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14

Tri-Space Framework for Understanding MNC Behaviour and Strategies: An Institutionalism and Business System Perspective

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Introduction

'How do firms behave?' has been a common question in strategic management (Rumelt et al., 1994), the answer to which leads to understanding firm strategies. Answering this question in international management (IM) is not as simple as it can be for domestic firms whose activities confine mostly in domestic context. Understanding MNC behaviour is complex because its behaviour is not shaped by the internal decisions of an MNC's subsidiaries alone but also by external institutional factors and the MNC's organizational network in which its headquarters (HQ) play dominant roles (Morgan et al., 2001; Collinson and Morgan 2009). The question 'How do MNCs behave?' is related to 'What influences MNC behaviour?' 'How is this influence exerted?' and 'Where those factors lie?' The third question – 'Where those factors lie?' – is important to understand in MNC strategy research, because an MNC has a complex organizational structure that extends across national boundaries and there is a multifaceted relationship between MNC organization and multiple exogenous factors from multiple spaces. Its HQ is located in one institutional space, while it operates in multiple institutional spaces, that is, across national borders and, it is even linked with and influenced by global institutional actors who lie at a global space, a space that is at least not located in a national institutional space. Thus, I want to present a framework using three different concepts that indicate three different spaces (a) institutionalism and business system (b) civil society (CS) and (c) transnational community (TC). Understanding these spaces can help answer the above questions in a better way. These three concepts stem from organizational sociology perspective that I take in this paper and that provides us a broader view of context, leading us to understand the logic of

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the relationships between the endogenous factors of MNC organization and the exogenous factors of the context, which shape strategy formulation. The term 'space' has been borrowed from the migration studies in which the concept 'space' refers to an arena of social action (Morgan, 2001a). So, it could be a national space or a transnational space depending on where the social action takes place. However, there can be a number of sub-spaces inside the national space, and in this case, I take two sub-spaces: institution and CS that affect business system characteristics of MNCs, that is, how MNCs organize economic activities in a host context.

The reason I consider them separately is that, institutional rules, norms and values are constructed in a given society depending on the nature of dominant institutional actors, particularly the state and the culture. In contrast, civil society (CS) actors in a national space, particularly in developing economies, tend to have unique roles, values and norms that do not necessarily harmonize with state policies and norms and, to some extent, traditional cultural norms and values. Thus, CS often acts as a change agent in developing countries, protesting against state roles, regulations, values or collaborating with the state to ensure its value-based mission for the society. I therefore take institution as one sub-space while CS as another. Both stay in a national context and interact with each other. Both also constrain and enable MNC activities in a national context (Rana and Sorensen, 2014). Moreover, I take another space – a transnational space that comprises global and transnational actors, which affect MNC activities in a transnational context.

There might arise the question: what is the usefulness of this framework since there is a pioneering work of Peng et al. (2008) that presents – 'institution-based view' as the third leg of the strategy tri-pod? My framework and perspective, however, does not intend to replace Peng et al.'s (2008, 2009) tri-pod framework; rather, it will broaden our understanding about actors in different spaces that affect MNC activities and incorporate new dimensions, that is, the role of CS and transnational communities (TC) that Peng et al. (2008) do not mention. Their framework incorporates two views – the 'industry-based view' and the 'resource-based view' (RBV) (Peng and Delios, 2006; Peng et al., 2009) with the institution-based view. Thus, they claim that the three views together help us to understand how MNC strategies are shaped in host contexts. In the tri-pod strategy framework, Peng et al. (2008) include MNC's internal dynamics of resources, as Barney (1991) defines them in the RBV, industry 'rules of the game', as Porter mentions in the Five Forces Model (1980), and the external pressures that institutions pose to subsidiaries (North 1990).

Even though the introduction of the tri-pod view is a remarkable contribution to knowledge and a turning point in the global strategy literature that has overcome the limitations commonly found in the two stages of the development of the strategic management research, that is, RBV and

10.1057/9781137446350 - Institutional Impacts on Firm Internationalization, Edited by Svetla Marinova

industry-based view (Peng et al., 2009), it still has some limitations, not in terms of validity of the framework but in terms of conceptual understanding of 'institutions' and the 'scope' they cover. The limitations are summarized below and it is these that my framework intends to overcome:

- First, there are some limitations rooted in the conceptualization of institutions by North (1990), which is the foundation of the tri-pod view. As a result, the tri-pod view is not out of those limitations. North (1990) uses an analogy 'rules of the game' to denote institution. He defines it as the humanly devised constraints that structure human interaction. To his notion, institution is considered to be a constraint that applies to human and firm interactions in a society (Jackson and Deeg, 2008). Thus, he ignores the enabler dimension of institution that also applies to human beings and firms. Both dimensions of institutions are taken into consideration in the business system theory by Whitley (1992) that I use here.
- Second, the tri-pod view assumes that institutions influence MNC activities in a society, like many other institutional theorists, for example, North (1990), Scott (1995, 2008), and thus it ignores that continuous interactions between firms and institutions give rise to a certain business system in which firms operate (Whitley, 1992; Whitley 2010). So, it is not institutions only that influence firms but firms also influence institutions (See: Morgan and Quack, 2005; Dekocker et al., 2012; Regner and Edman, 2013) and, thus, the rules of the game in a business system are developed. Moreover, firms not only operate in an institutional context, more specifically, they operate in a business system within an institutional context, be it national, regional or sectoral. This notion is integrated in the business system perspective (Whitley, 1992, 2010), which institutionalism, that is, North (1990) and Scott (1995), does not possess.
- Third, the recent emergence of the CS phenomenon, which includes non-governmental organizations (NGOs), associations and activist networks, neither falls into the category of institution that North (1990) indicates nor does it represent an entity of the government, as Scott (1995) defines the regulative institution. CS actors are neither part of the state nor are they private profit-seeking concerns. Although it does not have regulative power like government, with social agency and global network, norms, values and capabilities, CS appears as a proxy and complementary to weak institutions in emerging markets (See: Doh and Teegen, 2002; Doh and Guay, 2006; Yunus, 2010). CS constrains and enables MNC activities in emerging markets (Rana and Sorensen, 2014), as institutions do, and participates in the value creation process with the government and other economic actors, mostly MNCs (Vachani et al., 2009; Dahan et al., 2010). The tri-pod view does not include this dimension in the

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strategy framework, while MNC strategies are shaped by this dimension in emerging markets (Yanacopulos, 2005; Gifforda and Kestler, 2008; Lambell et al., 2008).

- Fourth, in addition to the national space in which subsidiaries operate, there is a global space in which MNC's organization network (i.e. HQ, RHQ and subsidiary network), global standard and multilateral institutions and global CS actors lie. They, either directly or indirectly, affect the subsidiary strategies (Djelic and Bensedrine, 2001; Morgan, 2001a, 2001b). The tri-pod view overlooks the influence of the global dimension of institutions, that is, multilateral institution, global NGOs and MNC's global network, which are called 'transnational communities' (Morgan 2001a), in the strategy formulation process.

While Peng et al. (2008) present a framework that puts three separate views together in order to understand strategic management of MNCs in global business, the tri-space framework (See Figure 14.1), on the contrary, illustrates the spaces and the actors within them that affect MNC behaviour. Special emphasis is given to emerging market contexts and the subsidiary operations. However, I do not necessarily ignore the use of the RBV in the strategizing process by MNCs as Peng et al. (2008) did nor do I rule out the importance of industry-based view; I rather emphasize different social

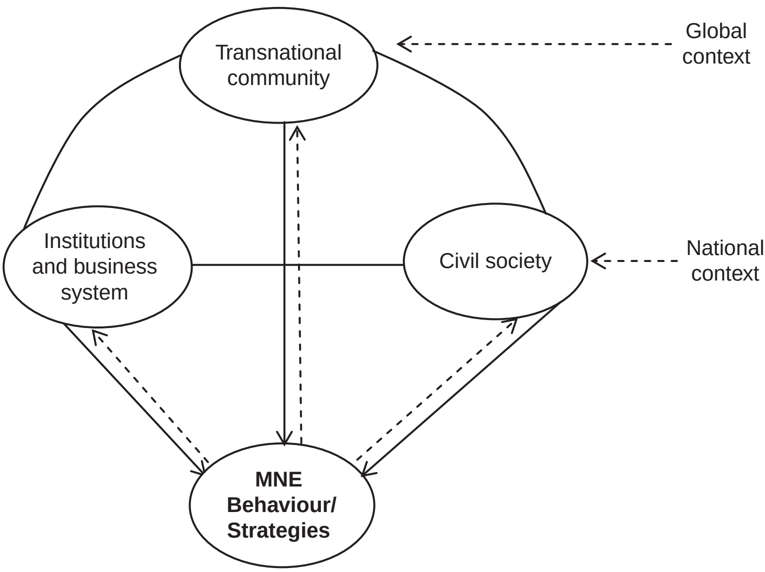

Figure 14.1 Tri-space framework

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spaces and the dispersed organizational network of MNCs that by the continuous interactions between the MNC network and social spaces (i.e. actors) develop strategies vis-à-vis capabilities. In this chapter, therefore, I emphasize the integration of social dimensions (i.e. both national and global space) and economic dimensions in harnessing competitive advantages for MNCs. Michael Porter in his speech at 'Shared Value Summit 2012' speaks in a similar vein like the organizational sociologists that 'a strategy is not good that does not integrate a societal perspective'.

In the following section, the chapter delineates the three spaces and the actors that affect MNC behaviour vis-à-vis strategy formulation. Contextual evidences and examples from emerging markets are presented to conceptualize each and every space, that is, how they shape MNC strategy formulation. In Figure 14.1, I have illustrated three spaces that are linked with each other, that is, institutions and business system, CS and transnational community. Of the three spaces, 'institutions and business system' and 'civil society' are the national dimensions, thus they lie at the national context. It is important to note that when the business system framework was developed during 1990s, CS dimension was not as prominent as they are today in our society, thus it was not included in institutional and business system framework by Whitley (1992). There is a body of literature that looks at the interaction between CS actors and business and it refers to CS as an 'extra-institution' (King and Soule, 2007) or 'third sector' (Teegen et al., 2004). Institutional theorists like North (1990) and Scott (1995, 2008) also did not delineate CS in their work. I have, thus, illustrated it separately so that we can understand the importance of this dimension side-by-side with the influence of background and proximate institutions in shaping MNC strategies and behaviour in a national context.

Institutions and business system as a space in a national context

In this section I will, first, discuss the institutional view from the perspective of institutionalism (North, 1990; Scott 2008) and comparative institutionalism/business systems (Morgan et al., 2010; Whitley, 2010). Second, I will draw the boundaries of institutions and business systems and illustrate how this space as a local dimension shapes MNC behaviour in a national context. The institutionalism perspective explains institutional dynamics in a national context in how they affect firm activities. By contrast, the comparative institutionalism/business system perspective tends to unveil the institutional logic and examines interactions between institutional dynamics and firms to understand how and why firm structure and strategies that are shaped in one institutional context are different from another institutional context.

10.1057/9781137446350 - Institutional Impacts on Firm Internationalization, Edited by Svetla Marinova

The roots of institutionalism and typologies of institution

Two streams of thinking influence the rise of the institution-based view in international management and strategy: economic and social. One set of thinking was led by economists North (1990) and Williamson (1975, 1985) who based their views on the economic perspective and considered institutional setting as an exogenous variable that constraints firm activities and performance mechanism. The other set of thinking was led by sociologists (e.g. Meyer and Rowan, 1977; DiMaggio and Powell, 1983; Scott, 1995, 2008) who considered institutions as both an endogenous and an exogenous variable and assumed that firm activities are embedded in social contexts comprising certain regulative and cultural-cognitive institutions. Apart from the above new-institutionalism literatures, comparative capitalism/institutionalism and comparative business systems literatures, for example, Whitley 1992; Fligstein, 2001; Hall and Soskice, 2001, also influence the rise of institution-based thinking in international management and strategies (Redding, 2005; Jackson and Deeg, 2008; Collinson and Morgan, 2009). This theoretical perspective I use in developing the tri-space framework.

The justification of using the comparative institutionalism and business system perspective is that it offers two major benefits in understanding and using institutional theory in MNC studies: first, it assumes that interactions between institutions and firms give rise to a business system – a particular set of rules of the game – in which firms operate, it means both influence each other and create a space called ‘business system’ within the greater national institutional space. Thus, the business system is a system of management and organization economic activities by firms, often for a particular sector, in a particular society, which is underpinned by the nature of institutions in that society. Second, it considers institutions as both a constrainer and an enabler of firm activities. Thus, I use Whitley’s (1992, 2010) concept of institution that, in fact, includes both the pioneering works of institutions, that is, North (1990) and Scott (2008), and offers a clear-cut typology of institutions that international management researchers can easily work with (Table 14.1).

Institutions and business system as a space in a national context

Institution and business system, in fact, combines two spaces: one is the institutional space at national level, while the other is business system where daily and strategic interactions of firms take place, which is underpinned by the greater institutional space. Differences in national context, therefore, can give rise to different business systems. For example, China as a country has national institutions that combine rules, regulations, norms and values that apply to the entire Chinese context. However, it has provincial governments, which are typically independent in nature and competing with

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Table 14.1 Typologies of institution used in international management research

Institutionalism			**Comparative institutionalism/ business systems**	
Degree of formality (North, 1990)	**Examples**	**Supportive institutional pillars (Scott, 1995, 2008)**	**Key social institutions (Whitley, 1992)**	**Key institutional features (Whitley, 2010, 1992)**
• Formal institutions	Laws	• Regulative	• Proximate institutions	• State structures and policies (including regulations)
	Regulations			• Financial system
	Rules			• Labour system
• Informal institutions	Norms	• Normative	• Background institutions	• Norms governing trust and authority relationships:
	Practices			• e.g. Trust in formal institutions and non-kin relationships
	Values/Ethics	• Cognitive		• e.g. Paternalist/ Contractarian/ Communitarian justification of authority

each other. They make rules, regulations and norms for its society limited to its regional geographic context. Regional social spaces often contain different cultural norms and values due to different ethnicity and sub-culture rooted in its background. As a result, each regional space can have a different business system. Wad and Gouvindaraju (2011) in their study on the Malaysian auto industry cluster found a different business system than that of a national business system. It means industrial or sectoral differences may also underpin different business systems within the same national space. In the same vein, Rana (2014) found differences in the management system between MNCs and the local firms in Bangladeshi institutional context.

Figure 14.2 illustrates the mechanism of developing a business system within a national institutional context. In the figure, I illustrate the business

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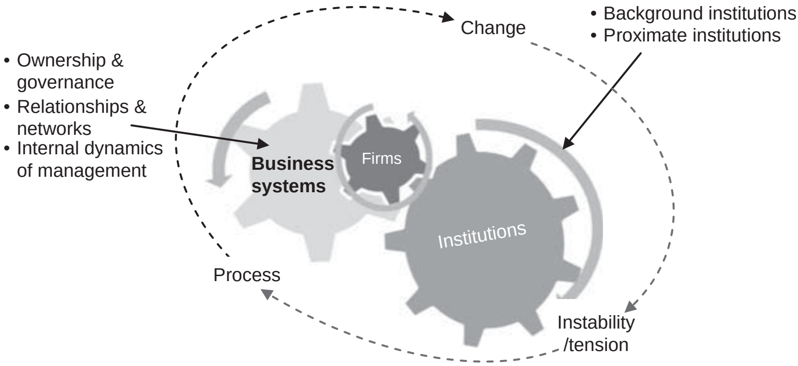

Figure 14.2 Interdependency between institutions and firms that constitute business system

system as a separate entity from institution so that the mechanism of interaction is clearly visible, but in reality it confines in national political geography that contains certain forms of institutional context. The figure illustrates a mechanism, that is, daily and strategic interactions between firms and institutions that continuously pose tensions and instability. Thus, changes are inevitable in business systems with changes in institutional conditions and the nature of firms. However, it is assumed that in order for a noticeable change to be made in a business system, there needs to be a change in the dominant institutions, which leads to a change in society. These interactions are considered to be a process, so it is dynamic and there is instability and tension in the process of change. According to Whitley (1992: 6)

> business systems are particular arrangements of hierarchy-market relations which become institutionalized and relatively successful in particular contexts (institutional contexts). They combine differences in the kinds of economic activities and skills which are authoritatively coordinated in firms, as opposed to being coordinated through market contracting, with variations in market organization and differences in how activities are authoritatively directed.

A business system comprises mainly three characteristics: (a) nature of ownership and governance pattern (i.e. nature of the firms); (b) nature of network and relationships among the actors (both within the firm, between firms and between firms and the external actors); (c) nature of internal dynamics of the management systems in the firm (See Table 14.2). It is assumed that these three components are affected by the two relevant types of institutions: 'social background institutions' and 'proximate institutions'.

Table 14.2 Business system characteristics

1. Nature of ownership and governance *(Nature of the firm)*
   - The degree to which private managerial hierarchies coordinate economic activities
   - The degree of managerial discretion from owners
   - Specialization of managerial capabilities and activities within authority hierarchies
   - The degree to which growth is discontinuous and involves radical changes in skills and activities
   - The extent to which risks are managed through mutual dependence with business partners and employees
2. Nature of network and the relationship between the actors *(Market organization)*
   - The extent of long-term cooperative relations between firms within and between sectors/industries
   - The significance of intermediaries in the coordination of market transactions
   - Stability, integration and scope of business groups
   - Dependence of cooperative relations on personal ties and trust
3. Internal dynamics of management in firms (*Authoritative coordination and control system within the firms)*
   - Integration and interdependence of economic activities
   - Impersonality of authority and subordination relationships
   - Task, skill and role specialization and individualization
   - Differentiation of authority roles and expertise
   - Decentralization of operational control and level of work group autonomy
   - Distance and superiority of managers
   - Extent of employer-employee commitment and organization-based employment system

Source: Developed on the basis of Whitley (1992).

The former refer to more cultural-cognitive institutions while the latter indicate state and state-organized institutions.

In the business system (BS) concept, the differences in the kinds of economic activities and the skills (managerial and labour skills) in a society are seen in three fundamental dimensions because firms respond differently to diverse institutional conditions in various market economies. Following this, questions arise: first, how are economic activities and resources to be coordinated and controlled? Second, how are market connections between authoritatively coordinated economic activities in firms to be organized? Third, how are activities and skills within firms to be organized and directed through authority relations? The ways in which each of these issues is dealt with in different institutional spaces are, of course, interdependent and together constitute distinctive configurations of hierarchy-market relations in those spaces, which Whitley (1992) calls business system.

There are three major aspects on which Whitley places central emphasis in the conceptual framework of the business systems. One is institutional configuration and diversity, the second is the corporate governance of the firms and the third is coordination and control systems between firms or collectivities of the firms within and between sectors.

How can international management studies benefit from a business system and institutions?

I will highlight two points to explain how international management studies can benefit from comparative business system perspective and institutional views.

First, consideration of institution and business system can help international management researchers to pin point a specific research focus at the intersection between international management and strategies. Business system characteristics combine both organizational phenomena, for example, ownership, governance, management and economic relationship phenomena such as coordination, cooperation and control mechanism between firms and between firms and institutions. Thus, researchers can zoom into a particular characteristic of BS that interests them and can understand how that characteristic is shaped in a BS, be it sectoral or national, based on the logic of the institutions. For instance, an MNC subsidiary may behave in a specific way in terms of its internal management, but a researcher can examine whether that behaviour is similar, different or hybrid compared to other firms in the same business system and how institutional features in that space underpin this particular characteristic. A researcher can explain a particular type or pattern of business system characteristics by the logic of institutions.

Second, apart from a logical framework that illustrates an interactive relationship between institutions and BS characteristics, Whitley (2000) further integrates the BS concept with the notion of dynamic capabilities (Teece et al., 1997). He illustrates how different types of business systems encourage different forms of innovation patterns. International management studies, thus, can use this framework to understand firms' innovation and organizational capabilities in different institutional contexts. Whitley (2007) argues that due to differences in the coordination of economic activities in various institutional contexts, innovation patterns and technological specialization vary considerably, thus the innovation strategies developed by the firms tend to be different. He identifies six major types of business systems: fragmented, coordinated industrial districts, compartmentalized, collaborative, highly coordinated and state organized, and shows their association with five types of innovation strategies: dependent, craft-based responsive, generic, complex and risky and transformative strategies, which possess different characteristics. Firms with different kinds of governance structures and organizational capabilities, including authority sharing, types

10.1057/9781137446350 - Institutional Impacts on Firm Internationalization, Edited by Svetla Marinova

of organizational career and network-specific dynamic capabilities, generate competitive competences and pursue these innovation strategies in varied institutional contexts. As a result, institutional differences in market economies lead to variations in innovation strategies and patterns of innovative performances in different industries (Haake, 2002).

Whitley's subsequent contribution to a more detailed discussion of innovation and organizational capabilities appeared in the book *Business Systems and Organisational Capabilities*. It discusses how the dynamic capabilities of firms lead to innovation in business systems, which are affected by the institutional structures, and subsequently give firms a competitive position (Whitley, 2007). Organizational capabilities, however, are thus subjected to institutional conditions and the firm's authoritative structure that they entail (Whitley, 2003, 2010). In this book, he presents eight types of business systems and six types of innovation systems that are developed on the basis of various types of institutions and organizational capabilities (see Table 14.3).

Whitley (2007) argues that globalization creates common financial pressures for leading companies and state elites in the major OECD countries and these forces are likely to increase the heterogeneity of policy responses

Table 14.3 Different business systems and variety of strategic actors

Type of business system	Variety of strategic actors	Type of strategic actors
Fragmented	Low	Owner-controlled specialized firms
Compartmentalized	Low	Isolated hierarchies
Integrated conglomerates	Low	Owner-controlled conglomerates, plus state elite-firm owner network
Financial conglomerates	Some	Holding companies, major subsidiaries
Project networks	Some	Specialist firms, business services providers, local and dispersed reputational networks
Industrial districts	Considerable	Owner-controlled specialized firms, local states, cooperatives, reputational networks, training and technical colleges, labour unions
Collaborative	Considerable	Most of the above, plus employers and trade associations, labour unions
Highly coordinated	Many	Most of the above, plus inter-market groups, vertical networks and trading companies

Source: Adapted from Whitley (2007).

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and firm strategies. The continuing differences in the ways that economic activities are organized and governed across market economies emphasize the variety of economic rationalities and performance standards in the world. This pluralism of competitive competencies and logics (rationales) of economic action highlights the diversity of criteria for evaluating the performance of firms and their innovations. Whitley adds that in analysing national institutional regimes and allied forms of economic organization, it is important to identify major endogenous factors of the institution, for example, particular combinations of state structures and policies, public science systems, dominant institutions governing economic activities and their linkages with exogenous ones that are critical in different political economies, especially the changing nature of dominant interest groups that leads to variations in innovation systems. He further points to two of the key exogenous factors that encourage changes in these business systems; one is the growing internationalization of business regulation (by global agencies) and the second is increasing influence of coordination of trade and related economic policies by nation-states, particularly in regional trading blocs such as the EU. Whitley (2007) attempts to integrate institutional analysis of organization and capability theory to study international management and innovation.

Civil society as a space in national context

Civil society actors have been increasingly becoming a dominant pressure group and watchdog for government and firms operating in a national context. However they also collaborate with the government and firms in creating value-added services for society as long as those are in line with their mission. Although CS has a global network, for example, transnational CS actors, my focus at this point is on CS actors that work in a national context. They develop a space – as a community, cognitive value and social power – in a national context comprising separate roles, rules and norms that are independent from the influence of the government and private profit-seeking concerns. It is, however, true that the role of CS in national context is influenced by the nature of institutional conditions. CS is defined as: 'A community of citizens characterized by common interests and collective activity; that aspect of society concerned with and operating for the collective good, independent of state control or commercial influence; all social groups, networks, etc., above the level of the family, which engage in voluntary collective action' (Oxford English Dictionary, 2012).

Thus, CS comprises NGOs, associations, activist groups that represent communities, social and political movements, and special interests of all ideological persuasions, all ranging from local to global geographical levels. Over the past decade, there has been a dramatic expansion in the

10.1057/9781137446350 - Institutional Impacts on Firm Internationalization, Edited by Svetla Marinova

size, scope and capacity of CS around the world, which has been aided by the movement of globalization, the expansion of democratic governance, telecommunications and economic integration. CS organizations, under the name of NGOs, have become more important actors for delivery of social services and implementation of other development programmes, as a complement to government action, especially in regions where institutions (e.g. government) seem to be weak, for example, in post-conflict situations, action against poverty, action against literacy, action against freedom and democracy, women's rights and freedom, action against terrorism, media sovereignty and freedom of speech, action for good governance and the fight against corruption.

Apart from their social roles, CS organizations also appear as intermediate organizations between business and citizens. Take an example of two NGOs in Bangladesh: Grameen Bank and BRAC. They not only provide micro-credit/finance to their millions of members, but also have invested in almost all sectors in their country of origin, Bangladesh. Bangladesh hosts more than 2,500 formal CS organizations, of them only BRAC has 100,000 full-time employees, with operations in 14 countries, and is operating over 60,000 primary and pre-primary schools, a university, several not-for-profit companies and thousands of community clinics. Grameen Bank has over two billion US$ as assets, 54 not-for-profit large-scale companies in different sectors. Of the companies, Grameen Bank has seven joint venture operations with leading MNCs from Europe and the United States. CS phenomenon in most of the developing countries is more or less similar to the Bangladeshi example; this is because developing countries possess weak institutions in which CS tends to appear as complementary to formal and informal institutions.

The CS sector is not only emerging as a clear societal space in many parts of the world, it is also quite varied in terms of its nature and composition. The rapid emergence of organized CS and of nongovernmental organizations (NGOs) as organizational manifestations of broader social movements has been dramatically altering the global political-cultural-economic landscape. NGOs are organizational actors that do not belong to either the government sector or the for-profit/market sector. They represent communities (space), social and political movements and special interests of all ideological persuasions that range from local to global geographical levels.

Recently, NGOs as the organizational manifestation of CS have become a focus of research interest in international management, and recent years have seen the maturation of perspectives on them. One stream of studies describes how NGOs affect business and government and their relationships (Doh and Teegen, 2002; Doh and Guay, 2006), while the other examines the direct relationships between NGOs and international business (Teegen et al., 2004; Lambell et al., 2008; Vachani et al., 2009; Kourula and Laasonen, 2010). As non-state and non-market entities, NGOs are often referred to as

10.1057/9781137446350 - Institutional Impacts on Firm Internationalization, Edited by Svetla Marinova

constituting the 'third' sector (Teegen et al., 2004; Lambell et al., 2008) that possesses social agency/power with its own identity and influences and can change, in some cases, the existing institutions and market behaviour (Guay et al., 2004; Kourula and Halme, 2008; Dahan et al., 2010). Scholars see CS as an institutional entrepreneur – filling regulatory vacuum (Dahan et al., 2010), service/good provision vacuum (Yunus, 2010), industry-institute creation (Doh and Guay, 2006), and co-optation and oversight (Dahan et al., 2010). MNCs engage with CS actors for many reasons, including access to resources and expertise (Dahan et al., 2010; Nebus et al., 2010) and seeking legitimacy and credibility (Kourula and Halme, 2008), which reduce transaction cost and liability of foreignness (Vachani et al., 2009). Like institutions, CS is located in a national and global context; thus MNCs must consider the influence of CS in both contexts. CS actors in the two contexts are often linked through formal or cognitive connections; thus violation of their expectations in one context may have impacts in the other. Although international management studies tend to examine complementary roles of NGOs and activist groups towards MNC operation, it did not consider another CS actor – the associations that also play a similar role in MNC management.

At this point I will highlight two perspectives of CS in international management: as an enabler and constrainer to MNC operation.

Civil society as enabler

This dimension can be explained from resources dependency and transaction cost point of view.

Resource dependency point of view

Civil Society (i.e. NGOs, Foundations and associations) appears as a resource provider to MNCs in emerging markets and this leads to a resource dependency dimension (see Teegen et al., 2004; Lambell et al., 2008; Nebus et al., 2010). This dimension greatly affects MNCs mode of internationalization, that is, establishment in a host context and growth strategies that lead to reducing the liability of foreignness, liability of newness and costs of doing business abroad. Take an example of Telenor and Novo-Nordisk in Bangladesh. Telenor made joint venture with Grameen Telecom – a sister concern of Grameen Bank for entering in the Bangladeshi market. Novo-Nordisk made strategic alliance with Bangladesh Diabetes Association (BADAS) for selling and distributing insulin products to country-wide diabetes centres organized by BADAS. When Telenor entered Bangladesh, Grameen Bank provided credit facilities to its millions of members in rural areas to buy a cell phone from Telenor. BRAC is now one of the largest institutional customers of Telenor in Bangladesh. Similarly, BIRDEM, the largest diabetes hospital that is operated by BADAS, is the largest institutional

10.1057/9781137446350 - Institutional Impacts on Firm Internationalization, Edited by Svetla Marinova

customer of Novo-Nordisk's insulin in Bangladesh. Both MNCs earned cognitive and socio-political legitimacy in the host context of Bangladesh via their partners' reputation and networks in the specific social context. MNCs on the one hand seek legitimacy from CS and on the other, they collaborate with NGOs/associations to earn joint legitimacy from governments and global institutions. A good example of this is the Starbucks-CARE (Cooperative for American Relief Everywhere) strategic alliance. With a philanthropic motive, Starbucks was initially donating to CARE projects and selling coffee to the countries that CARE projects operate in. The relationship has evolved into a two-way exchange of ideas and management personnel, including joint design of workplace codes of conduct for Starbucks' coffee plantations and factories (Austin, 2000).

Transaction cost point of view

Based on the idea of transaction cost, Vachani et al. (2009) claim that MNCs incur additional costs when CS, specifically NGOs, presses them to conform to some norms or rules that they usually do not follow or have not planned to follow. From a single case study, they draw a number of propositions. The case is about the European pharmaceutical MNC that wants to sell AIDS drugs to distributors in South Africa. NGOs are pressing the MNC to sell those drugs at an affordable price to developing countries. So, on the one hand, the MNC needs to negotiate with local distributors the terms and conditions for promotion, sales and distribution of drugs to local pharmacists, hospitals and government agencies. On the other hand, the MNC must make sure that those distributors are reliable and trustworthy so that they will not sell those drugs on the black market, sending them back to the European market for higher prices. This situation is conditioned by the weak and unreliable legal system in the country based on what an MNC can be ensured to write a contract covering all future contingencies during ex-ante bargaining, especially in view of opportunism. Here, 'opportunism' refers to the human condition of 'self-interest seeking with guile, to include calculated efforts to mislead, deceive, obfuscate and otherwise confuse' (Williamson, 1996: 378). As a result, bounded rationality makes it impossible to anticipate all contingencies in a weakly regulated state to smoothly execute the contract. Bounded rationality refers to the limitations of human cognitive capacity and rationality – behaviour is intentionally rational, but only limitedly so (Simon, 1991). In this situation, the lack of trust in distributors due to weak or absent regulative infrastructure in Africa increases the transaction cost. Even though the MNC wants to include the cost of breach of contract in the price to the developing country, the differential pricing may be so high that it cannot afford to sell the differentially priced drugs through independent distributors, which might be affordable to the locals in that developing country. Firms would require selling the drugs in a captive or wholly owned distribution operation that might

10.1057/9781137446350 - Institutional Impacts on Firm Internationalization, Edited by Svetla Marinova

necessitate hybrid arrangements (alliances) with NGOs to reduce transaction costs.

However, if the MNC is reluctant to reduce the price of the AIDS drug for developing countries, there is also a transaction cost involved. NGO pressure can result in high transaction costs for the MNC because it is forced into a public relations campaign to address accusations of attempting to exploit developing country customers as well as incurring legal and lobbying costs from discouraging the local government from permitting local manufacture to produce a generic version of the drug (innovative drug). These escalating transaction costs can change the balance of costs and benefits of the pricing strategy of the MNC, forcing it to change its strategy and seek new governance mechanisms to implement a differential pricing strategy in a developing country market. Moreover, NGOs can engage MNCs to produce both positive and negative impacts. Since MNCs attempt to maximize profits, they often generate negative externalities, such as environmental pollution, and then there is pressure from NGOs to curb these harmful effects. Alternatively, MNCs seeking to implement strategies for enhancing social welfare may face serious implementation challenges that can be alleviated by NGOs.

To understand the role of NGOs in reducing transaction costs for MNCs, I take the example of Hewlett Packard (HP) in India. This case is an example of an enhanced social development strategy of MNCs that goes beyond negative impacts and also beyond what would usually be expected from multinationals that focus solely on profit making (Dunn and Yamashita, 2003). HP initiated a series of 'i-communities' in economically deprived areas, such as the town of Kuppam in the state of Andhra Pradesh, India, to enhance the welfare of its rural population. These communities use public-private-NGO partnerships to enhance economic development through information and communication technology (ICT). NGOs promote the projects and involve community support that reduces the transaction costs to HP, otherwise HP would have to incur the additional costs of negotiating in an unfamiliar environment. HP is able to use the projects to build markets, test products and expand global marketing knowledge with the help of NGOs. This experience provides HP with valuable knowledge on how to identify and negotiate with rural customers, which positions HP to reduce the search, monitoring and enforcement costs of doing business in rural markets in India and other developing countries in the future. In addition, HP receives positive reputation effects in development circles.

MNCs' social development strategies therefore vary along two important dimensions: the proactive outlook of MNCs, in which they are able to make alliances with NGOs and receive cooperation from them and the reactive outlook of MNCs that leads them to acquire legitimacy from CS when they encounter challenges.

10.1057/9781137446350 - Institutional Impacts on Firm Internationalization, Edited by Svetla Marinova

CS as constrainer

In a similar vein, CS can also constrain MNC activities, particularly from the perspective of resource dependency and transaction cost.

In contrast to positive effects, NGOs can create negative effects for MNCs in foreign markets. In the case of Coca Cola in India, Coke was put on the defensive when activists accused its Indian subsidiary of diverting groundwater, polluting the water table and soil and exposing customers to toxic waste and pesticides. Coke was not at all prepared to deal with these charges and even had difficulty responding to accusations regarding residual pesticides in its drinks. Indian lab tests showed the presence of pesticides and tests subsequently commissioned by Coke were viewed as biased (Stecklow, 2005). Thus, Coke ended up bearing high transaction costs in managing relations with a wide range of stakeholders – customers, shareholders, distributors and government officials.

Similar type of incidents happened with Arla and Nestlé in Bangladesh. First, in October 2008 Arla and Nestlé were charged with selling contaminated milk in Bangladesh. Human Rights and Peace for Bangladesh (HRPB), an NGO, filed a written petition asking for the High Court's intervention on grounds of public safety. Second, in September 2011, Danwatch published a report made by ActionAid that accused Arla of price dumping in Bangladesh. The report claimed that since Dano, Arla's milk brand in Bangladesh, had the leading market share in the country, the profits it made resulted from the subsidy given by the EU to Arla Europe. The report, entitled 'Milking the Poor', further argued that large amounts of imported milk powder hinder investment in the local dairy sector, which keeps local famers poor (Rana, 2014). Both initiatives taken by local and international NGOs had hampered MNC sales and reputation not just in the local market but also questioned the legitimacy of the MNC in international market.

The above discussion thus clarifies how CS actors affect ownership, governance, relationship and capability dimension of an MNC subsidiary in host emerging markets. Thus, MNC behaviour tends to be shaped by the CS space in a national context, depending on the nature and configuration of the CS space in that particular national context.

Transnational communities as a space in global context

The concept of 'transnational community' (Morgan, 2001a, 2001b, 2001c) points to a global space from where transnational actors affect the internationalization of firms and their governance in the host context. Morgan (2001a), borrowing the term from ethnic and migration studies, argues that 'transnational community' indicates the global spheres to which multinationals are connected through relational, governance, regulative and cognitive bonding. This is the way he wants to understand the extent of

10.1057/9781137446350 - Institutional Impacts on Firm Internationalization, Edited by Svetla Marinova

globalization practices in business and management, more particularly the effects of internationalization on national business systems. In this article, my aim is to delineate this concept to understand its effect on MNC behaviour and to recognize the dominant actors in this space.

Building on the argument of multiple networks of multinationals, mobility of people together with global connectivity and the increasing influence of multilateral organizations, Morgan (2001a) conceptualizes 'transnational community' as a global network to which MNCs' functions are connected, and thus they are globally embedded with respect to many actors within the transnational space. He further argues that the national business system characteristics are therefore shaped by the actors of the transnational community from outside the nation, in addition to the actors inside the national context. This argument, although it builds on the work of several previous researchers, puts a question mark over the assumption that firms' strategies and structures are conditioned only by the national institutions and business systems actors (host and home countries). 'Transnational community' is the emergent property of the internationalization of economic activities and cross-national social connectivity. Economic activities at the international level are driven by firms, multilateral financial institutions, and nation-states (political actors, in the case of regional economic integration), while cross-national social connectivity is led by the mobility of people and the connectivity of civil societies across the globe (both cognitive and formal relations). However, in both cases, that is, cross-national economic and social connectivity, multilateral agencies and multinational firms play crucial roles.

Transnational communities and the actors in it

'Transnational space' refers to an arena of social action distinct from that of the 'national' context. This is an arena of social interaction where the main nodes of connection between groups cross over national boundaries. However, this concept is distinguished from what may be called 'international' space. In this context, international space refers to settings where these cross-border connections are controlled and structured by powerful national actors, either states or firms; thus the modes of connection are about negotiating between different national 'orders'. 'Transnational social space' implies a more open-ended set of cross-border connections between multiple nodes in which the forms of interaction become more than simply the sum of interactions between different 'national' units, constituting a social space of its own. In this respect, transnational social space constitutes an arena in which new social actors may emerge (Morgan, 2001a). The actors in the transnational community can be clearly understood by the argument of bottom-up versus top-down effect, as Morgan (2001a) outlines.

10.1057/9781137446350 - Institutional Impacts on Firm Internationalization, Edited by Svetla Marinova

Transnational communities – As a bottom-up effect

Morgan (2001a) highlights the concept 'mobility of the people' in transnational communities as per the arguments of Portes et al. (1999: 217). They assert that immigrant groups in advanced countries frequently move back and forth between their country of origin and the countries they live in. They live dual lives, speaking two languages and making a living through continuous regular contact across national borders. The same is true of the emigrants who work for transnational firms or multilateral organizations/agencies. The amount of mobility has dramatically increased since the effects of globalization have set in, due in part to regional integration, the liberalization of markets and the shortage of human resources around the world. This bottom-up transnationalism is another dimension in addition to the top-down effects of global agencies and the regional blocs (Morgan, 2001a). For example, Vertovec (1999) shows that there is a diverse set of conceptual premises underlying the meaning of the term 'transnationalism', ranging from the idea of a specific type of social formation (often a diaspora community) through forms of consciousness and cultural production to the role of capital and the development of new sites of public and political activity.

This bottom-up effect in transnationalism is important in the internationalization process for three reasons. First, it is concerned with how actors develop new practices in the context of an internationalizing process such as migration. Second, it is concerned with how this leads to changes in the existing institutions and the creation of social relationships that are qualitatively distinct from those previously existing. In both these respects, they provide evidence to those who study firms and international economic activities that it is possible to maintain an understanding of institutional contexts at the same time as recognizing change arising from the internationalization processes. Third, their emphasis on 'globalization from below' reveals the distinctiveness and contingency of these processes within specific contexts. This approach makes no assumptions about the end result while recognizing at the same time the processes of change (Morgan, 2001a).

Such multiple networks among individuals, firms and multilateral agencies at the cross-national level form the building blocks of the transnational social space, contributing to its construction rather than constituting social actors in themselves.

Studies on diaspora communities with cross-border investments and operations are becoming an interesting emerging theme within the broad research scope of international business (Gillespie et al., 1999). Take an example of Telenor in Bangladesh. Iqbal Z. Quadir, a Bangladeshi diaspora in the United States and a former employee at Atrium Capital in New York, drove the entire process of internationalization of Telenor to Bangladesh. In fact, it was his idea and initiative to take Telenor to Bangladesh through a joint venture with Grameen Bank, an NGO (Isenberg et al., 2007; Rana,

10.1057/9781137446350 - Institutional Impacts on Firm Internationalization, Edited by Svetla Marinova

2014). Diaspora community members have been a special and an important subset of foreign investors in countries like China and are playing a catalytic role in creating home-grown MNCs in another large, emerging country, India. Ramamurti (2004) reveals that in China nearly 80 per cent of inbound FDI in the 1980s came from overseas Chinese investors, while the flood of non-Chinese FDI began only in the 1990s. In other words, China's development might have been very different had there not been 50 million people of Chinese origin living in the Asia-Pacific Rim, many of whom combined their capital, technology and access to export markets with cheap Chinese labour to produce China's export boom. Similarly, the Indian software and knowledge-based industries have profited from the know-how, market access, capital and guidance of the Indian diaspora in the United States and Europe (Kapur and Ramamurti, 2001). The huge distance separating India's software cluster from its main market (the United States) is overcome partly by modern communication links and partly by social networks that connect Indians at home with Indians abroad. Again, Western MNCs rushed into India's software and services clusters only after the country's competitiveness in this sector was demonstrated beyond doubt. A country's dispersed population is more likely to invest in the homeland than other foreign investors because there is a lower degree of liability of foreignness.

Tung (2008) examines the interrelationships among brain circulation or 'triangular human talent flow', ethnic diasporas (specifically, Chinese and Indian) and a country's international competitiveness. The study reveals that the lowering of immigration and emigration barriers to the movement of people and the emerging concept of boundary-less careers (narrowly, globalization effects) have all contributed to the phenomenon of brain circulation and global knowledge flow. Her study replaces the traditional concepts of brain drain versus brain gain with the term 'brain circulation' because of the growing mobility of human talent across international boundaries. She broadens this idea to the point that the notion 'brain circulation', to a certain extent, comprises all three of the dimensions mentioned above that form 'ideological and cognitive' transnational communities.

Transnational communities – As a top-down effect

Transnational communities cannot be understood as simple bottom-up responses to globalization; they have to be conceptualized in terms of the interplay between top-down projects of transnationalism pursued by powerful actors and bottom-up processes of mutual identification and collective awareness, since it is through this interaction that transnational social space is created, distinct from the national level (Morgan, 2001a).

There are three dominant actors that participate in the top-down development of transnational communities: MNC as a transnational community and the global institutions and global CS as a transnational community.

10.1057/9781137446350 - Institutional Impacts on Firm Internationalization, Edited by Svetla Marinova

MNC as a Transnational Community

This dimension has two characteristics: MNC as a complex organizational network and MNC as a global financial instrument, that is, internationalization of finance.

MNC as Complex Organizational Network: This dimension has been conceptualized by Morgan (2001a, 2001b), considering the differences between a 'transnational company' (TNC) – a firm with global operations and complex management systems – and a 'multinational company' (MNC) – a firm that has HQ-based corporate governance in multiple countries (See: Bartlett and Ghoshal, 1989). However, this distinction, based on corporate governance and relationships between the two types of firms, has been made to facilitate the understanding of the nature of complexity within the network of the multinational or transnational firm. In this chapter, I use MNC to refer to both types of firms. At every stage, MNCs need to consider the social basis and the precarious and conflicting nature of the social order that develops within them. Borrowing from Morgan (2001a, 2001b, 2001c) and other authors, I select four constructs that constitute this dimension:

- Relations between HQ and subsidiaries (i.e. nature of corporate governance)
- Relations between different subsidiaries
- Relations between subsidiaries and actors in the global value chain

Morgan describes a TNC as one that possesses a complex network and relationships within its organization across the world and is often known as a 'global firm' or a 'global heterarchy'. The TNC or global firm takes locational decisions according to a range of criteria, such as closeness to markets, costs, access to capital and closeness to sources of innovation and knowledge. Its products are developed on a global scale, while the various local sites are not necessarily producing for their local or even regional markets. Rather, they are producing particular elements of a product that will be put together from the output of a range of plants, and each plant will produce what it is best equipped to produce (in terms of level of skills and knowledge, technology and investment) instead of what is required by a local market.

The plants are coordinated across the global value chain to produce what are termed 'world class' products available (perhaps with some minor local modifications) to the world market (see Dicken, 1998). Research has emphasized that although there are central planning mechanisms in such firms, sites can extend or develop their activities in new directions subject to resources being available at the local or corporate level (Birkinshaw, 2000). Because sites are likely to be integrated into complex intra-firm networks of supply and production that cross national boundaries, it therefore becomes difficult to disentangle one location from a range of others (see

10.1057/9781137446350 - Institutional Impacts on Firm Internationalization, Edited by Svetla Marinova

Dicken, 2011). This phenomenon is evident in the global commodity chain and the global value chain of TNCs (Gereffi et al., 2005). Therefore, commitment to and trust in a location is a high-risk strategy for a company that requires a lot of decision-making efforts. In structural terms, global firms have been described as 'hybrids' or 'differentiated networks' (Nohria and Ghoshal, 1997). The differentiated network is composed of distributed resources linked through different types of relations: (i) the 'local' linkages within each national subsidiary, (ii) the linkages between HQ and subsidiaries and (iii) the linkages among subsidiaries themselves. The complex and multifaceted pattern of relationships within the company provides the means to innovate rapidly for national, regional and global markets as well as to maximize the efficiency of the company's operations by locating production, R&D and marketing/sales efforts wherever it is most appropriate (Morgan, 2001c). However, definitions of multinational and transnational firms provide us with the two extremes of firms' operations in the global space, but in reality firms' operations may not be at these extremes, but rather in between.

Morgan (2001b) argues that it is within transnational/global firms of this sort that possible 'transnational communities' seem most likely to emerge (Morgan, 2001a). Such firms are built on extensive interactions across various sites and among numerous actors, and these interactions may be shaped by a complex array of structural features within the firm, such as product divisions, geographical divisions, HQ functions or project teams. This leads in two directions. One is concerned with multiple processes of competition between individuals, units and local plants in such a system where evaluations and monitoring of contributions is conducted continuously. In one sense, TC is related to issues such as human resource management (HRM) at global level, including coordination and control, standards and organizational culture that often become closer to own national base as a form of defence. For example, it may be reinforced by a nationally based trade union struggling to protect jobs or influenced by the local coalitions of interests between managers and other employees to 'save' plants from closure. In another sense, it also leads to the development of transnationally coordinated interactions, both as a resistance to control (for example, in the form of cooperative trade union activity across national boundaries to resist plant closures) and as a more formal or informal pattern of cooperation across plants either to share information (e.g. in European Works Councils) or to impede the plans of the HQ.

The other direction concerns 'learning' across different sites of the firm. This, in itself, may be coercive. For example, the application of best practice standards from one plant to another may lead either to heightened competition between plants or some form of cooperation between employees over resistance to such practices. Global-local tension in relation to HRM begs the question of how MNCs can or should balance the pressures to develop

10.1057/9781137446350 - Institutional Impacts on Firm Internationalization, Edited by Svetla Marinova

globally standardized policies and compliance with the local pressures to be responsive to the peculiarities of the context (Edwards and Kuruvilla, 2005). 'Reverse diffusion', mainly the transfer of practices from foreign subsidiaries to the domestic operations (HQ), however, leads to another dimension of learning in corporate governance in this sort of firm (Edwards and Ferner, 2004).

The structural framework of this sort of TNC, or in some cases of MNCs, then opens up a new transnational space by creating multiple forms of linkages across sites and between actors in different sites that do not usually exist in the HQ-controlled 'multinational' type of company. Typically, multinational companies would involve vertical information sharing based on an existing pattern or model of production, while managerial movement would be up and down (i.e. between HQ and subsidiaries) rather than across subsidiaries, divisions and the head office. Senior managers would build their careers mainly in the head office and the home country. The company as a whole would tend to be led by managers from the home base. Key issues in terms of internationalization would remain essentially about national adaptation, for example, how expatriates adapt and assimilate in foreign postings. Employee struggles, based mainly on national interests and mechanisms for transnational coordination, would be limited. On the other hand, in the TNC, there would be a thick web of communicational possibilities vertically and horizontally available mainly to managers but also to a limited extent to other groups within the workforce. Managers' careers would be varied and involve movement across different subsidiaries as well as into the head office. Senior management would reflect a wider group of nationalities and experiences than that of a multinational enterprise. Learning would be somewhat dispersed, often disorganized but usually multi-directional in terms of its effects. Employees would have varying opportunities for transnational learning and cooperation reflected in formal and informal mechanisms of management (Morgan, 2001a).

MNC as Global Financial Instrument: This dimension is related to the financial ownership by foreign shareholders around the world that affects the transnational or multinational firm's strategies and structures. The internationalization of capital markets has encouraged an increase in foreign ownership and control of shareholding at the company level, thus, on the one hand, it has reduced companies' dependence on domestic financial institutions (Whitley, 1999), while on the other hand it has significantly impacted corporate restructuring worldwide (Useem, 1996).

With regard to financial internationalization, there are, as Hassel et al. (2003) suggest, a number of dimensions that need to be considered, each of which can vary independently of the others and can therefore have distinctive consequences. The degree of financial ownership, the sources of the ownership and the objectives underlying the ownership are the most important dimensions that affect transnational firms' strategies. For

10.1057/9781137446350 - Institutional Impacts on Firm Internationalization, Edited by Svetla Marinova

example, the overseas portfolio investment is usually managed by institutional fund-owners, mostly based in the United States and the United Kingdom, who are primarily operating with a 'shareholder value' driven set of goals for their investments (Lazonick and O'Sullivan, 2000; Williums, 2000). Unlike individual shareholders, they invest 'other people's money', and thus they are prone to take proactive steps to protect or to increase the value of the companies they have invested in. Since the institutional investors often represent Anglo-Saxon governance norms and priorities, they have played a central role in disseminating the so-called 'shareholder view' to the management of the companies in many countries. Nowadays, companies frequently grow through mergers and acquisitions, and increasingly they use their own stocks, instead of cash or domestic bank debts, to finance these operations. It is in the international capital markets where the 'correct' market value of the companies' stock is determined. This consequently affects the firm's strategies and structures in the national business system, because foreign shareholders channel their influence at the company level so that their objectives are achieved. A case from the Finnish capital market illustrates this phenomenon very clearly. Tainio et al. (2001) studied the 30 largest Finnish companies, paying attention to investigating the development of their foreign stock ownership, corporate restructuring and the channels of foreign investors' influence. Their study concludes that the national business system of Finland was reshaped by this phenomenon.

Foreign portfolio ownership of Finnish companies started to increase after the full liberalization of foreign share ownership in 1993. Low stock prices due to the economic recession and the related high growth potential of Finnish companies made them attractive investment targets. As the recovery of the companies progressed, investors' expectations were fulfilled and the demand for the stocks remained high. The most significant foreign shareholders of Finnish companies are major American investment funds such as Franklin Research, Fidelity Management and Research, Capital Research Management, Alliance Capital Management, Morgan Stanley and Merill Lynch and the two largest public pension funds, CalPERS and TIAA_CREF. In Finland, managers found foreign owners more demanding than local owners. Since 1993, foreign share ownership has increased rapidly, and by the end of 1999, 65 per cent of the stocks of Finnish companies were foreign-owned. Nokia, which dominated the Helsinki Stock Exchange, had 86 per cent of its stock in the hands of foreign owners. The major Finnish companies have thus come under the constant scrutiny of global investors and financial analysts.

Foreigners are more concerned with getting prompt returns on their investments. They do not intervene in operational matters and only expect the value of their Finnish shares to increase. Thus, foreign owners are active in creating conditions to ensure that this actually happens. Under these

10.1057/9781137446350 - Institutional Impacts on Firm Internationalization, Edited by Svetla Marinova

demands, Finnish companies experienced a managerial revolution that had not been witnessed before. They have now started to operate in a similar way to American and British firms, adopting the Anglo-Saxon shareholder view with a whole owner-driven management culture into Finnish companies (Moen and Lilja, 2001). With their arm's-length relationship, foreign investors are distant, dispersed and often 'faceless' to the Finnish companies, yet they influence firms through multiple channels. Of them, one is the indirect market channel (exit-influence) and the second is direct personal channel (voice influence). Exit-influence means that shareholders affect management by the threatened or actual sales of their shares on the stock market. Their stock trading and movements justify the motives and the logic of sales. Finnish managers, however, feel strongly that the outcomes of these stock market operations, that is, changes in the share prices, mean concrete punishment or reward.

Despite the unpopularity of interlocking directorship, a study by Kentor and Jang (2004) on the Fortune Global 500 between 1983 and 1998 finds a significant increase in the total number of interlocking directorates (directors who sit on the boards of multiple multinationals at the same time), even greater than the growth in transnational interlocks. This growth is predominantly among firms within the European community and between firms in Europe and the United States. This finding suggests that there is, indeed, an emerging transnational business community that is becoming predominant. Interlocking directorates in multinational or transnational firms, therefore, possess centralized ownership and control that derive the 'global elites' holding substantial power to change the national as well as global institutions and the business systems.

Global institutions and global civil society as a transnational community

There has been a 'shared standard' of quality, process, norms and values at the global level that guide global firms operations and, in some cases, national institutions too. Without these global shared standards, it is difficult to build and sustain economic relationships in the greater social context. These shared values and standards are embedded in formal and informal institutions and civil societies (i.e. NGOs and activist groups) that govern and monitor economic transactions at the global level and set the 'rules of the game' (Djelic and Bensedrine, 2001).

Based on Durkheim's sociological view, Morgan (2001a) argues that the development of international economic activity cannot be coordinated simply through market relationships. Sociologist Durkheim has pointed out that all economic contracts need to embed in an agreed-upon social framework, whether that arises from a nationally based code of regulation and commercial law or some sort of international equivalent (see Wiener, 1999;

10.1057/9781137446350 - Institutional Impacts on Firm Internationalization, Edited by Svetla Marinova

Braithwaite and Drahos, 2000). These emerging standards may be embedded in formal institutions of international regulatory bodies or in private mechanisms (such as credit ratings). If a nation or firm does not show willingness to abide by these standards, then it will find it difficult to engage in the form of international trade for which the standards are designed. Therefore, while national business systems are characterized by certain forms of national institutions and the types of firms and their relationships, international standards and regulatory institutions from the non-national (global/regional) level directly and indirectly shape the national institutional characteristics and the firm's behaviour. First of all, one can distinguish the degree to which these global standards are industry-based or government-based. The former implies voluntary compliance of firms in order to resolve cross-border issues. The latter (government-based) implies more strongly the governmental agenda for cross-border regulation. In most cases, regulatory organizations emerge out of the interplay among the three groups of actors: global institutions, states, and global CS.

The global regulatory institutions: These (multilateral institutions) institutions are divided into three categories: first, information sharing and regulative procedures, second, regulatory bodies with enforceable power and third, the monitoring, control and sanctioning of activities. However, the characteristics of the three categories overlap with each other in most cases (Morgan, 2001a).

First, in one sense, firms are asked to provide information, which is collated and monitored by the regulatory organization. The regulatory organization may also seek to negotiate certain standards with firms, and failure to meet those standards leads to others refusing to do business with the contravening firm. For example, banks that wish to engage in international business transactions have to meet certain standards of capital adequacy set by the Basel Committee (a group of central bankers from the main industrialized countries), now known as the Basel Accord. If they do not wish to engage in international transactions and business, they need conform only to national standards. Transnational firms engaged in processing, extraction, mining and construction businesses must follow the UN Global Compact's Ten Principles, while multinationals registered in a member country stock exchange need to follow the guidelines of the IOSCO (International Organisation of Securities Commissions). Around 10,000 MNCs participate in the UN global compact programme, and this indicates that their corporate behaviour, particularly related to social and environmental sustainability, tends to be in line with the UN guidelines and values. Apart from this, there are some industry-specific standard agencies like the ISO that standardize business processes all over the world. Hancke and Casper (2000) make this point clear in their study of ISO-9000 in the French and German automobile industries. The impact of certification on the processes within firms can vary enormously depending on the national institutional context.

10.1057/9781137446350 - Institutional Impacts on Firm Internationalization, Edited by Svetla Marinova

The coercive effects on the firm are strongly mediated by the competences and skills of the managers and the workers implementing the standards. This becomes a signal across borders of conformity to certain international standards.

Second, regulatory bodies are based on control that involves an extra dimension. Thus, failure to conform to the regulations leads not only to loss of business but also to fines and other forms of punitive sanctions both on the state that allows the practice and on the firm that violates the rule (by the IMF, World Bank, the UN, etc.). One best example is the International Telecommunication Union that governs the telecom industry of the world. It even sets the standards and provides the bandwidth to each and every county. In contrast, multilateral institutions often intervene and change the national institutions that create a new order of business opportunities and challenges for MNCs and local firms. The best example of this is the case of the IMF's structural adjustment programme during the 1980s. Not all regulatory structures take this form (see Braithwaite and Drahos, 2000; Djelic and Bensedrine, 2001), and even within those that do, these dominant perspectives do not necessarily remain dominant without the continual exercise of power in the face of possible challenges and tensions in the national and global social contexts. It is clear that 'systemic' problems in managing cross-border relations are leading to a wide variety of international regulatory organizations. It is, however, argued that there is a gradual shift in the purpose of these organizations. This shift is from sharing information to coordinate cross-border relations more effectively towards the establishment of systems to standardize business practices (Braithwaite and Drahos, 2000). Examples of this are the WTO, the anti-dumping settlement wing in the WTO, the Basel Accord, etc. The measures taken by the WTO affect domestic regulatory policy changes that fundamentally challenge states' policymaking discretion. Such policy issues are: market access, rights of establishing foreign enterprises, trade-related investment measures (performance requirement) and the protection of intellectual property rights (IPR) (Sell, 2000).

Third, this process involves more active monitoring, control and sanctioning of activities. Thus, these processes establish the possibility of forms of transnational communities. In other words, this process is a social setting where new solutions and forms of activity may emerge and make an impact on national systems of regulation. However, these communities arise in specific circumstances; the pattern of roles that has emerged in international regulatory organizations is structured by past actions and in particular by the power and influence of particular nation-states. International regulatory agencies thus clearly do not float free of national business systems. Powerful states and firms will tend to shape the regulatory agency in particular ways. Other nations and social actors will also seek to exert an influence, so the empirical question concerns the degree to which this results in a

10.1057/9781137446350 - Institutional Impacts on Firm Internationalization, Edited by Svetla Marinova

transnational space where the regulatory agencies establish a transnational community distinct from particular national interests.

The crucial area in this respect is the financial sector, including the group of international regulatory organizations around the financial sector ranging from the World Bank, the IMF and the Basel Committee to the International Organisation of Securities Commissions (IOSCO).

Global CS: Kumar (2007) expanded the concept of CS to 'global civil society' in which he argues that the globalization and expansion of information technology and communication allows people around the world to be connected through cognitive relationships. Thus the people of Earth have entered in varying degrees into a universal community, and it has developed to a point where a violation of rights or global norms in one part of the world is felt everywhere. In this discussion, I will shed light on the global phenomena of CS. A good example of global CS is anti-globalization and the Wall Street Occupy movements. The violent protests at the WTO meetings in Seattle in 1999 and the World Bank meeting in 2000, the demonstration at the World Economic Forum (WEF) meetings and the formation of the 'parallel' World Social Forum (WSF), as counterweight to the WEF, indicate the existence of a global network of broader citizen-driven social movements. These globally networked CS and NGOs possess some universal norms and values, mostly related to welfare, development and safeguarding nature and species.

In 1997, the Nobel Peace Prize was awarded to the International Campaign to Ban Landmines; two years later it was presented to 'Doctors Without Borders', an NGO dedicated to providing healthcare access globally (Teegen et al., 2004); six years later, in 2006, it was presented to Grameen Bank and Professor Yunus for poverty alleviation projects. These awards signal official recognition of the growing importance of NGOs globally in solving some of the world's most troublesome problems. The Yearbook of International Organisations reports that the number of international NGOs has increased from 6,000 in 1990 to more than 50,000 in 2006 and that Civil Society Organisations (CSOs) have also become significant players in global development assistance. The OECD (Organisation for Economic Cooperation and Development) estimates that CSOs provided, as of 2006, approximately US$15 billion in international assistance (World Bank, 2010).

Unlike intergovernmental organizations, global NGOs (GNGOs) are not subject to the same parochialism that binds state actors or to limits facing intergovernmental organizations. GNGOs can more readily promote interests of global concern (Kamat, 2003). As GNGOs are not subject to the political pressures that individual states or local NGOs face, they can more effectively advocate for sustainable initiatives (Fowler, 2001). They can also help to 'level the playing field' by providing resources to weaker states and by lobbying stronger states on matters of global societal importance. However, they can often be dominated by powerful state interests

10.1057/9781137446350 - Institutional Impacts on Firm Internationalization, Edited by Svetla Marinova

(Beckfield, 2003) or those of corporate funders (Phillips, 2002; Kamat, 2003), which can undermine the interests of society at large and/or exacerbate sovereignty challenges facing weak states (McCarthy, 1992; Sandberg, 1994). Very interestingly, GNGOs often fund local NGOs for establishing companies in developing countries to address social problems or improve quality of life in that context. In 1997 Open Social Foundation provided around 10 million US$ to Grameen Bank to develop a telecom company named Grameen Telecom, which subsequently formed a joint venture with Telenor from Norway, called Grameenphone, in Bangladesh.

Within the process of global governance, GNGOs, as the formal agents of CS and globally integrated organizations, are highly significant political actors and an organizational sector. As argued by Ramia (2003) and Teegen et al. (2004), the consolidation of the GNGO sector has driven MNC management to the larger GNGO closer strategy models. The key manifestation of this strategy can be seen in the role of GNGOs in the implementation process of intergovernmental development projects that involve MNCs; such projects are carried out by the World Bank, the IMF, the EU and the UN.

GNGOs network and collaborate not only with different states and MNCs but also with the supra-national institutions. They may not always be invited to get involved, but they spontaneously respond in reaction to others (GNGOs) due to similar ideological and cognitive connections. Governments or international institutions like the UN may often seek collaboration with GNGOs in regulatory standard setting. In the governance of and collaboration within the global value chain of MNCs, GNGOs operating globally can facilitate and monitor activities and ask firms to adhere to certain standards that may in fact violate global trading regimes between states. In this regard GNGOs can move freely as private actors since they are exempt from state and WTO sanctions. The *extraterritorial reach of GNGOs* is targeted by MNCs in the case of developing country practices, and this happens when there is weakness or absence of the proper institutional settings (Dahan et al., 2010).

International management studies therefore should not only conceptualize the roles of and relationship between MNC and GNGO from the perspective of the 'rule-takers' but also from the 'rule-makers'. Braithwaite and Drahos (2000) empirically show how both MNCs and GNGOs become active regulatory agents in creating the 'regulatory space' that fosters the globalization of the rules or norms set in the global governance process. There is a well-established tradition in the disciplines of labour economics and industrial relations of research on trade union activities in relation to a wide array of regulatory functions. They include: the conditions under which labour is supplied (Pencavel, 1991; Booth, 1995), the regulation of wages and working conditions (Blair and Crawford, 1984; Gahan, 2004), the regulation of occupational health and safety schemes and training programmes (Braithwaite, 1985). GNGOs contribute to defining the global

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regulatory and governance orders within which MNCs, national governments and GNGOs themselves operate (e.g. Picciotto, 2002; Braithwaite, 2002, 2006; Jordana and Levi-Faur, 2004). Doh and Guay (2006) present two cases to illustrate how GNGOs change or create global regulations. First, the dispute over trade in genetically modified organisms in Europe was led by mainly three NGOs, that is, ATTAC, Greenpeace and Friend of the Earth, which eventually changed the regulation of this trade. Second, relaxation of IPR for HIV/AIDS medication in developing countries was backed by Doctors Without Borders.

Conclusion

This paper presents a comprehensive discussion on the three spaces and the actors within them that shape MNC behaviour and strategy formulation in host markets. It combines institutional and business system analysis with organizational capabilities together with global dimensions of institution and organization in explaining how MNC strategies are shaped.

One important contribution of this paper is the integration of the three different concepts – institutionalism and business system, CS and transnational communities – that illuminates international management researchers to broaden their understanding on societal dynamics and actors that affect MNC strategies in international management. The other important contribution is the incorporation of a broader view of 'institution' and the CS dimension; both indicate constraining and enabling dimensions for MNCs. The use of the business system concept will help international management studies to understand the characteristics of management system and organization of economic activities that are authoritatively developed in a particular sector, region or national business system, depending on the nature of the institutional context.

The tri-space framework will, hopefully, be able to help answering the questions 'How MNCs behave' and 'What factors/actors from the three spaces affect their behaviour'.

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