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ABSTRACT

The article argues that institutionalist theory applied to multinationals focuses on the issue of 'institutional duality', that is, that within multinationals, actors are pressured to conform to the expectations of their home context whilst also being subjected to the transfer of practices from the home context of the MNC itself. This institutional duality leads to conflicts that can be labelled as forms of 'micro-politics'. The head office managers transfer practices, people and resources to subsidiaries in order to maintain control and achieve their objectives. Local subsidiaries have differential capacities to resist these transfers or to develop them in their own interests depending on their institutional context. The article distinguishes institutional contexts that produce 'Boy Scout' subsidiaries, doing what they are told and consequently allowing locally distinctive capabilities to be undermined and those that produce 'subversive strategists' which look to deepen their connection with the local context not the MNC itself. These processes are exacerbated by the demands of capital markets which impose performance requirements on MNCs and lead to continuous organizational restructuring. Head offices become stronger in their attempts to impose standards in all their subsidiaries. The consequences of these processes are that except for a few pockets of 'subversive strategists', multinationals produce subsidiary 'clones' with little ability to leverage the specific assets which the institutional context provides. As it is the subversive strategists that are best placed to be innovative, the problem for the MNC is how to manage this tension.

KEYWORDS embeddedness ▪ institutionalism ▪ isomorphism ▪ multinationals ▪ varieties of capitalism

Introduction

Organization theory still has difficulties dealing with multinationals as distinctive organizations. Ghoshal and Westney's (1993) classic collection of essays entitled 'Organization theory and the multinational corporation' did little to shift the study of multinationals away from the dominant economistic view present in international business (see also Westney & Zaheer, 2001). It is only in the last few years that organization scholars have seriously returned to the problem of multinationals. Like many areas, it is the impact of institutionalist theory, in its various guises, that has contributed to this process. Institutionalism at its core rejects economistic explanations about firms, their strategy and structure. Instead it is concerned with how the social embeddedness of firms in particular contexts shapes their structures and processes. Only recently, however, have institutionalists begun to explore the consequences of the pluralistic nature of social embeddedness processes in multinationals. We argue that the main contribution of this research has been to construct a model of the multinational in which there are multiple sites of micro-politics resulting from the clash between different actors within the firm utilizing resources derived from their institutional and organizational context to pursue their own agendas. In itself this is a significant corrective to rational and economistic models of the multinational. However, in this article we argue that institutionalist analysis needs to go further by first identifying the key sites of micro-political conflicts in the multinational and second showing how these add together to create a distinctive configuration of actors within the multinational with specific consequences for the broader political economy.

The article proceeds in the following sections. First, we consider the contribution of institutionalist analysis to the understanding of multinationals. The tension which we identify in institutionalist theory is between those approaches which emphasize isomorphic tendencies in multinationals and those approaches which identify continued trends towards divergence. Rather than seeing these as irreconcilable approaches to multinationals, however, we argue that they share a common interest in the impact of diverse institutional settings on multinationals and on relations within the firm. This diversity is the basis for conflicts and micro-political struggles over the nature of management and work in subsidiaries, divisions and headquarters. Although all organizations may be characterized as 'political' and 'conflictual' in this way, it is the structured nature of difference arising from institutional distinctiveness that, we argue, makes micro-politics essential to an understanding of multinationals. What is needed, therefore, is a clear framework for understanding how institutions shape these micro-political struggles and the consequences of this for the MNC as a firm. In the second section, we present our framework which is based on the interaction of inside organizational and outside institutional contexts. In organizational terms, the senior managers of MNCs seek to create various forms of order through the firm in order to enact particular strategic objectives. This involves the transfer of processes, people and resources to ensure that subsidiaries follow the goals of the MNC. Actors in the various parts of the firm respond to this not simply as participants in the achievement of a common goal but also as social actors with interests constructed and shaped by their institutional context. The resulting outcome is one of diverse micro-political struggles structured by particular configurations of organizational and institutional processes. However, in itself this is not sufficient to understand the dynamics of these processes in multinationals. In the third section, therefore, we add into this analysis the distinctive importance of capital markets to multinationals and the consequences of this interdependency. We argue that the way in which these operate is increasingly intensifying micro-political action within multinationals as it pressurizes senior managers to engage in rapid structural and processual changes in order to satisfy capital market demands. The instability which arises from this constant process of change and restructuring, increases uncertainty and risk for the various components of the firm. This reinforces the importance for individuals and groups of engaging in micro-political action inside and outside the firm in order to try to protect their position. This quickly turns into a vicious circle of increased micro-political action leading to increased uncertainty, etc. In the concluding section, we argue that the susceptibility of the multinational to these processes makes it a precarious organizational form with a serious 'legitimacy deficit'. We argue that this requires further examination if we are going to develop further the institutionalist approach to multinationals.

Varieties of institutionalism

Our goal in this section is not to produce a comprehensive account of institutionalist theories but instead to concentrate on the two dominant varieties of institutionalism, which have been used in recent years to analyse multinationals. These two varieties of institutionalism we label as organizational institutionalism and comparative historical institutionalism. The common general starting point for these theories is that organizations are shaped by the institutional context in which they are located.

For organizational institutionalism, institutions are taken for granted ways of acting, which derive from shared regulative, cognitive and normative frames. To be considered legitimate, organizations must conform to relevant institutional expectations. Institutionalization is a process whereby, over time, regulative, cognitive and normative frames in particular areas of social and economic life become more consistent and coherent, thereby making it more difficult for organizations to deviate from the expected model. The key issues which emerge from this are what institutional rules govern particular fields, how did these rules emerge, which social actors develop, maintain or change rules, how do these social actors enrol others behind their project, how does change occur and how do new rules and understandings become institutionalized.

In terms of research on multinationals within this stream of institutionalist theory, the main relevant contribution comes in a series of articles by Kostova and colleagues (Kostova, 1999; Kostova & Zaheer, 1999; Kostova & Roth, 2002). Kostova has argued that the multinational subsidiary is in a situation of 'institutional duality'. On the one hand, it is pressurized by the headquarters to adopt a particular set of practices derived from the home base of the firm; on the other hand, the subsidiary is pressurized by its host context to follow local practices. The subsidiary faces the question of which set of institutions are more important to it – those that make it legitimate within the multinational or those which legitimate it in its local context? The greater the 'institutional distance' between the home and host countries, the greater the difficulty for the HQ of successfully transferring practices from one to the other (Kostova & Roth, 2002; also Xu & Shenkar, 2002) and the more likely host influences will prevail. Kostova and Roth's findings are that 'practice adoption vary across foreign subsidiaries as a result of two factors – the institutional environment in the host country and the relational context within the MNC' (2002: 227). By relational context is meant the degree of dependence, trust and identity between the subsidiary and the head office. In combination, institutional duality and the relational context produce four types of subsidiary response to head office initiatives – which they label as 'active', 'minimal', 'assent' and 'ceremonial' (p. 229). Kostova's emphasis is on the relationship between single subsidiaries and the head office. She does not seek to extend her discussion to model the consequences of institutional dualism for the multinational as a whole.

The other important strand of institutionalism we have labelled as comparative and historical. Many of its proponents (Whitley, 1999;

Hall & Soskice, 2001; Amable, 2003) begin from the idea that societies develop complementary institutions that shape the rules by which organizations operate. From the point of view of studying multinationals, therefore, the question is how does the multinational respond to the institutional diversity existing between the home and the host context in terms of organizational structures, practices and processes (see Morgan et al., 2001 for a variety of responses)? Whitley (2001), for example, begins from the perspective of the MNC HQ and argues that MNCs as firms build their managerial hierarchies, learn to exercise authority, construct markets and business networks, employ workers in a way that is highly influenced by the distinct national institutions of their home setting. When they go global, they will take these practices, national templates and routines of control and coordination with them and create subsidiaries that reflect the organizational forms of their home country (for empirical studies of MNCs which support this emphasis, see Lane, 1998, 2000, 2001; Morgan et al., 2003; Whitley et al., 2003; also Geppert et al., 2002, 2003). Given that firms have self-knowledge about their skills and capabilities, this means that they tend to look for institutional environments either where their practices already 'fit' to some degree or where institutional constraints on firms are weak, allowing the MNC to reproduce its home model.

Recently some authors within the comparative institutionalist perspective have given more emphasis to the importance of the local host context. Kristensen and Zeitlin (2001, 2005), in particular, argue that because subsidiaries have been and are operating in distinct local institutional settings, they will build their organizational practices on host country institutional foundations and will not simply reflect the home based practices of the multinational. Prosperous subsidiaries mobilize national institutional resources to gain social space, economic importance and political power within the MNC (see also Bélanger et al., 1999 for a study which reveals the importance of the local institutional context). Again the subsidiary becomes a site of adaptation but, contrary to Whitley, the main emphasis is placed on the local institutional context. What unites both of these perspectives is that they see the MNC as a contested terrain, a transnational social space, in which subsidiaries and headquarters engage in negotiation and conflict over a multiplicity of possible future forms, directions and destinies for the MNC by drawing on the institutional advantages of their host locations (see also Morgan, 2001a, 2001b).

More recently, authors have explicitly labelled these processes in terms of 'micro-politics' in which the drive from the MNC headquarters towards isomorphism is undermined by the capability of local actors to pursue different interests (see e.g. Dorrenbacher & Geppert, 2005; Geppert & Matten, 2006;

Geppert & Mayer, 2006; Geppert & Williams, 2006). One of the most intensive research programmes in this vein has been conducted by Ferner and his colleagues in a series of articles reporting on US multinationals and their subsidiaries in the UK. They have shown how,

> the 'isomorphic pulls' exerted by corporate headquarters were not sufficient to ensure . . . subsidiary 'acquiescence' – that is, full compliance in form and spirit with institutional pressures . . . managers were able to derive bargaining resources from their rootedness within the specific institutional configuration of the host country.
> (Ferner et al., 2005b: 316; see also Ferner et al., 2004, 2005a, 2006)

In this approach institutions act in a reinforcing complementary way to make certain forms of behaviour and processes the accepted ways of doing things. However, actors are not bound to follow these requirements. They may act strategically to further their interests within these constraints (Crouch, 2005). In contexts of 'dual institutional' pressures, the range of manoeuvre for actors is increased as they can draw on various institutional resources from the home and host context. As these contexts are also evolving and not static (Marquez, 2005), there is actually no single logic inside national systems but a plurality of logics, some hidden, some overt (Crouch, 2005; Morgan, 2005; Streeck & Thelen, 2005). Thus actors in subsidiaries are not driven into either conformity or resistance but 'appear to demonstrate considerable space, within structural constraints, for managerial "strategic choice"' (Ferner et al., 2005b: 317). This fits with recent re-workings of comparative historical institutionalism which are aiming to bring a more dynamic perspective into the relationship between institutions, actors and firms (e.g. Crouch, 2005; Kristensen, 2005; Morgan et al., 2005; Streeck & Thelen, 2005; Thelen, 2005). The common strand which links these perspectives is a recognition that firms are not static recipients of institutional contexts but are rather involved in a complex and dynamic interaction with institutions at the national and international level (see also Elger & Smith, 2005, for a multi-level analysis of Japanese MNCs and their subsidiaries in the UK).

In conclusion, both forms of institutionalism reject economistic explanations of how MNCs and their subsidiaries work. In each approach the emphasis is laid on the social processes that lead them to develop in particular ways. In organizational institutionalism, the emphasis is on isomorphic processes but there is recognition that this is not an abstract process but something that happens a) as a result of certain actions and b) in particular contexts. In comparative and historical institutionalism, the concept of society as a set of complementary institutions, which shape how firms evolve lies at the heart of an understanding of multinationals. For both types of institutionalism, the recognition of different institutional contexts means that multinationals embody diverse local logics. From this emerges the strong sense of micro-politics inside these firms as actors use different institutional resources to strengthen or defend their position. In summary, the contribution of these institutionalist arguments is:

- A rejection of economistic accounts of multinationals;
- A focus on the social embeddedness of organizational practices in different institutional contexts;
- A concern for the ambiguity and uncertainty which this creates inside the multinational;
- A recognition of the role of politics in the working out of these ambiguities;
- A concern for the degree of isomorphism and divergence which remains within and between multinationals;
- An interest in power and the ability of different actors within the multinational to shape the transfer, diffusion and implementation of organizational practices.

However, our purpose in writing this article is to go further than simply identifying the existence of micro-politics based on institutional difference. We aim to provide a framework that can inform the study of multinationals from an institutionalist perspective, capturing the variety of levels involved in the analysis as well as the key relationships.

In our view, the MNC as a totality may be seen as a highly complex configuration of ongoing micro-political power conflicts at different levels in which strategizing social actors/groups inside and outside the firm interact with each other and create temporary balances of power that shape how formal organizational relationships and processes actually work in practice. Institutions enter into these processes, firstly as co-constitutors of the set of actors/groupings and their mutual roles and identities, secondly as forms of restriction on the choices actors make, thirdly as resources that empower actors and finally as rule-givers for the games that emerge.

The concern of institutionalist theory with 'institutional diversity' and the consequent spheres of ambiguity and uncertainty which are created suggests that one way to move from particular micro-political processes to a framework for such processes is to focus on the distinction between the global organizational framework of the multinational and its senior management (i.e. its straining for a coherent set of practices and procedures within its organizational boundaries irrespective of institutional boundaries), and its local constituent parts embedded in their own institutional context. The multinational seeks to create this coherence and order through a number of mechanisms. To simplify matters, we identify two categories of mechanisms associated with transfers between the head office and its subsidiaries, often via divisional headquarters. The first mechanism is the transfer of practices, policies, processes and work systems sometimes associated with benchmarking procedures that measure factors such as size of the workforce, profitability, inventory, productivity, etc. These measures become the basis for demands that all subsidiaries live up to the best practice. Failure to do this leads to threats that production facilities will be moved from the low performing plant to a high performing plant, what has been termed the use of 'coercive comparisons'. The second category of mechanisms of transfer we label as transfer of resources, covering financial capital (i.e. investment funds for new products or processes), knowledge capital (transfer of individuals and activities to a subsidiary to become a 'centre for R&D excellence') and reputational capital (the recognition of a particular subsidiary as a leader in its field). In both mechanisms, we are particularly concerned with the interaction between different sorts of managers and these processes.

Drawing on the existing analyses of institutional settings, our second dimension concerns the degree to which local settings are likely to be active in either resistance to, or adaptation of, these transfers. Here we draw on the well-known distinction between types of capitalism. Those settings that are characterized by cohesive and cooperative employment relations, strong links to the local institutional setting (training and skills, innovation and supply networks, collective employer and worker representation bodies – a characterization which reflects what Hall and Soskice label as a 'coordinated market economy') are likely to respond to transfers with resistance. In these contexts, employees, in particular, tend to have high skills and expectations of consultation and involvement in the workplace. Transfers that threaten these skills or are introduced without consultation are likely to be resisted where they threaten existing patterns of authority and the division of labour. Where transfers are potentially more positive for the subsidiary, it is likely that local actors will be more likely to absorb and adapt to these processes than accept them wholesale. In settings which are characterized by conflictual and low skill employee relations and weak links into local networks ('liberal market economies' in Hall and Soskice's model but perhaps more accurately described at the organizational level by Whitley's [1999] term as 'isolated hierarchies'), employees have little capacity for organized resistance. In the following sections, we elaborate on these arguments. Table 1 gives an initial summary of the types of micro-politics embedded in the MNC.

Table 1 Types of micro-politics in MNCs

	Transfer to subsidiaries of practices, processes, policies and work systems within a framework of benchmarking and 'coercive comparisons'	**Transfer to subsidiaries of financial capital (for new investment), knowledge capital (to become R&D centre) and reputational capital (to become exemplar of a process)**
High resistance to HO: Cohesive subsidiary with strong links to local institutional supports	Micro-politics of information shaping and collective resistance through overt and covert mechanisms drawing together managers, employees and local institutions	Micro-politics of aggressive bargaining for advantage using local institutional advantages
Low resistance to HO: Lack of cohesion, weak local embedding	Information compliant Susceptibility to breaking up of existing practices and replacement by 'global' standards: micro-politics of unorganized resistance	Ineffective in competition for resources except under special circumstances. Ineffectual micro-politics with HQ

Types of micro-politics

In this section, we examine in more detail the types of micro-politics that emerge in MNCs. We consider the two types of transfer and the sorts of micro-politics that emerge around them.

Transfer to subsidiaries of practices, processes, policies and work systems within a framework of benchmarking and 'coercive comparisons'

It is clear that a number of factors affect the degree to which MNCs seek to transfer practices and processes. The first of these relates to the strategy of the MNC which in turn is affected by sectoral patterns of competition and organizational structuring. As has been pointed out in the international business literature (Bartlett et al., 2003), MNCs vary in the nature of their strategy towards subsidiaries on at least two counts – firstly, how integral the subsidiary is to the profitability of the firm and secondly whether its output is aimed at the local market in which the subsidiary is located or whether it is part of a global production chain organized by the head office. If profitability is low and connection to the wider MNC limited, the subsidiary is in a weak political position vis-à-vis head office demands. If it is highly profitable, it becomes more valuable to the MNC and therefore has more power. The second and associated feature that affects the strategy of the MNC relates to the institutional origins of the MNC. Research now shows that US MNCs tend to manage their subsidiaries through tight financial and performance controls and the adaptation of centrally devised HRM policies to the local context. UK MNCs are similar in their focus on financial and performance controls but tend to be looser in imposing central HR policies (Ferner et al., 2004, 2005a, 2005b). Japanese firms seek to reproduce as closely as possible their home system of production and achieve this through maintaining a high number of technical expatriates in place and retaining strong links with 'mother plants' in Japan that have the obligation of aiding the overseas plant in improvement processes (Morgan et al., 2003; Whitley et al., 2003). German firms have become increasingly willing to adapt to and learn from local conditions whilst retaining a strong oversight of the budget and technical developments (Ferner & Varul, 1999, 2000; Lane, 2000; Geppert et al., 2003).

Multinationals, therefore, clearly have different approaches to transferring elements to their subsidiaries depending on their markets, their broader strategic objectives and their national origins. However, as a general point, these transfers, varying in their nature and quality, create challenges for actors in their local contexts as to how they respond. One challenge that we wish to emphasize that links to micro-politics is around the transfer of information from subsidiaries to headquarters. Since at least Crozier's classic study of *The bureaucratic phenomenon* (Crozier, 1964), organization theorists have recognized that numbers (whether they are accounting numbers or performance numbers) are socially mediated. Divisional and subsidiary managers in multinationals are not simply 'representing' numbers, they are interpreting and constructing them, learning how to make them 'come out right'. It would be naïve to assume that even powerful managers can control the numbers as much as they might like over the long term but it is within this framing that we can see micro-politics occurring as actors in different positions engage in competitive modes of interpretation and explanation. Transfers of processes, policies, work systems, etc. occur in order to improve performance and it is in this context that information becomes a crucial area of uncertainty and conflict. How the numbers are constructed and interpreted and who is made the 'hero' or 'scapegoat' is primarily determined by senior managers who ultimately have the power to reward or discipline on the basis of their interpretation. Those at the top have the right to allocate blame, which therefore 'falls on unwary and inexperienced underlings' (Jackall, 1988).

Responding to this uncertainty, other managers have a variety of options. They must consider how to make strategic moves that enroll them as members of coalitions so that firstly they do not get individually blamed for poor numbers and secondly so that they become part of an informal network of managers bound together by shared perspectives, inter-related careers and reputational interdependence. The two most obvious groupings are firstly where managers commit to the goals of the organization and participate fully in the numbers game using success to move quickly from one position in the MNC to another, so that they may be able to allocate the blame for their own mistakes on their successors in a process of 'outrunning their mistakes'. Certainly, the likelihood of this has been significantly affected by the speed and frequency of organizational restructurings and other management changes emerging from the effort to placate the capital markets. Thus these managers potentially become participants in the creation of a category of global managers showing loyalty (at least in the short term) to the objective of the MNC's headquarters and its strategy rather than to any local subsidiaries and local coalitions of actors. The second strategy, however, is for managers to become more deeply embedded in their local institutional context, pursuing their interests less within the multinational and more within the network of local institutions and firms.

In countries or regions where managerial careers are primarily judged in terms of achieving the targets passed on by headquarters and managers' promotion possibilities are decided internally and externally by these achievements, then lower level, subsidiary managers are likely to act in concert with the numbers game, that is, to prove that they can manage their subsidiary so as to meet shifting fashions in benchmarking in the most significant way. We can use the findings of comparative institutional analysis to argue that these sorts of managers are more likely to emerge in contexts where institutions are weak, the power of the organization over employees is strong and there is weak resistance to the imposition of outside practices and processes of coercive condition. The micro-politics in such contexts is one where the subsidiary is likely to be information compliant, as it is led by managers who perceive their future in terms of cooperating with senior managers if they are going to build a successful career inside or outside the firm. However, as these managers see themselves involved in a competitive, individualistic race, there will be an attempt to put the best light on one's own achievements and move on before longer-term problems might emerge. These contexts are susceptible to frequent restructurings in response to head office demands and as individual managers seek to show their own distinctive skills in the battle for promotion. Resistance from employees is weak and employment rights are limited. Only limited support can be drawn from the local context for struggles within the firm.

At the other end of the scale, however, are managers that are operating in localities or countries that have a tradition of focusing on more long-term developmental goals for the firm. Such managers face a difficult trade-off. If they simply follow the new institutional logic they may ruin their personal reputation locally or nationally if it gets known that they have played their cards to meet short-term benchmarks in such a way that they get promoted by harming a local subsidiary. In some contexts, there may exist a very well-developed locally shared 'system for tracing responsibility' as employees and colleagues within and among firms are narrating the biographies of individual managers and creating stories as to their performance; a narration that may wind up with the common perception that the manager is part of the local community rather than part of the MNC. Managers that opt for a local career may choose to play in such a way that they cultivate their local reputation at the cost of their global career, accepting the risk of being fired or downgraded by the MNC but comfortable with the knowledge that they have a strong reputation locally that can be advantageously leveraged in the right circumstances.

Locally embedded managers are more likely to be found where institutions are strong, networks between local firms and local associations and local government are supportive and where support for the development of employee skills and employee representation is also important. Actors feel more deeply embedded in the local context and are less dependent on the MNC. Subsidiaries are characterized by the micro-politics of information shaping (led by local managers) and the potential for collective resistance through overt and covert mechanisms (led by employee representation bodies). Local bodies and local networks of firms and employees are likely to be supportive of these approaches.

In the real world, we recognize that there are likely to be a variety of responses between these two extremes. As with all such theorizing, however, we seek to clarify the argument in order that more detailed research can develop the nuances along this dimension.

Transfer to subsidiaries of financial capital (for new investment), knowledge capital (to become an R&D centre) and reputational capital (to become an exemplar of a particular process, product or service)

In this section, we consider the micro-politics that emerge from the ability of the head office of the MNC to distribute resources and rewards within its boundaries. How is it possible to win these competitions for resources? Our argument is that this creates rather an interesting set of micro-political processes once we examine the question from an institutional perspective.

As already discussed, there is a large literature that examines the range of strategies which subsidiaries may adopt in their approach to headquarters and its distribution of rewards and resources as they seek to reduce uncertainty and promote their interests within the multinational as a whole (see e.g. Birkinshaw, 1997, 2000; Birkinshaw & Hood, 1998). A crucial point, however, is that in this internal competition for resources, mandates, etc., it is often unclear how the rules are going to be interpreted by senior managers and how the numbers are going to be read. It is a common story in the closure of subsidiaries by multinationals that the local plant did everything that was asked of it and yet still became the victim of the MNC's axe. Thus conformity to what are perceived to be the rules is not a guarantee of anything. In an interesting discussion, Delany (1998) has sought to understand this problem by distinguishing between what he describes as 'Boy Scout' and 'Subversive' strategies in MNCs, a distinction which we elaborate on. Again we develop the argument at the extreme in order that more detailed research can reveal the more complex picture between these two polar opposites.

Boy Scout subsidiaries follow the demands of the head office and do not seek to develop or go beyond their existing mandate. They are likely to be led by global managers for whom building a career in the managerial labour market (both internal and external to the organization) is the main concern. As a result these managers' main concern is to impress head office with their commitment to its goals. They seek to implement the benchmarking and other practices that head office recommends. They participate in competitions to extend their mandates as they are instructed by the head office. There is of course no problem with Boy Scout subsidiaries so long as all subsidiaries are acting this way. It is when others are acting in different and more innovative ways that Boy Scouts become problematic. In multinationals with subsidiaries in diverse institutional settings, there are likely to be other responses, some of which may be more profitable for the MNC. Furthermore, it is difficult to see how Boy Scout subsidiaries do not undermine their own position in the MNC since they increasingly become like clones of each other subsidiary as they restructure according to global best practices defined by the head office. The more they become similar, the more they make their performance easily comparable with other plants in a similar position, in turn making it easier for the multinational to rank performance and decide to concentrate production in one of the similar sites and close down the others. In implementing processes from outside, it undermines any distinctive competitive advantage it might have had deriving from its own history and culture. Potentially this also has serious consequences for the

MNC as it may come to consist of a range of similar subsidiaries with little room for the diversity that is necessary for innovation.

Subversive strategists, on the other hand, are characterized by a continuous search for mandate extension whatever the rules which the headquarters is trying to operate about the appropriate way to win support for this. 'Subversive strategists' are likely to be led by local managers deeply embedded in local networks and unwilling to capitulate to head office demands that may undermine these local networks. Thus they may treat the MNC as just one arena of many in which they participate. For example, they may evolve strong networks and links into international, national and local markets, networks and institutions without seeking permission for this from the MNC HO. Indeed their ties with these other actors may become more intense and in some ways more significant (at least for the long-term future of the subsidiary) than their ties with the headquarters. Reflecting this, Kristensen and Zeitlin (2005) show how a number of subsidiaries in their MNC case study (which had previously been independent firms) actively 'applied for membership' of the multinational as a way to realize their own strategy. Further, they tried – with different degrees of success – to pursue such independent strategies after they had achieved this membership.

As Kristensen and Zeitlin (2001, 2005) point out, whether subsidiaries play their roles in a Boy Scout way or are more subversively following their own distinctive route is also dependent on how far they accept the head office as a legitimate form of authority which can dictate how they are to act. Some subsidiary managers simply accept this as legitimate and follow orders without complaint (though, of course, employees might be rather less quiescent); others may perceive the MNC more as a gentleman's agreements among peers where negotiation is essential; some may think of the MNC as a new form of protected home market offering stability and potentially room for new expansion; a final group see the entire corporation as an ongoing system of competition, where it is always good to struggle for enlarging one's economic and political space inside and outside the corporation.

Subversive strategists make novel use of their local social institutions, suppliers, labour markets, etc. In this way they rather spur experimentation within national and local contexts in ways that may deepen comparative advantages and distinct ways of organizing employees and making use of skills, etc. Their formal structure and how they measure performance is not so important to them as their ability to use internal resources and external networks in highly entrepreneurial and very unpredictable ways as seen from the MNC HQ. In terms of their practices, such subsidiaries may become increasingly de-coupled from the MNC even though their skills and capacities are often crucial to the innovative capabilities of the MNC. Instead such subsidiaries deepen their capacities by becoming increasingly tightly coupled to the core attributes of the national institutional context or the local industrial district in which they are located, in terms of their dependence on local configurations of skill, cooperation and knowledge transfer. In so far as they build external networks, they build them as much to other places around the world that possess similar or complementary capabilities. Such networks are valuable for continuing to upgrade the capacities of the local subsidiary, a process to which the MNC itself seems weakly attuned.

From the more subversive end of the scale, managers are able to be successful if they are able to achieve two objectives. First, they need to be able to collaborate internally in the subsidiary across different groups. Second, they need to be able to mobilize local, national and international resources by collaborating with suppliers, unions, vocational training and R&D institutions. Both of these conditions, if met successfully, can turn local cooperation into favourable outcomes for the MNC but at the expense of simultaneously distancing the subsidiary from the strategy and intent of the MNC head office (Sölvell & Zander, 1998; Kristensen & Zeitlin, 2005). As Sölvell and Zander (1998) point out, this may also imply that the better performing subsidiaries are those that increasingly become tightly integrated with their host localities and for whom ties to the multinational become, if not weaker, then less and less important for directing their overall development. Some of them might even wish to be sold to other MNCs or to be offered opportunities for management buy-outs, if their ability to collaborate locally is hampered by MNC policies (e.g. towards suppliers, in terms of allocating R&D and product mandates). Often in such subsidiaries there is a strong sense of what it takes to do good business (technologically, in relation to customers, employees, etc.) and this feel for the 'local' and larger competitive game may in many ways run counter to the new institutional logic and method of control of the MNC.

As we discuss in the next section, many subsidiaries have been bought and sold so many times that their experiences have taught them that they should follow a subversive strategy that reinforces their indigenous strengths rather than simply follow the dictates of the MNC HQ. Developing their own strengths means that they become distinctive and even where the MNC decides to get rid of them they may be able to actively sell themselves to an alternative and possibly 'better' owner. Such stable and consistent strategies in the subsidiary in the midst of an MNC engaged in constant restructuring at the level of formal structure requires the ability to engage in skilful micropolitics, performing to the standards of the MNC whilst trying to ensure that distinctive capabilities, built out of the institutional context, are extended and not destroyed. Subversives are unlikely to survive if they do not deliver the goods to the head office but nor can they survive if they neglect to build their independent networks and capacities for action.

The broader context: Capital markets and MNCs

If we are to understand the intensity, urgency and significance of these micro-political processes, it is necessary to briefly focus on a particular arena that gets limited discussion in many institutionalist accounts of MNCs – that is the context of ownership, capital markets and the relationship with senior managers. Whilst we recognize that this is a huge topic, we simply want to point to its importance in developing an institutionalist account of multinationals. Again, we make our argument clear whilst recognizing that in reality there are likely to be a complex layer of relationships and that these need further examination through detailed research.

It is in the capital markets that the basic drive for restructuring occurs and it is thus from here that a major impetus towards uncertainty, risk and micro-politics inside the MNC grows. In the most developed capital market systems of the UK and the US, the financial performance of firms is highly monitored by players in the capital markets and failure to meet the expectations of these players has immediate repercussions for managers through falls in share price. Thus senior managers of firms are engaged in a game with members of the institutional investor nexus in terms of achieving certain levels of performance (see Froud et al., 2000, 2006; Lazonick & O'Sullivan, 2000; Williams, 2000; Golding, 2001; Lazonick, 2005). What this institutional set of players offer MNCs is access to financial resources by which they can not only finance their debts but also speed up their growth. In return, the institutional investment nexus creates disciplinary mechanisms over firms if they fail to perform.

The crucial mechanism for mediating these pressures lies in the senior managers' abilities to restructure and reorder the firm to reduce costs and increase efficiency at the same time explaining and justifying these processes in a discourse acceptable to the key players in the capital markets (see Froud et al., 2006). For the senior managers of multinationals, in particular, this links to the development and application of benchmarks for performance at different levels and sites in the organization. As discussed previously, these various and often changing benchmarks become the means for senior managers to judge performance across sites and to leverage local managers and employees in to higher levels of performance. It is at this point that subsidiary managers receive these pressures and evolve their responses either towards Boy Scout strategies where they transfer the onus on to workers and suppliers in terms of higher productivity, lower wages and lower prices or as 'subversives' seek to develop cooperative ways of meeting these demands without overturning local expectations. Under the names of 'investment-bargaining' or 'regime-shopping', HQs seek to play off subsidiaries against each other, forcing them to show up with the best benchmarks in order to be favoured in investment or head-count decisions (Mueller & Purcell, 1992; Mueller, 1996). Whilst Boy Scouts cooperate with the undermining of their own subsidiary (a prospect that divides the workforce between the managers, for whom the locality is a temporary step on a path to steps up the internal or external labour market, and the workers, most of whom are likely to be locked into the local labour market), subversive strategists work to coordinate local cooperative responses to such pressures. Investment-bargaining and regime-shopping is a way for senior managers to placate capital markets, when the alternative might be possible hostile take-over bids with the eventual loss of personal prestige and position. Complaining local managers just demonstrate their lack of understanding of the larger pattern of the global game, if they argue that official strategies are utterly irrelevant for their businesses and that benchmarks only give bad insights into their performance more generally. When they cannot reach benchmarks, ROI or any new indicator on performance, this would be labelled as 'bad excuses' (Bélanger et al., 1999).

Companies clearly find it difficult to survive in a stable organizational form in capital markets which are highly liquid, where investment bankers construct lists of vulnerable companies and growing firms, whilst venture capitalists and others are prepared to invest in major restructuring in order to produce a profit further down the line. Continuous restructuring not only creates a promise of better things for the future but it also makes it more difficult to compare over time, since the object of comparison (the company, the division, the subsidiary) is likely to have fundamentally changed its shape. For example, Whittington and Mayer report that '20% of the top 50 UK firms were engaging in large scale reorganizations every year in the early 1990s, over the last five years (1997–2002) the average has climbed above 30%' (2002: 2–3). Furthermore, they argue that large firms now reorganize about once every three years in addition to more frequent minor changes such as 'splitting, merging and swapping amongst sub-units' (p. 3). Research at the level of individual companies confirms this. In their study of GEC between 1988 and 1998 for example, Froud et al. identified 79 major restructuring events involving acquisitions, sell-offs, joint ventures and suchlike, which radically changed the shape of the company (2000, 2006).

Clearly, there are differences in other systems where capital markets are not yet as significant, for example, Japan but in other settings that were previously sheltered from this such as Germany and Finland, it is also impacting (Tainio et al., 2001; Vitols, 2003; Lane, 2005). In our view, the consequence of this is that internal actors are firstly faced with more uncertainty, secondly this encourages actors and groups to develop strategies for survival outside the MNC which currently owns them and thirdly that both of these processes intensify the sites of micro-political struggle and their intensity.

Discussion and conclusion

Building on institutional theory and recent empirical research, we have suggested that the problems of institutional duality within multinationals emerge in a variety of forms of micro-politics. We suggest that this development of micro-politics is a distinctive feature of the current economy. It reflects the construction of increasingly complex multinational forms based in different institutional contexts. It also reflects the uncertainty that actors in these different settings feel about their position in the MNC and the consequences of their integration on the local institutional system. In some settings characteristic of liberal market economies, management is dominated by non-local employees who seek to follow the rules set out by headquarters. These actors provide information with minimal manipulation and act as good Boy Scouts to further their own career. In other settings with stronger institutional linkages, management tends to be locally embedded, resistant to over-reliance on the headquarters and willing to secure its future in a broader political economy by developing its own on-the-side activities. These internal features make the multinational a precarious organizational form riven by micro-politics. This is exacerbated by the role of the capital markets that continually monitor, punish and reward according to performance. Senior managers' main weapon of response to this can be described as organizational restructuring but this heightens uncertainty and increases the likelihood that those subsidiaries which have the capability will develop their own subversive strategies whilst Boy Scouts will gradually be reorganized out of existence.

This particular combination of features has a wider significance for the emerging political economy. From our analysis it seems that there is the possibility that the competition between different subsidiaries and different types of managers may lead to two possible outcomes. In the first outcome, such is the commitment of the head office to standardized practices that it enforces these on all its subsidiaries. Local resistance is gradually overcome by the insertion of global managers with little interest in local networks. The result is an MNC in which subsidiaries are increasingly clones of each other. Diversity has reduced and the sources of innovation are increasingly derived from outside the firm (from consultants, from new acquisitions, from links to universities, etc.) because internally there are no pockets of autonomy, differentiation and locally stimulated change. This outcome may satisfy the senior managers as it gives them control over subsidiaries and, in theory, knowledge of their performance thus enabling them to persuade their institutional investors that they are in charge and know how to manage the next restructuring for financial success. As the economic potential of Boy Scouts is gradually exploited and their distinctive assets reduced, if not destroyed, their usefulness for the MNC begins to disappear. Conformity provides no long-term basis for survival and growth.

The other outcome emerges from contexts where subversive strategists are given some room for manoeuvre in the context of a more diversified system of control – closer to what Hedlund labelled as 'heterarchy' (Hedlund, 1986). For example, in Kristensen and Zeitlin (2005) it is the Danish Horsens plant and in Bélanger et al.'s (1999) study of ABB it is a small Finnish plant both with a long-term serving manager that move into the position of playing the 'benchmark-setting role' after having been greatly neglected by the HQs. Local plants can develop distinctive advantages which they build out of their relationships with the institutional context. These are often the basis of new innovations in products and processes whilst being very difficult to transfer to other sites which lack similar institutional foundations. These advantages, however, can be easily destroyed if head offices impose strong global standards and crush local networks. Imposing on these subsidiaries targets and processes that destroy their local embeddedness and international connectedness would be to destroy key assets that help give the MNC and its shareholders the possibility of long-term growth through innovation and diversity.

These two possible outcomes set MNCs a substantial conundrum. The head office cannot in the long term have both hierarchical control and performance. Hierarchical control reduces uncertainty for head office managers. It creates the basis for a clear narrative to institutional investors. On the other hand, it undermines local distinctiveness and produces conformity and homogeneity rather than innovation and heterogeneity. Overall, then, hierarchical control can produce effective performance results through organizational restructurings that reduce costs over the short term. It is less likely to produce long-term effectiveness as it depends on head office and outside influence for innovation. Is it possible to imagine an organizational form in which subsidiaries are given more autonomy and HQ executives give up the mode of hierarchical control that today brings them their status in the eyes of the institutional equity nexus? Clearly, this was Hedlund's argument (1986, 1999), drawing partly on his empirical observations and partly on his normative commitment. Is it likely that this will happen? Most likely multinationals will become increasingly squeezed by the sorts of processes which we have described and torn between seeking on the one hand to create standardized procedures, benchmarks and performances and on the other hand utilizing the specific strengths of particular institutional settings. However, so long as this remains the case, there exists a form of 'legitimacy deficit'. Actors within the firm lack a commitment to their membership of it as they know that the dynamics of the capital market mean that there will be continual restructuring. In the light of this deficit, some parts of the MNC look for alternative futures whilst other parts gradually decline and disappear. It is hard to see that economic performance will not be affected by this uncertainty in the long run.

In conclusion, institutionalist theory can make a fundamental contribution to the understanding of multinationals. By emphasizing the socially embedded nature of multinationals and the problems of institutional pluralism it opens up a series of fascinating questions about how multinationals actually operate in comparison to the idealized versions present in many discussions. In this article, we have sought to show the sites of these micro-political struggles in the context of firstly attempts to introduce standardization and secondly in the contest over resources within multinationals. We have shown furthermore that in the context where capital markets are playing an increasingly important role, micro-political struggles will intensify and increase in response to the uncertainties. As local sites have different institutional resources, responses to these processes will become more diverse pulled between the extremes of a Boy Scout orientation, obeying and conforming to the head office, and subversive strategists, seeking to defend their continued existence by deepening their local embeddedness and from this gaining advantages of flexibility and skill. What does all this mean for the multinational? Is the multinational a stable organizational form or is it actually undermining its own conditions of existence and becoming the midwife of a new set of relationships between economic actors? These questions offer a serious agenda for research in which institutional theory (of both sorts) by offering complementary lenses will make a significant contribution.

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