



ICT deployment and resource-based power in multinational enterprise futures

Mo Yamin¹, Rudolf R. Sinkovics^{*}

The University of Manchester, Manchester Business School, Booth Street West, Manchester M15 6PB, United Kingdom

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ABSTRACT

Applying a resource-dependency perspective to intra-multinational enterprise (MNE) power [55,56], this paper examines the effect of the deployment of advanced ICT and particularly the implementation of enterprise resource planning (ERP) systems. Although subsidiaries in the multinational do not have authority-based or 'structural' power with respect to key strategic decisions [6,16], they may have 'resource-based' power in the form of knowledge and capabilities that is of value to the multinational as a whole. Business network analysis highlights the 'invisibility' of the external networks (often in the host country) to the upper echelons in the multinational through which valuable subsidiary knowledge and capabilities develop. It points out that this 'invisibility' undermines the headquarters' ability to control the subsidiary [3,28,36,44,70,74]. In this paper we argue that the deployment of ERP undermines the resource base of subsidiary power and thus helps to restore greater central authority in the MNE. The paper reports findings from studies in twelve MNEs which have implemented ERP and points out that from the perspective of subsidiary managers a key effect of ERP deployment is the reduction in their autonomy. This may have significant adverse implications for the futures of the MNE as a federative organizational form and the legitimacy of MNE operations abroad.

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1. Introduction and motivation

As an organization, the multinational enterprise (MNE) has an inherent tendency towards a federative structure [31] in which subunits develop an autonomous knowledge base and thus a degree of strategic independence from the centre. In particular, subsidiaries develop 'embedded' relationships in (mostly local) business networks which significantly enhance their ability for strategic actions [29]. However this creates a tension between the MNE as a managerial hierarchy and the MNE as an organizational structure. Arguably, the federative structure of the MNE has been unfavorable to managers, especially those in the top echelon of multinational headquarters. Their response will thus be to limit the federative character of multinationality in various ways. Whilst management scholars have implicitly recognized that the MNE's federative nature is inimical to the MNE's controlling elites they have overestimated the effectiveness of the softer, value or 'culture' based methods in overcoming the hurdles that the federative structure creates for control [29,66]. Furthermore due to broader socio-political changes, notably the shift in the governance regime towards shareholder value, the intolerance

^{*} Corresponding author. Tel.: +44 161 306 8980.

E-mail addresses: Mo.Yamin@manchester.ac.uk (M. Yamin), Rudolf.Sinkovics@manchester.ac.uk (R.R. Sinkovics).

URL: <http://www.personal.mbs.ac.uk/myamin/>, <http://www.personal.mbs.ac.uk/rsinkovics/>

¹ Tel.: +44 161 306 3462.

towards the federative tendencies in the MNE has probably been increasing. At the same time information and communication technology (ICT) advances may have boosted the control capability of the headquarters. Thus ICT enables greater effectiveness and transparency in the information flow from subsidiaries and reduces the ‘invisibility’ of subsidiary networks in the host economy which is often seen as the main driver of subsidiary autonomy in the federative structure. However, whilst the application of ICT may enable the MNE headquarter to establish control, this may not necessarily serve the long-term viability of the MNE. As Levinthal and March [45] observe, ‘organizational power is a short-term asset but potentially a long-term liability’ ([45], p.102). Thus, in our context, ICT application enhances the power of the centre to impose a standardized streamlined organizational structure, which constrains subsidiaries in their institutional agenda and forces them to adhere tightly to central directives. It further undermines the scope for social entrepreneurship or local networking. A number of scholars have recently noted this as being central to the future viability of MNE strategies, particularly in emerging economies, arguably the most dynamic components of the world economy [46]. In this paper we investigate the impact of ICT application through the resource-dependency perspective which provides a useful framework for exploring the intra-MNE tussle for power as both the power of the HQ and the subsidiary have significant resource underpinnings. We investigate the possible impact of the application of ICT on MNE structure from a resource-dependency perspective and then comment on possible implications for future MNE viability with respect to emerging responsiveness challenges. We look at this particularly in the context of emerging economies.

2. A conceptual perspective on the relationship between MNE headquarters and foreign subsidiaries

The international business literature suggests a theoretical framework which sees the structure of decision making in multinational enterprises as being partly dependent on how competing pressures for global integration and national responsiveness impinge on the multinational. For a subsidiary, host country responsiveness is particularly conducive to its gaining knowledge-based resources, largely independent of the rest of the MNE. More precisely, a subsidiary’s autonomy and its ability to influence decision making processes within the MNE is largely shaped by the degree to which the subsidiary has gained knowledge and skills through its interaction with counterparts in the host environment.

Literature focusing on subsidiary role typologies and subsidiary initiatives has highlighted the importance of local market responsiveness in shaping subsidiary role developments [8,11,14,38,59,68]. Other studies have highlighted subsidiary local ‘embeddedness’ as an important factor in its capability development including its innovation (or ‘knowledge building’) and knowledge transfer activities [4,5,29].

The resource-dependency perspective [19,55,56] has been applied by several authors to analyze the implications of subsidiary knowledge for its power in the multinational structure [4,5,23,29,31,48]. Thus, although subsidiaries do not have authority-based power with respect to key strategic decisions [6,16,69], they may have ‘resource-based power’ in the form of knowledge and capabilities to the extent that this knowledge or capability is of value to the multinational as a whole. A subsidiary’s knowledge-based resources can endow it with ‘negative’ power; basically, the power to assert autonomy and avoid control from the centre [3,27,73]. Such resources can also be a source of the subsidiary’s ‘positive’ power – that is, an ability to exert ‘influence’ defined as ‘informal attempts to affect issues and behavior indirectly’ over strategic issues ([5], p. 321). A number of empirical studies have highlighted the ‘positive’ power of subsidiaries rooted in their knowledge-based resources. Mudambi and Navarro [52] analyze subsidiary power based on locally generated knowledge, in terms of the subsidiary’s ability to negotiate a favorable distribution of organizational rents whilst other studies specifically focus on the ability to influence the multinational’s strategy [4,5,29]. The study by Femer et al. [26] points to a similar conclusion in the context of HRM policies.

Studies indicate that federative MNEs cannot rely exclusively on formal control mechanism such as centralization and formalization. It is imperative for them to directly engage with subsidiaries [35] in terms of assigning, negotiating (and at times suppressing) subsidiary roles and initiatives [8,11,13,14]. Managing the organizational tussle with powerful subsidiaries [4,28,52] involves cajoling or ‘persuading’ subsidiaries to trade-off their autonomy or ‘negative’ power for greater, multinational-wide, responsibilities or mandates [30].

2.1. Governance regimes, financialization and the reduced tolerance for federative structures

Business network analysis highlights the ‘invisibility’ to the upper echelons in the multinational of the external networks (often in the host country) through which valuable subsidiary knowledge and capabilities develop and points out that this ‘invisibility’ undermines the headquarters’ ability to control the subsidiary [3,28,37,43]. The invisibility of the subsidiary’s network is the inevitable consequence of embeddedness and is due to the opaqueness of network relationships and interdependencies to outsiders. This is not simply an agency problem whereby the local managers may deliberately hide relevant information from their principals further up the MNE hierarchy, although this may also happen. MNE’s upper echelon tends to have at best a fuzzy and rather vague understanding of the subsidiary’s network and this undermines their ability to control the subsidiary. Thus, the most critical consequence of subsidiary embeddedness is that it creates a ‘knowledge deficit’ for the centre with regards to the subsidiary’s operating environment and hence its resource and power base. Also, because the required knowledge relates primarily to subsidiary network context and would lack transparency to outsiders, the efficacy of the MNE’s formal communication system is limited.

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