

The Transnational Firm: Systems of Governance and Adjustment to the Institutional Environment

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Paper presented to the International Conference on “Multinationals and the International Diffusion of Organizational Forms and Practices”

IESE Business School, Barcelona, Spain

15th-17th July 2004

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June 2004

1. Introduction

The development of multinational corporations (MNCs) is so enmeshed with the process of globalization that it is difficult to understand one without considering the other. Indeed, the globalization and antiglobalization literature have thrown much emphasis on the sheer size and power of corporations, institutions seen by many as more influential than the state in shaping not only the structure of the economy, but also people's way of life.

This is certainly the view taken by Canadian scholar Joel Bakan in a recent book (and documentary film). He insists on the historical and legal foundations of the corporation and in particular on the fact that, in spite of their own personal values about corporate social responsibility and environment, directors have a legal duty to put shareholders' interests above all other concerns (Bakan, 2004: chap.2). Though acknowledging the positive steps taken by many corporations to improve governance and address the current crisis of legitimacy, the author argues for a coherent programme of state regulations to help restore some balance between private and public interests¹. Also written for a broad readership, a recent book by leading authors associated with *The Economist* covers some of the same ground, especially on the origin of the joint-stock company, but obviously presents a different picture. Micklethwait and Wooldridge observe that multinational corporations have "always aroused suspicion" (2003: 161), but they argue that after two decades of economic turmoil, they should not be seen as such all-powerful and mighty forces. They stress that after a long period of relative stability and growth, large corporations have had to adjust to a more global and more volatile cycle of capitalism, from which they come out with a different shape and different management systems, beyond the multidivisional and rather bureaucratic model associated to Sloan's ideas, which prevailed for so long in large corporations, especially in the United States. Hence, "the big firms that survived this maelstrom only did so by dint of bloody internal revolutions...Such uncertainty proved too much for the Sloanist idea of a company. It was too slow, too methodical, too hierarchical, too reliant on economies of scale that were withering away" (Micklethwait and Wooldridge, 2003: 130).

Such a contrast in the intellectual representation of large corporations can also be noted in the more specialized research literature which will be discussed at this conference. Our research questions and discussion tend to be more empirical, specific, if not down-to-earth. But our field of research is not less demanding in terms of complexity. Indeed, it seems that we are facing three levels of difficulty when seeking to understand 1) the organizational functioning of the multinational firm, together with the main variants of such firms; 2) the ways in which the MNC as an organization is shaped by its economic and institutional environment; and 3) the

¹ The importance of this book (subtitled *The Pathological Pursuit of Profit and Power*) and film documentary, and its current impact in Canada and the United States, was not missed by *The Economist*. In a one-page critique, it presented *The Corporation* as "a surprisingly rational and coherent attack on capitalism's most important institution" (May 8th 2004, p. 64). But after presenting the argument (which is more solidly grounded in the book than in the film), the liberal magazine ends with a defence of the corporation based on what many of us would see as a surprisingly radical critique of the "other dominant" institution, the state. Hence: "Infinitely more powerful than firms and far less accountable for its actions, the modern state has the capacity to behave even in evolved western democracies as a more dangerous psychopath than any corporation can ever hope to become". A debate about the very foundations of democracy, which extends much beyond the scope of this paper.

impact of such forces on decisions and policies regarding labour and human resource management.

This paper focuses on such empirical questions with two objectives in mind. It seeks a) to make some assessment of what we have learned about the way MNCs operate and b) to consider some of the avenues for research from a theoretical and methodological viewpoint. Under the second, we aim to contribute to a “political economy of the MNC”. Its core elements would include: a view of the MNC as a political institution, with power and politics being central to its operation; an effort to relate the MNC to the context of capitalist markets; and an emphasis on the contradictions of strategic choice. Many of its elements underpin, we feel, the approach of scholars informed by such perspectives as labour process analysis, institutional theory, and radical traditions in economics. In this paper, however, we do not lay out such an approach systematically. Nor do we relate it closely to extant views. Instead, we draw selectively from it to examine three issues.

Section 2 looks at the MNC from an *organizational* viewpoint and considers its key features, beyond sheer size, power, and “complexity”. From such a standpoint, the MNC can be seen as a “production machine” or as a system of governance, which brings us to the issues of power and control which are now rather well understood. Section 3 focuses on the way large corporations adjust to the economic and *institutional* environment where production and employment occur. It suggests going beyond the “country-of-origin perspective” and make one further step in considering the impact of the institutional infrastructure on MNCs’ governance and policies. This might be possible by paying attention not only to the nationality of origin of the parent corporation but also to the ways the various corporations that operate in a given country adjust to this particular institutional environment. Section 4 has a broader focus and considers the ways multinationals relate to the *global economy*. It suggests that MNCs neither respond passively to the process nor directly drive it. They are subject to the uncertain developments of the global economy and make the best of what they find. The roles played by supranational institutions in these processes of social regulation are also discussed.

2. The MNC as an Organization

Consider perhaps the simplest issue of all. How big are MNCs compared to other economic organizations? As Rbery and Grimshaw (2003: 198) put it, some MNCs “can now be considered more powerful than many nation states, and certainly have a value in excess of the GDP of many countries”. Thus Sklair (2002: 37), in an exercise ranking the biggest world economic units, puts the largest MNC at number 7 in the list, close to France in terms to size. Yet Rugman (2000: 58) in an identical exercise has the largest MNC at number 24, on a par with Hong Kong. The reason for this contrast is that Sklair compares sales of MNCs to government revenues whereas Rugman uses the whole of a country’s GNP. As noted by Micklethwait and Wooldridge (2003: 176), “GDP is a measure of value added, not sales. Using a measure for value added for companies, only thirty-seven multinationals appeared in the one hundred biggest economies in the world in 2000; and only two of them scraped into the top fifty (Wal-Mart in forty-fourth place, and Exxon in forty-eighth)”.

It is relevant to make a distinction between the very large number of MNCs and those corporations that really have a transnational profile, to which we give more emphasis

in this paper. A recent publication estimated the number of MNCs at 65,000 for 2001, “roughly five times the number in 1975; around the globe they gathered together 850,000 foreign affiliates, employed 54 million people, and had revenues of \$19 trillion” (Micklethwait and Wooldridge, 2003: 173). Of course many of these organizations are in fact binational firms, which conduct business across two neighbouring countries. This is the case for a large number of Canadian MNCs, many of which have taken advantage of the NAFTA agreement to broaden their market basis for products and services in the United States, in spite of protectionist measures in many sectors, especially for selling public utilities. The point is that such organizations are different from the large transnational corporations (TNCs) which literally operate worldwide, and on which much of the international literature focuses. The United Nations publish such data on the 100 largest transnational corporations worldwide, based on total assets, sales and employment. For 1998, the largest by foreign assets were General Electric, General Motors, Royal Dutch/Shell, Ford, Exxon, Toyota, IBM, BP, DaimlerChrysler, and Nestlé (UNCTAD, 2000: 72-73). These TNCs are compared on the basis of the “transnationality index, which is calculated as the average of three ratios: foreign assets to total assets, foreign sales to total sales and foreign employment to total employment” (UNCTAD, 2000: 74, also 78).

These TNCs — which represent a small proportion of all MNCs — certainly have a global reach in terms of assets, operations and market shares. But it does not follow that they are (necessarily) in a position of predominance in any given segment of the global market. Indeed, it does not necessarily follow that their share of the world market is on the increase as they become more “global players”.

Let us consider only two examples here. With the merger of ASEA and Brown Boveri in 1987, ABB became by far the world leader in the manufacture of power transformers, a “public utility” sector which originally developed to fit national regulations. Nevertheless, by 1995, ABB’s more than 20 power transformer plants only supplied 20% of the world market (Björkman, 1999b: 42). On any tender for a new contract, several competitors, of which some are TNCs such as Siemens and others are national or regional players, are likely to make a bid. Similarly, in a much more global market of aluminium, the share of the world market for the top six producers of primary aluminium fell from 77% in 1969 to 45% in 1989 (Bélanger, Edwards and Wright, 1999: 58). Over the last three years, Alcoa acquired Reynolds (number three in 1989) and Alcan acquired Alusuisse (number six) and, more recently, Pechiney (number four in 1989). But in spite of that, this is by no means a situation comparable to the heyday of monopoly capitalism in this industry, when strategic corporate decisions within the oligarchy (e.g., each closing a few potlines in a more or less “concerted way”) did have structural effects on inventory levels and aluminium prices worldwide. In short, ownership and production have become much more global, as new countries enter the market: China is now the largest world producer (with 18% of market share) while the countries of the former Soviet Union have 16% of the market. Indeed, in spite of such major acquisitions, Alcan’s share of the world market (which had been 20% in 1969), rose only from 12% in 1989 to about 13% now (as compared to 14% for Alcoa, the leading producer), even when we include the acquisition of Pechiney.

The point we wish to stress here is that although MNCs are “key players” in the process of globalization, it is still relevant to conceptualize them as organizations — with various sets of resources and constraints — and not as monolithic and all-

dominant forces. This also means that the understanding of MNCs requires the application of the concepts and tools of organizational theory as well as a consideration of several dimensions of political economy. These are complex organizations operating within a more and more global world.

2.1 The MNC as a technical organization: a process of rationalization

A first angle on the MNC is to consider it as a technical organization, or even as a “production machine” which extends operations for providing goods or services across several or many countries. From this perspective, such organizations have historically pursued an “engineering rationality”, a phrase coined by Daniel Bell in 1960 to stress an underlying principle of the organization of production and work in modern corporations from (at least) Frederick Taylor onwards. There are basically two ways of rationalizing and standardizing production, namely technology and production management. As distinct from hardware equipment, production management is made of programmes and procedures for monitoring the transformation of resources and assessing performance.

Indeed, a tentative proposition from field research is that strategic managers often see these two ways of standardizing the processes of production as alternatives. When possible, and most often when the product or service allows for such a form of standardization, the idea is to look for it through technology. Indeed, the last generation of technology, information technology, has expanded greatly the range of opportunities on this regard. This is the Alcan scenario, but this firm is by no means an exception here. Indeed, the Fordist assembly-line was also conceived in this spirit. But when control systems cannot be built on such a central technological device, management often has to shift the focus from product to process standardization, and programmes of industrial management have to be developed and implemented. This road is obviously more demanding in terms of “social engineering”, and much more dependent upon direct supervision and various forms of control and transfers of information between various subsidiaries and the HQ. By definition, the data and information provided are almost never as “hard” as with the control systems primarily based on hardware technology. Nevertheless, progress has been significant over the last 15 years or so, on matters such as supply management, time-based management and quality control. This is very much the ABB scenario, but many other engineering giants such as GE, Siemens, Motorola, and Bombardier are also at the forefront.

Of course this dimension of MNCs as a structure of production and a process of rationalization does not receive so much attention in social science journals. This reflects the division of labour within academia. After all, we are experts in social relations and regulations. But most readers accept that the primary objective of the MNC as an organization remains the (re-)production of a surplus for the benefits of capital owners. The process of rationalization, broadly defined, is seen as the way through which firms address “shareholder value” when they expand operations beyond borders.

A few illustrations may help specify what we have in mind here. This process is most obvious in an industry like fast food, where large TNCs (e.g. McDonald’s) rationalize production (supplies, quality control, performance measures, etc.) to a very high extent, leaving a touch of “local flavour”. This is also quite advanced in the automobile industry, where international integration of production allows for flexible mass production and global strategies of development. Each of the Big Three automakers has developed such integrated production systems in the three NAFTA

countries, and production sites such as South Africa are now used by BMW to produce its core models.

ABB, again, may be something of a critical case here, in that it is often seen as a coalition or network of about 1300 “small companies”. This rhetoric from the corporation was taken for granted by Bartlett and Ghoshal (especially 1993) who presented this corporation favourably as a case of “radical decentralization” which showed the way for a modern model of corporate governance². Yet detailed fieldwork in the company showed two things (Bélanger et al. 1999; Bélanger, Giles and Grenier, 2003). First, issues of the relations between the head office and subsidiaries were not smoothly resolved; there was in fact extensive contest over goals, and subsidiary managers used their own resources to seek power and influence. Second, therefore, the company was not a case of idealized decentralization but rather one of continuing contest over in which notions of hierarchy remained strong. There was progressive rationalization, but of a contested kind. Finally, the fact that the firm has performed less well in the past 5 years than at the time any of the above studies was conducted underlines the fact that a model firm can rapidly fall out of favour as competition challenges its apparent dominance (see e.g. *Financial Times*, 11 March 2002).

Of course, one has to be careful not to over-emphasize this one tendency towards an engineering rationality, for it may be counteracted by other forces, but it is none the less one clear logic of MNCs. Is this more so than in national firms? To some extent this remains an empirical question. But a positive answer is expected, considering the resources these firms have (in terms of capital, technology, engineering) and, even more to the point, because (as we stress in the following section) they have to address the problems of coordination and control in a more acute way once they extend operations over countries and continents. It is the case that, because of their larger resources and of their investment in the development of technology and industrial management, often in liaison with some of leading consulting firms (which also are transnational corporations), MNCs play an active role in the major transformation of productive organizations which is currently under way.

2.2 *The MNC as a system of governance*

2.2.1 Internal relations: issues of power and control within MNCs

Before outlining some of the key issues in the literature on power, control and internal relations within MNCs, it is worth stressing once more that, as noted by Rubery and Grimshaw (2003: 201), “multinational corporations are as diverse as national corporations”. Several typologies represent useful starting points, from the classic Perlmutter distinction between ethnocentric, polycentric and geocentric organizations (1969), to more recent ones (see Rubery and Grimshaw, 2003: 201-208). Considerable research progress has also been achieved by documenting and analysing the varying patterns of relations between HQs and subsidiaries in the home and the host countries, and we will consider some of these issues in section 3.

² This rhetoric and this “theoretical model” are still highly regarded by many scholars looking for a new organizational model for MNCs. In an otherwise excellent chapter on “The Capitalist Firm in the Twenty-First Century”, Powell insists: “The model transnational firm today is no longer Coca-Cola, IBM, or Royal Dutch Shell, but Asea Brown Boveri (ABB), the Swiss-Swedish energy and engineering firm, organized as a ‘constellation’ with more than 65 business areas, 1 100 companies, and 4 500 profit centers...” (2001: 47). Micklethwait and Wooldridge also comment uncritically on ABB’s rhetoric (2003: 174-175).

The focus of this sub-section is to look for what is specific to MNCs, as opposed to other forms of (productive) organizations, on which so much theory has been written. Ferner and Edwards (1995) provide conceptual distinctions in addressing the question of power and exchange relations within MNCs. They approach the problem by looking at the issue of diffusion of “best practice” through “coercive comparisons”. Ferner later goes a step further in analysing the “underpinnings” of control systems by showing how various control mechanisms (including informal and personal forms of control) do “not only coexist but also are mutually dependent” (2000: 537). Hence “the persistence in parallel of different mechanisms is not only a reflection of the fact that they are performing different roles within the complex of tasks undertaken by MNCs; it is also a reflection of the fact that formal controls are underpinned by personal and cultural control mechanisms” (Ferner, 2000: 524).

Implicit in Ferner’s conceptual work is the notion that something in the very nature of MNCs makes control systems even trickier than in most organizations. “Formal systems may become empty shells without practical effect. This is especially the case in MNCs because operating across borders in different national institutional and business environments provides added leverage for resistance to central objectives” (Ferner, 2000: 529). In a recent article, Harzing and Sorge seek more explicitly to point out “what is distinct” with MNCs, beyond the common phrase that they just are “more complex organizations”. Their contribution deserves to be quoted at some length here:

“Multinational companies (MNCs) by definition operate across the borders of nation states and societies. They are therefore distinguished from other enterprises by having two major sets of business and management phenomena that other organizations do not have:

- They have internationalization strategies as overall concepts and patterns of extending operations from a domestic base to other countries. Virtually all existing multinationals have come about through extension from a national domestic base or the merger or acquisition of enterprises in other countries.
- They have practices of corporate control geared to facing the specific problem that their subsidiaries in different societies are embedded in different societal contexts and, in the case of acquisitions or mergers, in different enterprise traditions”. (Harzing and Sorge, 2003: 190)

Once these conceptual distinctions are established and acknowledged, it then becomes relevant to study empirically such issues as the importance of the country of origin in the shaping of structures and policies, or the extent to which HQs succeed or fail (usually a matter of degree) in implementing programmes and control systems in so many subsidiaries, at home or abroad. On the latter, research has made some progress on the key question of the resources and sanctions on which HQs can rely to “help convince” subsidiaries to “buy” corporate programmes. Rubery and Grimshaw make a distinction between three of these “tools”, namely the appointment of international managers, the development of corporate culture, and the use of coercive comparisons (2003: 212-214). The study of ABB showed the importance of a further sanction, besides the increase or retention of capital investment, namely the power to decide which subsidiaries had the “mandate” to operate in specific national markets for a given range of products.

2.2.2 External relations: how MNCs relate to the “outside world”

The relations of MNCs with the “outside world” have many and varied facets, of which the study would command a truly political economy perspective. The following sections will venture into these complex matters. But let us give preliminary consideration to the ways they relate to markets and to national governments.

From their beginning, multinational firms relate to markets, and this beyond national frontiers. From the viewpoint of neo-classical economics, there is no theoretical issue here. But without too much development at this point, it may be suggested that the orthodox view is a little too simple. Most readers would agree that leading global firms play a role in structuring markets, nationally and globally. Also, in many instances, a given MNC can be conceived as a sort of mediator between subsidiaries and global market forces, acting as an “interpreter” of market forces and using a better access to the “big picture” in order to influence “local managers”. On the basis of empirical work within ABB, it was suggested that “the large corporation does not isolate the local organization from market forces, but instead mediates these forces...In many ways, the global corporation channels and mediates the impact of external market forces on internal organizational actors, through a process involving the exercise of politics and power” (Bélanger, Giles and Grenier, 2003: 483). In relation to individual markets, MNCs are in fact shaped and shapers. They cannot control shifts in market demand and have to temper their behaviour (e.g. McDonalds’ recent shifts towards more health-conscious products). They are also of course in competition with other MNCs. Yet they influence market demand in profound ways (e.g. the global food chain).

Relations between MNCs and national governments represent a daily feature in the national and international business press. Even in countries classified as “liberal market economies” (Hall and Soskice, 2001), the influence of large corporations in shaping the political agenda obviously is considerable. This can be easily understood considering the role of corporations in pursuing research and development, diffusing technology and innovation, and shaping the economic infrastructure of any country. The process through which the views and concerns of large and medium-sized corporations are listened to by various levels of government usually is beyond public knowledge, although the media are sometimes used to reach broader audiences. Negotiations on “government support” to a particular firm sometimes become the object of public debates. This was the case recently, for instance, when the European Commission agreed to a controversial rescue plan of the French Government to save Alstom from possible bankruptcy (*The Globe and Mail*, 7 August, 11 August and 23 September 2003). In a recent update on this story, *The Economist* insisted on the determination of France’s new finance minister: “Mr Sarkozy proclaimed, in his first press conference as finance minister, that the state has not only the right but also the ‘duty’ to help industry and create national champions” (8 May 2004, p. 58).

Such a situation is most likely when a large MNC is seen as a “flagship” for a given national economy, and even more so when such firms produce public utilities. In Canada, Bombardier Inc. plays such a role, both with its aerospace and transportation divisions. And the political ramifications of such a transnational organization are by no means limited to the “home country”. For instance, when, in August 2003, Bombardier Transportation lost to Siemens what was seen as a strategic contract to build high-speed trains for service in the North of England, which would have provided work to the large and historically symbolic Derby facilities, a Bombardier

spokesman was reported as saying: “clearly there will be implications for our industrial footprint in the UK. It is now obvious that companies do not have to be based in the UK to win UK orders” (*The Globe and Mail*, 23 August 2003, p. B2). Indeed, Bombardier Transportation is also a major producer in Belgium and Germany, where similar stories had much more political impact. In March 2000, the company announced the closure of its railway car plant at Manage, Belgium, despite having earlier won concessions to put business in the plant and despite assurances as to its future; the closure was seen as a betrayal by local politicians and unions (EIRO, 2000).

In November 2001, Bombardier announced its plan to close a railcar plant located in Ammendorf, a suburb of Halle, in the context of a surplus of production facilities following the acquisition of Adtranz from DaimlerChrysler in 2000. This plant started operations in 1943 and had some historical significance in the communist era; Bombardier acquired it in 1998. With high unemployment and the coming election (September 2002), this became a major political issue in former East Germany. Following much political pressure and even a meeting of Chancellor Schroeder with the chairman of Bombardier Inc. and the president of Bombardier Transportation, Bombardier reversed its plan in January 2002 (*The Globe and Mail*, 24, 28 and 29 January 2002). There were speculations in the press about the nature of the assurances given by the government in terms of orders to ensure the plant’s future. But in March 2004, when Bombardier Transportation unveiled a major “restructuring programme” by which seven of the 35 plants in Europe and North America were to be closed, the Ammendorf plant could no longer survive (the announced closure is planned for late 2005). This reflects the intensity of competition in this industry and the fact that Bombardier’s rail division operates eight more plants in Germany. But it was also reported that the promised orders from the state-owned railways never materialized (*The Globe and Mail*, 18 March 2004).

Here, the distinction between private organizations and the political system was completely blurred. These examples may be extreme ones, but they illustrate clearly the ways in which political considerations (in many senses) shape markets.

3. TNCs operations in a given institutional context

We now consider how these political processes are shaped by the context in which MNCs work. The usual approach is to consider the home country base of the MNC and the degree to which host countries that house subsidiaries require adaptation of the home country model. Home practice diffuses to host countries to a greater or lesser degree. Three important qualifications are required.

- First, host operations do not simply follow or amend home practice. Tony Edwards (1998) identifies processes of “reverse diffusion” through which subsidiaries are active agents of change, with innovations being fed back to the parent firm. He shows that “in concentrating on forward diffusion, the literature has largely failed to explore the diffusion of practices from host country plants to those in the home country, which is termed ‘reverse diffusion’” (Edwards, 2000: 116). And studying French MNCs Monia Mtar (2001) shows that they use UK subsidiaries as learning platforms, that is as bases to learn about international management in general and the Anglo-Saxon environment in particular.

- Second, MNCs are not passive bearers of home or host country effects but they instead shape their own approaches. As Ferner and Quintanilla (2002: 249, emphasis original) conclude:
 - the subtle distinctions and complexities of interaction . . . appear not as the frills, but as an inherent part of the ‘texture’ of global capitalism: the globalization dynamic is *intrinsically* played out through the medium of interacting, internally heterogeneous, nationally rooted MNCs, seeking to draw their international competitive advantage from the distinctive and variegated institutional configurations, including systems of employment relations, in which they are embedded.
- Third, the home/host debate assumes that national business systems are fixed and unchanging entities, whereas in fact they develop and are connected to developments of capitalism as a global system.

This section calls for more attention to be given to the ways in which MNCs adjust to the national institutional structure where production and employment occur, as opposed to the current overemphasis on the national origin of the parent corporation head office. This might be possible by paying attention not only to the nationality of origin of the parent corporation but also to how the various corporations that operate in a given country adjust to this particular institutional environment.

3.1 The country-of-origin perspective

The recent Anglo-Saxon literature on HRM within multinationals has given much importance to the nationality of origin of the parent corporation. And, even more often, it has adopted what we could portray as a “home and host country perspective”. There are at least two reasons why home country models are more likely than in the past to be applied in host countries (Marginson and Sisson, 1996). First, MNCs have the capacity to collect and process information on an increasingly wide scale. Second, as firms shift their structures towards having internationally integrated business divisions, they are likely to treat subsidiaries within a global framework, including where relevant the use of “coercive comparisons” between sites in different countries.

Surveys in countries including the UK (see Ferner, 2003) and Germany (Schmitt, 2003) tend, however, to show rather few distinct differences between foreign and domestic firms on a range of labour relations indicators including union recognition, pay levels, and pay structures. Yet such evidence is not as clear-cut as it may seem. It tends to measure only specific institutional practices and does not get at more subtle processes of change and innovation. The fact that US and Japanese firms recognize unions in the UK disguises some stark differences from domestic firms in the role and influence granted to unions, with Japanese firms in particular being noted for the narrow confines within which unions are kept.

As Ferner stresses, moreover, similarity at one point in time may reflect innovations by MNCs that have subsequently diffused to other firms. He demonstrates the lead role by US firms in the UK over many years in areas including work organization and payment systems (and also highlights the fact that the UK’s most noted experiment in industrial relations reform, at the Fawley oil refinery, occurred in a US-owned company and was driven to considerable degree by the need of the plant to demonstrate to its American owners its ability to perform against standard efficiency metrics).

As noted by Sklair, “notions of American multinationals, Japanese multinationals, German multinationals, Indian multinationals, and so on appear to be deeply entrenched in both popular consciousness and the agenda of academic research” (2001: 50). At least for many of the large transnational corporations mentioned in this paper, such a national connotation is exaggerated, in the sense that the corporation evolves on more and more global markets, with operations in a large number of countries and often a majority of employees located in foreign countries. In such cases, the country-of-origin effect is much more diluted than such popular formulations suggest. In short, MNCs are themselves varied in nature, they draw on particular parts of their home country national contexts rather than simply being the “bearers” of American or German features, and they interact with host country institutions in similar, varied, ways.

Sklair goes further and observes that “global system theory would predict that the national origins of the major corporations are becoming less important than their relationship to the processes of globalization as predictors of their practices and rhetoric” (ibid., 38). We want to be clear on the fact that we are not advocating, or being influenced by, such a globalist perspective. Indeed, the institutionalist approach we suggest is rather compatible with recent developments on national business systems (e.g. Whitley, 1999) and “varieties of capitalism” (Hall and Soskice, 2001). The recent collective work on the lasting relevance of the “analyse sociétale” to understand current developments also represents a useful contribution to an institutionalist perspective. Christel Lane, in particular, shows on the basis of a study of German and British firms “that MNCs with different home bases have adopted divergent structures and strategies and have responded to intensified global challenges in distinctive ways” (2000: 189). However our point is that there might be another useful way of studying the impact of institutions, namely by looking at how corporations of different nationalities of origin operate within the same institutional environment.

Our proposition is that besides looking at large corporations from the viewpoint of the parent transnational and placing most of the emphasis on the country-of-origin, it may also be fruitful to study how MNCs of different “nationalities” relate to a given institutional environment and regulatory system.

3.2 Beyond the country-of-origin perspective

As noted by Murray and Trudeau, the original model of internationalization within large corporations, which predominated for much of the twentieth century, was a “portfolio of national businesses”. “Typically, it took the form of a ‘National Business Inc.’, which allowed for the possibility of a distinct and sometimes even autonomous identity for the firm in each of its national locations, making it much more sensitive to national policy environments and its policy tools” (Murray and Trudeau, 2004: 16). Micklethwait and Wooldridge also observe that “for most of the twentieth century, Ford was essentially a confederation of national companies. Each country had its own head offices, design facilities, and production plants” (2003: 174). But, they point out, “trying to view the history of multinationals through nationalistic lenses becomes harder in the final quarter of the twentieth century” (ibid., p. 172).

A major reason why large manufacturing conglomerates such as Siemens, ABB and Bombardier are evolving beyond such a traditional multidomestic model, by which they had production facilities in various national terrains in order to “buy the right” to sell public utilities there (see Björkman, 1999a) obviously was the gradual

deregulation of markets over the last two or three decades. Deregulation probably represents also a major impulse for the restructuring and consolidation in the banking and insurance sectors, which the authors have not explored. In different sectors, a different set of market factors has played a role in shaping TNCs structures and patterns of corporate governance in recent years. The aluminium sector, like most metals, has been operating in a global market for decades and the recent phase of consolidation, from which Alcoa and Alcan consolidated their position of leaders, was in part a response to a further phase of globalization through which new producing countries, including China, also claimed their part of these global markets. The automobile industry would fit another pattern, where standardization of engineering principles plus cosmetic customization of design allowed for much progress in integrating the international chain of production within larger TNCs. In short, the patterns are various, and any suggestion of convergence of production systems internationally could easily be refuted. But the very shape and working of MNCs has evolved significantly and social scientists may also need new concepts and new research design to understand these ongoing processes.

For scholars in law, the intricacies of such linkages between parent corporations and national head offices in host countries, which are sometimes wholly-owned subsidiaries and even “empty shells” but may also have more leeway in terms of corporate strategy, have long been a matter of interest. From a legal perspective, it is much more than a highly technical problem; it also relates to issues of corporate control and power. This is particularly so in Canada, where 82.5% of exports and 70% of imports went to or from the United States in 2003, and where so many corporations are subsidiaries relating to the parent board in the US, this is also a matter of national identity. In an influential essay, Harry Arthurs has studied the recent evolution of Canadian subsidiaries within transnational corporations, with particular attention to the linkages with US firms. This led him to express major concerns about the possible “hollowing out of corporate Canada” (2000). In short, in the current phase of globalization, it would appear that Canadian operations have less autonomy than before to adjust and play their role within the Canadian institutional environment, which remains different from the U.S. in spite of geographical proximity.

The new logic of globalization also required a change in the governance of what were formerly ‘miniature replica’ subsidiaries. These subsidiaries were until recently organized as publicly-held ‘national’ companies whose relative autonomy was emphasized, symbolically and functionally, by the presence of a significant body of local shareholders, local boards of directors, and CEOs with a considerable degree of authority. But as autonomy has increasingly come to be seen as counter-productive, many of these companies have been wound-up and either closed down altogether or reconstituted as private companies wholly-owned by the foreign parent or one of its proxies. (Arthurs, 2000: 33)³

³This analysis is not shared or acknowledged by all policy-makers and researchers in Canada. Understanding the significance of such matters in terms of corporate governance and power, and then their implications on the management of labour, represents a challenge for empirical research. A recent research paper by Statistics Canada economists, based on measures of number of head offices and their employment, does not confirm such an “hollowing out” tendency for the period 1999-2002. It concludes, “Overall, we find relatively few sectors or enterprises with patterns of decline in the head office function. Moreover, even in those cases where hollowing-out may be occurring we cannot rule

We have suggested a distinction between the very large number of MNCs and those that really have a transnational profile. ABB, which displays all the features of such a transnational corporation (TNC), represents a clear instance of dilution of the country-of-origin effect. To some extent, this effect is attenuated by the modest size of the two countries where it developed before the 1987 merger, namely Sweden and Switzerland. With 83% of employment and 89% of revenues coming from outside these two countries in 1999, ABB scores high on the UN “transnationality index” mentioned above; it classed eighth in 1998 and second (behind Seagram) in 1997. Nevertheless, this is also a matter of corporate structures and strategic choices (Bélanger, Giles and Grenier, 2003: 472-3).

The international study of ABB power transformers (Bélanger et al., 1999) certainly informs this paper. No doubt, the influence of the Group’s corporate structure was real. But the point is that it took multiple forms under the actual working of the matrix structure and did not come from any single country. Berggren and Köhler (1999) made a useful distinction between two categories of plants within the power transformer business area (BA), namely the “core plants”, which belonged to ASEA before the merger and were much more stable and autonomous in their links with the global HQs, and the “periphery plants” where international managers were much more insistent and incisive. The “Mecca” of the core ASEA plants was located in Ludvika, Sweden, and was for long considered as the model. But during the period of study in the mid-1990s, a more recent acquisition (in 1986), the Vaasa plant in Finland was clearly the most efficient on most benchmarking measures across the BA. The business area, the key coordination structure for comparable ABB plants in a given sector, consisted in formal terms of a small number of international managers who animated these various forces for innovation and coercive comparison, from Germany, and later from Switzerland⁴. In reality, though, the flow of diffusion of ideas and innovation, both on technology and production management, went on in multiple directions, which no chart could easily reflect. This is very much a pattern of international networks. Indeed, the managers of several plants, including the one located in Varennes, Canada, (as well as the Ludvika plant) travelled directly to Vaasa, to see for themselves how they could learn from a more efficient power transformer plant within the same corporation.

3.3 Illustration: developing the research agenda in Canada

It is thus possible to suggest an analytical shift in the study of large corporations from an institutionalist perspective. As an illustration, we refer briefly here to an ongoing research collaboration in which the authors are taking part, as members of larger teams, in Britain and Canada⁵. The idea is to carry out a firm-level survey of multinationals with operations in Canada, both Canadian and foreign-owned, and seek to portray how they operate and adjust to the Canadian environment.

out the impact of efficiencies in the management process on head office employment levels” (Baldwin, Beckstead and Brown, 2003:17).

⁴ “BA management in the narrow sense is the small BA headquarters with a handful of vice presidents and a secretary. From 1988 to October 1996 it was situated in Mannheim but has since moved to Zurich, located in a few rooms in a building near the small ABB top management headquarters in the suburb of Oerlikon” (Björkman, 1999b: 46). The ABB power transformer plant located in Mannheim was closed in 1994.

⁵ The other members of the Canadian research team are P. Jalette, C. Lévesque, G. Lowe and G. Murray, all members of the Inter-University Research Centre on Globalization and Work (CRIMT). Other members of the British research team, which initiated the international collaboration, are A. Ferner, P. Marginson, T. Edwards and O. Tregaskis.

The focus is on the position of MNCs' Canadian operations in their global value chains. What is the extent of R&D and innovation, the mix of goods and services, what are the jobs created, maintained or outsourced, and what are the key patterns of employment practices of multinationals in Canada? A first operational step will consist in charting the structural contours of such organizations, testing possible variations in terms of country of ownership, sector, size, and integration of production. The second step will be to assess the implications of such different organizational contours on employment practices, HRM, and innovation. In particular, in light of the debate on the possible "hollowing out of corporate Canada" (and of our ambiguous relationships with our neighbour country), a key empirical question is: what differences does it make if the decision-makers in Canadian operations relate to a parent board located in our country, in the United States, in Europe, or in Asia, as regards what they seek to develop and produce in Canada? And how do they adjust to the Canadian institutional environment?

Such an approach could relate in useful ways, in particular, to one stream of institutional research, the "varieties of capitalism" model of analysis. Here is a key proposition of this approach suggested by Hall and Soskice: "the firms located within any political economy face a set of coordinating institutions whose character is not fully under their control. These institutions offer firms a particular set of opportunities; and companies can be expected to gravitate toward strategies that take advantage of these opportunities" (2001: 15). An approach consistent with this model, and a broad avenue for empirical research, consists in giving much attention to the "institutional infrastructure" of the nation where the activity of production actually occurs, and how MNCs adjust to this particular institutional environment, as opposed to placing most on the emphasis on the country-of-origin of the corporation. In short, the methodological shift suggested here consists in studying the effects of, and adjustment to, national institutions from the perspective of those who coordinate production and manage employees, in a given country.

Such an institutionalist approach, which also seems consistent with the concepts developed by Wolfgang Streeck (1992), can then lead one step further if the data allow for international comparison, by asking the same set of questions in different institutional environments. In reference to Hall and Soskice's model, we may then learn more about "comparative institutional advantage" (pp. 36-44). Indeed, such an international comparative basis would generate tools to weaken some of the myths associated with globalization, by showing empirically "that firms are not essentially similar across nations. On the contrary, firms in LMEs and CMEs develop distinctive strategies and structures to capitalize on the institutions available for market or non-market coordination in the economy" (Hall and Soskice, 2001: 56).

4. Relations to the Global Economy

How far is there a global project involving MNCs based on "liberal market economies" (LME) principles? We argue that there may well be such a project but that it is far from uniform and that it may well be challenged by other logics. We start with two examples.

The first is the globalization of telecommunications. Hutton (2002: 200-07) presents this as a prime example of Americanization. Though he observes that "it is hard to argue that there was any blueprint", he soon argues that as early as 1962 "the US had

been alert” to how satellite technology would allow its companies to dominate the information and communication industries. GATT and then the WTO were pressurized to “accommodate the US’s unilateral ambitions”. The result was the deregulation of telecommunications which produced “an orgy of takeovers”. In this account, a nation state promotes a project on behalf of its MNCs, and this project is successful. But it is then hard to explain why events turned out to produce, in Hutton’s word, a “fiasco”.

A more nuanced account is provided by Comor (1998) in his study of the Digital Broadcasting Satellite. Between 1962 and 1984, he argues, DBS was seen as rather marginal. The US state had some activity in the field, but this tended to cut across the interests of existing corporations, notably AT&T, so that the state was not directly in the control of such capital. Domestic liberalization started with the breaking up of AT&T in 1982, and it began to be realized that competition in the US would work only if this model was exported. Opening the US market to overseas suppliers meant, in the US view, granting access to firms that were protected in their home markets. This in turn led to pressures to deregulate other markets, which was the “unintentional” result of domestic liberalization (p. 193). There seems to have been an uncertain search for new approaches rather than a clear plan, and outcomes were often unintended.

The second example is intellectual property rights. The power of MNCs is illustrated by the progress of the Trade-Related aspects of Intellectual Property (TRIPS) agreement within the WTO. What TRIPs do is to give to the owner of intellectual property a twenty year monopoly over its use. The rationale was to recognize the rights of inventors and to promote economic development, but there was little empirical support for the latter proposition. TRIPs originated in the demands of 12 large US firms, that established the Intellectual Property Committee in 1986, which then won changes in domestic law and US support in the WTO. US trade negotiators, concerned at a lack of national competitiveness, saw IP as an area in which they could fight back. IP pirates were readily blamed, and firms claimed extensive damage from a lack of protection, though these claims were ‘wildly exaggerated’ (Sell 2000: 97).

This issue is also illustrated by the well-known dispute about drugs to combat AIDS, wherein developing countries accused the major pharmaceuticals companies of charging excessive prices, while the companies argued that the prices reflected the huge costs of research and development. The economist McMillan argues that in some ways the companies were right: they were operating according to the rules of the market as it was designed, investing in drugs that would sell in developed countries. This included developing expensive AIDS treatments that were out of reach in the countries most seriously affected by the disease. The companies also, as is well-known, gave little attention to treatments for major tropical diseases such as malaria. McMillan (2002: 32) also stresses that the drug companies “actively try to shape” market rules, lobbying governments fiercely (to the tune, he states, of \$167 million in the US presidential election of 2000, more than any other industry). The reason is that they need their patents protecting through laws on intellectual property, and intellectual property “could not exist without the state”. These laws, he goes on, “represent an uneasy compromise between the needs of the innovator and the needs of the state” (p. 34). Yet he also argues that the terms of the compromise can be altered, and he gives examples of how some countries including India and South Africa overrode existing intellectual property rights in order to reduce the costs of AIDS drugs. Importantly, in his view, the benefits of doing this exceeded the costs. Thus

economists recognize that there are competing logics, and that in some circumstances the preferences of MNCs can and should be overridden by other logics.

At this point we might recall Claus Offe's distinction between the legitimation and accumulation functions of the capitalist state, and the key point that there is an inherent contradiction between the two (e.g. Offe and Ronge, 1982). MNCs will be influenced by the degree to which global and national institutions pursue legitimation, and will also have to be sensitive to the legitimation challenges of anti-globalization activists.

The idea of competing logics has been taken further in relation to nation states by Frenkel and Kuruvilla (2002). They identify the logic of competition (clearly linked to globalization though not necessarily dependent on that process) but also the logics of industrial peace (important for social and political stability) and employment and income security (which is important because of the need for social order and legitimacy). They explain variation between countries in the strength of the logics in terms of "economic development strategies, the intensity of globalization, government responsiveness to worker expectations, labor market characteristics, and unions' strength" (p. 388). MNCs will thus have to manage such contradictory logics in the various countries in which they operate.

The idea of legitimacy can be taken further, conveniently pursuing a different analysis by Frenkel, this time of global labour standards as exemplified by two Adidas sub-contractors in China (Frenkel and Scott, 2002). The argument here is that acceptance of standards is promoted by three factors: consumer pressure and demands for ethical investment; producers' own wish to avoid a race to the bottom; and policymakers' desire for continued support for the world trading system. Thus MNCs pursuing a pure accumulation strategy might well find legitimacy being undermined by external challenges or by attempts to end trade liberalization through the WTO.

Moran (2002: 24-5, 35-43, 90-1) offers a parallel analysis. His key points include the following.

- Conditions encouraging the maximization of worker oppression are quite limited. (We can see these as constraints on the pursuit of a competition logic, that are in effect internal to that logic). First, as labour markets in developing countries emerge, alternative forms of employment will arise and an exploitation strategy will be less able to attract workers. Second, to meet international product standards calls for capable workers.
- In countries including the Philippines conditions in export-processing zones have improved. FDI has shifted from poverty-stricken countries to competitive labour markets offering skilled workers.
- Corporate codes of conduct have been developed; for example 85 per cent of large US firms have social responsibility guidelines though firms from countries including Japan and France.

A further logic, therefore, is that of the insertion of a production chain in the global system. Legitimatory pressures on firms constrain their freedom, even in an economy such as China. Some of these pressures may be consistent with their own preferences (as with the 'race to the bottom' argument), so that it is not a matter of external forces making firms do what they would otherwise avoid. Complying with labour standards can be a competitive advantage for some firms, so that the various logics interact with each other.

The essence of capitalism is that it is not a directed system but one based on markets and uncertainty. States can try to steer it in various ways but there are unintended consequences in their doing so. New instabilities emerge, and there are major losers even in the corporate sector which is supposedly the beneficiary of state action, the key case in telecoms being WorldCom. It would, however, be wrong to argue that there is no dynamic at all in the system and that events can be analysed satisfactorily in terms of the immediate and conscious choices made at certain times. There was a set of assumptions upon which policy makers drew. A liberal capitalist economy, rather than some other regulatory approach, became an increasingly dominant model from the 1980s. Globalization had not only a capitalist character, but a liberal capitalist one based on ideas of deregulation, privatization, and shareholder value. Yet these principles had their own contradictions and also faced challenge from other logics. Globalization is indeed a contested process.

5. Summary and Conclusions

In this effort to analyse multinational corporations from a political economy perspective, this paper has identified three aspects of MNC operations; their internal organization and their relations with national and global contexts. These were examined in turn.

Section 2 considered MNCs as productive organizations and indicated their specificity, beyond sheer size, “complexity”, and “power”. We suggested a distinction between two dimensions of such organizations, as a “production machine” and as a “system of governance”. The first dimension highlights the “engineering rationality” that characterizes their operations and argues that this rationality operates to a degree different from that in domestic firms. The second dimension shifts attention to the political dimension of the organization, internally and externally.

As they interpret and consider market opportunities, and proceed to acquisitions, “rationalization”, and strategic decisions to invest or divest in a given country, TNCs also make comparative assessments of different institutional infrastructures. Section 3 suggested going beyond the “country-of-origin perspective” by considering the impact of the institutional infrastructure on MNC governance and policies. Hence more attention could be given to the ways the various corporations that operate in a given country adjust to this particular institutional environment and develop policies and strategies regarding R&D, manufacturing facilities (or outsourcing), and the development of human resources. Such a methodological approach could open new possibilities for institutional studies.

Although research has progressed considerably on issues of power and control within MNCs, including between headquarters and foreign subsidiaries, the linkages with national governments and the processes of social regulation through which markets are defined and shaped still need to be better documented and understood. Section 4 thus addressed the ways in which MNCs can shape the market through their relationships with global rule-makers. It also identified the competing logics in the process, which embrace contradictory forces within MNCs and the need to engage with the alternative logics of other actors.

In terms of a research agenda around these ideas, Section 3 gave one illustration. A broader issue is the development of new tools of analysis. Research has plainly advanced; the conclusion reached by Ferner and Quintanilla (quoted above, p.10) has

a depth and subtlety not imaginable a few years ago. But we now need to strengthen a programme of comparative research, moving beyond, for example, the result that MNCs are adaptive institutions. We need to show under what conditions they are more or less likely to have certain internal configurations (e.g. degree of centralization, degree to which reverse diffusion is practised), they adopt local employment conditions or pursue their own policies (e.g. on payment systems), and when and how they can influence global regulatory agencies.

This suggests attempts to compare sectors or individual MNCs in a reasonably systematic way. We mention sectors because it may be, for example, that MNCs in some markets are less able than those in others to shape the market, be it through practices within the market itself or around how regulatory bodies control it. Competitive markets in widely traded goods where customer preferences are globalized and/or where intellectual property is not a big issue are likely to set different constraints from those in more high value-added products where there is customer differentiation and R&D is an important source of competitive advantage. Individual firms could be compared using as far as possible matched pairs so that the research controls for, say, sector and country of origin and explores variations in adaptations to different national contexts. Excellent research in this vein does of course exist, but the range of sectors covered is small, as is the range of host countries addressed.

Well-designed surveys are also key, for research to date has tended to focus on the leading cases of well-known firms, or to conduct surveys that lack representativeness. Research about to begin in the UK addresses these concerns and sets out to provide an accurate portrait based on a clear population of firms. Yet this research can address only firms with UK operations. Comparisons internationally remain an important prospect, though developing a coherent programme would be very challenging.

Research, in short, offers many prospects for development. Our main concern here has been to start on a theoretical perspective on MNCs. One challenge among many is to develop this perspective into an empirical research programme.

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