director, was that in the end senior management in the UK had identified considerable strategic advantages for the UK operations in complying with the global strategies. The engineering and manufacturing know-how in the UK is proving to be a powerful asset for its role within the entire multinational group, now it is no longer a part of a German SME (mittelständisches Unternehmen), but a direct subsidiary of a global group. This led to the decision to produce all heavy duty and specialized escalators within the entire Jukka group in the UK. This massive change in the structure of the work system, most notably in the products and the markets of the company, puts the British plant in a position of relative power.

One might well ask about the whereabouts of any national effects, especially from the British context, in the CMP that took place in the UK. Given the situation that Jukka UK was such an “un-British” company in the first place, these effects were rather difficult to trace. However, we found some insightful developments in the course of the implementation of the CMPs in various areas of the work systems. One of the reasons for concentrating heavy duty production in the UK was the fact that the clients for these products – the London Underground and BAA counting among the most important ones – still follow very strongly a “buy-British” philosophy. In fact, Jukka UK explains its market share of more than 50% in the home market by the fact that they are the only company that still manufactures escalators in the UK at all. Apart from that, the implementation of the SAP system in the UK went considerably smoothly and quickly because the key actor in this change process was not (as in Germany) an engineer but a senior financial manager. It appeared that Jukka UK in this aspect reflects a typical characteristic of the British business system compared to its German counterpart (Lane, 1992: 86): the dominance of financial managers over technical/engineering
managers in companies, which we have already identified in the Amy UK organization. It was the general fear of the technical staff in the UK that in the course of their integration into the world-wide group, the strengths of the plant, especially in engineering and manufacturing, would deteriorate. In other words, integrating the plant into a “low-context” global strategy toward convergence of management practices might expose them more strongly to the “low-context” British business environment as well. For instance, they were already experiencing some problems in attracting skilled workforce to the shop floor and maintaining the high skill level at the plant in the UK.

Another aspect, finally, sheds light on a very specific influence of nationality in the context of a globalizing MNC. The Managing Director of Jukka UK explains the growing strategic importance of his unit within the whole MNC:

*On the strategic level, that’s quite interesting, we probably have a position and influence much greater than you might expect. The reason is because the working language of the company is English and of course we are English so the consequence of that is that the Finns are very logical and they say, well if you want to do something internationally and you need to get the message over properly then use an English guy because he speaks the language, hopefully, the best. [...] Even in the US they use English people, not US people. So they kind of capitalise on the language skills of the people here.*

So in the concrete case of a British plant of a MNC there seems to be considerable gain in fact that globalization leads to convergence towards a “global” culture which – ultimately – happens to have their own (English) national language as its base. Generally speaking, we get the impression from our data that globalization empowers those national backgrounds which have already been successful in building up competitive advantages in those parts of their work systems that have been particularly influenced by low-context business environments.

5.3. The German MNC

**German MNCs: the ‘highly decentralized’ company?**

In a certain sense the German member of our sample provides the least evidence of globalization forces. Looking to the strategies of the MNC as a whole, our data definitely show less evidence of any moves towards global convergence. Furthermore, like in Amy,
Karl-Heinz had no concrete CMPs implemented throughout the whole multinational group. Some change management initiatives can be identified but these were part of the general goals of achieving more efficiency rather than being standardized and centrally driven change management processes as in Jukka. Karl-Heinz appears to be a classic text book German-style company and shows an extensive number of characteristics typical of a large German conglomerate with a powerful engineering culture (Warner and Campbell, 1993). However, in the multinational group there have been some slight indications of global convergence: the group introduced a standardized system recently for all subsidiaries’ reports to the HQ in Germany. Furthermore, there is some awareness of the need for a global market presence, which led to the acquisition of one of America’s biggest lift&escalator companies. This resulted, furthermore, in the first non-German board member – the first step, perhaps, in “denationalizing” the leadership structure.

Apart from that, however, Karl-Heinz has a highly decentralized governance system with a network of rather loosely knit national companies, which in their respective countries work in accordance with the (perceived) national business context. There is no central R&D, no global standardization of products and even though the general focus is on the more expansive, upmarket product range this is not a generally enforced strategy throughout the group, which allows for different market strategies in countries like, for instance, France. Senior management justified this approach by stressing extensive national differences in market requirements, production systems and, last but by no means least, language barriers, which allegedly would make a more globalized approach to leadership within the multinational group impossible. As long as the budgeted financial targets are met nationally by subsidiaries, they are granted a maximal amount of liberty.

Recent change processes included a merger of Karl-Heinz’s German mother with another large German conglomerate but this did not affect the lift and escalator part of the company, not least because the dominant group of institutional shareholders could not agree on a common strategy for the entire Konzern so far (an ongoing process for more than 4 years now).

Moving on to the German subsidiary of Karl-Heinz, there has been some CMPs such as a new rationalization of the production site at their manufacturing plant and a concentration of R&D at the company’s main location in the South of Germany. These were justified more by local
technical rationalities and a general drive for more profitability rather than being the expression of a centrally imposed and enforced strategic orientation. As a general conclusion, it seems that Karl-Heinz in Germany is a fairly independent unit which works as a large medium-sized (mittelständisch) enterprise with most typical characteristics of a German company.

Karl-Heinz in the UK: the most “British” subsidiary of our company cases

Significant changes have taken place in the British subsidiary of Karl-Heinz during the last 3 years. Shortly after the acquisition of a medium-sized company in the UK, Karl-Heinz closed down its entire manufacturing and reorganized the work system into a sales- and service-only organization. Our interviews with different actors in this change process revealed that the main initiative for change and the key actor in this process was the Managing Director of Thyssen UK. Though a German owned company, Thyssen UK was transformed into a company which almost typically reflects key textbook features of the British business context with rather individualistic orientated change management approaches, top managers who are highly experienced in job-hopping and rather short term and financial driven business planning perspectives (Tayeb, 1993). Apart from the need to bring the subsidiary back into profit, the British subsidiary had complete freedom in how they realized this aim. There was absolutely no interference from the HQ in any way, the guidelines from the HQ for the subsidiary’s operation were said to fill not more than “maybe three to four sheets of paper”.

Consequently, the work system was changed in a very short time. In sales, the shift went completely towards high-value products, leaving a small workforce to do customized work to meet client’s specific wishes. For the rest, the formerly centralized service organization was completely transformed into a network of regional service centers which can flexibly react to clients’ wishes. Interestingly, the service is not only offered to clients of Karl-Heinz but the company offers service to all makes of lifts and escalators. The main reason given by the Managing Director for these changes were that “we are not good in manufacturing” and that service in Britain is a very profitable business, not least because British law, unlike in Germany, requires users of lifts and escalators to have their equipment serviced on a regular basis. With regard to new products, the UK subsidiary buys them on the internal Karl-Heinz-market from Germany, Spain, Italy or France. In this sense, the multinational group and its
resources, though not forcing the British company into anything, had an enabling role for their strategy.

The entire process of communication and control in the reorganized company appeared to be very informal, personalized and tailored to the Managing Director, which was confirmed by our interviews with various actors in the organization. The changes also pertained to employment issues where about 12% of the workforce had to be laid off. “To fire persons went much faster than the German headquarters expected”, the Managing Director reflected on this, which reveals – as the entire CMP does – a strategy which is quite successfully adapted to the low level of institutionalization of the British business system. In more general terms, the British subsidiary prides itself not only in having come to a solution which is perfectly adapted to the requirements of the domestic British market, but also it perceives itself as a leader in terms of “organizing an efficient service organization” for the entire Karl-Heinz group. Though their approach “became a horror for German managers”, they regard their “model” as currently being implemented in Germany and the US. However, though the British subsidiary regards itself as successful and influential, our data from Germany did not confirm this assessment.

The works council: Europeanization of industrial relations

The results of our search for globalization in terms of convergence and harmonization of strategies and management practices in Karl-Heinz have been rather thin. However, there was evidence that the reorganization process of the British subsidiary also led to the institutionalization of a works council. This was explained as being a “German initiative” because “we are not good at these things” in Britain. As part of a big German “Konzern” Karl-Heinz also has a works council for all operations in the UK, the head of which was a member (and subsequently the vice-chairman) of the European works council of Karl-Heinz. He explained the history of the British works council, which includes the works council in the lift and escalator subsidiary of Karl-Heinz in Britain:

We have got the European works council at the concern level [...] they did actually influence the English management because all of the French, Spanish, German and Italians had works councils. It was only the English that didn't. So they used the influence from outside the UK. When the UK management went to meetings where the other managers were, they actually used that influence to get works councils in the UK.
I am trying to use the influence of IGM [the German metal worker’s trade union] to try and get a formal or even an informal meeting, twice a year meeting with all the UK reps. [...] It is very difficult because the English management do not want to know.

And further:

They [the British management of Karl-Heinz] have got no concept of exactly what that man does, they have no concept of what a chairman of a works council does, they have no concept of me being the first ever, full time union man in this company. We have never had one before.

The British works council obviously is an element of the work system of the British subsidiary which clearly reveals what we would rather define as a Europeanized (transnational) effect rather than a global (in terms of world-wide) effect. It would be interesting to investigate whether and what kind of industrial relation system has been introduced within the recently acquired US-American company and if this effect really has a global (in the sense of world-wide) spread. The German institutional background, backed up by a convergent European legislation in the area of worker’s rights leads to – at least on the European level – transnational convergence of standards and policies in the area of industrial relations. This development forces the British subsidiary of Karl-Heinz to integrate a participatory element into its work system that is clearly imposed by the multinational group onto the British subsidiary. This conclusion is further backed up by the structure of this part of the work system, as the chairman of Karl-Heinz’s British works council explains:

I was in contact with my German colleagues and I actually knew a lot more than I can say, I knew more than most of my managers. I have actually been in a position where I came back from Germany and I saw our chief executive, and I told him something that even he didn't know. Which he was not very happy about, and it concerned this company. [...] Obviously some of my colleagues are on the supervisory board of the Konzern. They get to see documents before the division and the division gets to see documents before they go outside of Germany. [...] I have a far better reporting structure from Germany to England, than I do from England to England.

The European transnational network of works councils appears to be a “parallel” organization within the entire multinational group which uses the forces of globalization to achieve its goals, most notably in the UK, where the national business system actually strongly opposes these forces. Nevertheless, it is quite amazing to see that globalization, given the European convergence in legislation, helps to implement a stronger organizational structure of the workforce than it would normally be the case. This seems to be remarkable, though maybe
anecdotal, evidence that globalization does not in every case imply a “race to the bottom” in social standards, which is normally seen as one of its main consequences (Scherer and Smid, 2000). Furthermore, it is possible to identify a specific “German” element in this process: The British chairman of the works council has informal access to strategic information, since the German Montan Mitbestimmung assigns works council members the right to sit on the supervisory board (Aufsichtsrat) and thus participate in strategically important decisions. This informal communication flow provides the British works council with a very powerful position because the transnational organization of the works councils is far more centralized than the – as discussed – extremely decentralized organization of the MNC as such, which includes a very slow and multilayered communication and control system with a considerable amount of organizational slack.

6. Conclusion

We close our analysis by a number of concluding remarks on our research question about whether and how global effects and national effects intertwine in change processes in the work systems of MNCs.

Firstly, the above issue of the Europeanization of industrial relations as well as a couple of other findings have raised again the need for a more refined and adequate concept of the “globalization”-buzzword. The dominating pattern of understanding globalization in international business studies still runs along the lines of Child’s (Child, 2000) “low context theories” (see again Figure 1). In this sense, the globalization process is characterized as the “worldwide production and marketing of goods and services by multinational enterprises” (Rugman, 2000: 5) or “a process of market integration, primarily through the establishment of value chains that are increasingly dispersed geographically” (Prakash and Hart, 2000: 5), just to quote two more recent definitions by leading authors in the field. Though all of the companies in our sample are involved in globalization in this sense – certainly Amy and Jukka, Karl-Heinz maybe to a lesser extent – this definition based on the geographical expansion of economic activities does not seem to describe the intrinsic character of globalization. This point is also reiterated by various critics of the globalization debate who argue that globalisation in this purely economic and geographic sense is not a new phenomenon at all (e.g. Doremus et al., 1998; Rugman, 2000). The crucial and new element
about globalization is the aspect of denationalization of social interaction – as we defined it at
the beginning of our paper. Our cases show quite significantly, that this definition is better
able to grasp the impact of globalization by contrasting its effects on the one hand with
national effects on the other hand. The case of the works council at Karl-Heinz shows that
globalization (in the sense of de-nationalization) is still quite forceful and visible, even if its
scope is only limited to one regional economic block, as in this case the European Union. The
results of converging transnational political regimes and – as a consequence – convergence of
corporate work systems are the same as those identified in convergence processes through
global (world-wide) harmonization of markets and manufacturing conditions.

Secondly – and this is the main conclusion - our research sheds light on the potential of a
more process and actor focused analysis, which is clearly visible if we just take two extreme
cases of our spectrum. On the one hand, Amy could be seen - to use the Bartlett/Ghoshal
(1989, p. 65) evolutionary framework of organizational characteristics of the transnational -
rather as a “global company”, where we would expect a significant amount of convergent,
transnationally homogeneous business practices. However, looking at the work systems and
the change processes on this level in its German subsidiary, we find a nearly textbook-like
“German” company. The stunning contradictory – if not “dialectical” (Sorge, 2000) – finding
in our research seems to be that the more globalized the strategies and structures of a MNC
are, the more it allows for and relies on national specifics to play a key role in its global
portfolio of national subsidiaries. From this perspective one could even argue that
globalization ultimately reinforces the importance of different national contexts. National
business system patterns become visible when local managers at Amy UK gave reasons as to
why they were relieved to get rid of their low performing manufacturing units in the ongoing
change management process and focus their business strategy wholly on service and sale
functions. Moreover, the structuring of the work system of the German counterpart subsidiary
and their relatively powerful position in the MNC decision-making process are indicators of
German business systems patterns. The geographical HQ function of Amy in Germany, its
increased geographical responsibilities (such as in Eastern Europe) and its strong position in
strategic tasks of the MNC as a whole, such as in R&D, are not simply power resources as
recently shown (Geppert et al., 2001b). Amy Germany’s work systems design can be clearly
related to the German institutional context.
On the other side of the spectrum there is a company such as Karl-Heinz which - again in reference to Bartlett/Ghoshal's framework (Bartlett and Ghoshal, 1989: 65) - could be labelled as a “multinational company" and appears as a rather laid back, decentralized organization dominated by its specific national background and local opportunities. The analysis of Karl-Heinz’s operations in the UK, however, reveals a highly flexible, innovative organization efficiently adapting to the local specifics of the market and focusing on high-quality upmarket products and services. One would not expect the potential for innovative change processes on the work systems level in such a MNC that – following traditional categorizations in the literature – would be regarded as a rather inefficient, outdated organizational structure. Instead, our data leads us to argue that the organizational design of the Karl-Heinz and, especially, its German subsidiary significantly reflects the German Business system patterns. Thus the strong strategic orientation of the lifts and escalators division of the German MNC towards the customized competitive quality market segment, to which not only the German, but also the British subsidiary is committed, shows significantly its institutional origins. In this sense, it is no surprise that it is not the American multinational which is the leader in this upper market segment, but the German multinational group. Moreover, the highly decentralized governance structure of the MNC not only permits the British plant to be very British in its work system design, but undoubtedly allows the German counterpart to operate as a German textbook case company with craft-type and rather product-led than market-led work systems and highly skilled and professional managers (Warner and Campbell, 1993).

In the middle of this spectrum we would position Jukka where one might see the strongest trend towards a real global convergence of organization-wide work systems. From a superficial grasp, this case might point in the direction of Mueller’s argument of identifying a third, distinct “organization effect” next to GE and NE (Mueller, 1994). Nevertheless, our case study shows that even the strong organizational implementation of the GE is by no means an independent, deterministic effect. It faces strong resistance from constraints based on the history of the company (UK) or effects based on the national business system (Germany). It is an open point in which direction the strong standardization strategy of Jukka will finally move the MNC in the end.

Thirdly, and last of all, it might be a worthwhile field of research to move the analytical perspective from the level of subsidiary work systems and investigate more closely how the coordination and control systems of the MNC influence the scope and distribution of global
and national effects in the subsidiaries’ work systems. Within the framework of this paper this has been touched upon in analyzing the origins of CMPs within the whole multinational group. However, a specific analysis of the coordination and control systems at HQ level was beyond the scope of this paper, but has been the subject of research for our German counterparts in the ASYS project (Becker-Ritterspach et al., 2001). It is a challenging task for future research to link their findings on the HQ level with our research on the subsidiary level.
References


CONTROL MECHANISMS
AND PATTERNS OF REORGANIZATION

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1 Introduction

The current management and organizational research seems to agree in one respect: Management faces new challenges mainly resulting from globalization may it be real or perceived. Clearly, national corporations as much as multinational corporations (MNC) feel the need to respond to new market conditions by reorganizing their businesses on a permanent base. These changes concern as much structural configurations as flows of all kinds of resources including products, humans and capital. However, in our empirical research we looked closer at such reorganizations and found that even MNC operating in the same industry were by no means responding to the challenges of globalization in a uniform or convergent way. Despite some similar tendencies the kinds of reorganization as well as the way the reorganizations developed diverged from one case to the other. Searching for answers we found that different dominant control mechanism were key factors explaining the divergent patterns of reorganization. Although our research topic is only indirectly linked to the general convergence-divergence debate in the context of globalization (Ohmae, 1990; Morgan et al., 2001; Maurice et al., 2000) we may nevertheless contribute to it. As will be outlined, our findings on the connection between control mechanisms and patterns of reorganization indicate that there is both convergence, as much as divergence. In the line with this we suggest that the question should be less as to whether there is convergence or divergence in MNC, but to look closer in which respect and why. Instead of looking for either-or we opt for a more differentiated picture and agree with Lane (2000; 2001) who is also in favor a more actor (individual as well as collective) centered approach including an analysis of their structural embeddedness which may reach beyond the nation state.

This contribution rests on a broader Anglo-German research project between the European Business Management School/University of Wales Swansea and the Institute for Social Science/Humboldt-Universität zu Berlin. The German research group ASYS - funded by the German Research Foundation (DFG) - focussed on investigating the ‘Development and Formation of Work Systems in an Intra- and Inter-Organizational Perspective in Multinational Corporations’ (ASYS)\(^1\). As opposed to the German side the British research group WSYS focused on a comparative analysis of German and British heavy engineering companies with regard ‘The Design of Work Systems and the Role of Corporate Governance Structures’.

\(^1\) The German title of the project is ‘Entwicklung und Gestaltung von Arbeitssystemen aus intra- und interorganisationaler Perspektive’. 
At the heart of the ASYS research-project lies the investigation of interactive patterns and processes that constitute the development and formation of work systems. To empirically grasp the development of works systems (or of organizational forms) we focused on reorganization activities as an expression of such formation processes. Thus our research focus was to identify and classify reorganization activities (that is actors and interaction patterns) and investigate if and how similarities and differences between and within MNC can be attributed to differences of embeddedness, that is micro-level (in the corporation), meso-level (industry) and macro-level (national institutions and globalization pressures) embeddedness. This paper, however, slightly diverges from the projects’ overall research agenda as it concentrates on the connection between control mechanisms and patterns of reorganization in MNC.

From the outset one of the major goals of project was to explore the surmised relationship between changes in work systems and control mechanisms. Interestingly, a relationship that has found no attention so far in organization research. While there is an extensive body of literature on organizational change and control mechanisms little or no deliberate effort has been made to explore their connection. It is this connection that we wish to explore.

Empirically, our research is based on an in depth analysis of three multinational corporations in the heavy engineering industry. That is, a Finnish corporation (nicknamed Yukka), a German corporation (nicknamed Heinz) and a US-American corporation (nicknamed Amy). The contribution is structured as follows: Following the introduction the second part briefly recapitulates the debates around organizational change and control. In the third part we elaborate our methodology and research design. In the forth part we develop a categorial framework to capture patterns of reorganization. This is followed by an empirical description of the dominant patterns of reorganization observed in the MNC. In the fifth part analytical categories for describing control mechanisms are briefly introduced which is again followed by an empirical outline of the dominant forms of control mechanisms in the respective MNC. In the sixth part we will analyze the connection between control modes and certain aspects of the reorganization patterns. In the seventh and final part we then try to condense the major findings and draw some tentative theoretical conclusions for guiding further research in the field.
2 Reorganization and Control mechanisms: An Unexplored Field

To our knowledge neither debates around change management and organizational change nor the growing body of contributions in the field of control mechanisms have explored the connection between reorganization and control mechanisms. Although the discourses around organizational change on the one hand and control on the other overlap in some respects an explicit connection has neither been theorized nor empirically investigated. Research concerning organizational change, which is often related to changing market conditions in the wake of globalization can be located on two levels: changes of work organization and production systems on the one hand and changes of whole structural configurations of corporations on the other. Starting in the early 1980s the turning away from the traditional fordistic-tayloristic production paradigm was being discussed (Kern/Schumann, 1984; Altmann et al., 1986; Boyer, 1986; Hammer/Champy, 1993; Nippa/Picot, 1995). The discussion of new concepts of production and work organization many of whom Japanese in origin moves to the center stage. Among other terms: functional reintegration, job-rotation, job-enlargement, quality circles, teamwork were major keywords describing these changes in firms. Although discussions of lean production and lean management in the 1980s were already concerning organizations as a whole, it was mainly from the 1990s onward that the core of the organizational change debate was shifting away from a production and work organization focus toward overall organizational configurations of firms (Macharzina, 1996; Cooper, 1995; Hirsch-Kreinsen, 1997). Major findings in this research context reverberated around the terms decentralization, dehierarchization, as well as increasing internal marketization (segmentation, profit-centers and so on). In this context also control modes were increasingly dealt with as changes in production paradigms and changes of the whole organizational structures were accompanied with new control-concepts on the level of behavioral control (that is, more self-control instead of formal bureaucratic control).

With the up-coming of the globalization debate throughout the 1990s the research on organizational change turned increasingly toward configurational changes in MNC. This mainly implied the discussion of a changed international division of labor in MNC and changed flows of all kinds of resources (for example capital, human resources, parts and products). Growing competition between globally dispersed production sites, outsourcing, business process reengineering, supply-chain management, transnational networks and an increased focus on core competencies were again buzzwords that geared toward grasping the empirically observed changes in MNC (Ruigrok/Tulder, 1995; Hirsch-Kreinsen, 1997;
Morgan, 2001). Repeatedly, the question of convergence and divergence was more or less explicitly raised. Empirical findings, however, pointed to either directions and remained inconclusive in this respect.

Along with the globalization debate and changed configurations in MNC changed corporate governance systems also became an issue. An increase of Anglo-American governance systems was stated and seen to be manifested in growing shareholder-value-orientations (mainly in the form of output control by financial indicators) replacing and supplementing traditional forms of control (Rappaport, 1998; Hirsch-Kreinsen, 1998). What is more, contributions in the debate often characterized the spectrum of possible control modes in terms of hierarchy, network and market, without, however, reaching agreement on which of the modes acquired new dominance (Thompson, 1993; Ouchi, 1993; Hennart, 1993, Hedlund, 1993).

In summary, whenever the issue control was raised in the context of organizational change it appeared to be a part or a concomitant of new structural configuration mainly following liberalization and globalization of markets. Apart from the fact that research on organizational change left the influence of control modes on reorganizations unexplored, it also neglected a more refined use of categories capturing different modes of control.

A review of the literature on control mechanisms, however, equally revealed (Dunning 1994; Harzing, 1999; Becerra, 1998) that little or no attention has been given to the connection between coordination mechanisms and processes of change in MNC. In a comprehensive analysis Becerra (1998) reviews the extensive body of literature on control of national subsidiaries and identifies the following dominant issues:

- Organizational structure as control mechanisms
- Contingencies (for example type of activity or function to be controlled, country of origin) influencing the extent of control
- Studies on and categorizations of control systems including types of control and specific control mechanisms
- The connection between different strategies and control and coordination at the MNC-level
- The connection between different strategic roles of subsidiaries and their control

Taken together singular as well as summarizing on various aspects of control mechanisms in MNC show that research in the field has mainly centered around the influence of various contingencies (for example size, environment conditions, subsidiary and headquarter-
subsidiary interdependence, function or activity to be controlled, headquarter as well as subsidiary characteristics) on the use of different control mechanisms. As opposed to this, no effort has been made so far to systematically link different aspects or types of control with different paths or patterns of reorganization in MNC.

Our reflection on the connection between control mechanisms and patterns of reorganization is based on the idea that reorganizations within MNC develop over time and are based on processes of interaction and negotiation between different corporate actors. Particularly in MNC these interactions are more often than not border-crossing and involve individual as well as collective actors at different corporate levels and locations such as headquarters, country-holdings and subsidiaries.

One of the major theses is that the development of reorganizations is crucially influenced by dominant control mechanisms as they tend to regulate the distribution of different kinds of resources vital for conducting reorganizations.

Taken together our guiding assumptions are:

- MNC react to changed conditions in factor markets with different kinds and processes of reorganization in a non-deterministic way strongly reflecting company-specific conditions (for example administrative heritage; strategies, ownership).
- Reorganizations developed through social interaction and negotiations between different inter- and intra corporate actors positioned at different hierarchical and functional levels (headquarter, subsidiaries, consulting firms).
- Processes of reorganization constituted by the interaction different actors are power-asymmetric which is strongly related to the exchange and exchangeability of resources.
- In reorganizations actors purse more or less diverging or conflicting goals which is related to different rationalities. Different rationalities in turn have to seen as an outflow of different micro (for example hierarchical position, functional position, dominant form of control in a firm), meso (for example typical task environments and competitive dynamics of an industry) and macro structural embeddedness (for example national legislation, supranational accounting principles).
- Linking reorganization patterns and control mechanisms the core assumption is that control mechanisms strongly influence the distribution of resources, particularly of decision making powers. This may in turn explain different actors involvement and autonomy in shaping different aspects of reorganization.
3 Methodology

The study adopts a multiple case study approach. More precisely, the study involves not only multiple cases but also within these cases multiple units of analysis (Yin, 1994). The justification for this embedded case study approach flows primarily from two aspects of the research question. That is, 1.) the required depth of analysis and 2.) the process perspective it involves. Thus, given our prime research interest, that is to investigate patterns and interactive processes that are seen to underlie the formation and development of work systems, qualitative case studies appeared to be an appropriate means to gain an in-depth and holistic understanding of such intricate processes.

The selection of research cases aimed at choosing a small population of MNC in one industry. The cases mentioned in this paper are three multinationals operating in a specific branch of the heavy engineering industry. Since it was the goal to intensely investigate the development and formation of work systems in MNC by means of case studies only a limited number of MNC was chosen. What is more, as we assumed inter-industry dynamics to be highly relevant for the development and formation of work systems we wanted to restrict our sample to one small industry/population. Based on this methodological limitation and theoretical reasoning we chose a reasonably small population of MNC in a particular branch of the heavy engineering industry (that is consisting of only five global players). Within the respective MNC the prime research units were the corporate headquarters and the subsidiaries in Germany and Britain. These units were chosen for two reasons. Firstly, based on theoretical reasoning we expected subsidiary-headquarter interaction to be highly relevant for the development and formation of work systems. Secondly, given the contrast between the German and British business systems and the research focus of our research partners in Wales (that is the impact of national institutional systems on development and formation of work systems in a comparative perspective) we included units from these two countries.²

Data collection rested primarily on qualitative data, that is guided interviews (Flick, 1996). However, other sources of data collection were also employed such as: group discussions in the corporations, a wide variety of documentary information or sketches provided by interviewees (Eisenhardt, 1989; Patton, 1990). All in all 28 guided interviews were conducted that lasted one to three hours. In MNC Yukka eight interviews were conducted including two in the corporate headquarters, three in the UK and three in Germany. In MNC Heinz nine

² The German-British comparison is not analyzed in this paper. However, our British partners focused on this subject (Geppert et al. in this edition).
interviews were conducted including two at headquarter-level, four in Germany and three in the UK. And in MNC Amy a total of nine interviews were conducted including one at the headquarters, five in Germany and three in the UK. Moreover, two interviews were conducted with industry experts. The interviews where always conducted in a team of two to allow the case to be ‘viewed from the different perspectives of multiple observers’ (Eisenhardt, 1989, p. 541).

Table 3: Interviews conducted

<table>
<thead>
<tr>
<th>Corporations</th>
<th>Location</th>
<th>MNC Yukka (F)</th>
<th>MNC Heinz (G)</th>
<th>MNC Amy (US)</th>
<th>Experts</th>
<th>Number of interview partners</th>
</tr>
</thead>
<tbody>
<tr>
<td>Headquarter</td>
<td>2</td>
<td>2</td>
<td>1</td>
<td>5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Germany</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>2</td>
<td>14</td>
<td></td>
</tr>
<tr>
<td>GB</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>2</td>
<td>9</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>8</td>
<td>9</td>
<td>9</td>
<td>2</td>
<td>28</td>
<td></td>
</tr>
</tbody>
</table>

The data analysis was strongly informed by guidelines on qualitative data content analysis presented by Miles and Huberman (1994). Miles and Huberman suggest qualitative data analysis to consist of 1.) data reduction, 2.) data display, 3.) conclusion drawing and verification. In accordance with Miles and Huberman we do not see these steps as sequential but rather as interactive steps that are intertwined throughout the research process. Based on our conceptual framework and the corresponding analytical dimensions – for the purpose of this paper patterns of reorganization and categories of control mechanisms - the data was scanned, selected, paraphrased as well as summarized to reduce it. ‘To assemble organized information into an immediately accessible, compact form’ (Miles/Huberman, 1994, p. 11) we followed Miles and Huberman’s (1994) recommendations and mainly relied on matrices, graphs, charts. Particularly, matrices were extensively used to group the data along the above dimensions, to categorize case and unit specific variance. Additionally, for each case, a case description was written up. By means of data display and a review of case descriptions we were able to discern different interactive patterns in the development of reorganizations and relate them to different control mechanisms in the respective MNC.

In terms of verification we refer to validity criteria suggested by Yin (1994), namely construct validity, internal validity, external validity and reliability.

Construct validity which aims at establishing correct operational measures for concepts being studied was secured through the following measures. At the start of the research an Anglo-German workshop was conducted within which the respective researchers jointly specified
core research dimensions and their operationalization. Moreover multiple sources of evidence were made use of (interviews, group discussions in the respective corporations, a wide variety of documentary information). Interviewees in different functional, spatial and hierarchical positions were interviewed on the same reorganization measures (triangulation) in the respective corporations to avoid a subjectively biased perspective. Also, case study reports have been reviewed by key informants (Yin, 1994). Finally, at a research conference (in November 2001 in Berlin titled ‘Management of Change in Multinational Companies: Global Challenges and National Effects’ funded by the Anglo-German Foundation) key informants were invited and asked to critically review the research results and interpretations.

**Internal validity** aims at the verification of causal relationship between different research dimensions (Yin, 1994). In the analysis of our data we saw strong indications for the expected relationships between control mechanisms and patterns of reorganization. Rival explanations occurring in the geographically separated Anglo-German research team were constructively discussed at two workshops in Swansea (2000) and Berlin (2001) and explanatory alternations were made.

Thirdly, **external validity** concerns the question if the study’s findings are generalizeable (Yin, 1994). Yin suggests analytical generalizations to be primarily testable through replications. As far as our research question is concerned no replications have been conducted for other industries. We therefore cannot lay claim for generalizeability beyond the branch of industry researched. However, we see our paper as a first explorative step toward researching and validating the connection between specific control mechanisms and patterns of reorganization.

**Reliability**, refers to conducting research as if someone was permanently controlling the process (Yin, 1994). In this respect Yin (1994) suggests case study protocol documenting all research steps. Although such a formal protocol has not been written-up, time-tables, research plans, questioners, tapes, transcripts and analytical drafts were saved and filed by date making the research process reasonably transparent for interested co-researchers.

### 4 Patterns of Reorganization

#### 4.1 Analytical Framework

Following Ortmann processes of organizational change can be analytically distinguished as being either ‘evolution’ or ‘reorganization’ (Ortmann et al., 1997, p. 333). Whereas processes of evolution are understood as unintended and unplanned changes mainly via selection,
reorganizations are seen as intended and reflected restructurings of organizations. In this paper, we are only concerned with reorganizations and define them in line with Ortmann et al. (1997) as those organizational changes that are based on a minimum of intended, planned and reflective restructuring of an organization.

When starting research initial expectations were that MNC in the same branch of industry would converge with regard to their reorganizations as they were more or less exposed to similar global market conditions. However, when we researched the firms no common models of best practice or the like - which appeared to have existed in many firms at the beginning of the 1990s – were found. What we observed instead were very diverging focuses in terms of organizational change and reorganization in the researched cases. It was particularly this divergence that led us to develop categories that would allow us to come to grips with different kinds and processes of reorganization. Thus, to analytically grasp different patterns of reorganization we differentiate reorganizations base on their kind and their way of development. While the first aspect concerns what changes the second considers how it changes.

4.1.1 Kind of Reorganizations

In terms of what kind of reorganizations take place their reach and depth are distinguished. The reach of an reorganization refers to the question if a reorganization affects a MNC as a whole (far-reaching or global) or if only some units or parts are involved (limited or local). If a reorganization reaches far, that is, involves all units of a corporation, particularly the whole configuration of the MNC we talk about strategic reorganization. As opposed to this we call operational or local those reorganizations that are limited to one or only a few units.

The depth - as part of what we have defined the kind - of a reorganization concerns the question how deeply it induces change or else how radical it cuts into existing structures and processes of a local unit and/or the corporation at large. Table 4.1 typifies different kinds of reorganization based on its depth and reach.

<table>
<thead>
<tr>
<th>Reach Depth</th>
<th>Far-reaching/global</th>
<th>Limited/local</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low</td>
<td>Modest-strategic</td>
<td>Modest-operative</td>
</tr>
<tr>
<td>Deep</td>
<td>Radical-strategic</td>
<td>Radical-operative</td>
</tr>
</tbody>
</table>
4.1.2 Development of Reorganization

In terms of how the reorganization developed we looked at reorganization processes. Reorganization processes are seen to be ideal-typically constituted by three phases, that is, inducement, conceptualization and implementation and can be differentiated on the grounds of 1.) the actors involved, 2.) their resources and 3.) their rationalities. Concerning the phases of reorganization there can be substantial variance regarding how long, planned and reflected the respective phases are. While in some cases the inducement of a reorganization may be easily traced back to a person or an event it may be less obvious and more emergent in another. Likewise, in some cases the phase of conceptualization may be long, well-planned and reflected upon while in another there is barely any planning resembling more an ad-hoc implementation following a path of trial and error. It is also important to note that the three different phases have to be seen as an analytical distinction as they may be highly interwoven empirically.

Distinguishing the analysis of reorganization processes in terms of actors, resources and rationalities we were strongly informed and inspired by structuration theory. Following Giddens (1984) and Ortmann et al. (1997) we held that processes of reorganization are structuration processes. Structures are seen to be the framework into which social interaction is embedded. Also, structures do not determine action, as action remains always contingent. One the one hand structures simultaneously enable and delimit action. On the other hand they are the very result and creation of human action (duality of structure). Thus the actors’ behavior relates to structures in a recursive way.

Proponents of structuration theory distinguish three dimensions of structure: signification, domination and legitimation. On the level of interaction they correspond with the terms: communication, power and sanction (see Table 4.2).

Table 4.2: The dimensions of the duality of structure

<table>
<thead>
<tr>
<th>Structure (modality)</th>
<th>Signification</th>
<th>Domination</th>
<th>Legitimation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interaction</td>
<td>Communication</td>
<td>Power</td>
<td>Sanction</td>
</tr>
</tbody>
</table>

[Source: Giddens (1984: 29)]
However, if applied to organization research the highly complex theory poses some difficulty. Apart from the overall challenge to translate the analytical distinctions of different levels (that is structure, modality, interaction) and dimensions to the organizational context, the application of the dimensions signification and legitimation appears to be particularly difficult as lines between the two tend to be blurred. Ortmann et al. (1997) who has among others undertaken the effort to apply Giddens structuration theory to organization research distinguishes in this context two aspects of structure. Namely, rules of signification and legitimation on the one side and resources allocative as well as authoritative on the other. Again, the two aspects are seen to be recursively interconnected.

In the following analysis of reorganization patterns we strongly refer to core ideas and categories of structuration theory albeit with modifications in some respects.

As we were mainly concerned with analyzing reorganizations at the level of interaction the first step was to identify the relevant actors involved in interactive processes of reorganization, concretely, to which extent internal and external actors or central and local actors are involved in the inducement, conceptualization and implementation of a reorganization. It equally involves the question of their organizational (central vs. Local) and their societal embeddedness (countries) and what function or role they take in the reorganization.

Sticking with Giddens (1984) and Ortmann et al. (1997) we held that the actors’ behavior and interaction always mirrors structural opportunities and limitations, although they may not be consciously reflected but rather take on the form of ‘generalizable procedures applied in the enactment/reproduction of social practices’ (Giddens, 1984, p. 21). What is more, structural opportunities and limitations of action were seen to be crucially mediated by resources available to actors as well as rules of signification and legitimation that find expression in behavioral rationalities of actors.

Thus also in the context of reorganizations we surmise that resources play a key role. Processes of reorganization – as any other process of social interaction – are power-
asymmetric which is based on the uneven distribution of resources. It implies that depending on access and availability to resources actors can to a larger or lesser extent put through their goals. Borrowing loosely from Giddens allocative and authoritative resources can be distinguished (Giddens, 1984). Authoritative resources basically concern an actors decision-making rights. They mainly derive from the actors’ hierarchical position, but also form the legitimacy of traditional habits, or from personal charisma (Weber, 1922/1972). As opposed to authoritative resources allocative resources refer to the availability of capital, technical equipment, staff, skills and knowledge and so on. They derive from an actors’ function/task but also their hierarchical position in a corporation. Another sort of recourse needs to be mentioned, however, which is the availability of time. Different kinds of resources which are seen to be crucial for reorganization can be allocated at different spaces, that is, locally or centrally or else inside or outside of the organization.

Besides resources rationalities of actors were also seen to play a strong role in processes of reorganization. Rationalities imply what actors consider legitimate, right and appropriate. Behavioral rationalities of actors strongly express norms and rules or governing logics in specific areas of corporate activity. Such areas can be for example specific task environments of local units. Rationalities of actors are also seen to impact their priorities in terms of goals and interest. What is more, in processes of reorganization rationalities of actors can be more or less competing and conflicting (Deutschmann et al., 1995) for example technical vs. Financial rationality or local vs. Global rationality.

4.2 Empirical Findings: Patterns of Reorganization

The three MNC investigated were all facing the similar strategic challenge to strike a balance between local responsiveness to specific needs of local customers and global efficiencies to drive down costs and live up to capital market profitability expectations (Becker-Ritterspach et al., 2001a,b). In response to these strategic challenges we saw a trend toward convergence and common strategic answers in the researched industry (Iwer, 2000). Although varying in degree all mayor players:

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3 We have chosen the term (behavioral) rationalities instead of rules on the level of interaction as it seems to be more fitting for expressing crystallized patterns of behavior. This also avoids the formal-structural connotation of the ‘rules and norms’.
- Sought to realize a stronger customer orientation by separating production, R&D and service and decentralizing the latter.
- Sought to realize scale economies by downsizing and concentrating R&D and production-units.
- Sought to combine flexibility and scale economies by introducing modularized products based on standardized components.

Taken together all MNC were about to reorganize their internal division of labor which essentially meant more internationalized supply chains. However, the strategic challenges in the industry were only defining a corridor of potential strategic action and reorganization and not determining it. Comparing the three corporations researched more closely they markedly differed in terms of dominant patterns of reorganization. These three different patterns can be summarized as follows.

**Corporation Yukka: Dominance of radical-strategic reorganizations involving a high degree of centralized-planning and a forceful transfer and implementation of centrally devised reorganization concepts to all corporate units.**

During the 1990s corporation *Yukka* witnesses a series of mainly radical-strategic reorganizations. Under the corporate heading of ‘integration’ and ‘harmonization’ the major strategic goals were the realization of scale economies. At the heart of the most recent reorganization lay the introduction of an IT-based organizational model that aimed at integrating and standardizing major business processes as well as all kinds of administrative procedures throughout the corporation. All in all the strategic reorganizations changed the configuration of the corporation as a whole and deeply cut into the organization of the local units. For the local units these changes meant more than anything else a decrease in functional differentiation and autonomy. As a result local units where allocated a much more operational role. What is more, as the local units were kept busy with implementing centrally devised reorganizations and had to adapt their structures and processes to the whole corporation. Little or no operative reorganizations took place.

With regard to the development of the reorganizations headquarter inducement and central conceptualization as well as long-term orientation were characteristic. Equally, the forceful-top-down manner in which past and present reorganizations were induced, devised and implemented were typical for corporation *Yukka*. Moreover, a very high degree of planning was identified as all phases of the implementation were meticulously standardized and
prescribed. The key players of the reorganization were headquarter-based and mainly supported by IT-experts as well as external consultants. The reorganization also involved a substantial mobilization of resources (allocative, authoritative and time) most of which, however, centrally allocated. As opposed to the headquarter-based players local actors (also called process owners) were only involved in the implementation phase where their intricate knowledge of locally specific processes was needed. The heteronomous nature of the reorganization measures in terms of inducement, development and implementation triggered hefty resistance in local units. The loss of autonomy, the cultural imposition, the cost-pressures, the degradation of formerly strategic roles implied a strong clash of local and central rationalities. While the headquarters’ actors were dominated by an overall corporate and economic-technological rationality mainly mirrored in goals of integration, optimization and cost-reduction the local units’ rationalities were coined by their former autonomy, their local task-environment (specific products) and traditions which were strongly related to their national (for example German made-to-order engineering culture) and organizational embeddedness in the past.

**Corporation Heinz: Dominance of moderate-strategic reorganization having a top-down-bottom-up character along with substantial autonomy for local units**

As compared to corporation Yukka corporation Heinz saw only little comprehensive reorganization activities before the mid 1990s. Thereafter, the mostly moderate-strategic reorganizations in corporation Heinz centered around the introduction of a unified reporting-system, the change-over to the US-GAAP accounting-system and the segmentation of practically all corporate units also including small production units within factories. Taken together the measures were aiming at setting conditions that allowed for the implementation of a ‘value-oriented control-system’. Put differently the major goal was to introduce an Anglo-American governance system along with the structural preconditions for it. Unlike corporation Yukka corporation Heinz was much less interested in defining, standardizing and prescribing structures and processes. Although such a standardization may have been the consequence to some extent the reorganization measures – particularly the segmentation - found different implementations in different local units. This was mainly due to the rather open conceptual framework of the reorganization which left concretization and implementation measures to the local units’ discretion. From the local units’ perspective the strategic-reorganization – most of all the segmentation – called for local reorganizations and some degree of functional disintegration (separation of service and production). However,
compared to case Yukka’s corporate-wide reorganization corporation Heinz’ local units not only enjoyed relative freedom and autonomy to realize the moderate-strategic reorganizations but also had organizational slack to undertake additionally their own moderate-operative reorganizations.

In terms of the reorganization development corporation Heinz’ strategic reorganizations were centrally induced with the support of internal and external consultants. Although the reorganization concepts were introduced by external consultants their actual shaping and concretization took place in the local units. Also in terms of the implementation the corporate headquarter did neither initiate nor prescribe a strictly phased action-plan. To the contrary, it was clearly seen as a local task to shape and implement the reorganization. It also appeared that the extent to which local concept-development and implementations took place was a bit a matter of garbage-can logic (March/Olsen, 1972). That is, depending on the availability of powerful local promoters supporting the reorganization concepts at a given point in time. Typical for corporation Heinz’ conceptualization and implementation processes were a broad participation of different actors from different organizational levels in the local units (including top and middle management, works council). All in all the shaping and implementation of concepts took on the form of a bottom-up dynamic following top-down inducement from headquarters. The local units also appeared to have sufficient allocative, authoritative and time resources to realize the reorganization autonomously. Although different rationalities mainly based on different national industry-dynamics were observed conflict between central and local actors did not appear to be particularly strong. For one thing such a relative low-conflict coexistence of different rationalities was due to the remaining autonomy of local units, for another, due to the headquarters’ explicitly expressed attitude that local rationalities and embeddedness have to be considered and play a vital part in organizing business in different national spaces.

Corporation Amy: Dominance of operative reorganizations (radical as well as moderate) having an ad-hoc character while involving a great amount of local unit autonomy

Compared to the other two corporations we found barely any strategic reorganizations in corporation Amy. The only strategic reorganizations were centrally induced best-practice initiatives such as QCPC (Quality Control Process Charts), TPM (Total Productivity Maintenance), 5S (Strengthen, Sort, Straighten, Standardize, Sustain) or EH&S-guidelines (Environment, Health and Safety) that aimed at improving all kinds of processes with regard to quality, safety at work and environmental protection. By and large these process
improvements were moderate as they did not cut deeply into the way corporate and local processes were organized. In terms of implementation and further development local units also had substantial degrees of freedom. Apart from the very limited global initiatives a dominance of local or operational reorganizations was observed in corporation Amy. However, with regard to the content or depth there was a variance between moderate and radical reorganizations. While in one case the local service business got restructured, production was outsourced in another or closed altogether in a third case.

The inducement of these operational reorganizations followed a similar path or mechanism in most cases. That is, the reorganizations became indirectly induced through the existence or imposition of highly ambitious profitability-indicators. Were these financial targets not met local management had to initiate more or less radical changes. Which measures were taken, however, was up to the local management. Within the local units it was then – unlike case Heinz – mainly the local top-management that devised the reorganization measures or invited in some cases external consultants for support. Those affected by the reorganization measures (for example middle management, other employees, works councils) were hardly involved. It was also characteristic for these local reorganizations that the allocative resources and resource of time were extremely scarce equally contributing to an overall low participation level in the local units. As a consequence reorganizations in case Amy were short-term oriented, showed a low level of planning mainly having an ad-hoc and trial and error character. The dominant rationalities of actors involved in the local reorganizations were strongly internal-competition and key-figure oriented. Local and headquarter rationalities complemented each other to the extent that profitability-indicators and other quantitative performance indicators were a strong point of common reference. In line with this headquarter rationality local units were granted autonomy and authoritative resources for the conceptualization and the implementation of reorganizations so long as profitability and internal competitiveness was restored. The permanent pressure for profitability and the lingering fear in terms of existence motivated key actors locally to induce and put through reorganizations. Little time and low participation levels, however, trigger a fair amount of conflict within local units (job loss, non-involvement, and so on). As opposed to high local conflict-levels, little overt headquarter-subsidiary conflicts were observed.

Concluding the empirical outline of reorganizations it can be stated that different patterns of reorganization were found along the analytical dimensions developed beforehand. There was not only difference in terms of the dominant kinds of reorganizations (radical and moderate) –
ranging from strategic to operative – but also with regard to their development (see table 4.3). This concerned as much the actors involved in different phases as the allocation of crucial resources. Also the way the reorganizations unfolded varied from one case to another from a relatively clear-cut top-down path, top-down-bottom-up processes to ad-hoc initiatives. Moreover, we saw that the three MNC researched differed strongly in terms of conflicts based on different rationalities between the headquarters and the local units.
<table>
<thead>
<tr>
<th>Corporation Pattern</th>
<th>Corporation Yukka</th>
<th>Corporation Heinz</th>
<th>Corporation Amy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kind of Reorganization</td>
<td>Radical-Strategic</td>
<td>Moderate strategic (Some moderate-operative)</td>
<td>Radical as well as moderate operative (Some moderate-strategic)</td>
</tr>
<tr>
<td>Reach</td>
<td>The whole corporation</td>
<td>Corporation-wide but locally differentiated</td>
<td>Locally differentiated</td>
</tr>
<tr>
<td>Depth</td>
<td>Strongly impacts all structures and processes</td>
<td>Mainly impacts corporate governance</td>
<td>Differs strongly from case to case</td>
</tr>
</tbody>
</table>
| Development of the reorganization | Dominant Actors | - HQ induced through top-management  
- Mainly conceptualized and implemented by central experts and external consultants  
- Selected local actors take part in implementation otherwise very low level of participation within local units | - HQ induced through top-management  
- Some involvement of external consultants in broad concept development  
- Mainly conceptualized and implemented by local actors  
- High degree of participation within local units | - HQ induced through ambitious financial-indicators  
- Mainly conceptualized and implemented by local top-management  
- Low degree of participation within local units  
- Involvement of consultants varies by location |
| | Resources | - Based on substantial resources of all kind HQ-allocated  
- Limited allocative resources and a very low level of authoritative resources in local units | - Based on authoritative resources in HQ and  
- A fair amount of authoritative, time and allocative resources in local units | - Based on authoritative resources in HQ and  
- A fair amount of authoritative resources in local units  
- Very limited amount of time and allocative resources in local units |
| | Conflicting Rationalities | - Overall corporate and economic-technical rationality in HQ conflicting with local rationalities of tradition, task- and national-industry environment  
- High conflict between HQ and local units | - Different rationalities (mainly based on different national-industry dynamics perceived) between HQ and local units coexist.  
- Moderate conflict between HQ and local units | - Local and central rationalities similar or complementary based on internal market orientation and performance indicators.  
- Little overt local vs. Central conflict was observed |
| Dominant Pattern | Radical-strategic Top-down | Moderate-Strategic Top-down-bottom-up | Operative Ad hoc |
The question is how to explain these diverging patterns of reorganization. One of our core thesis is that a closer look at the control mechanisms in the respective MNC has some explanatory power.

5 Control Mechanisms

5.1 Analytical Categories

Before we try to outline the connection between patterns of reorganization and control mechanisms the latter have to be looked at more closely. This requires a more refined conceptualization of control mechanisms, that is beyond the rather broad distinction of hierarchy, market and network. Our conceptualization mainly rests on analytical categories set forth by Harzing (1999) who has derived them from an intensive review of the vast of contributions in the field of control.

According to Harzing (1999) two control mechanisms – that is direct and indirect control mechanisms – can be broadly distinguished. Whereas direct control mechanisms aim at directly controlling behavior indirect mechanisms aim at only controlling the outcome of behavior. Beside the distinction between direct and indirect mechanisms Harzing further distinguishes on another dimension whether control mechanisms are personal/cultural, that is founded on social interaction or impersonal/bureaucratic/technocratic, that is founded on instrumental artifacts. Combining the two dimensions explicated above Harzing develops the following taxonomy which has been slightly modified and serves as a reference point for our own research question.

Table 5.1: Classification of control mechanisms on two dimensions

<table>
<thead>
<tr>
<th></th>
<th>Personal/Cultural (founded on social interaction)</th>
<th>Impersonal/Bureaucratic/Technocratic (founded on instrumental artifacts)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct</td>
<td>Personal centralized control</td>
<td>Formal bureaucratic control</td>
</tr>
<tr>
<td>Indirect</td>
<td>Socio-integrative control</td>
<td>Output control</td>
</tr>
</tbody>
</table>

Source: modified from Harzing (1999: 21)

5.1.1 Direct Control Mechanisms

Table 5.1 indicates that direct control mechanisms can take on the form of either personal centralized control or bureaucratic formalized control. Personal centralized control is based
on the social interaction between actors (superior and subordinate). In this category control takes on the form of personal directives, personal supervision (Blau/Scott, 1963; Mintzberg 1979, 1983), decision making on top level (Harzing 1999), management transfer and rotation. *Formal bureaucratic control* implies control through programs, plans (March/Simon, 1958) standardization (Thompson, 1967), formalization (Child, 1973), rules and regulations (Harzing 1999).

**5.1.2 Indirect Coordination- and Control-Mechanisms**

As opposed to direct control mechanisms indirect mechanisms encompass either *socio-integrative control* - or as Harzing (1999) puts it ‘socialization and networks’ - or *output control*. Both mechanisms can be seen to strongly imply moments of self-coordination (Kieser, 1998) and self-organizing.

Socio-integrative control mechanisms are seen to be based on shared *meanings, rationalities and goals*. They can also be understood as what Bartlett and Ghoshal call ‘cooption’ or the ‘matrix of the mind’ (Bartlett/Ghoshal, 1998, p. 226). That is, achieving inter-unit integration and cooperation through ‘a common understanding of, identification with, and commitment to the corporation’s objectives, priorities, and values’ (Bartlett/Ghoshal, 1987, p. 78). The term ‘socio-integrative coordination’ has been coined by Hirsch-Kreinsen (1998). He sees socio-integrative mechanisms to be mainly based on processes of socialization and manifested in the fostering of consensus-oriented communication, new management roles as well as rationalization programs intending to integrate corporations (Hirsch-Kreinsen, 1998, p. 46). Particularly the socializing effects of new management roles (for example management rotation, combination of management functions) and corporation-wide rationalization programs play a vital role in constituting a common sense of the corporations’ goal and values that in turn facilitate intra-corporate communication and cooperation.

As opposed to socio-integrative mechanisms output control is mainly based on ‘objective’ figures and indicators. This control form rests on the idea of management by objectives, that is goal-setting without defining ways of attainment. They find expression in the agreement on or imposition of strategic goals, budgets, indicators (financial as well as non-financial) and specific ratios indicating profitability (for example return on capital employed). Harzing also calls these mechanisms a ‘market way of coordination’ (Harzing, 1999, p. 21). As opposed to direct mechanisms, indirect control mechanisms are theoretically based on self-control within decentralized corporate units.
Finally, it has to be noted that unless output control meets certain structural conditions it cannot be employed. This is to say that organizational actors and/or sub-units/subsidiaries must have at least some autonomy, for without that, they could not be held accountable for their results. Thus the empirically observable restructuring toward segmentation and decentralization culminating in the creation of profit-centers can be seen as a necessary prerequisite for the employment of output oriented control (Hirsch-Kreinsen, 1998).

5.2 Empirical Findings: Control Mechanisms

According to our findings and supported by other research (Jürgens et al., 2000) the adoption of indirect, result oriented control mechanisms is on the rise within MNC (Morgan, 2001; Tainio et al., 2001; Hirsch-Kreinsen, 1999; Sauer/Döhl, 1997). This tendency was most obvious in case Heinz. Although Heinz coordinated and controled for some time with output control it was not until the late 1990s that an elaborate and integrated output control more reflecting Anglo-American governance got implemented. Moreover, the move toward Anglo-American corporate governance was also manifested in the introduction of stock-option programs in early 2000 in corporation Yukka as well as Heinz. (In case of Amy there was already a long tradition of elaborated output control).

The changing corporate governance has to be seen in the wider context of changing societal governance or changing ‘business systems’ (Cerny, 1997; Dore, 2000). Following Hirsch-Kreinsen we would agree that the ‘shareholder value concept’ is the driving force behind the increased introduction of indirect control mechanisms (Hirsch-Kreinsen, 1998). The erosion of nationally specific capital market structures primarily caused by deregulation and the globalization of capital investments, are major factors pushing for shareholder value orientations within MNC. As important, however, is probably the MNC ever increasing need for capital due to globalization and innovation activities and concomitantly their opportunity to attract the sought after capital on a global scale. The attraction of capital in turn can only be achieved if such control mechanisms are put in place, that supposedly give capital investors the transparency and the comparability of different capital investments. Thus indirect control mechanisms can be seen as a precondition for attracting capital investment as they make it more easy for capital market investors to seek out the most profitable capital investment.

However, despite some convergence toward result-oriented control mechanisms we didn’t see an all out convergence in the investigated MNC (see Harzing’s contribution in this edition).
This is mainly because result-oriented control mechanisms were to a greater or lesser extent combined with other control mechanisms which were sometimes even contradicting each other. The empirical evidence:

**Corporation Yukka: Dominance of formal bureaucratic control and personal centralized control**

Subsidiaries of corporation *Yukka* were coordinated and controlled by the most comprehensive control scenario of all three MNC. Elaborate output control - financial as well as non-financial - was combined with far reaching formal bureaucratic control, personal centralized control as well as socio-integrative control. However, although corporation *Yukka* had a long tradition of output control and deliberately stepped up its efforts to boost socio-integrative mechanisms in the early 1990s (for example by creating of common corporate language, enforcing a common corporate logo, increasing management meetings and workshops) formal bureaucratic control and personal centralized control also in the form of Finnish expatriates (termed the ‘Finnish Mafia’ by some interviewees) appeared to be the overriding control mechanisms. Subsidiaries were even facing contradictory control mechanisms as certain output expectations where coupled with direct control not allowing local management to achieve results in the way it deemed most appropriate. In sum, *Yukka*’s subsidiaries had the least amount of autonomy with respect to organizing operations and activities.

**Corporation Heinz: Dominance of output control supplemented by some informal personal centralized control**

Subsidiaries of corporation *Heinz* faced the least amount of formal bureaucratic control. At the time of research a common IT-reporting-system had just been introduced to all subsidiaries. Apart from a fixed set of reporting-policies guiding output control, corporation *Heinz* did not impose any standardized procedures, processes and policies on its subsidiaries. Informal personal centralized control in the form of regular visits by senior headquarter management supplemented what was otherwise a dominance of output control.

Socio-integrative control mechanisms such as management rotation or common value creation was not observed. Corporation *Heinz*’ mix of control mechanisms was based on output control supplemented by some informal personal centralized control. Apart from these two mechanisms, practically no bureaucratic or socio-integrative control was observed. Informal personal centralized control particularly increased when subsidiaries under-performed. That is, when they had problems of achieving the centrally set profitability indicators. Thus the
subsidiaries had a relative far reaching autonomy in organizing their operations so long as the output was in line with the financial targets.

**Corporation Amy: Dominance of output control with a strong emphasis on internal market competition**

In corporation *Amy* we saw the strongest focus on output control combined with deliberate efforts to foster internal market competition. The local units were not only coordinated and controlled by short-term profitability targets but were also facing a permanent competition with other corporate units. Apart from a strong emphasis on output control a moderate amount of formal bureaucratic control (some globally defined policies and procedures) and little personal centralized control was to be seen. Personal centralized control – in the form of expatriates - played practically no role in the local units investigated (for example not a single expatriate was found). However, a few areas were under personal centralized control such as R&D. Socio-integrative control also played only a minor role. Taken together the direct control mechanisms in *Amy*’s case did hardly interfere with the subsidiaries’ organization of operations. In other words, apart from a very focused set of corporate wide standards and policies (quality, health, and environment) corporation *Amy*’s units had a relatively high autonomy to organize their operations.

**Table 5.2: Summary of empirically observed control mechanisms**

<table>
<thead>
<tr>
<th>Control Mechanisms</th>
<th>Corporations</th>
<th>Corporation Yukka</th>
<th>Corporation Heinz</th>
<th>Corporation Amy</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Direct</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Personal centralized</td>
<td>Very Strong</td>
<td>Considerable</td>
<td>Existent</td>
<td></td>
</tr>
<tr>
<td>Formal bureaucratic</td>
<td>Considerable</td>
<td>Not observed</td>
<td>Existent</td>
<td></td>
</tr>
<tr>
<td><strong>Indirect</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Socio-integrative</td>
<td>Existent</td>
<td>Not observed</td>
<td>Existent</td>
<td></td>
</tr>
<tr>
<td>Output</td>
<td>Considerable</td>
<td>Strong</td>
<td>Very strong</td>
<td></td>
</tr>
<tr>
<td><strong>Dominance</strong></td>
<td></td>
<td>Personal centralized + formal bureaucratic control</td>
<td>Output + informal centralized control</td>
<td>Output + strong internal-market competition</td>
</tr>
</tbody>
</table>
6 The Connection between Control Mechanisms and Patterns of Reorganizations

After having outlined control mechanisms as well as patterns of reorganizations we can try to identify some connections between the two. To begin with, one of the initial finding was that in some cases control mechanisms themselves had become the object of change which made it somewhat difficult to relate these reorganizations to specific control mechanisms. Apart from this finding, it appeared that the patterns of reorganization differed most strongly depending on whether the respective companies were relying more on direct or indirect mechanisms.

6.1 Direct Control Mechanisms and Patterns of Reorganization

The effect of dominant direct control mechanisms on patterns of reorganization appeared to be such that local units had only little autonomy in the inducement, conceptualization as well as the implementation of reorganizations. Corporation Yukka was a case in point where dominant direct control mechanisms (personal centralized and bureaucratic) delimited the authoritative resources available to local units in reorganizations. While personal-centralized control curtailed local participation and decision making rights through direct intervention from the headquarters, the strong formal bureaucratic controls were equally delimiting local actors’ authoritative resources (for example management handbooks, role-out procedures) through detailed descriptions and plans of change processes. What is more, direct mechanisms in general and personal centralized control modes in particular seemed to make a clash of different rationalities more likely as local actors were left with little or no freedom to bring in their own ideas and concepts. However, we also wish to caution at this point. Our findings also suggest (see case Heinz and Amy) that particularly the inducement of strategic reorganizations is generally directly controlled, that is by personal centralized control no matter what the dominant control mechanisms otherwise are in the corporation. An explanation why the inducement of strategic reorganization tends to be directly controlled is their reach, their perceived importance, anticipated conflict and above all the simple fact authoritative resources for strategic reorganization tend to be centrally allocated. This, however, is not to say that all phases of strategic reorganization will necessarily be directly controlled as observed in case Yukka. Particularly case Heinz showed that although the inducement of the strategic reorganizations was also directly controlled, the phases of conceptualization and implementation were up to local units and thus reflected more the
dominant control mode of output control in case of Heinz. Looking at the dominant control mechanism in the two contrasting cases offers some explanation for the divergence. Whereas corporation Yukka’s dominant control mode were direct mechanisms corporation Heinz relied more on indirect mechanisms namely output control. As a result the two corporations differed markedly with regard to the allocation of authoritative resources which strongly impacted their patterns of reorganization. Along with that there was also much less headquarter-subsidiary conflict in case of Heinz as Heinz’ control mode was interfering much less with local rationalities. It thus can be tentatively inferred that although the inducement of strategic reorganization tends to be directly controlled, the way conceptualizations and implementations develops (that is the involvement of central or local actors) may vary with the otherwise dominant mechanism in the MNC.

6.2 Indirect Control Mechanisms and Patterns of Reorganizations

As opposed to direct mechanisms indirect control mechanisms generally leave more authoritative resources to local actors in reorganizations be they operative or strategic. As output control is based on the idea that specific goals have to be met without defining way of achievement there is naturally less interference in how local units structure or restructure themselves. Case Heinz and Amy showed that subsidiaries were generally free to reorganize autonomously. In these cases direct control was only observed when output did not meet the set targets. However, when operative reorganizations were centrally induced as in case of Amy, conceptualization and implementation remained up to local unit actors. What is more, clashing central and local rationalities resulting from reorganizations appeared much less in corporations Heinz and Amy dominantly controlled by output. This is mainly due to the fact that indirect mechanisms by their nature do not impose specific concepts and ideas upon others.

However, the effects of output control on patterns of reorganization have to be further distinguished. It is important to note in this context that output control also varied to a certain degree. In corporation Amy where output control went hand in hand with strong internal marketization and competition local units seemed to have little or no time and allocative slack resources to invest into long-term oriented and planned reorganization measures. As any utilization of scarce resources seemed to have endangered short-term profitability and would have weakened the internal competitive position no large scale mobilization of resources for reorganizations was observed. Empirically, the difference in output control was most evident
between *Heinz* and *Amy*, two MNC with pronounced output control. As opposed to corporation *Amy*, corporation *Heinz* had neither a long-standing tradition of complex and elaborate output control nor a particularly strong internal competition. As a consequence, the availability of allocative resources and time for reorganizations was much higher in corporation *Heinz*.

Finally, the effect of socio-integrative control mechanisms on reorganizations also has to be considered. In terms of socio-integrative control mechanisms we have to distinguish whether they are deliberately employed or fostered or just happen to be at work. Corporation *Yukka* was a good example for deliberately employing and fostering socio-integrative mechanisms albeit with contradictory effects in terms of reorganizations. The fostering of a common corporate language and a common corporate culture served only little to integrate and create common rationalities between local and central actors in the reorganizations. To the contrary, local units were rejecting the measures experiencing them as cultural imposition. This resistance, however, was dealt with yet another mechanism that was at once socio-integrative and direct control. Concretely, mainly headquarters socialized Finnish managers were sent to local units which served to not only directly control them but to overcome the disintegrative effects of diverging local rationalities and implement the same reorganization throughout the corporation. In summary, socio-integrative control mechanisms work to create more or less converging rationalities of actors. This is in turn highly consequential in terms of how contested reorganizations are.

**7 Theoretical Conclusions and Final Reflections**

Our contributions tried to explore the connection between control mechanisms and patterns of reorganization. Within this explanatory context - albeit for a small population of corporations - we were able to show that different dominant mechanisms of control strongly influence patterns of reorganization, that is the allocation and availability of resources as well as the level of conflict between different rationalities. Due to the small sample of corporations researched the connections observed allow no generalization. However, they may allow to derive some tentative theoretical conclusions guiding further research in the field.

1.) High levels of personal centralized control – be in the form of expatriates or directives – tend to curtail local authoritative resources. As a result local participation and initiative in development and implementation of reorganizations (strategic and probably also
operative) appears to be limited no matter how many allocative and time resources are locally available. Also the likelihood of conflicting rationalities is high as the latitude for local units to achieve specific targets is narrow.

2.) Strong formal bureaucratic control mechanisms tend to strongly prescribe and structure the development of reorganizations in terms of phases, participating actors and allocation of resources. In combination with centralized personal control they equally diminish local actors’ authoritative resources particularly when procedures and plans are imposed and prescribe all steps in the development of reorganization.

3.) A dominance of output control generally allocates authoritative resources regarding the conceptualization and implementation of reorganizations (mainly operative but also strategic) to local actors. As concepts and implementations tend to be less externally imposed, a clash between central and local rationalities in reorganizations tends to be low. However, if output control is linked with strong competition among subunits, local units may not be able (for example lacking slack resources) to invest a substantial amount of allocative resources and time into the reorganization measures. As a result reorganizations are more likely to be carried out ad-hoc, without much planning and broad participation levels in a short period of time. If output control on the other hand occurs without strong internal competition more allocative and time resources appear to be available. Under these circumstances local actors are also more willing to invest them. As a consequence, reorganizations show a higher degree of development and planning as well as broader participation levels. What is more, subunits are also more willing to share knowledge under conditions of low internal competition.

4.) Socio-integrative control mechanisms may they be deliberately fostered or implicitly at work serve to create similar rationalities of corporate actors. In terms of reorganizations actors may have internalize a common understanding of what kinds of reorganizations are needed and how they should be developed. Effective socio-integrative control mechanisms may reduce clashes of rationalities and thus the levels of conflict in reorganizations. It is doubtful, however, if socio-integrative mechanisms can be readily created by deliberate management initiative.
Having stated a connection between different control modes and patterns of reorganizations is not to say that any organizational solution observed was more effective or superior to the other. What our findings do suggest, however, is that certain dominant control mechanisms do influence patterns of reorganization in specific ways. What is more, it appeared that changes in market conditions in the wake of globalization were being differently perceived and translated into divergent reorganizations in the investigated MNC. These reorganizations were shaped by powerful actors whose spectrum of choices were crucially influenced by firm-specific control mechanisms. Admittedly, a focus on the connection between control mechanisms and reorganization patterns bears some limitations. For further research we therefore would like to briefly raise two more issues that appear to be important additions in our explanatory contexts.

Firstly, it has to be admitted that control mechanisms were not conceptualized in their full complexity. The conceptualization presented above somewhat ignored another crucial mechanism, that is the structure or the configuration of organizations. For, it is structure that most of the time implicitly coordinates and controls activities by allocating different resources at different levels and locations throughout a corporation. For example the role of local units and the resources available to them are crucially linked to the corporate structure. Thus, organizational structures as a control mechanism and their impact on patterns of reorganizations deserve some exploration which was beyond the reach of this paper.

Secondly, dominant control modes do not develop in a vacuum. While it is not our intention to recapitulate the debate on control and all the possible contingencies that influence them, it appeared that in our case two factors - in which the corporations sharply differed - had substantial relevance with regard to the dominating control mode in the respective MNC. This was namely, the internationalization strategy and ownership structure of the corporations. Bartlett and Ghoshal (1998) have shown, that certain organizational characteristics including corporate structures as well as control mechanisms are closely linked with internationalization strategies of MNC (Bartlett/Ghoshal, 1998). Which internationalization strategy is followed rests on whether an MNC seeks to: 1.) realize global efficiencies, 2) to respond to specific local conditions, or 3.) develop and diffuse of knowledge worldwide. Put simply, while, a corporation mainly focussing on local responsiveness is termed to have a multinational strategy, corporations that emphasize global efficiencies are attributed a global integration strategy. Additionally, corporations that focus on the worldwide development and transfer of
knowledge are defined to follow an international strategy. If corporations, however, seek to master all three strategic needs at a time, Bartlett and Ghoshal (1998) call it a transnational strategy.

In our empirical data the three corporation markedly differed with regard to their internationalization strategy. While Yukka’s strategy matched closely a global integration strategy corporation Heinz was following the opposite, that is, more of a multinational strategy. Compared to the corporations Yukka and Heinz corporation Amy was half way between multinational and global integration strategy. More concretely, corporation Yukka which was most strongly globally concentrating production and R&D along with highly standardized products for a unified global market primarily relied on central control of decisions and resources (Bartlett/Ghoshal, 1998). Also, assets and capabilities were highly centralized in Yukka. Heinz in contrast was much more geared toward local responsiveness which found expression in globally dispersed production, R&D and products that were tailored to national market conditions. In terms of control it corresponded with a strong reliance on financially based output control and some additional informal control. As opposed to Yukka and Heinz the connection between the internationalization strategy and dominant control modes appeared to be less obvious in case Amy. At the time of research the balance between global and multinational strategy was tilting more toward the former finding expression in product standardization. Following Bartlett and Ghoshal (1998) this would correspond with an increase in centralized control, which was not particularly strong in Amy. The ownership structure appeared to be yet another explanatory factor for the dominant control mechanisms observed in the companies. Hassel et al. (2001) have shown for example that if the relationship between owners and management is market-driven and not long term (dispersed ownership or institutional investors seeking to maximize their short-term returns) management faces a higher pressure meet financial market expectations. It implies to continuously drive down cost in order to present better quarterly results and to boost share prices. Edwards et al. (2001) have also termed this short term financial market orientation the ‘tyranny of quarterly results’ (Edwards et al., 2001, p. 11). There is empirical evidence (Hirsch-Kreinsen 1998, 1999; Edwards, 2001) that market driven short-termism shape the control mechanisms. In order to present best-possible results firms rely on short term output control based on financial indicators in combination with a strong internal market competition to drive down cost. Such modes of control or of corporate governance were most prevalent in the case Amy. Unlike the other two cases the ownership of corporation Amy was dispersed. It was also in corporation Amy - in comparison to the other two corporations – where capital
market profitability pressures were strongest felt and articulated. It was only consistent that the dominant control form observed in Amy was a strong focus on output control combined with strong internal competition. In line with that local units were expected to meet very ambitious short term financial targets. To meet these expectations local units embarked on all kinds of reorganization to cut costs. Heavy time pressure to re-achieve the financial targets after failure made local units to rush their reorganization with as little resource as possible (that is, only limited time and personnel for conceptual design and implementation).

Unlike the corporations Yukka and Heinz it was again corporation Amy that deliberately considered a department for organizational development as too costly.

However, a certain degree of protection form shareholder demands in order to preserve management autonomy can be observed when ‘shielding mechanisms’ are at work (Edwards et al., 2001). Such mechanisms (for example alliances, inter-organizational relationships) can for example impede hostile takeovers or the influence of institutional investors.

In our research sample corporation Yukka was a good example for shielding mechanism at work. Although corporation Yukka was also a joint-stock company its shares were basically held by one family which also had the majority of votes. This enabled the corporation to operate somewhat independently from short term shareholder demands and pursue more long term goals and investments. The family ownership in case meant in terms of control that market-driven control was comparatively less important while direct personal control was comparatively more important. This dominance of direct personal control also found expression in the position of the CEO which was held by a family member.

The connection between control mechanisms on the one hand and internationalization strategy as well as ownership structure on the other appeared to particularly evident in our three research cases. This is, however, not to say, that there were no other factors influencing the dominant control modes. Harzing et al. (in this volume) see the country of origin-effect as crucial for the dominance of certain control-modes. Surely the elaborated output control seen in case Amy has a strong bearing on national effects (see Geppert et al. in this edition). In a similar vain Whitley (2001) has shown how institutional backgrounds of MNC shape firm characteristics and behavior including their internationalization strategies.

Lastly, coming back to the convergence-divergence debate we would suggest on the basis of our findings that it is fruitless to state either convergence or divergence. In terms of reorganization as well as control-mechanisms we clearly saw some common tendencies in the three MNC (for example more output control by financial indicators). But there was also
divergence which was not merely attributable to different business systems or country-of-origin effects but had to do as much with firm-specific conditions (for example internationalization strategies and ownership structures) which of course partly relate to societal effects. However, instead of searching for proofs of either side we suggest an actor-based approach that strongly considers different levels of embeddedness (see Becker-Ritterspach et al., 2001 b). Such actors can be institutions on the global, national or regional level such as the governments, unions, wall street, world bank, ISO, WTO and so on; they can be on the meso-level competitors or different firms in an industry; and they can be on the micro-level actors within firms in different positions and locations. That is, if we wish to understand why firms follow in some respects similar and in other dissimilar paths (for example in terms of control and reorganization) we need to look at the configurations of different actors, their cross-influences, their relative power, their goals and their choices which in turn flows from their structural embeddeness. Thus we need to uncover the intricate and highly idiosyncratic patterns of interaction across different levels (global, national, regional, industry wise and local) in order to get a more differentiated picture beyond convergence and divergence. Although we are aware that this contribution falls short (with its narrow focused on the connection between control mechanisms and reorganization) of such a comprehensive and demanding analysis we hope to have made a modest start for a more actor based approach in the research of organizational change.
Literature:


Structure, Politics and the Management of the Employment Relationship in MNCs: The Influence of Wall Street on Employment Relations in US MNCs

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1. Introduction

A key theme of the literature on industrial relations in multinational companies (MNCs) emphasises structural influences on the nature of the employment relationship. Within this there are a number of sub-themes. For instance, attention has centred on the structural features of the business system in the home country in creating a ‘country of origin effect’ (e.g. Ferner, 1997). A related focus has been the constraints posed to MNCs by the host country’s legal and institutional framework of industrial relations and the way in which these influence MNCs to adapt to local practice (e.g. Ortiz, 1998). The structural characteristics of MNCs themselves, such as how they organise their international operations and whether they grow organically or through acquisition, have also been examined in attempts to explain variations between MNCs in the adoption of common policy approaches across borders (e.g. Marginson et al., 1995).

A quite different theme in the literature emphasises the role of particular groups of actors within MNCs and relations between these groups. Here too there are a number of sub-themes. Research in this area has shed light on the way in which managers at the HQ seek to maximise their control over IR across their operations through, for example, forms of ‘direct’ and ‘unobtrusive’ control (Coller, 1996). Managers at plant or unit level, however, can seek to preserve a degree of autonomy from higher levels of management by playing on their role as key intermediaries with the national business system in question (e.g. Edwards et al., 1993). Non-managerial employees, too, can seek to block or modify practices that originate from other parts of the group in an attempt to minimise their impact (e.g. Palmer, 1998).

In a recent paper, Edwards et al. (1999) attempted to integrate these two approaches to understanding the diffusion of employment practices across borders. The paper made two principal arguments. First, the diffusion of practices commonly takes place through the workings of a network of different groups of managers, facilitated by such mechanisms as international committees and working groups. In many cases, it was argued, the HQ exerts a significant degree of control over this process. This we termed ‘networking within hierarchy’. Second, the nature of political processes through which diffusion generally occurs is strongly influenced by structural features of MNCs and their environment since this shapes the distribution of key resources within the firm. Moreover, the structural context is itself shaped
to some extent by the actions of powerful individuals and groups within MNCs. Hence, it was argued that the diffusion of employment practices could be characterised by a ‘bi-directional’ relationship between structural influences and political processes.

What are the implications of these arguments for the relationship between home country institutions and the way a multinational manages its international workforce? How do the structural influences arising from these institutions shape the nature of the employment relationship and the political processes within MNCs? And to what extent, if at all, are actors within MNCs able to shape the structural context in which they are embedded? We consider the issue of the influence of the American financial system on the management of the employment relationship in US MNCs. We argue that the nature of this financial system is a key structural force in this respect, resulting in a distinctive ‘short-termism’ in the way these firms operate. However, it does not have determining effects. Many units within MNCs possess resources that enable them to operate more or less autonomously from the demands of the HQ, enabling them to deflect pressures to make cutbacks. At corporate level, moreover, many firms retain a degree of independence from the financial markets through ‘shelters’ that permit a variety of approaches to be followed. Crucially, we argue that groups of actors within firms are engaged in a struggle to protect these shelters and to create new ones. Moreover, secondary sources indicate that some key actors in large, powerful firms are able to use their influence to shape elements of the financial system in which they operate. Hence, we argue that the bi-directional relationship between structure and political processes does have analytical purchase on this issue.

The paper builds on a recent paper by the authors that examined the structural influence of the American financial system over US MNCs (Edwards and Ferner, 2001). It is organised into five further sections. In section 2 the research project from which the data originate is described. The evolution of the financial system in the US and the nature of the short-term pressures on the management of labour are described in section 3. The evidence from our case studies which demonstrates the way this influence extends to the international operations of US MNCs is assessed in section 4, while the role of shelters in mediating these pressures are set out in section 5. Section 6, the principal one, considers the different levels at which structural influences and political process interact and some concluding observations are made in the final section.
2. **The Data**

The data are drawn from a large, ongoing research project on the management of employment relations in US MNCs in Europe. Subsidiaries are being studied in the UK and by collaborating teams in Germany, Ireland and Spain; where possible subsidiaries of the same MNC are being studied in two or more of the host countries. In some cases fieldwork is also being conducted in the corporate HQs. Respondents are predominantly personnel or human resource managers but interviews are also being carried out with financial and operations managers and with supervisors and shop-floor employees. This paper draws on data from seven UK subsidiaries with data from the US being available in three of these cases. Interviews are tape-recorded, transcribed and coded and analysed using QSR N5 qualitative data analysis software. In total, fifty-five interviews form the basis of this paper (see table).
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3. The Nature of the American Financial System

As O’Sullivan (2000: 70) notes, while the dominance of shareholder interests over the actions of senior managers in large firms is now seen as a key feature of the American business system, this is in fact a relatively recent phenomenon. For much of the twentieth century, senior managers used retained earnings as the main source of funds for investment and, hence, were not dependent on financial institutions for new funds. Shareholdings, moreover, were highly dispersed across a range of individuals and small institutions, with each holding too small a proportion of the total stock to exert significant influence. Hostile takeovers designed to challenge the position of an incumbent management team were extremely rare in the first three-quarters of the century. These conditions allowed a situation that has been termed ‘managerial control’ to develop in which salaried managers operated with a high degree of independence from outside shareholders.
In the post-war period the stability arising from managerial control in large firms was augmented by other features of the business system: many enjoyed a degree of oligopolistic power in sheltered product markets; the military-industrial complex provided a more or less guaranteed market for firms in sectors such as defence and electronics; and the consistent growth in the economy provided a constant source of funds for investment. In this context, employment relations were characterised by significant stability. There were two key strands to this. One of these arose from a response to the twin prospects of the growth of unions and the emergence of a welfare state. Firms such as Kodak, Sears and TRW adopted a paternalistic management style that Jacoby (1997) has called ‘welfare capitalism’. This approach comprised both an ideological anti-unionism and an attempt to tie employees to the firm through the creation of internal labour markets, with the firm providing relatively good pay, a range of fringe benefits such as sick pay and health care, and explicit commitments to preserve job security in a recession. A very different approach, but one that was also characterised by stability, was evident in a set of firms that following the New Deal grudgingly accepted they would have to formally recognise unions and bargain in ‘good faith’ with them. This ‘New Deal unionism’ involved the agreement on detailed and formalised collective contracts which specified pay rates for particular jobs, established procedures for dealing with disputes, and created rules governing layoffs (Kochan et al., 1994).

Both welfare capitalism and New Deal unionism were prevalent management styles in large firms in the post-war period, and both were supported by the stability of the business system in general and by managerial control in particular. However, pressure for changes to managerial control emerged in the 1970s as the disappointing financial performance of firms which had engaged in a strategy of diversification in the post-war period became apparent (Lazonick and O’Sullivan, 2000). Moreover, in the last two decades or so many changes in the American business system have further challenged this stability. Accelerating technological change caused much greater market volatility and also required greater funds for capital investment as the rapid mutation of products required higher R&D expenditure. Further, the growth of international competition, particularly from Japan, eroded the oligopolistic power of many American firms. Perhaps even more significant, though, were major changes in the financial system that posed serious challenges to managerial control.
There were a number of elements to the changing financial system in the final quarter of the century. First, partly because of the ageing population and partly due to the introduction of tax breaks for saving for retirement, pension funds grew substantially in the 1970s and 1980s and in the process built up significant equity stakes in firms. A key consequence was the increased concentration of shareholdings with the institutional investors now able to exert enough influence to challenge managerial control. Second, pressure was exerted on the regulatory bodies by the financial institutions to allow them to engage in riskier lending activity. The deregulation that followed gave a boost to the ‘junk bond’ market; junk bonds became a mechanism through which ‘corporate raiders’ could quickly raise capital in order to launch a hostile take-over. Accordingly, the incidence of hostile take-overs rose sharply in the mid- to late-1980s and, while it has fluctuated since, this ‘market for corporate control’ has constituted a major challenge to the position of existing managers. Third, not only did many managements experience the prospect of a hostile take-over but they also became subject to the pressures of ‘rebellious’ investors. Far less frequently could managers rely on their shareholders to ‘rubber stamp’ their decisions, as had been the case under managerial control. Pension funds such as CalPERS, the Californian public servants union, became active in pressurising senior managers to deliver greater ‘shareholder value’ and used their influence to get rid of boards of which they disapproved.

Evidently, the balance of forces on management shifted considerably. One consequence was that a higher proportion of profits were paid out to shareholders in the form of dividends and share buy-backs; O’Sullivan (2000) shows how the ‘effective pay-out ratio’ (measuring the proportion of profits distributed to shareholders) rose from just over 40% in the 1960s and 1970s, to around 70% in the 1980s and 1990s. There was also a clear impact on the form and scale of the remuneration of senior managers. In order to link senior managers’ interests more closely to those of shareholders, many managers were awarded share options and profit-related bonuses, which played a part in the rapid growth in their overall pay (Applebaum and Berg, 1996; Lazonick, 1992). More generally, it has been argued that the greater external scrutiny of performance centred on quarterly financial targets and fluctuations in the share price introduced a ‘short-termism’ into the way senior managers operated. For instance, Dertouzos et al. (1989) argued that the management boards of large US firms were so preoccupied with such measures that they invested less than their Japanese and German counterparts, especially in training, and retreated from internationally competitive markets requiring long-term investment and constant innovation. Accordingly, O’Sullivan (2000)
argues that these changes meant that the dominant approach of large US firms had shifted from ‘retain and invest’ to ‘downsize and distribute’.

Indeed, the incidence and scale of ‘downsizing’ increased rapidly towards the end of the twentieth century. Compulsory layoffs impacted predominantly upon blue-collar workers in the 1980s, but in the 1990s white collar and managerial workers were affected too (Capelli et al., 1997). Even many welfare capitalist firms that had set much stall by avoiding job cuts, such as IBM and Kodak, found it impossible to keep these commitments in the 1990s. Though the measurement of job security is the subject of some controversy, there is widespread acknowledgement that it has fallen over the last two decades (e.g. Neumark, 2000). Another key IR development was the widening pay distribution; while senior managerial pay rose sharply, as we saw above, the hourly average earnings of private sector workers fell fractionally from 1980 to 2001 (Bureau of Labor Statistics, 2001). Arguably, one factor in this growth in inequality has been the pressure to devote a rising share of profits to shareholders and a declining share to labour. A further consequence, according to some observers has been that the pressures for short-term financial returns have reduced the prospects for stable relations between management and their workforces. As Applebaum and Batt (1994: 50) put it, ‘current corporate governance structures in US companies make it difficult for top management to make intra-firm commitments to the development of new production processes or to long-term employment relations’. (For a much fuller consideration of these developments, see Edwards and Ferner, 2001).

A key question arising is: to what extent have these structural developments influenced the approach of US MNCs to international HRM? More specifically, is there evidence of ‘short-termism’ in the way that this group of firms manage their international workforces? These questions are addressed through consideration of our case study companies in the following section.

4. **Short-termism in Employment Relations in US MNCs**

The data from our case studies confirm the strong hold exerted by the pressures of Wall Street over management thinking and decision-making in employment relations at the international level. It indicates that these pressures conflicted with longer-term goals to do with improving the firm’s competitive position. These pressures also hindered the construction of coherent
global HR strategies, particularly in those companies with a welfare-capitalist tradition, such as FMCG and ITco.

In the main, the seven case study firms were highly exposed to the pressures of the financial markets. Data on shareholding suggests that, apart from privately owned Household, the firms were dominated by institutional shareholders which sought to maximise the short-term returns from their holdings. Even in the largely family-controlled EngCo2, institutional investors outweighed the family’s stake and these investors were clearly growing in influence. In five of the six publicly quoted companies among the case studies, institutional investors owned between half and two-thirds of the stock. It is clear from field data that managers in UK subsidiaries were very conscious of the strong influence of the domestic US financial system on the way the international company operated. Many of these managers considered top-level decisions to be driven increasingly by the need to placate Wall Street and to maintain the share price. Respondents (with the exception of those from the family-owned Household) repeatedly voiced the view, often in critical terms, that quarterly returns were the crucial focus of management attention:

I find it very disheartening, the very short-term focus of Wall Street on the company and that does have an effect on the culture, it drives an incessant internal focus on your numbers, how you’re going to present them, what they are this quarter, how you’re going to explain them, can you move costs from one quarter to another… (HR manager, FMCG)

The growth of financial market pressures had been accompanied in several companies by the appointment of new CEOs to ‘shake things up’, and to respond more to the preoccupations of investors. This was particularly so in firms which had previously been insulated by a dominant position in their product market, or by family ownership. ITco appointed an outsider whose ‘focus is clearly to the shareholders …. [he] clearly does everything with the shareholder in mind’ (HR manager). FMCG, a classic welfare-capitalist company, likewise appointed an outsider, rather than an FMCG ‘lifer’, in the mid-1990s. In the family-controlled EngCo2, which in recent years was opening up to outside investors, the new CEO was home-grown, but nonetheless ‘a little more hard-nosed and business-focussed […] I think partially driven out of circumstance - the US Stock Market has become much more aggressive…’ (HR manager)
Many respondents saw the financial markets as volatile and unpredictable in their reactions to
the rapidly changing technological and market environment. Investors, lacking the of
profound knowledge of companies that would be expected in an ‘insider’ system of corporate
governance, were seen as ruled by ‘sentiment’ and whim rather than hard analysis,
particularly when analysing future prospects of sectors and companies. For example, a UK
finance director, interviewed before the dot.com share price crash, noted the way in which
internet-related companies managed to attract the support of the stock market as it was seen as
a growth area. But by the same token, the markets were fickle when things started to go
wrong, deserting transitorily ‘fashionable’ sectors, such as ‘life science’, and demanding the
restoration of financial rigour and strict management disciplines.

In response to pressures from outside investors to deliver greater shareholder value, many of
the companies had moved towards linking the pay of staff to the firms’ fortunes on the stock
market by the widespread use of stock options, employee share-ownership schemes, and
bonuses linked to performance against budget. These policies affected not just American
employees but workforces worldwide. Employees were encouraged to hold stock in
PharmaChem, FMCG and ITco, to give people the feeling ‘that they are shareholders too, so
that we all have a vested interest in the company succeeding’ (call centre manager, ITco). In
FMCG every employee in the company worldwide was given stock options, ‘with the idea
being that they all want to focus on the share price and of course what makes it go up!’ (HR
manager). However, the volatility of the stock market meant that devices such as employee
share ownership and stock options were of limited value in shaping behaviour, and could have
a detrimental effect on employee morale. For example,

…when stock was going up, that was brilliant. Now everyone’s got options at 50 [dollars] and the
stock’s 35, it’s not as brilliant, and of course not a retention tool in times of trouble... (HR manager,
PharmaChem)

Our third-quarter results were less than expectations, quite significantly, and our share price tumbled
dramatically, really very punishing. Just about everybody in FMCG will know that. (HR manager,
FMCG)

Perhaps most significantly, the pressures of financial markets were an important influence
behind the widespread cost-cutting initiatives that were evident in the case study firms, as in
US companies more generally. While cost-cutting also no doubt had a managerial logic to it,
it was pursued in a way that was conditioned by the stock market. EngCo1 illustrated this.
The company was concerned to maintain the level of dividends through the troughs as well as the peaks of demand, lowering costs in a recession to achieve it.

Cost-cutting drives were thus undertaken with an eye to an external audience, with its own expectations about corporate action and the time frame within which it should be taken. Clearly signalling corporate intent to the markets was an important element in the process. Thus EngCo1 embraced the Six Sigma approach to reengineering business processes partly at least because it indicated to the markets that the company was serious about taking cost out of the organisation. Investor pressures and consequent concern with the ‘bottom line’ encouraged the paring down and removal of duplication in service functions such as HR and IT. In EngCo2, for example, aggressive probing by an outside investor (see below) led the company to focus on reducing costs across the international company. Following an external consultant’s benchmarking study, the EngCo2 cut its worldwide HR function by half.

The international operations of the case-study companies had not been immune to the most notorious corporate response in recent years to financial market pressures, the wave of ‘downsizing’ of workforces. Prior to the 1990s both ITco and FMCG had employed a policy of no compulsory redundancies but faced with much greater turbulence in product and financial markets had ended this policy. Many respondents saw downsizing decisions as short-term palliative reactions to share price and investor concerns, rather than reflecting a more measured internal managerial judgement of the realistic prospects for corporate development in the longer term. Thus there was a pattern of oscillation between short-term shrinkage of the workforce in response to the tyranny of quarterly results, and resumed growth to underpin longer-term expansion of markets. For example:

At the end of last year, November/December, they got rid of about 300 software sales people because software was not doing very well and it cost too much money, but in January they decided that software was a key area that we had to move forward in, and hired about 500 software sales people of which probably 200 of the 300 they got rid of with packages! (call centre manager, ITco):

Similarly in FMCG:

FMCG has been downsizing for many years, we’re quite good at it really. It creeps up to the size it was before and we do it again! That’s a bit cynical. We have been becoming a smaller organisation for at least ten years! (HR manager)
Such short-term pressures impeded coherent HR policy and planning and were seen to prejudice day-to-day operations in UK and European operations. In ITco, for example, a bad quarterly result led to the imposition of a hiring freeze that hit a UK-based call centre. From one quarter to the next, managers waited to see if results justified the unfreezing of recruitment. As a result of this uncertainty, the call centre was led to rely more on temporary agency staff, who in some cases were then converted into permanent staff when restrictions were lifted. However, this fire-fighting solution to short-term pressures created new tensions of its own. It ran counter to the carefully nurtured strategy of rigorously selecting new staff to fit in with the company’s culture:

I think that that is a strategical error, because consequently we are hiring [agency] people as [agency] people, we are not looking at them from the perspective of a long-term ITco hire….. we are not putting them through the rigorous hiring that we do for an ITco [employee…]. Now, of the people we have converted [to permanent employment] there are probably some which we would never have hired at ITco, but because we have suddenly tickets to convert, we don’t want to lose the ticket, so we have probably ended up with people that we wouldn’t necessarily have taken on otherwise. (call centre manager)

Another example of policy conflicts was from PharmaChem, where corporate headquarters issued a directive that its subsidiaries world-wide could only increase pay in line with inflation. This caused considerable problems for UK managers as pay rates in the relevant labour markets were increasing in excess of inflation, and workforces at the company’s unionised sites were likely to have the muscle to win awards higher than those at non-union sites. This, the British HR director argued, endangered the company’s strategy of patiently building non-adversarial employment relations and would encourage union attempts to organise PharmaChem’s non-union plants in Britain. Asked whether stock market considerations lay behind this corporate pay directive, the manager replied that, with the collapse of the dream of the integrated ‘life science’ approach in the industry, a ‘disenchanted’ stock market had fallen back on the objective measures of earnings per share which it now expected corporate management to deliver.

Thus, in summary, the impact of changes in the US financial system detailed in section 3 was clearly felt in the overseas subsidiaries of US case-study companies. They exhibited considerable tension between the demands of coherent business and HR planning on the one hand, and the fluctuations in corporate direction prompted by the pressures of financial markets on the other. Yet, if these structural influences emanating from the financial sector
are so strong, how can there be diversity in approaches between firms? Why was there variation between our case study firms in their response to these pressures? Part of the answer to this lies in the ‘shelters’ from short-termism.

5. Shelters from Short-termism

If the financial system operates in this way, can managers do anything but follow the demands of financial institutions? Can they pursue longer-term goals and maintain an element of stability in employment relations? Are their actions determined by these structures? Our evidence revealed the existence of ‘shelters’ which allowed actors in some of the case study firms to pursue goals to some extent independently of the financial markets. There were a number of ways in which companies could mitigate the worst effects of short-termism. As Hutton (1995: 259) has put it, the American economy has ‘retained important institutional shelters against the full blast of competition and these have become ways of expressing common purpose’.

The most important and effective shelter was private ownership. As mentioned above, one of the companies, Household, was wholly privately owned, and in a second, EngCo2, the founding family still owned a significant minority of the shares. This did not of course protect these companies from product markets forces, and both Household and EngCo2 had implemented rationalisations and job reductions in recent years. However, respondents in Household were explicit in their rejection of the dictates of short-termism related to financial market pressures. Household’s protected status allowed it to operate a distinctive management culture. To outward appearances, the company had the standardised mechanisms of formal financial control through budgets and investment approval processes that one would expect in an Anglo-Saxon company. But, there was a consensus among managers interviewed that these controls operated within a ‘soft culture’: non-performing managers were coached rather than punished, and decisions were influenced by what a manager described as ‘an injection of sentiment and emotion’ compared with his previous company, a large European multinational. However, poor managers of people were said not to be tolerated:

The people side is extremely important, if I characterise, if I go to the extreme, it’s, ‘you can be forgiven if you miss your budget, as a manager; you cannot be forgiven if you’re not a good people manager’. (senior European manager)
The protection from short-term financial pressures allowed the company to take investment decisions that would be difficult – respondents explicitly argued – in companies exposed to stock market disciplines. A dramatic example of the buffer effect of private ownership was the decision on whether to close the company’s British manufacturing site. In the mid-1990s, following a review across Europe which showed that the British site was losing money, it was recommended that the factory should close and production be contracted out or transferred to other European operations. However, the corporate board blocked the closure plan and investment was put into the British factory to make it viable. The decision not to close was said to reflect the sentiments of the owner, who had worked for a time at the British operation and felt a commitment to its employees.

A number of large American firms continue to enjoy this shelter. Bill Ford, the chairman of the motor company set up by his great grandfather, has claimed that the family’s continuing link with the company has protected it: ‘One of the strengths of a relationship with the Ford family is that we are not going to be hit by corporate raiders or sell out to another company any time in my lifetime’ (quoted in Financial Times, 2001). However, this shelter is dynamic. EngCo2 illustrates the impact of a move away from the shelter of family ownership. The founding family, while still influential, had reduced its shareholding significantly in recent years. Previously, ‘the [owning] family had such a huge chunk that people felt you didn’t have to pay so much attention to outside investors’ (US HR manager). As a result,

‘…. we were able to take some very bold long-term strategic decisions that had we been at the mercy of the market we might not have been able to do. And that was around investment in products, in production, it was about some pre-emptive pricing actions. (European regional HR manager)

But as the founding family has scaled down its stake in the firm, growing external ownership had compromised this long-term approach. There was now more pressure on the company to maintain its share price and to produce the level of profitability ‘commensurate with the organisation and what the market would expect’ (European regional HR manager). Prodded by the aggressive activism of an institutional shareholder, under a new and more performance-orientated CEO, the company was increasingly resorting to a ‘tough cost control regime’ to make sure ‘that we deliver what the market is expecting’. One of the consequences was the severe reduction in HR personnel throughout the company, referred to above. The company also moved to align its pay policy more closely with competitors: as a senior HR manager at HQ described it, ‘we were probably at the 100th percentile in terms of pay and
total package… we used to pay top dollar’; but it had since moved towards the median for the sector. In short, while the shelter provided by ownership was still apparent, it was being significantly reduced, at a time when the product markets were becoming more turbulent and unpredictable as a result of internationalisation and corporate restructuring.

Family ownership was not the only buffer against the rigours of the market. With the dilution of family ownership, EngCo2 had become more exposed to predators within the international environment and had struggled for some years to retain its independence. The threat of takeover remained a real danger, and in such circumstances financial market pressures were likely to intensify. However, the company had carved out room for manoeuvre by tying itself into a complex series of joint ventures and alliances in global and national markets. ‘So if you actually took EngCo2 and tried to unravel it with the various links and connections where are, it is an awfully difficult puzzle’ (UK HR manager). If a major customer were to launch a takeover bid in order to secure its source of supply, it would run the risk of jeopardising a large proportion of sales: ‘within a very short space of time half of the volume of sales would disappear because we’re selling to their competitors…. all those would walk away from us and go somewhere else’.

The other five companies, while not approaching the ‘financial control’ model of harsh sanctions for non-performance, were more constrained in their decision-making by financial market pressures. However, there was still evidence of the search for buffers against the short-termism of the market. Several of the companies – particularly FMCG, Household and ITco, and to a lesser extent EngCo2 – fitted clearly into the ‘welfare-capitalist’ model based on the integration of the workforce into the company both materially and psychologically through employment stability, the avoidance of rival collective allegiances such as trade unions, relatively generous material rewards, and strong corporate cultures. (Other firms, such as EngCo1, even though heavily unionised in their heartland US operations, also had a tradition of strong internal labour markets that gave long-term employment to their core workforce.) Increasing short-termism, allied to growing international competition, posed a serious challenge to the viability of this model by undermining the structural conditions for employment stability and imposing repeated pressures for downsizing.

One mechanism used by the case-study firms to cushion the core permanent workforce was the use of temporary labour. This was notable in the British subsidiaries of both ITco and
EngCo1. The latter used an agency to supply a high proportion of its shopfloor staffing requirements – normally between 10 and 15 per cent, but on occasion up to a third or more. EngCo1’s use of temps was not primarily a cost-cutting measure (they were paid nearly as much as permanent employees). Their chief function was to iron out fluctuations in core labour requirements, allowing the company to avoid the experience of the 1980s when it had had to make permanent staff redundant. Moreover, the pool of temps provided a recruiting ground for permanent employees, giving managers the chance to select for work attitudes and performance appropriate to a long-term employment culture. Thus EngCo1 had been able to develop some of the characteristics of the ‘HRM’ style of employment relations of welfare-capitalist firms, despite the fact that a significant part of its product range was subject to cyclical market fluctuations.

However, the use of temporary workers as a buffer was not without problems. As mentioned above, it was seen as creating problems in ITco when temps were made permanent, in that the recruitment process was less rigorous and there was therefore concern about how recruits would fit into the corporate culture. Where the proportion of temps was high, there could be strains with the permanent workforce especially as temps were perceived to work harder (under the lure of permanence which acted as a strong discipline on the temporary labour force), and had less advantageous terms and conditions (see Geary, 1992, for a similar finding in three US MNCs in Ireland). In some companies, moreover, the use of temps was limited by the nature of the work. Contractor, for example, saw temps as a way of managing ‘relatively small fluctuations in the actual workload’ but a wider use of temps was problematic for the company’s reputation for professional quality; customers didn’t ‘like a lot of temporary staff because they don’t feel they’re buying (from) an organisation that is fully familiar with all its standards and procedures and work practices’ (operations manager).

It is evident, then, that there were limits to the effectiveness of these buffers. Temporary workers created new problems of labour management; private ownership could not of course provide total protection either. Even a family-owned company such as Household had to respond realistically to the evolution of its markets. In recent years it had made staff redundant and rationalised its European operations, forcing it to carefully redefine its corporate culture in order to dampen staff expectations about permanent employment. As the case of EngCo2 illustrates, there were pressures on firms arising from the process of opening up to outsider shareholders. In general, such pressures are likely to increase, partly as a result
of generational change in family-owned companies, partly in order to raise the resources necessary to compete in increasingly internationalised world markets (cf. the evolution of German family-owned companies – see Ferner and Varul 1999).

6. **The Interaction between Structural Forces and Political Processes**

The essence of the ‘bi-directional’ relationship is the interaction, and interdependence, of structural forces and individual agency. The former ‘structure’ social relations, but do not determine them. The scope for agency that actors possess, and the way in which the preferences of actors inevitably diverge to some extent, create scope for political activity within MNCs. The outcomes of this political activity shape the actions of MNCs, and these actions in turn have the scope to influence the structural context in which they operate, an analysis that has much in common with Giddens’ (1984) notion of ‘structuration’. Edwards *et al.* (1999) distinguished between three different levels – the micro, meso and macro levels – at which this interaction takes place and showed connections between them; as they put it, ‘political processes operate at different structural levels, acting to either consolidate or challenge these structures’ (ibid.: 298). We do the same for the relationship between the American financial system and employment relations in US MNCs.

**The Micro Level**

The first level at which this interaction is evident is the micro level, defined as processes between actors within the plants or workplaces of MNCs. The institutional configurations within which the wider firm is embedded, together with the structural features of MNCs themselves, clearly structure the nature of employment relations within plants. However, despite these influences, actors at plant level retain some scope to pursue aims and goals of their own; corporate management do not seek to exert complete control over all areas of employment relations. Even where actors at corporate level issue guidelines or demands, these can sometimes be circumvented. Actors at this level, moreover, may also possess resources which afford them some power in their relationships with higher levels of management.

There is, of course, a wealth of evidence from the organisational sociology literature on this issue. For example, in a classic study of the nature of bureaucracy in two French public sector
organisations, Crozier (1964) argues that even those actors in low positions within a hierarchy operate with a degree of autonomy:

‘There is always some possibility of play within the framework delimited by the rules, and therefore dependence relations and bargaining are never completely suppressed. The curious practice of the greve du zele – striking by slowing down the work flow and paralysing the functioning of the organisation just by observing, to the letter, all the required prescription – has been repeatedly used in many sectors of French public administration, precisely as a way of expressing the fact that rules cannot take care of everything and that management must rely on workers support and must therefore bargain for it’ (p189)

The influence actors at this level can exert stems not just from forms of industrial action but also from their role as holders of expertise of value to others in the organisation, allowing some of those low in the formal hierarchy to ‘maintain exorbitant privileges in the face of overall egalitarian custom … simply because of their fortuitous occupation of a strategic position’ (ibid.: 192). Crozier also argues that many groups within bureaucratic organisations develop rituals to create a sense of solidarity within the group, but also to help advance their collective interests: ‘(ritualism) enables the group to assert its own differences and uniqueness, to pretend its own functions are the most crucial for the success of the whole organisation’ (ibid.: 191).

Accordingly, studies of Japanese transplants in the UK have demonstrated the room for manoeuvre that actors at this level enjoy. Webb and Palmer’s (1998) ethnographic study of Telco shed light on the way in which shop-floor workers found ways of ‘evading surveillance’ and of ‘making time’ for rest periods through both collective and individual means, thereby reducing the actual impact of practices introduced at the behest of corporate management. In a similar vein, Broad’s (1994) study of a Japanese transplant in the UK revealed deep tensions between groups of Japanese expatriates and indigenous managers. While the former enjoyed the authority of representing the HQ, the latter retained considerable influence within the plant through maintaining a network that shared information gathered from rumours and gossip that the Japanese could not access. This source of power was used to significantly water down the practice of ‘High Involvement Management’ favoured by the Japanese.

Our data illustrate the way in which actors in the workplaces of US MNCs maintained room for manoeuvre in their dealings with corporate management. The strong emphasis on meeting
quarterly budgets and the periodic drives to cut costs did not have determining effects but rather had produced some unintended consequences. As we saw above, the use of a temporary workforce to act as a buffer to protect the permanent workers created new problems of labour management in ITco. The less rigorous approach to recruitment was a result of managers acting quickly to take advantage of the lifting of a hiring freeze, even though this eroded the firm’s emphasis on ensuring that new employees fitted the organisation’s culture. Moreover, the divisions that arose between ‘temps’ and ‘core’ workers can be seen as evidence of political activity between these two groups. Our data also provide instances of plant managers using their sources of power to minimise influence from the USA, which leads to a consideration of the relations between actors at different levels.

The Meso Level

At the meso level – that is, relations between different levels of management – the way in which actors possess scope to act independently of structural forces is also evident. Managers at the level of plants and divisions possess some room for manoeuvre; a range of courses of action may be consistent with the demands of corporate management, while they may also have the power to ignore or block a corporate initiative. Moreover, in some cases the formation of corporate initiatives is influenced partly by input from actors at levels below the HQ, either because their views are actively sought or because they are able to bargain for their position to be adopted.

A classic example of the way in which actors at a variety of levels seek to use this space to advance their own agendas is Pettigrew’s (1985) study of ICI. Pettigrew found that rather than change occurring as a rational process in which top executives engage in a detached economic calculation, it was in fact a highly politicised process. He argued that the organisation was characterised by inertia; long periods of stability were interspersed with brief spurts of change. When change became possible, there were many groups from the various divisions and units within the organisation which sought to advance their own agendas and had to engage in a process of informal bargaining in order to do so. Some groups would wait for an individual to move on or retire before they were able to get their way. Moreover, in deciding on succession for key posts actors jockeyed for position for promotion themselves, or supported others on the basis of which faction they belonged to rather than on an assessment of their qualities against formal criteria.
Research concerned with the control of employment relations in MNCs demonstrates some of the ways in which managers at plant level are able to resist demands for financial targets to be met. For instance, Edwards et al. (1993) show how corporate managers of a British multinational were anxious to delay making redundancies in their French subsidiary so as not to damage that quarter’s financial results. Managers at the French plant, however, ignored this demand, safe in the knowledge that their expertise in the local market and understanding of the institutional setting made them indispensable to the HQ. Similarly, Ferner and Edwards (1995) describe the failure of an Anglo-Saxon (?) MNC to achieve cutbacks in its Italian subsidiary. The demand from an expatriate (?) was simply ignored; as one of their respondents put it, ‘we just put the letters away in a drawer. He was surprised at this outcome, and no savings were made’. This is an illustration of what the authors describe as the ‘corporate authority structure (becoming) fractured by national authority subsystems’ (1995: 236).

The research in this area also charts how subsidiary managers can exert influence beyond their own country. The way in which particular subsidiaries are accorded the formal responsibility of developing policies for the wider organisation has been termed the process of issuing ‘subsidiary mandates’ (Birkenshaw, 1996). Actors at plant level may also be able to shape wider corporate policies without formally being granted this status but rather may do so through inputting information into a network and seeking to advance the case for their ideas to be adopted. For instance, Edwards’ (1998) study of a British engineering firm showed how managers from some of the foreign subsidiaries provided innovative practices that were adopted across the firm. This contribution improved the prospects of their plant winning future investment from the centre, and also improved the chances of key individuals being promoted.

As argued above, our data demonstrate that the relationship between corporate management and other units of the firm was characterised by significant emphasis on the monitoring of costs and quarterly targets. However, they also testify to the way in which this control is contested. A number of our respondents expressed displeasure with the emphasis on short-term financial results, arguing that it hindered attempts to develop the firm’s capabilities in the longer term (see, for example, the comments above from respondents at FMCG and ITco). The data also show how the strength of financial control varies across different parts of the
firm. Within ITco, for instance, when one of activities in which the firm is engaged falls out of favour with the stock market, as software apparently did during the course of our research, the respective division became subject to pressure to cut costs. At the same time, those divisions operating in areas viewed more favourably by investors found their position to be enhanced and were able to operate more autonomously. The strength of financial control varies not just across divisions but also across countries. The British subsidiary of Contractor, for example, provided almost all of the company’s profits. This situation enabled the British operations to operate with a high degree of autonomy from the centre, and also to exert influence over the wider company; for instance, managers from the UK have filled two key positions in the corporate HQ in recent years.

The logic of above argument about shelters, moreover, is that HQ monitoring of short-term financial results varies between firms. As a result of the shelter of family ownership, senior managers in Household assessed financial performance flexibly, adopting a more forgiving approach to units that missed targets than was evident in most of the case studies. Moreover, we have seen how the extent and nature of these shelters are not simply determined by the structural context; rather, agents are actively engaged in a struggle to preserve existing shelters and create new ones. Some of the attempts to do so have impacted on the wider structural context through impacting on the financial system itself, leading us to a consideration of the macro level.

The Macro level

The interaction between structural forces and the agency of organisational actors is also evident at the macro level, defined as the relationship between firms and structures external to the firm. Clearly, extra-firm structures have a substantial influence on the characteristics of organisations; in a range of ways, the societal context shapes the structures of firms and processes in operation within firms. However, powerful groups – normally senior managers – can also exert some influence over their environment, particularly suppliers and distributors, but also over the structural context in which they operate.

Our empirical work adds to a growing body of research which sheds light on the way in which macro-level structures in the country of origin shape the nature of employment relations in MNCs. The central focus of this paper has been the way in which structures in the financial
market shape management behaviour. Senior managers of large American firms are involved in a constant struggle to maintain the goodwill of investors and, as we have seen, the evidence of the financial system on US MNCs was clear; cost-cutting was conditioned by the expectations of outside investors; hostile takeovers, or the threat of them, had caused senior managers to change direction; many firms had dispensed with pre-existing HR traditions such as no compulsory redundancies.

However, equally clearly, we have seen that these structures do not have determining effects. Many firms enjoyed a degree of protection from financial markets through the existence of corporate shelters. While these varied in form and in strength, their existence allows a range of responses to be pursued at firm level. For example, the tradition of welfare capitalism and, more generally, the influence of founding families continued to be in evidence, albeit in amended form, in firms such as ITco, EngCo2 and FMCG. In Household, moreover, there was an almost sentimental approach to plant closure, which is unlikely to have been tolerated by outside financial institutions. Moreover, as we have seen, actors in our case study firms were actively engaged in a struggle to preserve existing shelters and to create new ones.

Further, a crucial element of the ‘bi-directional’ relationship between structure and agency is that actors in firms can shape the structural context in which they operate. The scope to influence the environment possessed by senior managers at corporate level in large MNCs is clearly significant. Some firms, like McDonalds, Nike and Microsoft, have a high degree of oligopolistic power and have used this to exert significant control over their suppliers as well as affecting the strategies of other firms in the market. Moreover, those MNCs with the ability to credibly threaten to shift production across borders, such as the motor manufacturers, appear to have had an impact on national laws and regulations and on the approaches of trade unions. More generally, senior executives in MNCs are actively engaged in a network which forms part of a powerful elite that can shape, reproduce and change the structural context in which their firm is embedded. A classic exposition of this view in the USA is Wright Mills’ (1956) account of how elite groups have controlled the nature of American society over the last two centuries. He argues that ‘changes in the American structure of power have generally come about by institutional shifts in the relative positions of the political, economic and military orders’ (ibid.: 269). The elite group in the mid-twentieth century, he argued, was dominated by an axis between corporate directors and military chiefs, which exerted growing influence over the political sphere. In a similar vein, Useem (1984) has written about the way
that an ‘inner circle’ emerged in the post-war period in the USA. This inner circle was
dominated by those who held multiple directorships and who used their influence to carry out
a form of ‘class-wide co-ordination’. These senior directors not only possess considerable
influence over their own company but also over others in which they are a director, and over
aspects of government policy through their influence over politicians.

From this point of view, actors in senior positions in large firms have played a part in the
creation of the structural context in which they operate. Indeed, this is a point made by Roe
(1994) in his explanation of how ‘managerial control’ came to exist; he argues that lobbying
of politicians by federations representing small businesses and state banks was a factor in the
political opposition to the agglomeration of financial institutions. In relation to more recent
developments, the role of actors is a central part of Lazonick’s (1992) critique; essentially,
Lazonick argues that a range of individuals took advantage of changing circumstances to
further their own interests. He pointed to, first, the fund managers of the deregulated financial
institutions which strove to secure a much higher return for shareholders, and, second, the
senior executives of large firms, many of whom sought to use the changing pressures from the
financial system to justify awarding themselves big increases in pay and share options. In so
doing, these executives sought to align themselves with the newly powerful and active
financial institutions and, consequently, separated their own interests from those of even the
rest of the managerial class. Therefore, these groups – who Lazonick disparagingly refers to
as ‘vulture capitalists’ – formed an elite which played a part in initiating, consolidating and
reproducing the changes in the structures of the financial system. Of course, there are some
elements of the structural context of this system that these actors could not influence – the
ageing population which gave rise to the growth in pension funds, for instance – but the
evolving nature of the financial system undoubtedly has been shaped in part by these actors.

While many senior executives have acted in accordance with the demands of the financial
institutions, others have sought to combat these pressures. The market for corporate control
has posed a threat to some managers and the pressure for short-term financial returns has
threatened valued traditions in others. Since the late 1980s some senior managers have
lobbied state governments for protection from hostile takeovers, while others have initiated
action themselves through the issuing of ‘poison pills’ which effectively prevent a hostile
bidder attaining control. Our evidence throws up a good example of senior executives
combating pressures from financial institutions. EngCo2 has been stalked by a number of
potential hostile bidders as the founding family has gradually reduced its stake in the firm. Approximately ten years ago, the family bought out one of these potential bidders, paying a premium for the share price because they feared the company becoming detached from its original location to which it had a great attachment. A second potential bidder was sued by the company on the basis that it had undertaken not to disrupt the existing management team when it began to build up a stake in the firm. This case illustrates that not all of the senior managerial class have accepted the legitimacy of the pressure from financial institutions.

However, most of the senior management teams in our case studies had moved towards accepting – reluctantly in many cases – rather than challenging these pressures. The public statements of the CEOs indicated that the rhetoric of delivering ‘shareholder value’ has been widely adopted while the remuneration packages for senior executives testify to the linking of their pay with the performance of the share price. Perhaps most significantly, the cost-cutting programmes described above and the way these represented significant departures from previous management style in many cases, indicate that the actions of managers have altered to fit in with the pressures from the financial markets. This acceptance, whether begrudged or enthusiastic, plays a part in legitimising and thereby reproducing the demands of financial investors.

7. Discussion

The core argument of this paper has been that the nature of the American financial system plays an important part in shaping the way in which US MNCs manage their international workforces. We have argued that a key feature of American multinationals is their orientation to quarterly financial targets and short-term movements in the share price. The development of this orientation has lead to a higher proportion of profits being paid out to shareholders and to periodic bouts of cost-cutting. In employment relations, a key consequence has been the erosion of job security and the emphasis on internal labour markets that formed a key part of ‘welfare capitalism’. However, there was considerable variation between and within our case studies in the extent of these short-term pressures.

In making this argument, we have argued for a view of the workings of the multinational which focuses on the interaction between structural forces and the agency of organisational actors at a range of different levels. We have paid particular attention to the way that
‘organisational order’ (Reed, 1992) is disproportionately influenced by those in senior positions. The elite group, or ‘dominant coalition’, is able to exert a degree of control over the entire organisation either through issuing directives or edicts backed up by formal sanctions or by shaping the underlying premises on which actors at other levels operate, thereby subtly restricting the possible courses of action open to them (Perrow, 1986). The problem for the dominant group, however, is to cope with the tensions and contradictions inherent in what they are doing. While the structures of power and authority enjoyed by elite groups restrict the range of courses of action available to other groups of actors, the latter are able to contest the control enjoyed by the former. Both managerial and non-managerial workers within the divisions and plants of MNCs possess some source of leverage that enable them to advance their preferred courses of action. Thus the control of corporate level managers will never be absolute and directives from this level may result in unintended consequences.

Nevertheless, while control is contested it is also institutionalised and, consequently, accepted to a certain extent by subordinate groups. Therefore, the tensions and contradictions within capitalist organisations mean that the control of the elite is not complete, but it is nonetheless always significant. One way in which dominant groups seek to minimise these contested nature of the control they exert is by adopting a rhetoric which seeks to legitimise change. In doing so, powerful elites draw on ‘hegemonic views’ or the ‘conventional wisdom’ to justify and legitimise their actions. As Reed (1992: 96) puts it,

‘… dominant groups within organisations establish “vocabularies of motive” and belief systems which routinely filter out the expression of interests and values which are potentially threatening to the status quo. The underlying premises on which organisational action is based are fixed in such a way that they subtly restrict the range of options considered and the decisions likely to flow from them’

When subordinate groups adopt this rhetoric and do not challenge the range of options set out by dominant groups, they play a crucial role in accepting – maybe unwittingly, maybe grudgingly – their own subordination.

Crucially, the nature of the rhetoric employed by dominant groups, and the resources they have at their disposal, are not independent of macro-level structures but rather emerge from them. The forces from the environment constrain managerial behaviour, of course, making some strategies difficult, but the environment also presents a number of opportunities to senior managers. By aligning themselves with powerful extra-firm institutions, dominant
groupings can seek to further consolidate their own position within the firm and to maximise their pay. In so doing, they reinforce the position of these external structures.

Viewed in this light, the structural context in the country of origin of a multinational is clearly an important influence on the management of change in MNCs - and saying as much is not deterministic! Even in multinationals which appear to be highly decentralised in that many IR decisions are delegated to plant managers, the nature of these decisions is strongly shaped by the higher levels of management and by the structural context in which the firm is embedded. Methodologically, Belanger et al. (1999) note that much research on MNCs is either a ‘view from below’ in that a plant is studied in some depth or a ‘view from above’ involving a reliance on the perceptions of senior executives. Our argument about the interaction between structure and political processes at a variety of levels suggests that the workings of a multinational, and in particular, the way that change occurs, can best be understood by research at multiple levels.
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Belanger, J. et al


„STANDORT DEUTSCHLAND“
VERSUS
„MODELL DEUTSCHLAND“

Anmerkungen zum Wandel von Managementstrategien in Deutschland angesichts von Tendenzen der Internationalisierung und Globalisierung

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GLOBAL CHALLENGES AND NATIONAL EFFECTS“

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I. Vorbemerkung

Vor dem Hintergrund von Internationalisierung und Globalisierung sehen sich Unternehmen herausgefordert. Arbeitskrafteinsatzpolitik, Finanzarrangements, Strategien von Forschung und Entwicklung, Produktdesign und nicht zuletzt die Auswahl von Produktions- und Entwicklungsstandorten neu zu bestimmen.


II. Die Herausforderung


Auf dem Prüfstand steht zweierlei:
Zum einen das heute noch weit verbreitete "klassische" Modell industrieller Produktions- und Arbeitseinsatz-Strategien - das sogenannte Taylor-Ford Regulationsmodell - das die letzten 60 Jahre Industriegeschichte (fast) weltweit prägte:
Diverse Modalitäten von Gruppenarbeit, neue Bewertungen des Faktors Arbeit "vor Ort" in den Unternehmungen, wachsende Politisierung der Arbeitsbeziehungen auf unterer Ebene etc.
- aber auch Prozesse der Dezentralisierung, des outsourcing und der Lean-Organisation -
weisen auf tiefgreifende immer wieder in den sozialen Folgen höchst ambivalente Veränderungen hin.


Welche sind nun die besonderen Herausforderungen für Management in Deutschland?

Während Globalisierung und Dezentralisierung ebenso wie neue Technologien u.a. Herausforderungen an Management in allen industriellen Gesellschaften darstellen, ist das Szenario in Deutschland durch einige Besonderheiten gekennzeichnet: Durch die historisch gewachsene Struktur der Wirtschaft, durch die Geschichte der Industrie- und Arbeitspolitik im Lande, die speziellen Merkmale der institutionellen Einbettung von industriellem Konflikt und nicht zuletzt durch die Tradition der Berufsausbildung.

Sozialpartnerschaft, Facharbeiterstatus und ein hoher Grad an sozialer Sicherung sind spezifische Ausprägungen der deutschen Industriegesellschaft nach dem Zweiten Weltkrieg. Bis in die 80er Jahre hinein zeigte sich die westdeutsche Konfiguration von Sozialstaatlichkeit und industrie kapitalistischer Wirtschaftspolitik im Großen und Ganzen als erfolgreich.

Gestatten Sie mir an dieser Stelle meines Vertrages den Hinweis auf eine alte deutsche Volksweisheit: "Hochmut kommt vor dem Fall". Viele werden sich noch der Ratschläge eines ziemlich arrogant auftretenden deutschen Bundeskanzlers an die Amerikaner und Engländer vor allem gerichtet, aber auch mit Seitenhieb wider die binneneuropäischen Nachbarn formuliert, erinnern: Geldwertstabilität, (Fast)Vollbeschäftigung, Exportüberschuß und stabile Wachstumsraten, dies alles ist vereinbar - macht es wie wir (West)Deutschen!

Das war es freilich nicht alleine. Eine hoch aufgehängte Konferenz in Lyon lobte noch in den 80er Jahren das deutsche System der industriellen Beziehungen als Vorbild und ebenfalls in
den 80er Jahren gab es starke Initiativen in Großbritannien, das durchaus betagte Modell der dualen Berufsausbildungen aus Deutschland zu kopieren!


Die Folgeprobleme der Wiedervereinigung mit erheblichen Konsequenzen für den Staatshaushalt und auch die Auswirkungen der De-Industrialisierung in weiten Bereichen Ostdeutschlands sind sicher ein Einflussfaktor - aber keine ausreichende Begründung für die Malaise, zumal es durchaus gelungen ist, die finanzwirtschaftlichen Aspekte der Wiedervereinigung in erheblichem Maße unter Nutzung globaler Finanzmärkte abzufedern. In der gegenwärtigen Diskussion werden mit Blick auf die deutsche Wirtschaftskrise vor allem folgende Gesichtspunkte hervorgehoben:

1. Die Wirtschaft Deutschlands ist nach wie vor in hohem Maße fixiert auf das "industrielle Muster" - sie ist vergleichsweise schwach ausgeprägt mit Blick auf typisch postindustrielle Wirtschaftszweige (mehr als ein Drittel der Erwerbsbevölkerung ist in Deutschland noch im Industriebereich beschäftigt gegenüber weniger als einem Viertel in den USA). Im Vergleich zu den USA, Japan, aber auch im Vergleich zu den Niederlanden etwa, greifen neue Formen der Flexibilisierung von Arbeitseinsatz in Deutschland nur sehr zögerlich Platz. Hierin wird von vielen Experten ein nicht unerhebliches Hindernis für eine angemessene Anpassung an neue globale Weltmarktbzw. gesehen³.

2. Deutschland ist in Lohnkosten im Vergleich zu anderen Industrienationen immer noch Spitzenreiter - wobei nicht Lohnkosten absolut entscheidend sind, sondern Stücklohnkosten - und der ehedem bedeutende komparative Vorsprung der deutschen Wirtschaft, die Verfügbarkeit von hochausgebildeter Arbeitskraft in großer Zahl, ist zunehmend im Schwinden. Dies gilt nicht nur für den Vergleich mit anderen Industrienationen Westeuropas und Nordamerikas (ganz zu schweigen von Japan), sondern dies gilt auch im Vergleich zu den

² vgl. Tabellen I und II im Anhang
³ vgl. Tabellen III und IV im Anhang
Arbeitskraftressourcen in den für die Weltökonomie immer wichtiger werdenden sogen. Schwellenländern⁴.

3. Betont werden immer wieder auch die bürokratischen und politischen Hindernisse speziell in Deutschland hinsichtlich der Chancen neuer Produktentwicklungen und neuer Prozessinnovationen wie auch hinsichtlich der regulativen Rahmenbedingungen für Forschung (dies gilt beispielsweise für den Bereich der Nuklearenergie und der Biotechnik).


Kurz gefaßt - als Dreiklang: Das sogenannte deutsche Wirtschaftswunder der 50er Jahre führte zu einer deutschen Wunderwirtschaft in den 60er und 70er Jahren - und diese mündete in der 80er und 90er Jahren in ein deutsches Wirtschaften, über das die Welt sich wundert!

III. Standort Deutschland versus Modell Deutschland

Vor diesem Hintergrund läuft seit Anfang der 90er Jahre in der Bundesrepublik Deutschland die Diskussion entlang der Formel "Standort Deutschland" versus "Modell Deutschland"⁵. Rhetorik seitens der Regierungsparteien, speziell aber auch "strategische" Vorstöße seitens einzelner Unternehmen und Unternehmensverbandsvertreter - z.B. mit Blick auf das Problem der Lohnfortzahlung im Krankheitsfall - lassen sich als Initiativen sehen für ein "remodeling" des "Modell Deutschland".

Ganz ohne Zweifel sind in der gegenwärtigen Situation die Gewerkschaften in die Defensive gedrängt - die Managementseite ist in der Offensive! Sowohl für die führende Wirtschaftspresse in Deutschland, wie auch für die meisten Beobachter aus dem Ausland ist die Richtung einer Veränderung des "Modells Deutschland" deutlich vorgegeben: Deregulierung, erneute Inanspruchnahme der Leistungsethik, Angriff auf die Staatsquote, Skandalisierung des sklerotischen Zustandes der Sozialbürokratie etc. Auch die deutsche öffentliche Meinung ist seit mehreren Jahren auf Veränderungen der institutionell-politischen Umwelt in diese Richtung vorbereitet und bis zu einem gewissen Grade bereits "eingestellt".

⁴ vgl. Tabellen V und VII im Anhang
⁵ vgl. Tabelle IX im Anhang
Hier möchte ich nun wieder eine Volksweisheit einflechten: "Man schüttet das Kind nicht mit dem Bade aus."


Schließlich spricht sich auch die Mehrheit der Manager immer wieder für die Aufrechterhaltung eines Systems der sozialen Sicherung aus, das von der industriellen Dynamik der Wirtschaft ausgeschlossenen Gruppen, akzeptable allgemeine Lebensbedingungen garantiert - soziale Grundsicherung wird gesehen als eine Voraussetzung, um sozialen Unruhen im Lande und politischem Radikalismus vorzubeugen. Speziell angesprochen auf die Stichworte von "Thatcherismus und Reaganismus" äußern sich deutsche Manager häufig vorsichtig-ambivalent.

Ein erster Blick auf vorhandene Befunde zeigt: In der Mehrheit realisieren deutsche Manager, dass angesichts der verschärften Weltmarktsituation sich das alte deutsche Modell des sozialen Konsenses und der hohen sozialen Absicherung nicht unverändert "durchziehen" läßt. Aber viele Firmenvertreter sehen eben auch gerade in den besonderen Ausprägungen des "Modelles Deutschland" eine wichtige Ressource für die Zukunft des Standorts Deutschland!

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6 Literaturequelle Erlangen 1997 (unveröffentlichtes Manuskript)
Dieses "einerseits-andrerseits" läßt sich nun - mit einem zweiten Blick - differenzierter verfolgen je nach Rahmenbedingungen der ökonomischen Position. Ergebnisse aus einer Untersuchung der Akademie für Technikfolgenabschätzung des Landes Baden-Württemberg in Stuttgart (Projektleitung Prof. Dr. Hans-Joachim Braczyk) führen weiter. Leicht vergröbert - Einzelfälle ausgenommen - läßt sich sagen: Drei Typen von Managementorientierung bezüglich "Standort Deutschland" versus "Modell Deutschland" sind zu unterscheiden:

a) In Industriebetrieben, die nach wie vor hohe Anteile an Arbeiterschaft haben (blue collar based industries), sucht das Management deutlich die Anlehnung an das traditionelle, hoch regulierte und institutionalisierte konsensorientierte Modell. Gefordert werden Anpassungen im einzelnen, um Kostenreduzierung und Flexibilität zu stärken. Exemplarische Firmen hierfür sind etwa Daimler Benz (heute DaimlerChrysler) und Bosch. Die zugehörige strategische Orientierung läßt sich bezeichnen als: Strategie des konservativen Umbaus (strategy of conservative remodeling).

b) Viele Firmen mit überwiegend Angestellten-Beschäftigung (white collar based industry) streben eine sehr viel deutlichere Veränderung des alten deutschen Modelles an und versuchen es mit Einziehen neuer Strukturen des Interessens-Ausgleiches und der Effizienzkontrolle zu ergänzen - ohne allerdings die Tradition der deutschen industriellen Beziehungen und des deutschen Sozialstaates "kompakt" zurückzuweisen. Typische Unternehmen, die für diese strategische Orientierung stehen, sind etwa ABB und IBM. Auf eine Formel gebracht, läßt sich die Orientierung bezeichnen als Strategie des aggressiven Umbaus (strategy of aggressive remodeling).

c) Deutlich radikaler orientieren sich viele der neuen "wissensbasierten" Unternehmen (knowledge based industries), die nicht selten den Versuch machen, das klassische Modell der industriellen Beziehungen "auszuhebeln" durch Einsatz völlig neuer Formen der Sozialintegration und des Anreizes für commitment seitens der Beschäftigten. Hierfür gibt es Beispiele im Bereich der Software-Hersteller - wo einige Unternehmen schon beachtliche Größe erreicht haben (etwa SAP). Die zugehörige strategische Orientierung läßt sich bezeichnen als Strategie der radikalen Negation (strategy of radical de-modeling).

Zusammenfassend wird klar, und es wird immer dann besonders deutlich, wenn man die Chance hat, hinter die Rhetorikfassade öffentlicher, oft verbandspolitisch beherrschter Polemik zu hören: Manager in Deutschland verhalten sich ziemlich "bedächtig" - das "Modell Deutschland" wird für die künftige Nutzung des "Standortes Deutschland" differenziert betrachtet.
Für nicht wenige deutsche Manager zeigt sich: das sogenannte Deutsche Modell hat immer noch Vorteile - diese aufzugeben ist unklug, zumal wenn Alternativressourcen nicht in Sichtweite sind!


**IV. Abschließende Notizen**

Für Deutschland und für andere Industriestaaten gilt es, vor dem Hintergrund von Internationalisierung und Globalisierung, neue Wege zu suchen zur Lösung einer triangularen Problemconfiguration:

- Wie lässt sich die Reproduktion von hochqualifizierter und hochmotivierter Arbeitskraft garantieren?

- Wie lässt sich innovatives Geschäftsverhalten fördern?

- Wie lässt sich ein hohes Niveau an sozialer Wohlfahrt stabilisieren, und vor allem: wie lässt sich eine allgemeingesellschaftliche Wahrnehmung eines "fair deals" im schärfer werdenden Verteilungskampf zur Sicherung des sozialen Friedens aufrechterhalten.

Rezepte werden angefragt - aber nicht angeboten. Einige Gesichtspunkte für Orientierung lassen sich aber formulieren:

1. Selbstverständlich gibt es ökonomisch höchst relevante regionale - und gar lokale! - Besonderheiten. Unterschiede zwischen Nationen (Sprachen, Rechtssysteme, Sozialstruktur etc.) aber vor allem zwischen Regionen: (Baden-Württemberg, Wales, Rom-Distrikt, Emilia Romagna etc.) werden zunehmend zu Ressourcen global orientierter Wirtschaftsweise!
Weniger Nationen denn Regionen werden zu neuen Bezugseinheiten (und auch Quasi-Akteuren) im weltwirtschaftlichen Zusammenhang.

2. Nationale Management-Modelle werden sich mit der Globalisierung der Wirtschaftsaktivitäten großer Unternehmen tendenziell auflösen (etwa Bell, Olivetti, Siemens). Nicht gilt dies für weite Bereiche kleinerer und mittelständischer Betriebe - diese werden aus regionalen und lokalen Verortungen heraus international tätig werden (müssen) - und hier wird es in Zukunft ein breites Spektrum pragmatischer Strategien geben. Von Bedeutung ist mit Blick auf Globalisierung, dass Regionen und lokale Arrangements nicht nur Ausgangspunkt wirtschaftlichen Handelns der dort ansässigen Unternehmer sind, sondern dass sie auch Attraktionspunkte für wirtschaftliche Orientierung von außen werden.7


4. Abschließend noch ein Hinweis wider allzu leichte Modell-Anhänglichkeit: Nach dem Zweiten Weltkrieg hatten wir das amerikanische Erfolgsmodell, das deutsche, kurzzeitig auch das italienische, ein schwedisches, dann das japanische, heute haben wir offenbar ein neo-amerikanisch-angelsächsisches!

Die Zeiten aller solcher Modelle sind endzeitlich! Und es ist auch vielleicht an der Zeit, dass man sich von solchem Modelldenken verabschiedet - ist es doch häufig hinderlich fürs erfolgstädtige Modellieren des eigenen Denkens.

EXTENDING THE PERSPECTIVE: SMALL AND MEDIUM Sized ENTERPRISES AS COMPETITORS AND NETWORK PARTNERS OF MNCs

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Yesterday and today, we have heard a lot about multinational corporations, mainly with a focus on the relations between headquarters and national subsidiaries, i.e. the internal structures and micropolitics of multinational cooperations. In a certain sense, we set a contrast and take an open systems approach. Our starting point is that we improve our understanding of multinational cooperations if we add to the understanding of the internal systems the understanding of their relations to their environments. Therefore, we are “extending the perspective” and ask for the relations of MNCs to other firms, especially to “non-MNCs”. A clear contrasting group are the small and medium sized enterprises (SMEs). With SMEs we mean firms which are economically independent and small or medium in size (let’s say, up to 500 or 800, depending on industry, among other things).

The title of our presentation, hence, is “Extending the perspective: Small and medium sized enterprises as competitors and network partners of MNCs.” Since we are in the Session III “Globalisation and their Impact on the Design of National Business Systems”, we will discuss the relations of MNCs to SMEs with a special reference to globalisation. By “globalisation” I simply mean the export of goods or the export of capital, the latter either as international cooperation or joint venture or as building of a subsidiary abroad. I leave out more complicated things like new and foreign competitors on local markets (import), regulation to ease or to complicate international trade and general considerations in the sense of “globalisation as growing world wide interdependence”. This might be a part of the globalisation, but for the purpose of the paper a focus on export of goods or capital will be enough. Simply speaking, we will relate MNCs to exporting SMEs.

The research question of our contribution is: Are there consequences for multinational cooperations coming from globalising (i.e. goods or capital exporting) SMEs? How do these consequences look like? These are very global questions; I should therefore specify on what my contribution is based upon. Mainly, it is a research project about globalising SMEs, carried out as action research and with a case study design. Later, I will introduce a case study, and this case study comes from this research project. Additionally, we analysed the German enterprise panel. On selected occasions, we will refer to other studies.

second slide
As I said, the research question is “Are there consequences for MNCs coming from globalising SMEs? How do these consequences look like?” To discuss this global question, we divide the world into two parts: In a Durkheimian strike we distinguish SMEs as competitors to MNCs from SMEs as network partners. This does not mean, that a given SME is either a competitor or a network partner to MNCs. One might be both, and another might be neither one of them. The idea is, that the relation between a MNC and SME should be different whether a globalising SME and a MNC are competitors or network partners to each other.

With a “competing SME” we mean a “competing globalising SME”, i.e. an goods or capital exporting SME, which competes on export markets with the Goliaths of its industry. We don’t mean a local competitor for a globally operating MNC.

Specifically, we set out two hypotheses, one for each type of relation: For the competitor-relationship, the hypothesis is borrowed from the popular discourse about SMEs: SMEs are the “hidden champions”, they have superior organisation principles. MNC should therefore learn from them and adapt to the models SMEs embody. The influence of this relation on MNCs is indirect and consists of learning and maybe reorganisation within MNCs according to typical (and supposedly superior) organisational principles of SMEs.

For the network-partner-relationship the hypothesis is that the big network partner should have an interest in the successful globalisation of the whole network, including the small- and medium-sized network partners. Therefore, within networks, MNCs should provide some support to globalising SMEs to increase the chances of a successful globalisation of the SMEs in the network. The influence of this relation on MNCs, but even more on SMEs in the network is direct and consists of the creation of communication and exchange structures (such as joint quality circles, steering groups etc.).

It is now that I can give a outlook for the rest of my presentation. I will discuss the first type of relation and the corresponding hypothesis only briefly. The second type of relation will get more space (but it is more relevant to MNCs): I will briefly introduce “characteristics of networks”, next I will present a case study about a globalising network relation. I will finish with a summary.
Here, I listed some points about globalising SMEs.

“The organisational forms of internationalisation activities of SMEs are influenced by the cultural and political conditions in the host country” - easy to understand but probably not restricted to SMEs.

“The main reasons for German Firms to export capital are to find new customers and new sales markets” (and not high wage conditions), well established but still interesting.

“German SMEs are internationally active to a large extent.” Statistically, if a firm has 100 or more employees, non-exporting firms belong to a minority. There is, however, a sharp difference between East- and West-German enterprises: Roughly, the East German industry exports only the half of the percentage of their total sales, compared to the West German industry. Low export activities are considered as one of the main indicators for the ongoing need for industrial recovering in East Germany. But due to the much greater volume of the West German industry, the low East German export rate does not affect very much the export rate for Germany. Wide-spread export activities even among small enterprises fit to the result, that in international comparisons German SMEs are known as competitive and segmentation between firms is considered as low (Lane 1991).

“SMEs pursue less objectives with their globalisation activities than large companies” means that smaller firms say that the reason for capital export was production or selling or sourcing, while larger enterprises say it was production and selling and sourcing. It’s a size effect we know already from the investment behaviour.

“For SMEs, globalisation activities are rather reactive than anticipatory.” They are more often latecomer than pioneers.

What does this say for the hypothesis about the relations between MNCs and SMEs competing each other? Are SMEs a model for MNCs?

The implications for the internal organisation of the MNCs caused specifically by a global competition between MNCs and globalizing SMEs are hardly to specify. Global SMEs are not a cause for intensified global competition. Typical “drivers” for globalisation (technical innovations, deregulation of trade and tariff barriers, opening of East European markets in the 1990s, political integration and world wider integration of financial markets) don’t affect enterprises of one type alone. SMEs and MNCs have different strengths and weaknesses, as was widely discussed 15 years ago. Moreover, SMEs often engage in globalisation activities
because of pressure, pressure from competitors or customers. Therefore, SMEs as whole are hardly a model for MNCs.

The multiple globalisation activities of SMEs are largely independent of what multinational corporations (as type of enterprises) do. Globalizing SMEs look what competitors do, they look what the market offers and the customer demands. They don’t look at another specific group of firms. It is also true from the other side: MNCs look at the market and the competition, they look for the best in their field, but they don’t look not specifically at globalizing SMEs. Maybe they would, if all globalising SMEs would be fast, flexible and successful. But only some SMEs are pioneers, most are lagging behind.

Therefore, there are few if any immediate consequences for MNCs, their globalisation strategies and their internal organisation, resulting from the fact that specifically SMEs compete internationally.

Let’s turn to the network relation then.

*fourth slide*

Networks, i.e. the cooperation of several partners for a longer time, have the following characteristics, each of them related to a problem, which I will explain in a minute:

First characteristic: Partners are involved in joint activities instead of mere exchange. Joint activities include relational contracting, intensified communication and - partly, of course - shared interests.

Second: Partners follow common standards which cannot be arbitrary changed by one partner alone. Neither they can be ignored by one partner.

Third: Trust is often regarded as an element of networks. There is some debate about it. A more conservative point of view would point to the web of interests which holds the partners together and fosters trust, or enables mistrust and splits them up.

Fourth: Networks are also characterised by the fact that one partner looses when another partner defects.

Especially the discussions about lean production, the Japanese example and the advantage of regional embeddedness have pointed to the advantages of networks. I will skip this completely here, because we all know the arguments and the main references. It is this discussion that my hypothesis comes from: that the big partner should have an interest in the successful globalisation of the small partner.
Then, network partners have to solve four problems to realize the gains from the network relation (see slide).

1. Network partners have to coordinate the division of labour. In comparison with markets and hierarchies, networks are often characterized as superior regarding the mix of stability and flexibility. How do network partners achieve this?

2. Network partners have to reach and to secure common standards. Usually, standards such as product quality and punctuality in deliveries are given by the big partner, and the small partner has to reach these standards. Does the big partner provide support, as some report about Toyotism?

3. The interests of both partners have to be compatible to each other. Especially for the small partner, who has to adapt to the big partner in many ways, should be long term gains possible. What are the gains and the motives of both partners?

4. Network partners have to protect against each other. Two dangers are prominent: Performance failures and misuse of trust resp. misuse of privileged knowledge of the other partner. While “performance failures“ are mainly a problem the big partner should care about, malfeasance is a problem the small partner should care about. What do network partners do to protect each other?

In the case study analysis, I will pick up these problems one after the other.

fifth slide

To discuss how the relations between a MNC and a SME are organised and changed in the context of globalisation when both are network partners, we present a case study. A single case does not allow much generalisation. But empirical knowledge in the field is sparse, so we would like to add some empirical evidence.

The case study is about a transfer of a service relationship in a “follow customer“-mode. The medium-sized enterprise follows its customer, a multinational corporation, and builds for the first time in its history a subsidiary in a foreign country. The case study is not about a global network. It is about the “going global“ of an already existing network. According to the hypothesis, the MNC should have an interest in the successful transformation of the small network partner to an internationally acting enterprise.

The enterprise which serves as a case (from now on “enterprise S“) was founded in 1991 in Chemnitz, Saxony. The owner is an industrial holding with headquarters in Munich. Today, about 300 employees are employed in several departments (machine building, industrial
services, electrical engineering, steel construction). The strategic focus is on industrial services especially in the automotive industry.

Volkswagen is the multinational corporation in this network. Enterprise S provides services in VW production sites, such as tool management and fluid management. These tasks were formerly done by Volkswagen, but later sourced out to local firms. In 1995, enterprise S received the “Value to the customer” Award, which indicates how well the cooperation between both partners works.

In 1998, Volkswagen planned to establish a new production site in Poland, including an outsourcing of most service tasks, which are pooled in a “pool technical services”. Enterprise S became the partner for maintenance and repair. Therefore, it had to found a new company in Poland (enterprise SP). The job went to enterprise S in January 1999, and from June 1999 the production began to run, first as test production, but soon with full capacity.

Enterprise Sp works mainly with Polish employees. In the beginning, enterprise Sp used so-called *Anlaufunterstützer* from the parent company S. *Anlaufunterstützer* are a pilot team of experienced workers from Chemnitz who started to do their jobs at enterprise Sp. At the same time, they introduced the Polish employees to their tasks. They taught and trained them for their jobs. Gradually, the *Anlaufunterstützer* went back to enterprise S in Chemnitz. In the last years, enterprise Sp has enlarged its profile and offers services in Poland to other customers than VW. Still, VW is the most important customer for enterprise Sp, both in quantitative terms and strategically.

**sixth slide**

Let’s have a closer look on how the three network partners organise their cooperation. In a first step, Volkswagen released “invitations to bid“ and asked for offers. These documents are of varying precision. Especially larger tasks come as so-called “functional requests“. In a “functional request“, the task to be solved is described, and the purpose of the job is explained. Additionally, the conditions are given, for instance the local setting and the technical environment. It is already on behalf of the supplier to design a solution in his offer.

Next follow negotiations with Volkswagen, and then Volkswagen decides whom to give the job.

For task fulfillment, enterprise Sp works mostly independent of Volkswagen. They communicate with Volkswagen, however, on the operational level. Sometimes, renegotiations between both partners are necessary. There are regular meetings on the
management level, and there are operational decision rights of enterprise-Sp-managers towards Volkswagen-employees. This justifies to speak of a “blurring of organisational boundaries”, but all this happens on the operational level. It is also stimulated by the personal attitudes of the managers at both sides, who appreciate their autonomy from their respective parent companies. Viewed more formally, enterprise S and Sp promised independent task fulfillment. Enterprise S and Sp don’t have a “right” or “claim” on support by Volkswagen. According to the managers we talked to (only S and Sp managers), there doesn’t exist support by VW which went beyond marginal things.

The question how the cooperation is organised should therefore be answered differently for stages and organisational levels. In the beginning, enterprise S is in a competitive situation. Volkswagen cares to remain a competition during the bidding and negotiation stage, even if there are only a handful of enterprises which qualify for that competition. During the the task fulfillment stage, however, cooperation prevails. This cooperation is more or less spontaneously organised and limited to the operational level. It does not include higher hierarchical levels at the respective parent companies.

seventh slide

To look at how the SME reaches the required standards, we should look at what the specific strenghts of a medium-sized network partner are, and which weaknesses it has to overcome. There are four strenghts:
- Competence in industrial services,
- experience, which goes hand in hand with competence,
- the cost structure, especially when compared with Volkswagen, and
- the flexibility of enterprise S. This is not a genuine strength of the firm; again, it has to be seen in comparison to Volkswagen. It is much easier for Volkswagen to adapt the demand for services by negotiating with another enterprise than to negotiate that within the organisation of Volkswagen.

On the other hand, enterprise S resp. Sp face some problems:
- First, the time horizon: When Volkswagen decided at the end of 1998 to produce from the second half of the next year in a new plant in Poland, Volkswagen certainly made already some plans before. But enterprise S had to organise its own new site within the timeframe set by Volkswagen.
- Second, enterprise S and Sp must not fail in single decisions.
- Third, enterprise Sp has only the second choice to obtain resources. Take the labour market in Poland as example: Volkswagen and the other networking firms looked at the same time for employees. Volkswagen offered better conditions, and they were known before to the Polish workers. The other networking firms, among them enterprise S, were still in a good position, since as German enterprises they were attractive for many Polish workers. But Volkswagen had the first access.

These obstacles are overcome by the engagement of single persons: Managers, Anlaufunterstützer and employees. Our interview partners at enterprise S and Sp emphasized the good atmosphere at work as critical for the success of the company. An external observer, however, notes that to a large extent the problems are overcome simply by "more work" of the men. Volkswagen doesn’t provide support for enterprise Sp.

Implicit trust - rather than explicit support - of VW that the network partner will reach the required standards prevails. This trust has grown during years of cooperation.

*eighth slide*

There is not much to explain, why the service enterprise takes part in the exceptional effort of building a subsidiary abroad. The gains for enterprise S are not only the profitable use of the available “production factors”, but also riding with the trend in the industry and the opportunity to learn from a big partner. The latter, however, proves to be difficult. But this is another story, a story of knowledge management.

*ninth slide*

Let’s turn finally to the mutual protection of both partners against each other. The main problem for Volkswagen is to prevent performance failures of enterprise Sp. For enterprise Sp the main problem is dependence.

For Volkswagen three different and independent things should be mentioned (which are not listed on the slide):

First, Volkswagen distributes the manufacturing of identical products on several places. The engine which is produced in Poland is also produced in Chemnitz (Saxony). In case of a production stop in one place, the production in the other plant goes on.
Second, Volkswagen makes benchmarks among its suppliers. This might be the main reason for the “invention” of the above mentioned “Value to the customer award“.

Volkswagen keeps competitive pressure alive.

Third, changes are made gradually. Again, the site in Poland is an example: The outsourcing of technical services has gone very far. According to the experiences Volkswagen makes, they will draw conclusions for other plants.

Taken isolated, no measure looks very spectacular. Its the parallelity and the interplay between them that makes the whole bundle effective. This does not mean that VW designed these measures in a conscious way.

For enterprise Sp, the main problem is dependence from Volkswagen. Volkswagen made a contract with enterprise Sp, which lasts for five years. This contract includes cost reductions targets. Moreover, Volkswagen and enterprise Sp agreed that employees cannot change from enterprise Sp to Volkswagen. This prevents a constant and permanent loss of experienced employees for enterprise Sp. Both lower the risks but not the dependence.

To lower the dependence, enterprise Sp strives for a balanced structure of customers.

Enterprise Sp works now for other firms in Poland. This is possible only as long the performance for Volkswagen is not endangered. Volkswagen remains the most important customer. For the service enterprise, the new customers are a beneficial side effect in their search for excellence. Enterprise Sp does this search for excellence for Volkswagen, and not against it. To put it in terms of dialectics: Greater independence by a diversified structure of customers does not contradict (at least in this case) a greater dependence in the sense of a tight adaptation according to the needs of the main customer. Rather, the latter, the tight adaptation, is seen as a precondition for the former, the diversification among customers.

tenth slide

Two remarks to sum up the case study:

The first remark is about the nature of networks: Networks combine competition and cooperation, they combine efforts for mutual adaptation and independence. Clear-cut distinctions are more a matter of theory and less of empirical evidence.

The second remark goes back to the hypothesis: The starting point of the case study was an assumed interest of the big partner in a successful globalisation of the small partner. There are indeed some indicators for such an interest, such as experimental approach of Volkswagen with make-or-buy decisions. But in contrast to reports from Japan or from other lean
production examples, the support of the big partner for the small partner was fairly weak. The communication between the big partner and the small partner in the selected case was not particular strong. Rather, Volkswagen seems to trust, that the small partner will reach the required standards quickly. From the perspective of the societal-effect-approach one could assume that this goes together with the low segmentation among German firms: small and medium sized enterprises are often serious partners for MNCs. The MNC knows the performance of the SME from earlier cooperation. This intimate knowledge and corresponding experiences influences its strategies for cooperations with them. Stability in interfim cooperations and the non-exclusive nature of the high-quality segment for enterprises are two characteristics of the German industry which could help to explain the seemingly silent and implicit approach of the MNC towards the SME.

**eleventh slide**

Let’s sum up the presentation:
This paper focused on globalising SMEs and their relations towards MNCs. MNCs are in a division of labour with SMEs: globalising SMEs are on the hand competitors, and they are on the other hand network partners. What are the consequences for MNCs and the relations between MNCs and globalising SMEs for both “roles”?
We argued that there are few if any consequences for MNCs resulting from the fact that globalising SMEs are competitors. The hypothesis of a “hidden strength of the small”, of a superiority of SMEs and of a role model for MNCs should be rejected when it is applied to globalisation questions, in spite of the lively activities SMEs undertake in the global competition.
It is somewhat different with SMEs as network partners. The hypothesis was that the network as a whole must be tranformed. The stronger and bigger enterprises in the network, the MNC, should therefore support the smaller partner.
We introduced a case study about a transfer of a network relation to another production site abroad. According to that case, there are some actions and reactions especially on behalf of the small partner, but as well on behalf of the big partner, which can be ascribed to their network relation. But these actions and reactions are weaker than one could expect from full fledged lean production relations. This might be due to the peculiarities of the case which we could not control for. It might be also due, as we would suggest, to societal patterns of the German industry.