The power of influence

A differentiated approach towards power in the mulitnational corporation

--Work in progress--

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This paper concentrates on the issue of organisational design, more specifically on who determines organisational reality. “The fundamental processes which determine the actual shape, the current reality of any organization, do not change. The socio-economic processes identified by Durkheim, Spencer, etc., but labeled by Lawrence and Lorch (1967) as differentiation and integration determine the actual shape at the moment in time.” (Hunt 1994, 2) Management literature mostly concentrates on integration. In response this paper adresses the issue of internal differentiation and its relationship to a subsidiary’s ability to influence the strategic behaviour, and ultimately the shape, of the bigger owner of the system , the MNC, of which it is part of. The paper is conceptual and descriptive.

The research question driving the research is the following: Why are certain subsidiaries within the same multinational corporation mor influential than others with regard to the strategic behaviour of the corporation? The purpose of the study is to explicate theoretical concepts and a network/political view of organizations in order to deduce an analytical model describing the principal sources and distribution of informal power within mutinational corporations, from the viewpoint of the subsidiaries. The article links up to such literature as Gupta & Govindarajan, Bartlett & Ghoshal, Trompenaars, Nohria, Andersson and Pahlberg,Powell, and Pfeffer & Salancik. The model focusses on the roles subsidiaries perform as a result of established exchange relationships. It defines knowledge, product, and capital transactions between MNC units and relates each of to the central office-subsidiary relationship. It also argues for taking social relationships seriously as source for influential position. Cultural differences and contextual variables are taken as background variables. We want to present the model. We look for relevant data to test the model as a whole as well as several hypotheses. The paper is based on a MSc-thesis by A. Ruimschotel, MScBA

1. Introduction

The socio-economic fundamental processes in organisations witch determine the actual shape of any organization are differentiation and integration (Hunt, 1994, 2) . Integration is like a force that preserves cohesion by holding actors together. It will stimulate the evolution towards a global firm. Excessive integration, however, may lead to structural rigidity. Differentiation is a response to the varied expectations of the environments in which members of the firm are embedded. In the international context it will stimulate the evolution towards a multinational firm. Excessive differentiation may lead to a loss of cohesion so essential for survival. Both integration and differentiation are at work in organizations. Their problematic misfit in organizations turns up typically in international settings where the effects of cultural factors are often amplified. In this respect organizations should strike a balance between striving for global efficiency or for local responsiveness. But it is hard to balance the related tendencies for centralization and decentralisation. Furthermore, the innovativeness of the firm would benefit from a configuration of assets and competences in which some sources are centralized and others are decentralized. The international firm is the result. The transnational company is said to combine the best of all three firms (Bartlett & Ghoshal, 1989, p.476).

Literature typically concentrates on realising the advantages of integration. Typically the advantages for the central office of integration of and control over subsidiaries is discussed. This research stresses the internal differentiation and the subsidiary's ability to influence the strategic behavior and evolution of the total firm.

The research question driving the research is the following: Why are certain subsidiaries within the same multinational corporation more influential than others with regard to the strategic behaviour of the corporation? The purpose of the study is to explicate theoretical concepts and a network/political view of organizations in order to deduce an analytical model describing the principal sources and distribution of informal power within multinational corporations, from the viewpoint of the subsidiaries. We will bring into discussion such concepts as power, dependencies, and culture. The study stresses the ability to influence as the distribution of power is just one aspect of getting things done. Furthermore, we concentrate on the multinational instead of domestic corporations as the first presents the richer context for theory-building. Finally, the role of the subsidiary is stressed because different subsidiaries turn out to have different roles (e.g. Nohria & Ghoshal 1989). They initiate and accomplish a substantial portion of FDI (Forsgren & Pahlberg 1992). Subsidiaries are far from passive implementors of centrally determined strategies.

Section two will provide the reader with the different contexts in which subsidiaries operate. Next we built a simple model to describe the internal distribution of power within MNCs as it applies to thew strategy process. Section four relates knowledge, product, and capital transaction within MNC's to the central office – subsidiary relationship. Also resource dependencies and social relationships take stage. Section five will further present cultural differences and contextual variables as background variables. Section six will combine the sections and suggest further directions for future research.

2. The MNC-subsidiary.

By now probably over 40.000 MNCs realise over $5.5 trillion worldwide sales. They manage about one-third of the world's private sector productive assets (UNCTAD 1994, 101). MNC's are physically dispersed organizations in environmental settings that represent very different economic, social and cultural milieus; they are internally differentiated in complex ways to respond to both environmental and organizational differences in businesses, functions and geographic locations. As a result, they possess internal linkages and coordination mechanisms that represent and respond to many different kinds and extends of dependence and interdependence in inter-unit exchange relationships (Ghoshal & Nohria, 1990).

The literature on MNCs distinguishes between those who describe the central office as the 'central nervous system' (Dunning, 1991), and those who claim that the corporation consists of 'several gravity centers'. It is the metaphor of the conductor of an orchestra versus the puppet in a show (Forsgren & Johanson, 1992, xvii). Dunning claims that the decision making nexus of the MNC became a coordinator of the way in which resources are used within a closely knit family of affiliates. The ultimate aim is to advance the global competitive strategy and position of the core organization. Hedlund and others claim that the influence of the subsidiaries develops over time as the strategic behaviour of the group arises from the further globalization of the operations of each of the subsidiaries. By virtue of their position within the network centers can claim to influence the group's overall strategy. This second view of MNCs as political networks rather than hierarchically controlled systems fits our interests best.

When we take MNCs for political networks we have to acknowledge that the development of such business networks is not organized according to a central plan or strategic decision. They are formed over the time by the subsidiaries through transactions with other units within the corporate contexts and by transactions with firms in the external contexts. We use the term business networks to describe sets of connected exchange relationships between actors controlling business activities.

In line with Nelson and Winter (1982) we assume that the behaviour of firms can be explained in terms of employed routines. The routine interactions are the transactions. It is posited that these transactions occur along three key dimensions: (1) knowledge flows, e.g. technology and/or skill transfer to and from various subunits within the MNC; (2) product flows e.g. intra-firm exports and imports from various MNC-subunits; and, (3) capital flows, e.g. investments into or dividend repatriations from various subunits (Teece, 1976). We must add social interaction as invisible routines. In other words the MNC can be thought of as a network of resource transactions among units located in different countries. The flows of knowledge, products, capital and people will differ for each subsidiary, creating various degrees of interdependence. (Hakanson, 1990).

The MNC-subsidiary can be depicted as combining two mindsets: One, the mindset suited to the demands of the total MNC. Two, the mindset suited to the demands of the positioning in the external world to which the subsidiary belongs. The strategic context within which the subsidiary operates is divided in a corporate and an external part. The corporate context 'contains' the network of actors surrounding the subsidiary that are part of the total multinational corporation. The external network includes the subsidiary's network of actors within its own environment (e.g. suppliers, unions, authorities, communities).

From the myriad of relations in the networks we may distinguish between the context "central office – subsidiary", the context "corporate context – subsidiary" and the context "subsidiary – external network". The external network may be a local network and/or a foreign network.

3. Strategic behaviour and power

The core organization, represented by the central office and the formal control systems, derive their power from their exclusive relationship with the owners. The member companies - subsidiaries, divisions, and factories – derive their power from the industrial network they belong; e.g. by the resources which they control (Forsgren, 1989, 72). Power is the may be conceptualized as either authority or influence (Bacharach and Lawler 1981, 44): Authority refers to the formal aspect of power, is the formally sanctioned right to make decisions, and is unidirectional. Influence is the informal aspect of power, the non-sanctioned but accepted right to steer decisions, and is multidirectional. Influence may go through resource dependency, social interaction and culture and contextual variables. The central office uses both authority and influence, the member companies use influence, i.e. critical resources. The autonomy of the subsidiary is another variable to consolidate ones independence in a MNC. As Larsson (1985, 62) states: "If power is the ability to control or determine the behaviour of other social actors, then autonomy might be defined as the ability to resist such external determination." Apart from current resource dependency the position of a subsidiary may also be influenced by past resource dependencies, cultural differences and contextual differences. Accordingly, strategic behaviour may be described as "the actual activities, which can be observed as facts rather than as intended strategies, developed and decided by the divisional management or the headquarters (Pahlberg, 1996, 94). Furthermore, the dichotomy between the central office and industrial network may be replaced by the following triad: central office, corporate context, and external context.

4. Inter-unit relationships and influence.

The subsidiary provides and receives resources both from within the corporate context and from the external context. Ruigrok and van Tulder (1995) came up with a continuum of dependency relations, viewed from the position of the subsidiary:

A. full independence
B. influence with influence
C. interdependence
D. dependent with influence
E. dependent without influence.

The less dependent actor is typically considered to be more powerful. However, the power of the central office rises from A to E, in particular as the influence rises accordingly. The power of the subsidiary is maximum at the in between position C. and at minimum in the extreme positions A. and E. The argument in this paper is that the subsidiary roles as a result of knowledge, product, and capital flows between a subsidiary and the MNC vary the degree of independency, and so vary power. We will now relate these roles to the degree of independence of a subsidiary.

In line with Gupta and Govindaranjan (1991, 1994) the knowledge roles of subsidiaries vary in accordance to both the extent and criticality of knowledge, and the degree of monopolization of that knowledge. The respective subsidiary roles can be defined as follows: A) local innovator; B) global innovator; C) integrated player; D) implementor, adopting basic R&D; and E) full implementor. The following hypotheses may be derived from here:

H1: Subsidiary power is, c.p., positively related to the subsidiary's relative amount of criticality of knowledge to other units in the corporate context (provider role).

H2: Subsidiary power is, c.p., inversely related to the subsidiary's relative amount of criticality of knowledge from other units in the corporate context (receiver role).

H3: The control over knowledge difficult to obtain elsewhere in the corporation, c.p., will provide greater influence for the subsidiary than knowledge readily available in other areas of the MNC.

A similar set of roles may be defined regarding the product roles of subsidiaries. The importance of the subsidiary within the company is related to the amount of products provided, relative to the total amount of internal sales; the criticality of the products provided, and the alternative sources available. The following relations may be established between the product roles of subsidiaries and the degree of independence: A) external provider; B) forward vertical, internal provider; C) mutually integrated; D) backward vertical role, sourcing internally; E) backward vertical role, exclusively distributor.

The following hypotheses may be derived from here:

H4: Subsidiary power is, c.p., positively related to the subsidiary's relative amount of criticality of products, parts, and materials to other units in the corporate context (provider role).

H5: Subsidiary power is, c.p., inversely related to the subsidiary's relative amount of criticality of products, parts, and materials from other units in the corporate context (receiver role).

H6: The control over products, parts, and material difficult to obtain elsewhere in the corporation, c.p., will provide greater influence for the subsidiary than products, parts and materials readily available in other areas of the MNC.

Finally, a set of roles may be defined regarding the capital roles, which refers to turnover, profit contribution, goodwill, trademarks, patents, etc. In contrast the subsidiary may receive major funds for investments in R&D and factories and for expenditures on marketing, and logistics. The following roles may be derived: A) revolving fund role; B)

capital generator, or cash cow; C) integrated player, or rising star; D) predator role; E) capital user, or barking dog.
H7: Subsidiary power is, c.p., positively related to the subsidiary's relative amount of criticality of capital to other units in the corporate context (provider role).
H8: Subsidiary power is, c.p., inversely related to the subsidiary's relative amount of criticality of capital from other units in the corporate context (receiver role).

Resource contributions not yet realized but expected in the future might present a formidable source of influence for a subsidiary. It would raise the bargaining position in favor of the subsidiary if it is expected to be a future donator to the company. Therefore, the following draft of a hypothesis may be formulated:
H9: Subsidiary power is positively related to the (move in) expected provider role of resources, i.e. capital, products, and knowledge, to other units in the corporate context.

Apart from formal exchanges within corporations, social relations are sources of influence as wel. Socialization or personnel movements between central office and the subsidiary or between the subsidiary and the corporate context influence the power position of the subsidiary. Furthermore internal dominance may result from ties between subsidiaries and external actors that are of importance to the MNC.
From here we may derive the following hypotheses:
H10: Subsidiary power is, c.p., positively related to the amount and significance of personal contacts by actors in the subsidiary with actors working at the central office.
H11: Subsidiary power is c.p., positively related to the amount and significance of the social network established by this subsidiary with other subsidiaries in the MNC.
H12: Subsidiary power is c.p., positively related to the amount of relevant personal contacts established by this subsidiary with actors in its external context.

5. Cultural differences and subsidiary influence

Until now cultural differences and contextual variables are downplayed. However, these differences have an impact on the subsidiary's ability to counteract the central office authority. As stated MNCs are physically dispersed and internally differentiated. Differences between national cultures in which subsidiaries and the central office are embedded, will shape the perception of the power structure between company units. Furthermore, next to the perception also the (social) interaction between people of various units have an impact on the power distribution. A very general hypothesis may be derived:
H13: The amount of social relationships established between subunits will be inversely related to the their dyadic cultural difference.
The preceding hypothesis is based on Hofstede's research on power distance and risk avoidance. We may also introduce research within the MIN-project. Part of that program looks into greater detail at cultural aspects as they relate to the central office – subsidiary relationship. The research stresses the impact of cultural differences on the risk of problems in the relationship between central office and the subsidiary. This results in the following hypothesis (Forsgren, et al, 1996, 158):

H14: The greater the cultural difference between home-country and host-country, the greater the risk for problems due to cultural differences in central office - subsidiary relationships.
In order to include the variable interdependence, Pahlberg (1996, 142) tested and confirmed the following hypothesis:
H15: cultural differences are more likely to cause problems in a central office – subsidiary relationship when there is a high degree of interdependence between them.
The MIN-project provides the reader with an explanation of the relevance of culture. It does not describe the impact of cultural differences on the ability of a subsidiary to influence the strategic behaviour of the total MNC. Hofstede on the other hand describes the characteristics of each national culture. He developed amongst others the country-specific Power Distance Index (PDI). High PDI-countries will resolve issues through hierarchy and authority, while low PDI-countries use consensus and influence. However, Hofstede's research does not describe the consequences of a cultural distance. By combining the two researches we come to an new series of hypotheses:
H16: The extent to which the central office will try to resist subsidiary influence will be positively related to the PDI-score of the country in which the central office is located, c.p.
H17: The extent to which an subsidiary tries to influence the strategic behaviour of the MNC will be inversely related to the PDI-score of the country in which the subsidiary is located, c.p.
When two subsidiaries have equal opportunity to influence the strategic behaviour of the MNC, the subsidiary situated in the country with the lower PDI-score will be more inclined to use its influence, and become more influential than the other.
With regard to contextual variables no hypotheses can be formulated as there are contradictory results e.g. regarding the impact of a subsidiary's size on the position of the unit within the MNC (Kallinikos, 1984).

6. The model

Figure 1 brings together the constituents part of the model. The dependent variable is the subsidiary influence with regards to total MNC strategic behaviour. The explanatory variables are:

- The central office – subsidiary resource dependency;
- The social relations by the subsidiary with actors in the central office, the corporate context and the external context;
- The cultural differences between host- and home-countries;
- The past and expected resource dependencies;
- The characteristics of the subsidiary and its environment.

In further research several variables have been operationalized.

---- Insert figure 1 here ----

This research wants to bring added value to the literature on power and intra-network differentiation. First, this research describes intra-MNC differentiation and links it to subunit power. So far literature typically describes the differentiation of units within the MNC in terms of resource differentiation, without linking this differentiation to the distribution of power within the corporation. Next, this research takes the position of the subsidiaries, concentrates on the influence of subsidiaries within one MNC, and it tires to look at different sources for subsidiary power. It does not look at a subsidiary's technical position or personal relations.

The model is a result of MScBA-research. Now, it is in needs of updating and comments. Next, the variable should be properly operationalised and combined with large scale empirical research and case study data of a MNC in order to test the model. Finally, the model could be of value to a MNC to create a more coherent network of companies.

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