



Transnational tendencies in multinational enterprises

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Abstract

Purpose – The purpose of this paper is to present a synthesis of transnational tendencies in multinational enterprises (MNEs), to theoretically analyse the result and to study whether managers in MNEs have experienced the predicted tendencies.

Design/methodology/approach – The synthesis is based on an extensive literature review which is analysed by transaction cost economics. Identified tendencies are studied in a survey of managers in MNEs.

Research limitations/implications – The study provides an overview of a fragmented research area and suggests explanations for new tendencies described in the literature. The empirical study suggests that some tendencies have been more prevalent than others.

Practical implications – The survey was conducted with MNEs with substantial activities in Sweden. It investigates how managers perceive changes that have occurred during the past several years.

Originality/value – The paper analyses a synthesized view of transnational tendencies in MNEs and the results of a survey of how managers have perceived the tendencies described in literature.

Keywords Multinational companies, Transaction costs, Transnational companies

Paper type Research paper

Introduction

When Bartlett (1986) and Bartlett and Ghoshal (1992) presented the ideas of a new “transnational” strategy in multinational enterprises (MNEs), they were not alone. Several researchers in the adjacent fields of international business, organization theory and strategic management were investigating similar ideas. A common belief among researchers in this tradition was that the late 1900s was a special period, one in which international strategies and organizational designs were in rapid transition and new dominant designs were not yet fully established (Egelhoff, 1998). Researchers often saw themselves as early observers of an emerging organizational form equal in importance to the multidivisional form (M-form) that emerged in the early 1900s and several researchers related their approaches to the divisionalized form when they described the development (Miles and Snow, 1984; Bartlett and Ghoshal, 1993; Hedlund, 1994; Roberts, 2004).

These contributions identified new possibilities for MNEs to gain competitive advantages. Global specialization and scale advantages could be increased and combined with adaptation to local markets. Specific skills could be developed in dispersed subsidiaries and then exchanged among units as they learned from one another. New innovations could be created by joint development projects and stronger incentives could lead to a more entrepreneurial spirit throughout large corporations.

What organizational changes were needed to attain these advantages? Different aspects were stressed by different researchers, and different researchers used different



conceptual frameworks. This is illustrated by the various names researchers gave the new phenomenon. Probably the best known among these is the “transnational”, as described by Bartlett and Ghoshal, but there are many other suggestions. Early on, Perlmutter (1969) described these new tendencies in MNEs as “geocentric”. Other descriptions of the organization have included “dynamic network” (Miles and Snow, 1984), “heterarchy” (Hedlund, 1986), “horizontal” (White and Poynter, 1990), “multi-center” (Forsgren, 1990), “integrated player” (Gupta and Govindarajan, 1991), “wired” (Hagström, 1991), “holographic” (Ridderstråhle, 1992), “transcontinental” (Humes, 1993), “multidimensional” (Jansson, 1994), “N-form” (Hedlund, 1994), “integrated global” (Malnight, 1995), “network-based” (Malnight, 1996), “metanational” (Doz *et al.*, 1996), “differentiated network” (Nohria and Ghoshal, 1997), “individualized enterprise” (Ghoshal and Bartlett, 1997) and “the modern firm” (Roberts, 2004).

With all of these contributions focusing on various aspects, there is a need to synthesize, but few, if any, such contributions have been presented. Further, developing such a synthesized picture requires theoretical analysis. Finally, there is a lack of empirical studies on the subject. Contributions to date have been future-oriented and predictive rather than descriptive, as illustrated by case studies presented by Bartlett and Ghoshal (1992). Few, if any, efforts have been presented in which managers of MNEs were asked whether they have perceived developments like those described in literature. Therefore, more than a decade after most of these contributions were made, several questions remain. How can a synthesized and comprehensive picture of the organizational changes suggested in literature be developed? How can the anticipated changes be theoretically analysed? What has happened in reality? Have MNEs changed in ways that the researchers had anticipated?

This paper will discuss these questions. The purpose of the paper is threefold: to present a synthesis of the extensive literature on predicted transnational tendencies of MNEs; to relate these tendencies to the analysis of the M-form; and to investigate whether managers that have been working in MNEs during the past several years have experienced the predicted tendencies.

New organizational tendencies – a literature review

Below, transnational tendencies identified by various researchers are synthesized and sorted into five categories: overall structure, management roles, internal markets, formal systems, and shared views and values.

Overall structure

Rather than diversify, MNEs should concentrate their activities into areas where they have core competencies. The dispersed units of a MNE would thereby develop combinational possibilities. MNEs also have a tendency to strive for a global distribution of specialized roles so that individual units become interdependent “centres of excellence” (Prahalad and Hamel, 1990; Forsgren, 1990; Bartlett and Ghoshal, 1992; Humes, 1993; Hedlund, 1994; Ridderstråhle, 1996). In this way, the role of subsidiaries becomes increasingly strategically important (Martinez and Jarillo, 1989; Gupta and Govindarajan, 1991; Andersson and Forsgren, 1994). Efforts towards local market adaptation, as well as global specialization and global scale advantages can be furthered by allocating market responsibilities to front-line units (Ghoshal and Bartlett, 1997).

Another suggested change is to increase decentralization and to give individual units, dispersed throughout the organization, greater responsibility for achieving results. This creates stronger incentives and reduces hierarchical layers within organizations, creating a “flat” organizational structure (Bartlett and Ghoshal, 1993; Fulk and DeSanctis, 1995; Buckley and Casson, 1998; Roberts, 2004).

The dynamic property of MNEs is another recurrent topic in the literature. Knowledge creation and change processes are emphasized and the capacity to develop new markets and products is seen as crucial in competition. Therefore, collaborative efforts among different functions and units increase; these are organised as projects that run parallel to the more permanent line structure (Martinez and Jarillo, 1989; Bartlett and Ghoshal, 1992; Hedlund, 1994; Nonaka, 1994; Ridderstråle, 1996). Within operational units, groupings are made according to process rather than function, and process-based units are co-ordinated by goals rather than instructions (Fulk and DeSanctis, 1995; Ostroff, 1999). The result is an overall hierarchical structure that is modified to allow several organizational dimensions (Jansson, 1994), and “weak” dimensions are strengthened (Malnight, 1995, 1996; Berggren, 1996). To balance different dimensions, for example global and local interests, an overall matrix-structure can be imposed, with global responsibilities for production/development and local responsibilities for markets (Martinez and Jarillo, 1989; Bartlett and Ghoshal, 1993). To balance the dimensions of short-term effectiveness and long-term development, the line organization can be complemented with projects that cross the line structure. Beyond formal structure, balancing various dimensions in a flexible way requires intense, often informal horizontal communication throughout the organization (Perlmutter, 1969; Edström and Galbraith, 1977; Martinez and Jarillo, 1989; White and Poynter, 1990; Hedlund, 1994).

Management roles

The new organization in MNEs also challenges management roles. Rather than traditional top-down decision-making, decisions should be made through communication and collaboration between managers at different levels with different roles (Perlmutter, 1969; Bartlett and Ghoshal, 1992; Baba and Imatai, 1993).

Top managers are the creators of the overall organizational infrastructure and are supposed to create and communicate overall visions and values and to define norms and standards. Top managers also play a role as catalysers of initiatives taken at lower levels (Bartlett and Ghoshal, 1992; Ridderstråle, 1996; Prahalad and Hamel, 1990; Stacey, 1992; Hedlund, 1994; Mintzberg, 1994; Nonaka, 1994). This implies a decentralized organization, but top managers should be involved selectively in problems that need centralized decision-making (Miles and Snow, 1984; Bartlett and Ghoshal, 1993; Roberts, 2004).

Middle managers with global responsibility for certain functions, products or markets play a critical role in linking overall visions to front-line initiatives (Mintzberg, 1994; Nonaka, 1994). Middle managers are also supposed to encourage front-line initiatives and horizontal relations and support transfers of knowledge between different parts of the organization (Bartlett and Ghoshal, 1992, 1993; Hedlund, 1994).

Front-line managers are, to an increasing extent, given responsibility for short-term profit for operations, as well as responsibility for long-term strategic development projects. Front-line managers are expected to behave as entrepreneurs, initiating

changes and taking responsibility for processes (Gupta and Govindarajan, 1991; Bartlett and Ghoshal, 1992; Buckley and Casson, 1998; Roberts, 2004). One idea is that front-line managers, as they meet local customers, should present a complete “menu” of the MNE’s products and services (Ghoshal and Bartlett, 1997).

Internal markets

With decentralized, front-line responsibilities for results and an acceptance of internal initiatives, many “small businesses” are created within the MNE. Internal transactions of goods and services are increasingly managed as internal market relations with voluntary agreements and market prices (Miles and Snow, 1984, 1993; Peters, 1992; Ridderstråle, 1996; Bartlett and Ghoshal, 1993; Forrester, 1993; Buckley and Casson, 1998; Fulk and DeSanctis, 1995).

Further, units are compared with each other, and compete to achieve outstanding results in various areas (internal benchmarking). There are also internal markets for projects and competition for specialized roles within MNEs. For example, there is internal competition for development funds and an explicit process of approval (Bartlett and Ghoshal, 1992, 1993; Prahalad and Hamel, 1990; Ridderstråle, 1996; Buckley and Casson, 1998; Birkinshaw, 1996). Subsidiaries are thus given roles as “global innovators” and “integrated players” (Gupta and Govindarajan, 1991). Also, supportive functions such as R&D are increasingly subordinated to internal market relations (Whittington, 1991). Internal markets create strong incentives for productivity and efficiency, and they encourage entrepreneurial initiatives. One problem is that internal competition can work against inter-unit communication and co-operation (Marchan, 1996). Shared views and values that support communication and co-operation may counterbalance the problems created by internal competition. Also, top and/or middle managers can intervene when problems occur (Miles and Snow, 1984; Forrester, 1993; Buckley and Casson, 1998; Roberts, 2004).

Formal systems

The development of information technology and new formal systems support the organizational features discussed above. At an overall corporate level, the use of universal formalized systems is emphasized. For example, the use of universal systems facilitates internal communication and distribution of goods and resources (Martinez and Jarillo, 1989; Hagström, 1991; Bartlett and Ghoshal, 1992; Fulk and DeSanctis, 1995; Ridderstråle, 1996; Buckley and Casson, 1998; Ostroff, 1999). Furthermore, streamlined, fast and detailed reporting systems, from the front lines and middle and top levels, makes possible decentralization and dispersed responsibility for results (Martinez and Jarillo, 1989; Miles and Snow, 1984; Bartlett and Ghoshal, 1993).

Formalized systems are also developed to support the management of new dimensions of the business. Reporting systems complement the control of short-term financial results with other objectives, for example long-term development, quality issues and specific local and global objectives (Perlmutter, 1969; Hagström, 1991; Fulk and DeSanctis, 1995). Entire new systems are developed for issues such as business intelligence, development of competence, personnel transfers, internal benchmarking, distribution of best practices, etc. (Edström and Galbraith, 1977; Fulk and DeSanctis, 1995; Ostroff, 1999). Although formalized systems are seen as important, due to the

need for flexibility many authors take a critical stance against detailed regulations (Bartlett and Ghoshal, 1992; Mintzberg, 1994; Fulk and DeSanctis, 1995).

Shared views and values

Descriptions of the new form emphasize the importance of shared views and values among members in the MNE. Shared views and values guide and restrict behaviour of decentralized individuals and reduce the need for formal rules and control by managers (Bartlett and Ghoshal, 1992; Hedlund, 1994; Mintzberg, 1994). Shared views and values can improve motivation and facilitate formal and, more important, informal communication, in both horizontal and vertical directions. Collaboration in different organizational settings is also facilitated if members share key views and values. Hence, shared views and values can improve communication within organizations, and they constitute a basis for flexible collaboration among organizational units (Martinez and Jarillo, 1989; White and Poynter, 1990; Buckley and Casson, 1998).

The development of shared views and values can be promoted by management communications and other forms of information distribution (e.g. policy documents, internal newsletters), by recruitment decisions, by training and by transfers of personnel (Perlmutter, 1969; Bartlett and Ghoshal, 1992, 1993; Forrester, 1993).

A summary of the new organizational features in large MNEs is presented:

(1) *Overall structure:*

- Units within core business with globally specialized roles.
- Decentralized responsibilities for operational results and long-term development.
- Fewer hierarchical levels – flat organization.
- Front-line units represent the whole MNE and adapt to local markets.
- Emphasis on dynamic performance, increased division according to projects and processes.
- Overlapping responsibilities and elements of formal matrix (global/local, line/project, etc).

(2) *Management roles:*

- Communicate overall goals, visions and values.
- Support development of competence and incremental “bottom-up” innovations.
- Allow different perspectives to influence decisions.
- Facilitate contacts and knowledge transfers (support of middle managers is critical to strengthening horizontal relations).
- Selective centralization as top managers intervene in specific problems.

(3) *Internal market relations:*

- Decentralized profit responsibility to front line (many small enterprises within the large enterprise).
- Internal market relations between units.
- Internal markets for new initiatives.
- Competition for roles and projects.

(4) *Formal systems:*

- Universal design of systems (for logistics, communication, etc.).
- Fast and detailed reporting systems from front-line level to top level (see-through profit systems).
- Information systems for several dimensions (short-/long-term, local/global, etc.).
- System innovations (quality, competence, internal benchmarking, etc.).

(5) *Views and values:*

- Shared views and values facilitate co-ordination among decentralized actors.
- Shared views and values increase motivation.
- Shared views and values promote informal communication and relations, often in horizontal dimensions (verbal communication network).
- Shared views and values are supported by management communications, personnel transfers, appreciation of “right” behaviour, information transfers through new communication technology, etc.

Multi-aspects of the M-form

How can this synthesized picture of new organizational features of MNEs be explained? Below, an analysis based on transaction cost economics is presented. The approach follows contributions by Williamson (1975, 1985, 1996). Williamson compares alternative coordinative forms (organizational forms and other alternatives) and analyses their influence on transaction costs. A transaction cost is in this theoretical context the cost for coordinating economic activities and depends on the efficiency of one mode of coordination compared to another.

Williamson analyses the organization of firms and distinguishes between two prevalent forms; the unitary form (U-form) and the M-form. The U-form emerged in the late nineteenth century and has been crucial for the emergence of large, mass-producing companies. The U-form separates activities into functional divisions (sales, finance, manufacturing). Top management coordinates a large organization with several hierarchical levels using a cadre of professional managers with functional responsibilities and developed formalized procedures. The U-form reduced transaction costs in high volume production. However, transaction costs increased when firms grew and became more diversified. With several products and different markets, top management experienced loss of control. Functional managers developed myopic perspectives, incentives weakened and information became distorted. The M-form was an innovation of the early 1900s that reduced transaction costs in expanding and diversifying firms. The novelty of the M-form was to group its divisions according to markets rather than functions and to separate the strategic managerial level from the operational level. Profit responsibilities for products and geographical markets were decentralized to divisional managers. New formal systems were introduced to support headquarter control. Internal market relations between divisions were another novelty of the M-form, making each division a medium-sized, semi-autonomous company within the large company (Chandler, 1962, 1977, 1990; Williamson, 1975, 1985).

Today most MNEs use a divisionalized organizational structure corresponding to the M-form; a development that was early described by Stopford and Wells (1972) and

Franko (1976). A strategic question for MNEs using the M-form is whether the market division should be defined according to geographical customer location, other customer segments, production efficiency or products and core skills. If the MNC has a strategy that aims for local adaptation (a multidomestic strategy in the terminology of Bartlett and Ghoshal, 1992) one can argue for a division according to geographic markets. If the strategy is focusing on product development, production efficiency or the transfer of specific skills (a global strategy or international strategy according to Bartlett and Ghoshal, 1992) one can argue for product divisions. (For single-product firms with low requirements on local adaptation one could argue for the U-form. For firms with more than one priority one could consider matrix models.)

How can the new transnational tendencies identified in literature be analysed from a perspective of transaction cost economics and the M-form? Some authors claim that the new tendencies will transform the organization of MNEs and result in a new form following the M-form (i.e. Hedlund, 1994; Bartlett and Ghoshal, 1993). Others conclude that the organizational form of MNEs is in a phase of transition of which we do not yet know the outcome (Egelhoff, 1998). Following the latter approach, one can discuss how transnational tendencies and new organizational features influence the M-form. The traditional M-form of MNEs has been characterized as *multi-divisional*, *multi-product*, *multi-factory*, *multi-level*, *multi-hierarchical* and *multi-national* (Calvet, 1980, 1981; Jansson, 1994). The following discussion identifies eight new “multi-aspects” characteristic of the transnational tendencies and new organizational features suggested in literature.

Multi-business

Compared to the U-form, the M-form created more market-oriented incentives by decentralizing operational responsibilities, moving them from the top level to the middle level of the hierarchy. Within divisions, the U-form prevailed, with transaction costs due to the loss of information and the weak and distorted incentives that characterize hierarchal coordination (Williamson, 1975, 1985). But, whereas the M-form decentralized operational market responsibilities, moving them from the top to the middle level, a transnational tendency is to decentralize market responsibilities by moving them from the middle level to the front lines. Hereby the use of market mechanisms are strengthened which gives stronger incentives for entrepreneurial behaviour. Levels between top management and the front lines are thus reduced, creating a flatter structure. New information technology supports this organizational development through quick and detailed report systems, which reduce the transaction costs linked to control of profit centres. Further, the M-form decentralized operational short-term responsibility but kept strategic long-term responsibility at headquarters and, to some extent, divisional management. This result was a shot-term orientation at lower levels. The M-form did not make strategic use of the specific knowledge and possible initiatives among members at lower levels. (This problem is comparable to those associated with centrally planned economic systems, which was observed by Hayek, 1945). These problems increase as enterprises operate in an increasingly dynamic environment and as technologies become more complex. The “multi-business ambition” aims at reducing these transaction costs by decentralizing strategic, as well as operational, responsibilities. The M-form is divided into relatively smaller front-line units with profit and development responsibilities. The M-form with medium-sized

companies operating within the large company is hereby developed into many small, semi-autonomous companies within the large MNE, with strategic long-term responsibilities and operational responsibilities decentralized to front-line units.

Multi-input and multi-local

Why are large MNEs not divided into separate autonomous companies co-ordinated by the market mechanism? One argument for maintaining the hierarchy has to do with the basic function the entrepreneur plays in the economy. The entrepreneur, acting as an intermediary, reduces transaction costs between customers and producers and reaches transactional economies of scale in search of information, contract negotiation, product design and quality control (Akerlof, 1970; Cheung, 1983; McNulty, 1984). Large MNEs perform these functions internationally, co-ordinating global webs of producers and customers. Information asymmetries are balanced by the credibility and reputation of the large MNE, which are communicated through brands or the company name (an investment in scale economics in itself). In the M-form, this entrepreneurial function was rather centralized and held at top and divisional levels. But in an environment of rapid change and heterogeneous demands, it is no longer sufficient to hold information in centralized positions, and if customers demand products from different parts of the MNE, separate divisions might cause customer confusion and duplication problems. A transnational tendency is to decentralise the entrepreneurial role to the front-line level, thereby increasing flexibility. A front-line unit represents the whole “menu” of the large MNE in the local market, and local units act as intermediaries between local customers and the corporation as a whole. Compared to more centralized positions, local units with specific knowledge can reduce transaction costs for developing customized products. Customer demands determine the specific combinations that are offered by front-line units. This is supported by the radical decentralization of operational and development responsibilities; units are free to interact with other units in a flexible way. Other mechanisms used to increase flexibility are lateral mechanisms with informal relationships and standardized information systems for communication and logistics.

Multi-centre

A “market advantage” compared to hierarchical co-ordination is that markets aggregate demands from different sources and encourage specialization in production (Williamson, 1985). But market demand has limitations due to information and negotiation costs, which increase with geographical distance and national borders. Even if foreign markets are open, there are fixed “establishment” costs (Hymer, 1976). Here, the MNE has a potential advantage since it embraces dispersed markets and can allocate demand to units at certain locations, enabling a higher degree of specialization than would be possible for local companies. An advantage large MNEs have that local companies do not is that they can solve problems due to limited access to international markets and coordinate transaction-specific investments and teamwork situations (joint production) that might follow from international specialization (Alchain and Demsetz, 1972; Williamson, 1975, 1985; Alchain and Woodward, 1987). The multi-centre ambition emphasizes this potential and encourages increased specialization within dispersed units. Different units are given roles as “centres of excellence” for manufacturing, services and research, supplying the whole MNE in

certain specified areas. The allocation of roles as “centres” gives rise to internal competition and is co-ordinated at the middle and top levels.

Multi-competition

Market co-ordination is characterized by competition that is assumed to give stronger incentives than is the case in hierarchies (Williamson, 1985). But in this respect MNEs can also have advantages compared to markets, since MNEs can overcome disadvantages due to market fragmentation. Local markets have a limited number of competitors, reducing the level of rivalry. In addition, customers have limited information, which impedes comparison, especially when products are complex. The M-form introduced market relations and competition among divisions. This is developed further through more radical decentralization and systematic comparisons. Incentives are strengthened by internal competition, i.e. by allowing units to turn to producers outside the company if they are not satisfied with the internal supplier and by systematically benchmarking units against each other. Compared to autonomous local enterprises, the level of competition increases and the quality of competition changes. Units are compared with detailed information of their performance and processes, and competition can give rise to opportunities as well as threats. An efficient unit in the MNE can teach other units rather than forcing them out of business, thereby increasing the competitiveness of the MNE as a whole.

Multi-process

Within the divisions of the M-form the U-form prevailed, with units divided according to function. However, a myopic focus on function can lead to problems with total quality and flexibility. The M-form reduced such problems at the middle level of the large MNE. Division management was given responsibility for the whole process connected to, for example, a certain line of products. Thus, managers were given incentives to focus on overall results and customer interests rather than functional interests. The effort to reduce transaction costs arising from functional fragmentation is now continued at lower levels, and work is regrouped according to processes, with different tasks being performed along value chains rather than along functional lines. This can be seen in manufacturing units, supporting functions (often integrated with manufacturing) and development units. The transformation creates small cells of market-based groups responsible for specific processes, creating “mini-companies” within the front-line units of large MNEs. The tendency to focus on processes also increases the use of projects that run parallel to the operational line structure.

This is achieved by changes in the formal structure and by redefining units. It is also supported by the empowerment of people and by developing their skills and communication capabilities with a view to increasing quality and flexibility. Management styles are also affected. Functional managers who used to act as instructing experts are replaced by team-leading managers. The orientation towards processes can also be seen in an increase in informal communication and planning and control systems that focus on multiple variables linked to activities and development.

Multi-knowledge flows

Hierarchical co-ordination has advantages compared to market co-ordination when it comes to the transfer of specific knowledge (Williamson, 1985; Liebeskind, 1996).

The M-form transferred firm-specific knowledge from the top down, from the centre to peripheral units. A new tendency is to develop firm-specific knowledge at dispersed locations, making new gains possible through transfers in many directions – top-down, down-up and horizontally. But the lines of authority and divisional borders of the M-form increased transaction costs for such transfers. A new tendency is to reduce such costs by encouraging development of dispersed specific knowledge and by facilitating transfers of knowledge in many directions.

A transnational tendency is to emulate markets and create multiplicity and dynamics through the dispersed development of specific knowledge. But, compared to markets, a new tendency in the M-form is to use central co-ordination to reduce duplication and to promote units that complement each other. A new tendency is also to transfer specific knowledge between highly dispersed units, thereby reducing transaction costs for the sharing of innovations. Managers at middle levels can track and initiate knowledge transfers. Internal information systems, systems for comparing performance and catalogues of “who knows what where” also support such transfers. Spontaneous, informal transfers can be promoted through personal transfers and cross-unit meetings.

Multi-combinational development

The M-form separated strategic and operational levels, and the function of innovation and development were primarily issues for centrally placed R&D units. Development projects had a sequential structure, starting with research and development and then followed by functions such as manufacturing, purchasing and marketing. This involved transaction costs due to time lags between development and functional implementation. Losses occurred when different functions did not consider each other’s specialized views. These costs are reduced when multi-combinational forms are used, combining different types of functional expertise for development and innovation. This is achieved through cross-unit and cross-level collaboration. Participants at different levels, units and functions work together on common development projects. The projects often run parallel to the operational structure with participants from geographically dispersed units. Intense communication, made possible by new information technologies and extensive travel, facilitates co-operation among participants. Compared to the sequential, top-down development process of the M-form, this reduces time lags and waste and increases quality.

In pure market relations, these inter-unit collaborative efforts are difficult to co-ordinate due to the problems of joint production/teamwork situations and transfer of specific knowledge. Hierarchical structures can overcome these problems but, as in the M-form, the strategic/operational separation and the borders between divisions, business units and functions prevent such collaboration. These transaction costs are reduced through the structure of decentralized responsibility for development and the use of cross-unit, cross-divisional and cross-functional collaboration.

Multi-initiated change

Hierarchies have advantages in the creation of radical change (Williamson, 1985). Different units can be given orders to follow the “visible hand” of a top manager and move together in a certain direction. Markets, on the other hand, have advantages when it comes to incremental change, allowing different decentralized actors to

experiment according to the “invisible hand” of price signals. If the best knowledge is held in central positions, or if teamwork efforts and transaction-specific investments are needed, centralized, radical change can be motivated. But if the best knowledge is dispersed among different actors, the incremental approach has advantages. MNEs currently strive to attain the advantages of both, creating multi-initiated change. Decentralized responsibilities and internal competition bring about strong market incentives and encourage incremental development. Top and middle management are still involved in strategic and operational issues, using selective centralization to support incremental innovations and to co-ordinate radical change.

Experiences among managers

Have MNEs transformed their organizations according to the transnational tendencies described in literature? Below, a study is presented that was conducted to determine whether managers who have been working in MNEs during the past several years have experienced organizational changes in accordance to the predictions.

Principal procedure and sample

The study was conducted with assistance from a group of international business students, who performed the interviews. In total, 67 companies were chosen from a list of the largest international companies with substantial activities in Sweden, using the number of employees as a measure of size (Fagerfjäll, 2005); 58 interviews were reported, a response rate of 87 per cent; Eight interviews were missing and one interview was regarded as not valid.

The companies were initially distributed to the students one by one, by the order on the list. However, individual students were allowed to change companies if they had specific preferences or if they could not contact particular companies. Two cases of duplication occurred in this process, which is why 58 managers in 56 companies were interviewed. (Eliminating the duplications does not change the results, and so they were kept in the survey.) The 56 companies represent a broad variety of industries. About one-third are operating in services, one-third in industrial goods and one-third in consumer goods. Company size varies, as well. About half of the companies (52 per cent) have more than 75,000 employees. The largest company has more than 400,000 employees and the smallest company has 5,500 employees. The national origin of the MNEs can be traced to 10 different nations. Companies of Swedish origin dominate the sample; 41 per cent of the responding companies are Swedish. MNEs from Western Europe account for 82 per cent. The rest originate in the US (18 per cent), with the exception of one Japanese company (Toyota).

Each student contacted one company and made an appointment to conduct a telephone interview with a manager who had been working in the company for at least 5 years. The students were supplied with instructions and a questionnaire with eight short statements about organizational changes. The managers could answer “yes”, “no” or “don’t know” to each statement, depending on how well the statement matched their experiences. The interviews lasted a few minutes. The most common management category interviewed were managers for public relations/communication/student relations (43 per cent). The other respondents (57 per cent) represented a variety of managerial positions, including human resources managers

(9 per cent), CEOs (7 per cent), production managers (7 per cent), market managers (5 per cent), accounting managers (5 per cent) and development managers (5 per cent).

Measures

The eight statements presented to the respondents aimed to measure whether the managers have experienced organizational changes in the predicted directions during the past 5 years in their company. Each statement corresponds to one of the eight multi-aspects presented above. The *multi-business* aspect was assessed by the statement "There has been more decentralization of responsibilities for profits and development". The *multi-input and multi-local* aspect was assessed by the statement "There is more emphasis on adapting products to local customer demands". The *multi-centre* aspect was assessed by the statement "Units for production and research have been given more specialized roles". The *multi-competition* aspect was assessed by the statement "There are more comparisons and more competition between units in the corporation". The *multi-process* aspect was assessed by the statement "There is more informal communication between people in different parts of the organization". (Informal communication is seen as a crucial part for coordinating various tasks along various processes.) The *multi-knowledge flows* aspect was assessed by the statement "There is more sharing of knowledge and experiences between different units in the corporation". The *multi-combinational development* aspect was assessed by the statement "There is more integration between different functions (i.e. R&D and production work more closely together)". The *multi-initiated change* aspect was assessed by the statement "Middle managers are more supportive, less authoritative". (The addition of new management roles at the middle level is seen as a prerequisite for supporting bottom-up initiatives.)

Analysis and results

The statements were constructed so that "yes" answers would indicate that managers have experienced the predicted organizational changes. Alternative answers were "no" and "don't know". To compensate for the problem that respondents may find it easier to answer "yes", the "don't know" answers were treated as "no" answers, so that, in the end there were two outcomes, "yes" or "no" (including "don't know").

The next step was to see if there was a majority of "yes" answers, supporting the conclusion that managers have experienced the predicted organizational changes. This was initially done by studying frequencies and percentages. The result was that seven of eight statements had a majority of "yes" answers, but majorities varied in size. A final step was to use a binomial test to study the probability that the deviations were random. The test was conducted with SPSS. The result is summarized in Table I.

A majority of respondents answered "yes" to all statements except statement 4**. But the size of the majorities varies. How significant are the answers? A formal binomial test was used to test levels of significance, a test with the null hypothesis that there is binomial distribution of answers in the population and that the sample gives random variations based on this distribution. A small p -value provides strong evidence against the null hypothesis and thus indicates that there is a majority saying "yes" to the statement in the population. The test shows that answers to six of the eight statements significantly deviate from the assumption of random distribution of answers. As can be seen in Table I strong support (at a significance level of $p < 0.001$)

Variables/statements	Category	<i>N</i>	Observed Prop.	Test Prop.	Asymp. Sig. (2-tailed)
(1) There has been more decentralization of responsibilities for profits and development	Yes	37	0.64	0.50	0.048 ^{a*}
	No	21	0.36		
(2) There is more emphasis on adapting products to local customer demands	Yes	39	0.67	0.50	0.012(a) [*]
	No	19	0.33		
(3) Units for production and research have been given more specialized roles	Yes	40	0.69	0.50	0.005(a) ^{**}
	No	18	0.31		
(4) There are more comparisons and more competition between units in the corporation	Yes	25	0.43	0.50	0.358(a)
	No	33	0.57		
(5) There is more informal communication between people in different parts of the organization	Yes	42	0.72	0.50	0.001(a) ^{**}
	No	16	0.28		
(6) There is more sharing of knowledge and experiences between different units in the corporation	Yes	51	0.88	0.50	0.000(a) ^{***}
	No	7	0.12		
(7) There is more integration between different functions (i.e. R&D and production work more closely together)	Yes	46	0.79	0.50	0.000(a) ^{***}
	No	12	0.21		
(8) Middle managers are more supportive, less authoritative	Yes	32	0.56	0.50	0.427(a)
	No	25	0.44		

Table I.
Binomial analysis of
managers' experience of
organizational changes

Notes: ^aBased on *Z* approximation; **p* < 0.05; ***p* < 0.01; ****p* < 0.001

is given to the conclusion that a majority of managers in MNEs agree with the statements "There is more sharing of knowledge and experiences between different units in the corporation" and "There is more integration between different functions (i.e. R&D and production work more closely together)". Support at a significance level of $p < 0.01$ is given to the statements "Units for production and research have been given more specialized roles" and "There is more informal communication between people in different parts of the organization". Finally, support at a significance level of $p < 0.05$ is given to the statements "There has been more decentralization of responsibilities for profits and development" and "There is more emphasis on adapting products to local customer demands". It is thus concluded that managers in MNEs agree with six of the eight statements which support the changes that were analysed as multi-knowledge flows, multi-combinational development, multi-process, multi-centre, multi-input and multi-local, and multi-business.

The binomial test does not provide support to the statements "There are more comparisons and more competition between units in the corporation" and "Middle managers are more supportive, less authoritative". The changes that were analysed as multi-competition and multi-initiated are thus not supported in the study.

Discussion

Surveys of MNEs often contain many and nuanced questions, but suffer from very low response rates. This study was designed to obtain a high response rate. MNEs with substantial activities in Sweden were chosen to further increase the possibilities for

access. (It is easier for the students to contact company managers if they are in the same country, and managers working in Sweden seem to be relatively accessible.) Not specifying which kind of manager to ask also increased the likelihood of obtaining respondents. Finally, using telephone interviews and requiring only yes or no responses to a few straightforward statements, which took only a few minutes to answer, increased the response rate.

A response rate of 86 per cent suggests that this was a successful design, and the results show interesting support for the predictions observed in literature. Yet there are several possible biases that might follow on this way of obtaining a high response rates. We do not know if the managers interviewed are representative of their companies. On the other hand, we do not focus on individual companies but on general tendencies in the group of companies. We do not know if companies that originate in Sweden and elsewhere in Western Europe differ from companies originating in other parts of the world. Further, we cannot be sure that the statements measure the theoretical concepts well. Finally, we have no direct evidence of what actually happened, only the judgements of the managers who responded, and we know that managers can express fashion rather than fact. Managers also might be reluctant to admit to changes that they perceive as negative. A possible explanation as to why “internal competition and comparisons” were not agreed to might be that it was interpreted as a negative change. In addition, the respondents might have been reluctant to agree to the statement that middle managers had become more supportive because, in their view, the managers always had been supportive. Finally, the survey could have distinguished between different kinds of MNEs and studied if the identified aspects are more prevalent in some industries than others. However, the literature does not make such distinctions with the implicit argument that transnational tendencies are general to all firms; therefore the study is focused on tendencies of a general kind.

Conclusion

Future “transnational” tendencies in MNEs have received a great deal of interest among researchers in recent decades. Scholars agree that a new organizational form is emerging, but their views differ with respect to the identified characteristics and the theoretical explanation of the new form. Different organizational changes and new elements are observed, and various theoretical approaches are used to explain the development. Contributions often overlap and complement each other. This paper reviews the research tradition and presents a synthesis of the different approaches. Contributions from different researchers can be synthesized into a more comprehensive conceptual framework, organized into five categories: overall structure, management roles, internal markets, formal systems, and shared views and values. This synthesized framework presents a more holistic view than earlier partial contributions.

This paper also investigates the possibilities to analyse the new strategy and organization described in literature. The analysis follows on the theoretical tradition of Williamson (1975, 1985, 1996). Williamson summarized earlier writings on strategies and organizational structures that had emerged in large companies and analysed these forms using new institutional economics and the general analysis of hierarchies and markets. The M-form was analysed by comparing it to the earlier U-form and by identifying how the M-form, as a new hierarchical form, reduced transaction costs.

This paper shows that a similar approach can be used to analyse transnational tendencies and by identifying eight new “multi-aspects” of the transnational tendencies of MNEs: multi-business, multi-input and multi-local, multi-centre, multi-competition, multi-process, multi-knowledge flows, multi-combinational development and multi-initiated change. To investigate whether the new organizational features of the M-form can be seen in today’s MNEs an empirical study was conducted. The study was based on interviews with managers in 56 MNEs with experience of the development during the past several years (about 2001-2006). The managers were asked to answer “yes”, “no” or “don’t know” to eight statements, each corresponding to one of the identified multi-aspects. Binomial analysis indicated that six of the eight statements were significantly agreed to. The strongest support was found for more sharing of knowledge and more integration of functions. Strong support was found for more informal communication and more specialized roles to units for production and research. Support was also found for more decentralization and more adaptation to local demands. The study did not find support for more comparisons and more competition within multinationals and more supportive middle management roles.

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