Intra-firm competition in Multinational Corporations: Towards a political framework

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A Critical Perspective on the Contextual Constitution of Conflict in Multinational Corporations: actors and inequalities, political games and strategies of resistance

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0. Abstract

This paper is concerned with conflicts that relate to intra-firm competition in MNCs. Intra-firm competition occurs when different subsidiaries of an MNC overlap with regard to products, markets and technologies and headquarters try to make use of this overlap by coercive comparisons. Next to that Intra-firm competition occurs when changes in subsidiary mandates have an impact on the MNC-internal competitiveness of the subsidiaries. Screening the International Business (IB) literature on intra-firm competition as well as the more extensive literature on subsidiary mandate change, the paper uncovers that both literature streams so far pay rather little attention to the involved actors, their strategies, rationalities and interactions. To overcome this gap the paper proposes a political framework to the study of intra-firm competition in MNCs, that integrates actors’ individual and collective rationales, basic organizational and institutional settings as well as practices and routines in headquarters-subsidiary relationships.

1. Introduction

Intra-firm competition is one the most conflictual issues in MNCs. The threat to transfer production, r&d or some other tasks and responsibilities to a competing subsidiary triggers intense strategic interactions within the MNC. In cases where such conflicts escalate, political and industrial action follows and often a long public debate unfolds. A rather recent example for such an escalating conflict is Airbus Industries’ decision to reorganize its international production configuration comprising altogether 16 plants in France, Germany, UK and Spain to achieve higher efficiency. Another hotly debated conflict was spurred by General Motors’ attempt to restructure its European production network stimulating competition between its major European subsidiaries: Opel of Germany, Saab of Sweden and Vauxhall of the UK (Blazejewski 2007). In these two cases intra-firm competition was clearly unleashed and stimulated by headquarters and the conflicts escalated due to the high number of jobs threatened (about 10.000 in both cases) and the political strength of the labour force affected.

However, intra-firm competition might also be the result of an individual subsidiary initiative to gain a new or to further develop a mandate it already holds. Often such attempts do not bluntly aim to take over an existing mandate of another subsidiary within the MNC. In many cases, such a behaviour would be considered as unfair by sister companies and arrogant as well as misleading by headquarters. However even incremental processes of subsidiary role development can in the longer run interfere in a given equilibrium of subsidiary competitiveness in an MNC. A case in point is the development at a Hungarian subsidiary of a German MNC. The mandate the subsidiary was initially assigned to by the headquarters referred to the manufacture and assembly of sensor components. Based on this the subsidiary made an argument for extending the mandate to some process related r&d functions. Having won this mandate and having hired some engineers, the subsidiary had the basis on which it could develop an initiative to extend the mandate for process related r&d to product related r&d. This however put the Hungarian subsidiary into a cutthroat competition with the central r&d department located at the MNC headquarters in Germany (Dörrnbächer and Gammelgaard 2006).

No matter whether intra-firm competition is unleashed by headquarters as in the case of Airbus and GM or by subsidiary initiatives as in the case of the Hungarian subsidiary striving for an extended r&d mandate, inter-firm competition introduces an element of instability into
the MNC-wide division of labour that has far reaching implications especially for subsidiaries. From a subsidiary point of view, intra-firm competition implies both, chances for a long term upgrading as well threats for a long-term downgrading of the subsidiary within the MNC network. Upgrading is usually associated with the gain or extension of an important subsidiary mandate or an increasing economic significance of a given mandate within the MNC. Downgrading occurs when a subsidiary partly or completely loses an important mandate or the volume and economic significance of a given mandate decreases substantially over time.

The fact that subsidiaries can gain or lose ‘weight’ (Bouquet and Birkinshaw 2007) in intra-firm competition, underlines the fact, that intra-firm competition has an intrinsic conflict potential. Moreover, it suggests that keeping pace in fierce intra-firm competition is of prime strategic importance for subsidiaries. This is not only to avoid job losses at the subsidiary – an issue that often dominates the public debate – but also to secure future influence and reputation of the subsidiary as well as of its key managers.

Key subsidiary managers whose careers, clouts and even jobs might depend on their behaviour and performance in such conflicts do play a very important role in intra-firm competition. They are negotiating with headquarters managers, forming political coalitions within and outside the MNC, cooperate with MNC-internal and external partners, improve given mandates and explore new business opportunities. Screening the literature on intra-firm competition as well as the more extensive literature on subsidiary mandate change, subsidiary autonomy and subsidiary power, however, it turns out that little is known so far about the role and behaviour of key headquarters and subsidiary managers in situations of intensified intra-firm competition. Especially little has been written on their strategies, rationalities and interactions with other MNC stakeholders comprising e.g. the local workforce, competing subsidiaries.

This gap results from the fact that intra-firm competition so far has been basically addressed by researchers with a contingency theory background. Although they recognize that politics is important in intra-firm competition they fail to adequately integrate the political dimension into their frameworks. It is this gap that this paper tries to address. Drawing on different organizational politics approaches, the papers builds a political framework of intra-firm competition that aims to map key actors political strategies, the contextual constitution of these strategies as well as the dynamics of political interactions in intra-firm conflicts.

The paper unfolds as follows. In section 2 the paper first provides an overview of the International Buisiness literature on intra-firm competition including some works that use other labels such as ‘internal competition’, ‘corporate venturing’ or ‘internal market mechanisms’ in MNCs. In section 3 the pitfalls of the IB-literature on intra-firm competition are synthesized and a political framework to intra-firm competition is developed. The paper closes with some remarks on the applicability of the framework and its limits.

2. Literature review

Intra-firm competition is an issue of growing importance in MNCs. This is partly due to the strong rise of M&A as a growth mode of MNCs (Wortmann 2000), leading to excess capacities and considerable overlaps in products, markets and technologies within MNCs. Moreover, intra-firm competition is fuelled though the secular trend of organizing large MNCs along global product divisions (Humes 1993) that put a strong emphasis on economies
of scale and corporate wide standardisation. Last but not least there is an increasing awareness to understand MNC as internal market systems (Cerrato 2006) in which competition is the prime mode of intra-firm governance.

Despite the growing importance of intra-firm competition, little research has been done in the field so far. What is more, with a few exceptions (eg. Burgelman 1983; Hill et al. 1992) most works have appeared rather recently. In the remainder of this section we will first have a look at these contributions. In particular, we will look into how intra-firm competition in MNCs is defined and conceptualized. Adding the more extended literature on subsidiary mandate change, subsidiary autonomy and subsidiary power, we will finally analyse what IB has to say about the role and behaviour of different actors and actor groups in intra-firm competition.

2.1 Intra-firm competition: Types and shapes

In intra-firm competition subsidiaries (or other organizational subunits) of MNCs basically compete for headquarters resources, systems position and mandates (Luo 2005; somewhat different categorizations are provided by Birkinshaw 2000 or Cerrato 2006).

Headquarters’ resources encompass capital, technology, equipment, specialized human resources, training, knowledge, information etc. Since most of these resources are scarce, competition arises among subsidiaries to access such resources. A second item in intra-firm competition is the subsidiaries’ system position. Following Nohira and Goshal (1997) the modern MNC needs to be seen as a differentiated network in which the role and power position of individual subsidiaries might vary to large degrees. There are different typologies in use to map these differences. While White and Poynters (1984) taxonomy positions subsidiaries basically according to the tasks they perform, the typology of Birkinshaw and Morisson (1995) is putting a stronger emphasis on the different levels of strategic autonomy subsidiaries might have. A multi-facet view is presented by Luo (2005) who argues that the systems position of a subsidiary in an MNC is composed of its position within the value chain, its level of access to important information as well as its ability to influence headquarters’ decision making. A third item in intra-firm competition is subsidiary mandates or charters. Mandates are temporary (in terms of both time and content) responsibilities allocated by headquarters and/or “won” by individual subsidiaries (Birkinshaw 1996). Likewise, charters are defined as the organizational subunits’ business or elements of business it is responsible within the corporations (Galunic and Eisenhardt 1996). Intra-firm competition on mandates or charters touches upon the two previously mentioned items intra-firm competition might be about: Mandates or charters are, as a general rule, bound up with control over resources and activities, and changes in mandates and charters often entail notable shifts in the systems position of subsidiaries. Hence mandate development is a strongly contested organizational terrain.

Intra-firm competition can to varying degrees be open or managed (Phelps and Fuller 2000). In an open intra-firm competition headquarters hardly interfere, while in managed intra-firm competition headquarters interfere to avoid excesses of competition such as a duplication of efforts or an erosion of inter-subsidiary cooperation. Following Phelps and Fuller (2000) it is the line of conflict as well as the type of actor who initiates the conflict (headquarters or subsidiaries) that defines whether an intra-firm conflict turns out to be more open or managed.
2.2. Determinants of intra-firm competition

Apart from initial descriptions on what intra-firm competition in MNCs is about and what shape it can take, most of the IB literature so far has put a strong emphasis on theorizing about what determines intra-firm competition. Usually multiple determinants from the environmental, the organizational and the sub-organizational level are discussed and turned into propositions (for an overview cf. Annex 1). Thereby different levels of analysis are chosen with some authors addressing intra-firm competition as a whole and others differentiating between individual items. Another difference extends to whether intra-firm competition is directly addressed (Luo 2005, Phelps and Fuller 2000) or indirectly by either studying charter overlap and charter stability (Birkinshaw and Lingblatt 2005), or by focusing on the existence of internal market mechanisms (Cerrato 2006).

Environmental impacts are stressed for instance by Birkinshaw and Lingblatt (2005). They suggest that intra-firm competition is rather strong in mature or homogeneous industries, while it is considered to be weak in nascent or heterogeneous industries where variation and overlap is needed to stay competitive. Cerrato (2006) adds that uncertainty with regard to market changes (or ‘environmental equivocally’ in terms of Birkinshaw and Lingblatt) has a negative impact on intra-firm competition too. Finally, Luo (2005) suggests that in strongly prospering markets intra-firm competition is high since headquarters allow a lot of overlap among subsidiaries to harvest as much as possible there.

Organizational impacts to intra-firm competition are assumed to exist on the overall MNC level, the subsidiary level as well as on the level of headquarters-subsidiary relations. With regard to the overall MNC level, Phelps and Fuller (2000) argue that intra-firm competition is especially high in multi-domestic MNCs, where large overlaps with regard to products, markets and technologies exist among subsidiaries. Birkinshaw and Lingblatt (2005) as well as Cerrato (2006) stress the impact of a decentralized decision making in MNCs, arguing that the more decentralized decision making in MNCs, the more subsidiaries are free to contest the mandates or charters of fellow subsidiaries. According to Birkinshaw and Lingblatt (2005) this however will be mitigated in MNCs where a normative integration by some common norms, values and rules exists. Next to overall MNC factors, several subsidiary level factors are assumed to impact intra-firm competition in MNCs. Luo (2005), for instance, suggests that especially subsidiaries with a high local responsiveness face intra-firm competition because they strongly rely on scarce headquarters resources to overcome their liability of foreignness. A second subsidiary level factor put forward by Luo (2005) stresses the fact that subsidiaries loosing competitive advantage, fuel simultaneously intra-firm competition in the as they ask for or require additional headquarters resources. Birkinshaw and Lingblatt (2005) assume that subsidiaries with fungible capabilities might spur intra-firm competition much more then subsidiaries whose capabilities more or less only allow to fulfill the given mandate. Impacts from headquarters-subsidiary relations are finally emphasized by Cerrato (2005), who maintains that frequent and open headquarters-subsidiary relationships breeds trust and thus allows for more intra-firm competition.

Last but not least, intra-firm competition is also considered to be influenced by factors that lie beyond the organizational level, such as the types of knowledge and resources intra-firm competition centers around. Following again Cerrato (2006) intra-firm competition is more likely to emerge when charters are based on non-location bound resources and it is assumed to be less likely if the knowledge at stake is tacit and context specific.
2.3. Actors and actor rationales in intra-firm competition

The discussion on what determines intra-firm competition in MNCs reveals that an overlap in products, markets and technologies among MNC subsidiaries seems to be an important prerequisite for intra-firm competition. However the literature also reveals that an overlap not necessarily leads to intra-firm competition. For instance, MNC that follow a multi-domestic strategy or MNCs that have a strong normative integration might not wish to turn overlaps into intrafirm-competition. On the other hand intra-firm competition can also emerge without an overlap in products, markets and technologies. This might be the case if similar vision statements of subsidiaries create a potential overlap in the future (Birkinhaw and Lingblatt 2005). This might even be the case if overlaps are purely imagined, and a subsidiary takes initiatives since it is very much afraid of loosing its mandate or systems position.

These examples illustrate that actor behaviour and actor rationales do play a very important role in intra-firm competition and need to be studied side by side with contingency factors to fully elucidate the phenomenon of intra-firm competition in MNCs. While this relates to all important actors and actors groups in intra-firm competition, it above all involves a close look at key headquarter and subsidiary actors. However, so far rather little has been written on how these two types of actors behave and interact in intra firm conflicts.

Headquarters behaviour and headquarters rationales in intra-firm competition were addressed in the some works of Birkinshaw and colleagues. An empirical study by Birkinshaw and Ridderstråle (1999) argues that headquarters behaviour is basically ethnocentric, risk and change avers. According to their findings, headquarters install a corporate immune system that systematically suppresses large parts of subsidiary initiatives and hence blocks intra-firm competition. This, however, is considered to be suboptimal. Based on the assumption that intra-firm competition in MNCs can be managed, Birkinshaw (2001) clearly advocates for the selective use of intra-firm competition by headquarters. Negative effects of intra-firm competition that extend to a duplication of resources, turf wars among subsidiaries as well as bad public relations need to be controlled or mitigated in order to unleash positive effects such as an increase in flexibility, a leeway for experimentation and a greater risk diversification. Moreover, intra-firm competition can also shake clumsy and sleepy organizations and motivate greater efforts.

Birkinshaw (2001) even goes so far as to give detailed recommendations how headquarters should act in the different phases of an intra-firm competition lifecycle. In the case of intra-firm competition on new technologies for instance, headquarters should be from the outset very attentive to the technologies used by competing subsidiaries. Once intra-firm competition is unleashed, headquarters should bring the competing subsidiaries together to exchange knowledge and to alleviate the strong rivalry among subsidiaries. Next, headquarters should terminate intra-firm competition as soon as possible and decide which technologies will be favoured in the future. If a co-existence of technologies is not viable, headquarters should finally also take care of ‘losing’ subsidiaries, either by expectation management or by compensation (Birkinshaw 2001).

The IB literature on the role and behaviour of subsidiaries in intra-firm competition is even scarcer than the IB literature on headquarters just discussed. As mentioned before, subsidiaries can stimulate intra-firm competition by developing their existing mandates or taking initiatives for new mandates. However as Cantwell and Mudambi (2005) as well as Bouquet and Birkinshaw (2007) emphasize turning initiatives into real mandates means for subsidiaries to “exercise a voice” in the organization, and to influence parent-driven
investment strategies through lobbyism. Mudambi and Navarra (2004) add, that low performing subsidiaries depend to a higher degree on lobbyism than well performing subsidiaries, while Ling et al. 2005 argue in the same direction by stressing that one of the pertinent tasks of a subsidiary is “issue selling” i.e. directing headquarters’ attention to particular issues and helping them to overcome related “perception gaps” (Chini et al. 2005). Issue selling and lobbying for new mandates, however, brings competing subsidiaries into play. Following Birkinshaw and Ridderstråle (1999) competing subsidiaries might raise objections and start lobbying themselves at the headquarters to block such initiatives in order to avoid or influence intra-firm competition.

2.4. Subsidiary power and headquarters-subsidiary interaction in intra-firm competition.

Despite the fact that intra-firm competition is usually conceptualized as taking place between subsidiaries, headquarters and the different individual headquarters-subsidiary relationships do play an important role. This is due to the fact that in many cases headquarters do have the authority and power to play a referee role in intra-firm competition. However as it transpires from our previous discussion of subsidiary lobbying, subsidiaries do have an influence on headquarters decisions in intra-firm competition. As Surlemont (1998) notes, subsidiaries can influence headquarters decisions by various means such as persuasion, initiation, advice or manipulation. And they can do so to varying degrees, depending on the specific power relation that exists between the headquarters and the subsidiary (for the following cf. Rugman and Verbeke 2001; Forsgren et al. 2005). The most powerful and sustainable position a subsidiary can reach in headquarters-subsidiary relationship is based on a resource dependency situation. Resource dependency arises if a subsidiary has access to rare, hard to imitate and substitute resources that are urgently needed by the headquarters or the MNC as a whole. A second, however less sustainable type of power a subsidiary can obtain, can be labeled systemic power. Systemic power emanates from a MNCs configuration or division of labor in which interdependencies exist due to single source policies. However, in the long run, each source can be (more or less easily) replaced by substitution or imitation at another location or by another organizational unit. A third type of power arises from a good fit between host country localization advantages and overall MNC strategy. In this case a subsidiary gains power through a successful consolidation of the isomorphic pulls subsidiaries face both from their local environment and from their MNC.

3. Towards a political framework of intra-firm competition

Summing up the literature review above it has to be noted that the IB literature certainly recognizes that politics play an import role in intra-firm competition. However, the still rather strong focus of this literature on contingency factors as well as its overarching aim to develop falsifiable proposition leads to a rather piecemeal conceptualization of politics in intra-firm competition. As contingency theory in general (Dörrenbächer and Geppert 2006), the IB literature on intra-firm competition treats politics first and foremost as something that is potentially dysfunctional and hence needs to be managed or kept under tight control by the headquarters. Giving this understanding of politics it is not surprising that existing models of intra-firm competition look somewhat stylized, miss to capture conflict dynamics (for instance concession bargaining processes), operate with a rather restricted set of actors (basically headquarters and subsidiaries) and miss an adequate understanding of the contextual constitution of actor rationales.
The remainder of this paper is to conceptualize a political framework of intra-firm competition in MNCs. The model will distinguish different levels on which the politics of intra-firm competition takes place, come to a more encompassing recognition of actors, and stress the relevant actors’ strategies as well as their contextual constitution. We will first introduce the concept of organizational politics and delineate its implications for the study of MNCs in general and for intra-firm competition in MNCs in particular. We then move to a consideration of the different political spheres MNCs operate in. Focusing on headquarters and subsidiary managers as main ‘political brokers’ (March 1962) in MNCs that integrate and represent other stakeholders’ interests to varying extents, we then address strategies followed and games played by these managers in intra-firm competition. This is complemented by a discussion on what shapes their behaviour in intra-firm competition beyond traditional contingencies.

3.1 Organizational politics and intra-firm competition in MNCs

Like all other forms of politics, organizational politics is an attempt to exert a formative influence on social structures and human relations. Thereby attention it shifted from the overall organizational level to the level of the individual actors (or actor group) with the basic aim to uncover how actors informed by their interests and backed by their resources try to secure options, realize interests or resist unwanted changes (Lawler and Bacharach 1980). Such a view opens many interesting perspectives on organizations in general as well as on organizations that are tied into intra-firm competition.

From a theoretical point of view an organizational politics perspective contests the unrealistic notion that organizations and their behavior is entirely shaped by their functional goals or their strategic environment. Most of the early as well as the mainstream of contemporary studies on MNCs are confined to look at how corporate strategy and the behaviour of MNCs is shaped by task environmental contingencies (e.g. Bartett and Ghoshal 1989). Even studies that look at how MNCs are simultaneously shaped by different contextual influences, e.g. home and host country institutional influences (Westney 1993) or organisational and institutional influences (Rosenzweig and Singh 1991) usually remain in a strong structuralist tradition. Taking stock and moving forward, an organizational politics approach sheds light on how structural impacts are promoted, enacted, translated, refused or resisted by different actors in and around MNCs on the basis of their particular interests and power resources. This is, for instance, of a great importance to understand the outcomes in intra-firm competition. Apparently there are significant differences as to what headquarters aim at with regard to intra-firm competition (in terms of job cuts, target costs or innovation rates) and what the consequences or the results are. Thus, a first genuine research question to be addressed by a political framework of intra-firm competition would be: To what extend do different actors’ political behaviours influence the outcome of intra-firm competition?

Second, an organizational politics approach understands MNCs as arenas in which socio-economic action takes place, power is exercised and the dynamics of consensus, conflict and resistance are played out (Geppert and Clark 2003). Such a view basically maintains that the outcome of intra-firm competition is not simply imposed by the headquarters but the result of formal or informal negotiation processes or games (in the terminology of Crozier and Friedberg 1980). Such games, in which many actors might have a stake, can be either short or long-lasting; they can be iterative or continuously on going and they can be centralized or disintegrated involving multiple bi-lateral negotiations. Thus, a second genuine research question to be addressed by a political framework of intra-firm competition relates to the
complex games that are part and parcel of intra-firm competition. Individual questions to be addressed encompass: Who is included in and who excluded from taking part in such games? What are the rules of the game and who defines them? What forms do these games assume and what dynamics do they have?

A third, so far widely neglected perspective is a political view on intra-firm competition. Such a perspective suggests a closer look at actors, their strategies and rationales in the games of intra-firm competition. Drawing on the early work of Tom Burns (1961/62) on micro-politics in organizations as well as on the more recent ‘organized action’ approach of Crozier and Friedberg (1980) actors are understood to be embedded in structural or institutional conditions. One hand these structural conditions structure their interests. On the other they enable and constrain the pursuit of these interests without determining them. This view combines voluntarism and determinism and paves the way for an actors-centred approach to the study of intra-firm competition. In this approach the actors interests, strategies and their behavioural rationales in intra-firm competition is shaped by their position in actor systems, their position related ability to draw on rules and resources relevant to a specific game (Becker-Ritterspach 2006). Hence, in a third set of genuine research questions, a political approach to intra-firm competition aims to uncover what different actor strategies, interests or rationales can be observed in intra-firm competition. And how these strategies and their success in the intra-competitive game can be related to the actors’ structural embeddedness or systemic positioning in organizational or wider societal contexts?

Summing up: A political approach to intra-firm competition allows elucidating the process and the constitution of outcomes of intra-firm competition. Accounting for the multiple actors, their rationales and strategizing and their embeddedness helps us to understand the many disruptions, inconsistencies and organizational oxymorons that pop up in the process of intra-firm competition. Works councils that used to be at odds with the local management suddenly forming a coalition to fight relocation or seemingly liberal governments starting to intervene into intra-firm competition by subsidizing a particular subsidiary located on its territory are but two examples of such paradoxes (for some more examples Dörrenbächer 1999). However, unlike many contingency approaches these paradoxes are not taken as ‘statistical noise’ but seen as an expression of the complex contextual situatedness of intra-firm competition. Moreover, they are considered to be promising starting points to build a more heterodox theoretical understanding of the phenomenon by disciplined eclecticism as proposed by Poole and van de Venn (1989) and recently Sorge (2005).

3.2 Political Dimension of MNC activities

By their very nature MNCs constitute and operate at the same time different political arenas. They are part and parcel of different political processes. These can be located at the macro-, the meso- and the micro-level (Bélanger and Edwards 2006).

Political processes at the macro-level centre on the relationship between multinational corporations and governments (local, regional, national and supranational governments). They encapsulate governments attempts to control, influence and regulate the behaviour of multinational corporations to maintain sovereignty (Servant Schreiber 1967, Vernon 1971), to stimulate innovations (Cantwell 1996), to achieve economic development (Lall 1996) to enforce corporate social responsibility (Kolk et al. 1999) and to avoid or to mitigate unwanted social, political, economic and environmental effects. To this end governments have designed a multitude of frameworks, regulations, laws and agreements since the end of World War II.
While during the 1950ies and 1960ies many attempts were undertaken to regulate the activities of MNCs, the more recent decades have primarily seen attempts to regulate how governments should behave vis-a-vis MNCs in terms of competition law, labour regulations, property rights etc. Next to an increasing interference of MNCs into processes of rule setting and institution building (Plehwe and Vescovi 2003, Dahan et al. 2006), this change is due to a notable shift in the philosophy of public authorities towards MNCs since the 1970ies. Enduring high unemployment rates in developed countries and high debts in developing countries turned earlier attempts that were concerned about control, confinement and regulation, into a policy pattern that clearly aims to attract foreign direct investment in order to create new jobs, to access new technologies or to enlarge the tax base. This however results in an intensified competition among national economies and locations that parallels with and sometimes interferes head on with intra-firm competition. The latter is the case if locational decisions are on the margin and governments try to influence the decision by offering tax relieves, preferential loans, subsidies, infrastructural aids etc. (cf. Box 1)

Taking a less state centred view further political processes on the macro-level in which MNCs are involved come into sight. While there is a long tradition of the media watching MNCs’ behaviour (and vice versa attempts by MNCs to influence media by specific public relations policies), the 1990ies have seen a dramatic rise of civic society interest in MNC behaviour. Thus trade unions, churches and other NGOs increasingly raise concerns about negative implications of international production and investment. Their actions range from influencing public discourses by scandalizing misbehaviour, over lobbying at regulation bodies, to implementing monitoring systems and organizing consumer boycotts. As for instance the case of Shell/Bent Spar has highlighted such actions can be very efficient and their organizers need to be taken serious by MNCs. Following Holtbrügge and Berg (2004) this has turned public affairs management into a policy area of increasing importance for MNCs. Intra-firm competition with its inherent threat of job losses and regional economic decline holds particular risks for MNCs to urge societal concerns. As mentioned above, concerns are most likely when the number of jobs at stake is high and the trade unions affected are strong. Moreover intra-firm competition is likely to involve the wider public (including governments) when intra-firm competition misses to hold basic standards of procedural justice (Kim and Maubogne 1993) and is systematically used for concession bargaining leading to a lowering of wages and labor or environmental standards (cf. box 1)

Political processes at the meso-level basically touch upon headquarters-subsidiary relationships in MNC. Given the different hierarchical positions as well as partly diverging interests, the relationship between the headquarters and its subsidiaries always bear the risk to escalate into conflicts. According to Soelvell & Zander (1998), the headquarters’ desire to maintain control is always in latent opposition to the subsidiary's drive for autonomy. Further fundamental sources of conflict between headquarters and subsidiaries relate to the distribution of profits and decisions regarding the direction of development of the MNC in general or of the subsidiary in particular (Forsgren & Johanson 1992). Despite the fact that such seemingly fundamental clashes of interest exist in MNCs, extant research has pointed out that some companies are better at cooping with such internal tensions than others (Ferner and Edwards 1995). To what extent this hold true in situations of fierce intra-firm competition needs to be studied more in depth. What can be said so far is that intra-firm competition touches in a particular way upon all fundamental conflict items between headquarters and subsidiaries, suggesting a tight political behavior of headquarters and subsidiary actors. Following Stopford and Strange 1991 it is the political nature of headquarters-subsidiaries relationships that produces the many investment and trade decisions that contradict standard FDI and trade theories.
While a look at meso-level political processes in MNCs uncovers that MNCs can hardly be conceptualized as unified actors, a look at political processes at the micro-level makes clear that neither subsidiaries nor headquarters can be conceptualized as unified actors either. Hence subsidiary and headquarters actions need to be understood as the result of multi-actor political processes too. Blazejewski (2007) for instance demonstrates in great detail how the interests of shop stewards, works council members, middle and top managers of a larger GM subsidiary in Germany strongly varied in intra-firm competition and how fiercely actors fought to influence subsidiary behavior in intra-firm competition. Unfortunately similar studies are not available for different types of actors in MNCs headquarters. However management sociology has revealed that managers’ behavior systematically differs according to their hierarchical position (Petit 1975, Steward 1976), their professional backgrounds (Fligstein 1990) and – rather important here – according to their position in the matrix organization as either responsible for a business or a regional area (Ruigrok et al. 2003).

To sum up: MNCs are involved in political processes at different levels dealing with rather diverse internal and external actors. Political processes at these levels are not independent but multi-layered and interdependent. They mutually influence each other in a multi-level bargaining and negotiation system. This is also the case in intra-firm competition as the short case study in box 1 clearly demonstrates. Developments at the macro-level, including e.g. the public discourse on intra-firm competition (Piotti 2007) or government intervention have an impact on the headquarters-subsidiary relationships at the meso-level as well as on the negotiations between local subsidiary managers and their workforces. And the same holds true the other way round (see figure 1 below).

Figure 1: Different political areas at the micro-, meso- and macro-level

Taking a more actor and process oriented view, the next section will highlight what actors play a particular role in intra-firm competition, what games make up intra-firm competition and what strategies are followed by these actors.
In 1989 Maytag of the US took over the traditional European household appliance manufacturer Hoover. At the time Hoover had a total of four European plants in Scotland, Wales, France and Portugal making washing machines, vacuum cleaners and refrigerators. Vacuum cleaners were manufactured at three production sites: Cambuslang near Glasgow (UK), Longvic near Dijon (France), and Lisbon (Portugal). The Portuguese site was not involved in the production site conflict described below. Maytag started in Europe with great ambitions. It intended Hoover, the most widely established brand in Europe, to be its gateway into the single market and wanted to develop a full product range. However the first problems appeared just after the take-over when it became clear that Maytag had overextended itself. The purchase of Hoover and some other firms in the US (Chicago-Pacific, Magic Chef) created financial difficulties for Maytag. Added to this were major management problems at Hoover, Maytag's first ever undertaking abroad. With a crackpot marketing idea that promised each buyer of a Hoover vacuum cleaner two free flights to the USA – a scheme that cost over 50 million pounds sterling – the firm, which had been operating at a loss since the acquisition, could not be dragged back into the black. Three years after the take-over, Hoover Europe had merely accumulated more and more losses despite making staff cuts totalling 1,300 workers and an investment programme to date of 20 million pounds (15 million pounds was spent on the plant in Wales, with the rest spent on rationalising vacuum cleaner production in the Scottish plant at Cambuslang).

In June 1992, the manager of Hoover Europe announces that labour-saving possibilities in vacuum cleaner production are to be examined. Options cited include rationalising all production sites or closing one of them down. All those affected realise that if the worst comes to the worst this will involve either the Scottish plant at Cambuslang or the French facility at Longvic. By September 1992 the writing is most definitely on the wall: one production site is to be closed. A workers' representative from Longvic proceeds to voice his fear of collective redundancies at his production site, but this is promptly denied by management. A few weeks later Hoover's management lets it be known that financial aid would be needed if Scottish production were to be relocated to France. The French government and the regional authorities of Burgundy respond and dangle the prospect of 70 million francs worth of subsidies. However this offer is matched in Scotland, while later it is learned that the Scottish regional investment board (the Glasgow Development Agency) had promised almost 10 million francs more. With public aid assured, in December 1992 Hoover's French management then negotiates a one-year pay freeze with the Longvic workforce. In January 1993, Hoover's management finally negotiates with the affected Scottish trade unions AEEU and MSF, issuing on January 20th an ultimatum giving them just one and a half days to accept a sharp cut in worker rights in return for guaranteeing the production site. By then, however, the decision had been cut and dried for months: a fax intercepted one month later in Longvic by the workers' representatives revealed that Hoover's management in France had negotiated its redundancy terms much earlier, which meant a decision to close the French site had already been made. Three days later, on 23 January, the Scottish trade unions announce their agreement. Vacuum cleaner production at the Longvic production site is relocated to Cambuslang in Scotland. Of the 700 jobs in Longvic, some 630 are lost. The remaining 70 are used to maintain the sales and service departments and a spare parts warehouse. In Cambuslang, on the other hand, 400 new workers are recruited. But the price is high: the Scottish unions agree both to a limitation on the right to strike and a curb on their right to representation (only one union representative is left per 70 workers). Shorter breaks now add 50 minutes to the working week, the terms for calculating social plan resources are altered, wages are frozen until 1994, and all new jobs in Cambuslang are for a fixed two-year term. This is just a snapshot of what was a greed in the negotiations.

It has to be noted that his case is an extreme one but it is hard to escape the conclusion that the outcome could hardly have been worse for the labour side. French workers lost their jobs while their Scottish colleagues lost many of their rights. This was also echoed by the French government who asked the European Commission to investigate whether the assistance offered by Britain constituted a violation of EC rules. Moreover, French officials made accusations that Britain was following a path of social dumping.

*Adapted from Dörrenbächer (1999)*
3.3 Actors, games and strategies in intra-firm competition

While a whole range of actors at different levels might be involved in one way or another in intra-firm competition, executives from both the headquarters and the subsidiaries seem to be the main “political brokers” (March, 1962 p. 672) in intra-firm competition. It is these actors’ social capital and strategizing that shapes the course of intra-firm competition to a large extent (Kostova and Roth 2003). This is not to deny that their strategizing might reflect or integrate to varying extents the interests of other actors (e.g. shareholders, investment analysts, governmental agents, political parties, media representatives, NGO members, labor unions).

Based on the analysis of Crozier and Friedberg (1980) inter-firm competition will be conceptualized in the remainder as consisting of specific political games. In these games – a large number of which are played both simultaneously and successively – the actors and strategies are tied to rules and resources. Put differently, these structural conditions pose at the same time certain constraints and liberties (with actor-specific differences) that can be more or less exploited in the implementation of individual tactics and strategies.

First insights on what games are played with regard to intra-firm competition are provided by a recent paper of Morgan and Kristensen (2006). Taking the perspective of the headquarters, they stress, that the outstanding position of headquarters in terms of power and access to distant units of the MNC allows headquarters managers to play the ‘language game of globalization’ in intra-firm competition. That is, using the globalization metaphor as well as the wider public and scientific debate on national competitiveness to justify and legitimize the systematic introduction of intra-firm competition as prime mode of governing geographically dispersed subsidiaries. Headquarters managers might also exploit their exclusive relationship to the shareholders of the MNC to impose an ‘investment bargaining and regime shopping game’ on its subsidiaries. Here shareholders’ expectations with regard to return on investment are used to legitimize intra-firm competition. In both games information gained by benchmarking and similar performance evaluation systems are an important prerequisite for headquarters managers to successfully govern processes of intra-firm competition (Schmid and Kretschmer 2006). Procedural tactics used by headquarters extend to rather formal requests for proposals (Birkinshaw 2001). Often however, headquarters make fairly vague announcements on intended plant closures, overall job cuts or target cost and then follow a wait and see approach (Dörrenbächer 1999).

Subsidiary managers can play games in intra-firm competition too. One game is labelled ‘capitalizing foreignness’ (Dörrenbächer and Geppert 2008, forthcoming). It reflects the fact that – in addition to resource dependencies – a cultural, political and institutional distance to headquarters provides a leeway for autonomous subsidiary action. Being situated in a different environment provides tactical and strategic alternatives that would otherwise be unavailable in the national framework. Thus subsidiary managers can weaken, modify or ward off disagreeable and unreasonable headquarters requests in intra-firm competition by referring to the institutional structures in their country or to the political power of local actors (for examples, see Becker-Ritterspach et al. 2002; Tempel 2001). However, it has to be noted that playing this game may involve a high risk strategy as headquarters might interpret the institutional structures and power relations in host countries as a fundamental weakness of the location. The backlash could be a withdrawal from the location in question in the longer run. There are not only existing institutional differences that subsidiary managers can (or may try to) exploit; they can also functionalize the peculiarities of the ‘insecurity zone’ (Crozier and Friedberg 1980) that headquarters managers in MNCs see themselves confronted with while controlling their subsidiaries. An example is provided by Dörrenbächer and Geppert (2008,
forthcoming) referring to a Hungarian subsidiary which tried to withhold and to slightly
manipulate information in its reporting to the headquarters, to receive a better benchmark then
its competing subsidiaries. Given the complexity of some benchmarking systems and the fact
that often data can be legitimately interpreted in many ways, there are many inroads for such
behaviour below the level of outright fraud.

Another rather important game subsidiary manager’s play in intra-firm competition can be
broadly labelled as the ‘coalition game’. Subsidiaries that face intra-firm competition can
form coalitions with various stakeholders. Dörrenbächer (2007) for instance reports about a
 Hungarian software subsidiary that coordinated informally with other subsidiaries of the same
MNC when making tenders for contracts within the group. Other defensive coalitions in intra-
firm competition might be forged with NGOs, regional and national Governments (to see box
1, or Kristensen and Zeitlin 2005) or local business partners (Forsgren 1990). Moreover,
subsidiary managers and the local workforce might form a kind of a ‘homefront coalition’ to
defend the interest of the subsidiary as a whole (Dörrenbächer 2007, Turner 2006). Finally
subsidiary managers can also try to form a coalition with headquarters in intra-firm
competition, by lobbying at headquarters, strictly avoiding conflicts with headquarters and by
meticulously fulfilling all requests set out by the headquarters (Dörrenbächer and Geppert
2007). Such a tactical behaviour can be labelled in line with Bacherach and Layler (1981) as
‘conflict avoidance’ or ‘in line with Delany (1998) as ‘boy scout behaviour’.

3.4 Rules, Resources and rationales in intra-firm competition

Following the premises of the micro-political approach it is the individual actors’ interests
that deserve a closer attention to understand intra-firm competition. There is quite some
empirical evidence that headquarters and subsidiary managers miss to follow the universal
behavioural patterns ascribed to them by the mainstream international human resource
management literature. It is proposed here to understand core actors’ behaviour in intra-firm
competition as shaped by its organisational and wider social positioning. Specifically, the
interest, strategies or rationales that emanate from such a positioning and correspondingly the
resources and rules actors can refer in pursuing their strategies and interests given their
positioning (Becker-Ritterspach 2006).

From the theoretical reasoning above it is clear, that being a headquarters or a subsidiary actor
makes a great difference in intra-firm competition in terms of affectedness. In many cases the
unfolding inter-firm competition may just be business as usual for headquarters’ managers.
However, it may also come as a real threat for subsidiary managers. Moreover, in many cases
headquarter managers might play a referee role, implying for subsidiary managers often little
choice but to accept final decisions by headquarters.

Whether this holds true in individual cases of intra-firm competition depends on the resource
dependency relationship between the headquarters and the subsidiary in question as the IB
literature on intra-firm competition points out (cf. point 2.4). In light of the foregoing
discussion, however, explanatory variables need to be extended by the potential impact of
subversive organizational tactics, the ability to form coalitions with powerful in- and outside
actors as well as by rules and resources individual managers can refer to in playing these
games, i.e. their social capital, charisma, reputation or bargaining and lobbying skills. While
many of these rules and resources will be socially structured or position related, others may be
regarded as more individual skills and capabilities.
Next to the organizational position of headquarters and subsidiary managers and the resource dependency situation between the headquarters and the subsidiary, the individual interests of headquarters and subsidiary managers play an important role in intra-firm competition. They influence especially how and to what end games surrounding processes of intra-firm competition are played. There is ample empirical evidence that neither the interests of headquarters’ managers nor the interests of subsidiary managers are all time uniform. Instead, it is proposed here that such interests – especially in organizations under the stress of intra-firm competition – differ systematically for certain subgroups of headquarters and subsidiary managers, basically reflecting their sub-organizational or functional adherence, their nationality, career path and aspirations.

Rather little is known so far about different types of headquarters managers and their basic orientations and interests in intra-firm competition. One important impact, however, might be their positioning in the matrix organization, having either a regional or a product responsibility. Other attitudinal differences might be rooted in the career paths of headquarters’ managers, depending most notably whether, where and to what extend a headquarters manager had worked in foreign subsidiaries.

In contrast to headquarters managers, quite some research has been done on different types of subsidiary managers their basic orientations and interests. Expatriates are seen as strongly following a headquarters orientation due to their familiarity to the MNCs overall goals, policies and practices. Very often they are seen as instrumental and most effective in exercising headquarters control over the subsidiary. For instance, if headquarters decide in intra-firm competition to close down a subsidiary it is expected that expatriates implement rather effectively such a policy. Inpatriates, on the other hand, are seen as having local (subsidiary) allegiances, due to their socialization in the host country and their familiarity with the social, political and economic environment of the host country (Harvey et al., 1999). Referring to the same example (headquarters decide to close down the subsidiary in intra-firm competition) it is expected that inpatriates would try to resist, modify or delay headquarters policy.¹

Despite the fact that this taxonomy of different types of subsidiary managers with different orientations still dominates textbooks, empirical research has challenged the basic assumption of this typology, namely that nationality alone explains the real life variance in the orientation and interests of foreign subsidiary managers. A study of Banai and Reisel (1993) showed that ex- and inpatriates do not differ with regard to their loyalty to the MNC, providing a strong case against the assumption that inpatriates give subsidiary concerns priority over headquarters’ concerns. Black and Gregersen (1992) as well as Loveridge (2006) argue in turn that a headquarters allegiance can be mainly found with expatriates that do not go native e.g. by marring a local partner, converting to the locally dominant religion, or taking up permanent local residence. In line with this argument, case study evidence reported by Dörrenbächer and Geppert (2007) shows that expatriates – given certain biographical characteristics – very fiercely fight for their subsidiaries in intra-firm competition and even resist or circumvent related headquarters decisions. Petersen et al. (1996; 2000) proved that a

¹ There are two other categories of subsidiary managers discussed in the literature. 1) Third country nationals are often ascribed a generically more balanced orientation between the local subsidiary and the headquarters. However following Harzing (1999), their number is very small compared to ex- and inpatriates. 2) There is a small but growing number of foreign subsidiary managers, which do not fit in any of the categories discussed above, due to their bi-national, bi-lingual and/or bi-cultural biography or due to their status as international itinerants (Banai and Harry, 2004). To what extend these “hybrids” and itinerants do follow a local subsidiary or a headquarters orientation is still an open question.
strong orientation towards the local subsidiary is only with those inpatriates that do not have international career options. This is confirmed by a study of Flecker (2000) in which he describes the behavior of a group of young inpatriate subsidiary managers (‘the hungry wolfs’) that strictly execute headquarters policies for the sake of their international careers.

While these studies made apparent that additional factors beyond nationality do play an important role for the orientation and behavior of subsidiary managers in general as well as in intra-firm competition, only a few studies so far try to identify these additional factors and integrate them into a model for empirical research. Suutari (2003) for instance stresses the impact of various career aspects while Larsen (2004) concentrates on the interplay of individual career aspiration and organizational features. Again the concept of socio-organizational positioning – here in a more longitudinal perspective – involving a closer look at a manager’s past trajectory of socio-organizational positions, his or her present position and positional aspirations for the future, may be highly indicative with respect to managerial behaviour in intra-firm competition.

Based on the above literature we propose to understand subsidiary managers’ interests and political behavior in intra-firm competition as strongly influenced by their specific socio-organizational positioning involving their embeddedness in organizational as well as wider situational and societal conditions. In such a view the behavioral or political rationales in intra-firm competition are constituted by the interplay of several organizational and biographical characteristics the latter including 1) the status of being an in- or an expatriate 2) the past career path and future career aspirations as well as 3) corresponding allegiances of subsidiary managers (for a more extensive treatment of this particular part of the framework cf. Dörrenbächer and Geppert 2007).

4. Conclusion

The issue of intra-firm competition in MNCs so far has been basically addressed by researchers with a contingency theory background. Although these works recognize that politics is important in intra-firm competition they fail to adequately integrate the political dimension into their frameworks. Drawing on different organizational politics approaches, the framework developed in this paper aims to map key actors political strategies, the contextual constitution of these strategies as well as the dynamics of political interactions in games surrounding intra-firm competition.

By their very nature MNCs are involved in political processes at different levels dealing with rather diverse internal and external actors. Hence mapping the politics of intra-firm competition requires a multilevel analysis that especially considers the interplay of actor strategies across political arenas. Political arenas include the society or economy as a whole (with governments, NGOs, and the media as key actors), the headquarters-subsidiary relationship (with headquarters and subsidiary managers as key actors) as well as the internal headquarters and subsidiary level (with different types of headquarters managers, different types of subsidiary managers, work councils, trade union representatives etc. as basic actors).

Actors from all these levels are involved in games that surround intra-firm competition. Nevertheless, the framework developed here proposes to understand executives from both the headquarters and the subsidiaries to be the main “political brokers” in intra-firm competition. It is these actors’ behaviour and interaction that shapes the course of intra-firm competition to a large extend, even if their behaviour reflects and integrates to varying degrees the interests
of other actors (such as shareholders, investment analysts, governmental agents, political parties, media representatives, NGO members, labour unions etc.)

The framework further stipulates that headquarters and subsidiary managers might play different games in situations of intra-firm competition. Games played by the headquarters aim for instance at legitimizing intra-firm competition. Games played by subsidiaries for instance try to capitalize the insecurity zone, use institutional differences or enhance power by building coalitions.

Finally, the framework sets out that the type of games played, the ends pursued and the outcomes reached thereby not only depend a from the resource dependency situation between the headquarters and the subsidiary but also from other factors. Most noteworthy here are the specific organizational positioning of the actors (either being headquarters and subsidiary managers), their related strategic and tactical capabilities as well as their individual interests. Individual interests relate to the socio-political positioning of the actor that basically reflects the actors’ sub-organizational adherence, nationality, career path and career orientation.

Applying this framework can help to better explain seemingly nonsensical or anomalous developments in intra-firm competition or as Stopford and Strange (1991) have maintained the many investment and trade decisions that contradict standard FDI and trade theories. The framework might also help to overcome the rather stylized nature of contingency approaches to intra-firm competition as well as to infuse some blood into the anemic shape of some institutional approaches that deal with MNC behavior.

While the potentials of using the framework seem obvious, specific conditions are attached to its implementation. Good access to the field, candid interview partners and a multilingual, self-reflecting team of researchers are only a few of the necessary preconditions. Mastery of a wide set of methods ranging from the analysis of statistical data and the interpretation of institutional factors to the triangulation and validation of interview results is also required, not to mention the willingness to engage in high-risk research.

5. Literature


### ANNEX 1: The IB Literature on determinants of intra-firm competition

<table>
<thead>
<tr>
<th>Author (year)</th>
<th>competition item(s)</th>
<th>Main determinants</th>
<th>Explication</th>
</tr>
</thead>
<tbody>
<tr>
<td>Luo (2005)</td>
<td>Parent resources and support</td>
<td>Local responsiveness</td>
<td>In cases a high local responsiveness is required, subsidiaries more strongly rely on headquarters resources to overcome the liability of foreignness. Since headquarters resources that can underpin the subsidiaries local responsiveness are limited an intensified intra-firm competition among subsidiaries on these resources takes place</td>
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<tr>
<td></td>
<td>Systems position</td>
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<tr>
<td></td>
<td>Market expansion</td>
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<tr>
<td></td>
<td>Parent company factors</td>
<td></td>
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</tr>
<tr>
<td></td>
<td>Intra-firm competition increases if some MNC subunits loose competitive advantage in important markets and hence ask for more Headquarters’ support.</td>
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<tr>
<td></td>
<td>Plant level factors (Status and role of foreign affiliates in relation to parent company operations)</td>
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<td></td>
<td>Plant level factors (Status and role of foreign affiliates in relation to parent company operations)</td>
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<td></td>
<td>Intra-firm competition can be viewed as evolutionary process of internal variation, selection and retention. The more an MNC is active in an environment that is characterized by ambiguity about the magnitude, speed and dimension of change, the more Intra-firm competition is useful to cope with that equivocallity</td>
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<td></td>
<td>Market overlap</td>
<td></td>
<td>If subsidiaries compete on the same markets intra-firm competition is intense. This happens especially in prosperous markets where headquarters allow many subs. to be active to harvest as much as possible</td>
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<tr>
<td></td>
<td>Capability retrogression</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Birkinshaw /Lingblatt (2005)</td>
<td>Charters</td>
<td>Environmental equivocally</td>
<td>Intra-firm competition increases if some MNC subunits loose competitive advantage in important markets and hence ask for more Headquarters’ support.</td>
</tr>
<tr>
<td></td>
<td>Industry maturity</td>
<td></td>
<td>In nascent industries charter overlap might be high due to the technological and institutional uncertainty, leading to large overlaps but little intra-firm competition. This is turned around as industries mature.</td>
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<tr>
<td></td>
<td>Market heterogeneity</td>
<td></td>
<td>The more heterogeneous a market is, the more product variety is needed to fulfill customers desire, the more charter overlap occurs however without immediately increasing intra-firm competition</td>
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<tr>
<td></td>
<td>Decentralization of decision making</td>
<td></td>
<td>The more decision making is decentralized, the more likely it is that subsidiary managers increase intra-firm competition by contesting the charters of other subsidiaries or by going for the same promising new charters</td>
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<td></td>
<td>Normative Integration</td>
<td></td>
<td>The existence of normative integration has an impact on how conflicts in intra-firm competition are acted out in case of charter overlap. In the case of no normative integration an open cutthroat competition will take place</td>
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<td></td>
<td>Fungibility of unit capabilities</td>
<td></td>
<td>Fungibility of unit capabilities refers to the capacity of a unit to use or adapt existing capabilities toward product market opportunities that currently lie beyond the charter. This might lead to larger overlap and more intra-firm competition</td>
</tr>
<tr>
<td>Phelps and Fuller (2000)</td>
<td>No clear indication</td>
<td>Parent company factors</td>
<td>Intra-firm competition is high in cases of multi-domestic MNCs because of large overlaps, low in cases of more integrated MNCs; absent in network-like organized MNCs</td>
</tr>
<tr>
<td></td>
<td>Plant level factors (Status and role of foreign affiliates in relation to parent company operations)</td>
<td></td>
<td>There are two contradictory trends here: 1) Usually the bulk of activities of an MNC is in the parent country, with oversees subsidiaries having little grip to contest the position of parent country operations (resulting in or little intra-firm competition) 2) Due to diminishing product life cycle times gains made by any subsidiary deserve attention by the headquarters (resulting in intense intra-firm competition)</td>
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<tr>
<td>Cerratto (2006)</td>
<td>(1) intermediate goods</td>
<td>(1) Input specificy and high sunk costs…</td>
<td>… are negatively related to the establishment of an internal market system and hence the existence of intra-firm competition</td>
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<td>(1) Uncertainty related to market changes</td>
<td>… is negatively related to the establishment of an internal market system and hence the existence of intra-firm competition</td>
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<td></td>
<td>(1) Inefficiency in the captive market</td>
<td>… is positively related to the establishment of an internal market system and hence the existence of intra-firm competition</td>
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<td>(1) MNCs need for flexibility</td>
<td>… is positively related to the establishment of an internal market system and hence the existence of intra-firm competition</td>
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<td>(2) charters and mandates,</td>
<td>(2) The non location bound nature of ressources a charter consist of…</td>
<td>… is positively related to the establishment of an internal market system and hence the existence of intra-firm competition</td>
</tr>
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<td></td>
<td>(2) A strong track record of the subsidiary</td>
<td>… is positively related to the subsidiaries capacity to compete for charters and therefore to the establishment of an internal market system and hence the existence of intra-firm competition</td>
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<td></td>
<td>(2) A Decentralized decision making policy of the headquarters…</td>
<td>is positively related to the establishment of an internal market system and hence the existence of intra-firm competition</td>
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<td></td>
<td>(2) Frequent and open Headquarters‐subsidiary communications</td>
<td>… are positively related to the establishment of an internal market system and hence the existence of intra-firm competition</td>
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<td>(3) knowledge and capabilities</td>
<td>(3) Tacitness of knowledge</td>
<td>… is negatively related to the establishment of an internal market system and hence the existence of intra-firm competition</td>
</tr>
<tr>
<td></td>
<td>(3) Context specificy of knowledge</td>
<td>… is negatively related to the establishment of an internal market system and hence the existence of intra-firm competition</td>
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<td></td>
<td>(3) Interaction due to flows of products and services between the sender and the receiver unit</td>
<td>… are positively related to the establishment of an internal market system and hence the existence of intra-firm competition</td>
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<tr>
<td></td>
<td>(3) Frequent and open communications between the sender and the receiver unit</td>
<td>… are positively related to the establishment of an internal market system and hence the existence of intra-firm competition</td>
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