Multinationals and national business systems

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Themes of presentation

- Types of MNCs:
  - Strategic goals of MNCs
  - Institutional focus of MNC subsidiary
- Types of NBS
  - Developed economies and diversity
  - Developing economies and institutional complementarities
- Types of Impact: focus on impact in host society*
  - Institutions, complementarities and diversity
  - The economic and political reproduction of elites and power

MNC strategy for subsidiary	Assets	Requirements	Main institutional focus of MNC impact
Market seeking	Leveraging existing assets to capture new markets	Open competitive market: minimal anti-competitive and restrictive conditions on foreign MNCs	Market access, Market-making and competition legislation
Efficiency seeking	Cheapening costs in value chain by accessing cheaper assets.	Firm level flexibility in managing labour and environment	Labour regulation Environmental regulation
Strategic asset seeking: raw materials and commodities	Capturing access to key assets: geographically fixed assets	Limited restrictions on foreign ownership of commodity assets	Politics of nationalization, taxation and joint venture
Strategic asset seeking: knowledge	Accessing knowledge and open innovation networks	Open networks Absorptive capacity	Science and innovation: universities, spin-offs and IPR

National business systems: some modifications

- NBS as contingent outcomes of particular internal and external conditions of existence
- Complementarities between institutions constructed, sustained and suspended by actors
- Diversity within NBS: openness to different practices (of MNCs) varies
- The ‘system’ heuristic becomes progressively less useful as one moves from developed to developing societies, making relation between MNCs and institutions different again.

	Liberal Market **US, UK**	**Inclusive corporatist** **Denmark, Germany**	**Business Corporatist** **Japan**	**State led developmental model** **Korea**
Role of state	Rule- setting, regulatory state	Coordinating with social partners	Engaged in supporting large business including against outside competition	Building up large export oriented business firms
Intermediary associations	Weak	Strong among firms and labour: high national and sectoral coverage in established industries: some room for novelty in new or changing sectors (IT, banking)	Strong business connections among large firms: labour weak; SME's weak. New business developed within existing networks, reinforcing system	Discouraged for employers and labour
Firms	Autonomous within strong market constraints	Bound by national regulations and standards	Large firms set standards for their networks and also coordinate across their boundaries: SMEs weak	Small number of large firms entwined with the state in developmental goal: state may support innovative and novel forms from inside and outside so long as they are in control
Institutional diversity at 'system' level	High – depends on firm strategies, sector dynamics and market competition	Potential for diversity weak except in new areas: strong centralising and standardising processes	Segmented system dominated by large firms which hold key resources and absorb potential novelty	Segmented system overseen by state – may allow diversity to strengthen big firms and export success

MNCs, ‘new’ industries and institutional change in developed economies

- Professional services and investment banking MNCs: working the institutions
  - Pushed for opening markets and level playing fields between home and host
  - Pushed for international standards, e.g. accounting, auditing, bankruptcy, corporate law
  - Pushed for standard corporate forms – limited liability partnerships
  - Pushed to make markets – e.g. privatisation of state services, legalisation of derivatives markets
- Effective in LMEs, some impact in inclusive corporatist, little impact in business corporatist, mediated impact in developmental states.
- Example of IT, pharma, telecoms, internet: potential institutional impacts of MNCs
  - Push for open markets, deregulate state, privatise
  - Push for more flexibility of wages and rewards related to performance
  - Push for modification and restructuring of educational institutions and skill formation:

Impact of MNC strategy on institutional change	**Liberal Market US, UK**	**Inclusive corporatist Denmark, Germany**	**Business Corporatist Japan**	**State led developmental model Korea**
Market seeking	Easy to access: strong on competition law. No change	Difficult to access due to strong incumbents in traditional industries: may be more open in new industries. Potential change	Difficult to access due to strong incumbents that dominate new emerging markets as well as old ones No change	State resistant to overseas companies except in alliance with home based ones to improve export capacity Potential adaptive change for firms
Efficiency seeking	Relatively high cost and also weak in skill base for manufacturing. Not likely location for this type of MNC in spite of labour market flexibility and low regulation No change	High costs of business make this unlikely location for MNCs seeking efficiency gains No change	High costs of business: limited chance of reducing this No change	Discouraged by state: focus on home based firms No change
Strategic asset seeking – Knowledge *	Most key knowledge assets available at market price May speed up processes of labour market and high end knowledge development Adaptive change	Key knowledge locked into firms – may be accessible through M+A but this is limited by inclusive corporatist model No change	Key knowledge locked into firms: mostly inaccessible due to constraints on M+A No change	State may sponsor alliances and joint ventures to improve export performance of home based firms Limited change

*unlikely to be seeking raw materials and commodities in most developed societies though relevant for Canada and Australia.

Summary

- LMEs are the most open to entry of MNCs and to allowing MNCs to operate in their own way
- Inclusive corporatist NBS impose strong standards and rules on all firms
  - Likely to inhibit entry of MNC in most sectors
- Business corporatist systems: large firms and their networks hold key resources and set standards
  - Likely to inhibit entry of MNC in most sectors
- Developmental state: MNC access has to be negotiated through the state and be seen to serve the objectives of the developmental state

Transitional and developing economies

- Variable institutional capacities, i.e.
  - to establish the key institutions that characterise NBS in developed economies, i.e. legal, educational, financial and political systems
  - to embed institutions into reinforcing and sustaining complementarities that support particular sorts of firms
  - to sustain legitimacy for institutions through systems of representation, monitoring and accountability
- Possibility of institutional ‘gaps’ that
  - Threaten the reproduction of the system
  - Require filling from outside

Strong (authoritarian) state contexts: Russia, China

– State as gatekeeper through which MNCs have to pass
– State as controller of population: weak power of labour as a collective force
– Property rights uncertainties: state actors as protectors of MNCs
– Need for MNCs to be in strong conformity to societal standards in some areas
– MNC relatively free to organize internally as it wishes subject to labour markets for various types of employees
– Legitimacy and stability risk for MNC
– Attractive locations for MNCs for market-seeking (both), efficiency seeking (China) and asset seeking (gas, oil etc. in Russia)

Democratic states, limited institutional capacity, Brazil, India, South Africa etc.

- Influential participants in international governance, opening markets but critical of uneven playing field: WTO, G20
- Intermittently strong labour movements in certain sectors and cities
- Additional social cleavages that create uncertainties – politics and communal violence in India; favelas and crime in Brazil (similar in S.Africa)
- Some strong state regulation surviving from previous era but poor capacity to enforce: may have impact on labour regulation in MNC subsidiaries
- Emerging educational institutions for skills and dynamic labour markets
- Attractive locations for MNCs – market seeking (all), efficiency seeking (India in software) and asset seeking (commodities in Brazil and South Africa; some knowledge acquisition in India)
- MNC may be able to fill some institutional gaps in terms of health, skills and education in local area; also some limited economic spillover into local employment systems

Poor and failing/failed states

- Likely to be avoided by MNCs where rule of law is weak and strategic assets are non-existent
- Where there are important natural resources, MNCs may enter in spite of uncertainties
  - Political issue of paying for protection, supporting war lords, civil war etc.
  - Corporate issue of supporting some local institutional development in terms of education, health and skills in order to run business.

Impact of MNC strategy on institutional change	**Strong authoritarian states**	**Democratic states with limited institutional capacity**	**Failing/failed states****
Market seeking	Access through state as gatekeeper MNC weak power State may use MNC to facilitate institutional change, e.g. PSF and investment banking	Open access in most sectors – some use of political parties and state as gatekeepers but not as strong as in authoritarian states	Not relevant
Efficiency seeking	MNCs act as conduit global civil society criticisms of authoritarian policies	Pressure from MNCs to moderate labour regulation and environmental protection	Not relevant
Strategic asset seeking – raw materials, natural resources and commodities*	Pressure to conform to international standards on property rights – may easily be ignored when competition for resources is high	Pressure from MNCs to allow access to sites against local opposition and with minimal conditions Moderated by MNCs CSR commitments May have major impact on local infrastructures	Major source of income in some countries – creates internal civil wars for access. Makes institutional formation highly unproblematic. May be moderated by international action from IGO,NGO and MNC CSR
Overall impact of MNCs on institutional change	Modernise and internationalise certain standards May moderate authoritarianism	State modernises regulatory, financial and legal infrastructure to facilitate FDI Necessity to retain political legitimacy places brakes on institutional change	Potentially destabilising, increasing inequality and insecurity Institutional stability unlikely to occur without international resources

Final thoughts (1)

- Dependence of society on FDI and degree of diversity of FDI*significant to these impacts

Country location	**No. of foreign subsidiaries**
China (exc HK) 2007	286,232
Romania 2002	89,911
Czech Republic 1999	71,385
Hungary 2005	26,019
Mexico 2002	25,708
USA 2002	5,664

Final thoughts (2): who profits and how?

- How is the value added in subsidiaries distributed inside the MNC?
- What is left with local employees and suppliers and with the local government through taxation?
- A huge amount of cross-border trade goes inside MNCs and the pricing of these trades is crucial to where profitability is assigned and made visible.
- This is also related clearly to tax regimes and where tax liabilities are declared.
- We do not have sufficient research on this to begin to consider how the tax systems of different national business systems have been shaped or changed by the activities of MNCs.

Final thoughts (3)

- Institutional change, MNCs and forms of capitalism
  - Is there a CSR influence?
  - Is there a global social movements or NGO influence?
  - Which global regulatory regimes intersect with these processes and how?
  - Country of origin influence?
  - Flow back to the country of origin – yes but in complex ways inside and outside the MNC.