Tri-Space Framework for Understanding MNC Behaviour and Strategies

An Institutionalism and Business System Perspective

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Abstract:

This paper presents a framework called 'Tri-Space' that comprises three overlapping social spaces, indicating three different concepts: institution and business systems, civil society, and transnational communities. Tri-space framework broadens the horizon of understanding of how MNCs behave and what factors/actors from these spaces tend to shape their strategies in host context. It thus combines both national and global dimensions of societal concept in which it includes a broader view of 'institution' that comparative business system/capitalism advocates, and that also overcomes the limitations of 'institutional view' international management studies tend to use.

Reference:

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Introduction

'How do firms behave?' has been a common question in strategic management (Rumelt, Schendel, and Teece, 1994); it leads to understanding their strategies. Answering this question in international management (IM) is not as simple as it can be for domestic firms whose activities confine mostly in domestic context. Understanding MNE behaviour is complex, because its behaviour is not shaped by internal decision of MNE subsidiary only, but also by MNE organisational network in which HQ plays dominant roles, and the external institutional factors (Collinson and Morgan 2009; Morgan, Kristensen and Whitley, 2001). The question 'How do MNEs behave' is related to 'What influence MNE behaviour', 'How do they influence' and 'Where those factors lie'. The third question- 'Where those factors lie'- is important to understand for MNE strategy research, because MNE has complex organisational structure that extends across national boundaries and there is a complex relationship between MNE organisation and multiple exogenous factors from multiple spaces. Its headquarter is located in one institutional space, while it operates in multiple institutional spaces- across national borders and, even it is linked with and influenced by global institutional actors who lie at global space; at least not located in national institutional space. Thus, I want to present a framework using three different concepts that indicate three different spaces (a) institutionalism and business system (b) civil society (CS) and (c) transnational community (TC). Understanding these spaces can help answer the above questions in a better way. These three concepts stem from organisational sociology perspective that I take in this paper, and that provides us a broader view about context, leading to understand the logics of relationship between endogenous factors of MNE organisation and exogenous factors of the context, which shape strategy formulation. The term 'space' has been borrowed from the migration studies in which the concept 'space' refers to an arena of social action (Morgan, 2001a). So, it could be a national space or transnational space depending on where the social action takes place. However, there can be a number of sub-spaces inside the national space, and in this case I take two sub-spaces: institution and civil society that affect business system characteristics' of MNEs i.e. how MNEs organise economic activities in a host context.

The reason I consider them separately is that, institutional rules, norms, and values are constructed in a given society depending on the nature of dominant institutional actors, particularly the state and the culture. In contrast, civil society actors in national space, particularly in developing economies, tend to have unique roles, values, and norms that do not necessarily harmonize to state policies and norms and, to some extent, traditional cultural norms and values. Thus, CS often acts as a change agent in developing countries, protesting against state roles, regulations, values, or collaborating with state to ensure its value-based mission for the society. I therefore take institution as one sub-space while civil society as another. Both stay in national context and interact with each other. Both also constrain and enable MNE activities in a national context (Rana and Olav, 2014). Moreover, I take another space- transnational space that comprises global and transnational actors that affect MNE activities in transnational context.

There might be a question: what is the usefulness of this framework since there is a pioneering work of Peng, Wang, and Jiang (2008) that presents - 'institution-based view' as the third leg for strategy tri-pod? My framework and perspective, however, does not intend to replace Peng et al. (2008, 2009) tri-pod framework; rather it will broaden our understanding about actors in different spaces that affect MNE activities and incorporate new dimensions i.e. role of CS and TC that Peng et al. (2008) did not mention. Their framework incorporates two views- 'the industry-based view' and 'resource based view' (Peng, 2006; Peng, Sun, Pinkham and Chen, 2009) with institution-based view. Thus, they claim that three views together help us to understand how MNE strategies are shaped in host context. In tri-pod strategy framework, Peng et al. (2008) includes MNE's internal dynamics of resources, as Berney (1991) defines in resource based view (RBV), industry 'rules of the game', as Porter mentions in five forces (1980), and the external pressures that institutions pose to subsidiaries (North 1990).

Even though introduction of tri-pod view is a remarkable contribution and a turning point in the global strategy literature that has overcome the limitations commonly appeared in two stages of the strategic management research i.e. resource-based view and industry-based view (Peng, Sun, Pinkham and Chen, 2009), it still remains some limitations, not in terms of validity of the framework but in terms of conceptual understanding of 'institution' and the 'scope' it covers. The limitations are pin-pointed below, which my framework intends to overcome:

- First, there are some limitations rooted in the conceptualisation of institution by North (1990), which is the foundation of tri-pod view. As a result, tri-pod view is not out of those limitations. North (1990) uses an analogy 'rules of the game' to denote institution. He defines it 'as the humanly devised constraints that structure human interaction''. To his notion, institution is considered to be a constraint that applies to human and firm interactions in a society (Jackson and Deeg, 2008). And, thus he ignores the enabler dimension of institution that also applies to human and firms. Both dimensions of institutions are taken into consideration in business system theory by Whitley (1992) that I use here.

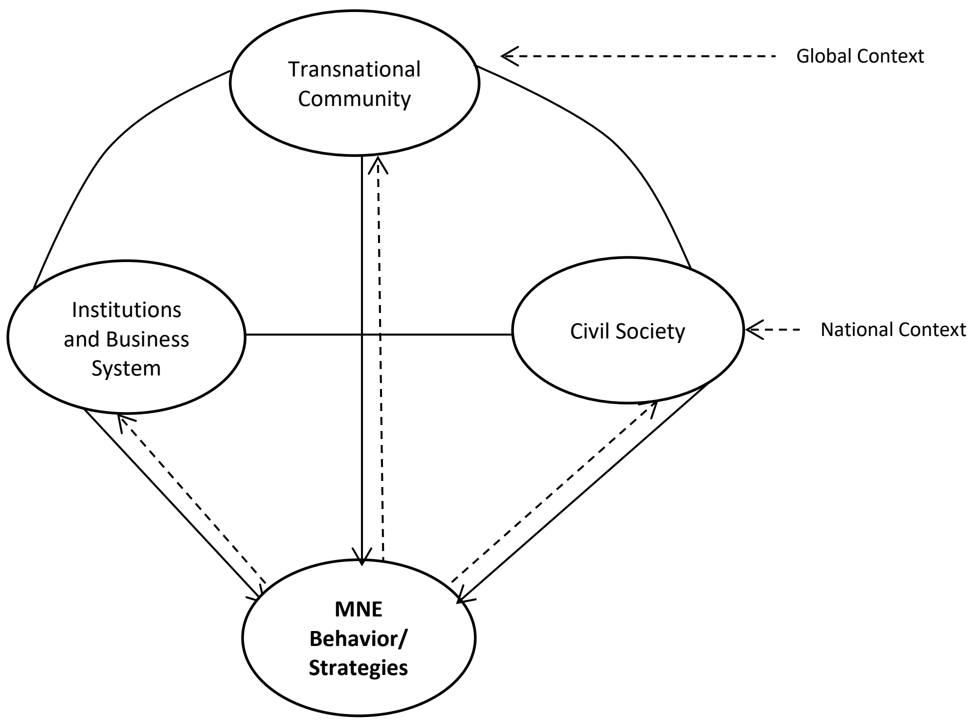
- Second, tri-pod view assumes that institutions influence MNE activities' in a society, like many other institutional theorists', for example, North (1990), Scott (1995, 2008), and thus it ignores that continuous interactions between firms and institutions give rise to a certain business system in which firms operate (Whitley, 1992; Whitley 2010). So, it is not institutions only that influence, firms also influence the institutions (See: Regner and Edman 2013; Dekocker et al., 2012; Morgan and Quack, 2005) and, thus, rules of the game in business system are developed. Moreover, firms not only operate in institutional context, more specifically, they are operating in business system within the institutional context; be it national, regional or sectoral. This notion is integrated in business system perspective (Whitley, 1992, 2010), which institutionalism i.e. North (1990) and Scott (1995) do not possess.

- Third, the recent emergence of civil society (CS) phenomenon, which includes NGOs, associations and activist network, neither falls into the category of institution that North (1990) indicates, nor does it an entity of the government, as Scott (1995) defines the regulative institution. CS actors are neither part of state nor private profit-seeking concerns. Although it does not have regulative power like government, with social agency and global network, norms, values, and capabilities CS appears as a proxy and complementary to weak institutions in emerging markets (See: Yunus, 2010; Doh & Guay, 2006; Doh and Teegen, 2002). CS constraints and enables MNE activities in emerging markets (Rana and Olav 2014) as institutions do, and participates in value creation process with the government and economic actors, mostly MNEs (Dahan et al., 2010; Nebus et al., 2010; Vachani et al., 2009). Tri-pod view does not include this dimension in strategy framework, while MNE strategies are shaped by this dimension in emerging markets (Gifforda, and Kestler, 2008; Lambell et al., 2008; Yanacopulos, 2005).

- Fourth, in addition to national space in which subsidiaries operate, there is a global space in which MNE organisation network (i.e. HQ, RHQ, and subsidiary network), global standard and multilateral institutions, global CS actors lie. They, either directly or indirectly, affect the subsidiary strategies (Morgan, 2001a, 2001b; Djelic, and Bensedrine, 2001). Tri-pod view overlooks the influence of global dimension of institution i.e. multilateral institution, global NGOs, and MNE global network, called 'transnational communities' (Morgan 2001a), in strategy formulation process.

While Peng et al. (2008) present a framework that put three separate views together in order to understand strategic management of MNEs in global business, tri-space framework (See Fig. 1) on the contrary illustrates there spaces and the actors within them that affect MNE behaviour. Special emphasis is given on emerging market context and the subsidiary operations. However, I do not necessarily ignore the use of RBV in strategization process by MNEs as Peng et al. (2008) did, nor did I rule out the importance of industry-based view; I rather emphasise different social spaces and dispersed organisational network of MNEs that by the continuous interactions between MNE network and social spaces (i.e. actors) develop strategies vis-à-vis capabilities. In this article I thus emphasis the integration of social dimensions (i.e. both national and global space) and economic dimensions in harnessing competitive advantage for MNEs. Michael Porter in his speech at 'Shared Value Summit 2012' speaks in a similar vein like the organisational sociologists that 'a strategy is not good that does not integrate societal perspective'.

Figure 1: Tri-Space Framework



Developed by Author

In the following section my paper delineates the three spaces and the actors that affect MNE behaviour vis-à-vis strategy formulation. Contextual evidences and examples from emerging markets are presented to conceptualise each and every space i.e. how they shape MNE strategy formulation. In Figure: 1, I have illustrated three spaces that are linked with each other i.e. institutions and business system, civil society, and transnational community. Of the three spaces, 'institutions and business system', and 'civil society' are the national dimensions, thus they lie at the national context. It is important to note that when business system framework was developed during 90's, CS dimension was not as prominent as they are today in our society, thus it was not included in institutional and business system framework by Whitley (1992). There is a body of literature that looks at the interaction between CS actors and business, and they call CS as an 'extra-institution' (King, & Soule, 2007) or 'third sector' (Teegen, Doh, & Vachani 2004). Institutional theorists like North (1990) and Scott (1995, 2008) also did not delineate CS in their works. I have, thus, illustrated it separately so that we can understand the importance of this dimension side-by-side the influence of background and proximate institutions in shaping MNE strategies and behaviour in national context.

1. Institution and Business System- as a Space in National Context

In this section I will, first, discuss institutional view from the perspective of institutionalism (North, 1990; Scott 2008) and comparative institutionalism / business systems (Morgan et al. 2010; Whitley, 2010). Second, I will draw the boundaries of institutions and business systems and illustrate how this space as a local dimension shapes MNE behaviour in national context. Institutionalism perspective explains institutional dynamics in national context that how they affect firm activities. By contrast, comparative institutionalism/business system perspective tends to unveil the institutional logics and examines interactions between institutional dynamics and firms to understand how and why firm structure and strategies are shaped in one institutional context that are different from the other institutional context.

The Roots of Institutionalism and Typologies of Institution

Two sets of thinking influence the rise of the institution-based view in international management and strategy: economic and social. One set of thinking was led by economists North, (1990) and Williamson (1975, 1985) who based on economic perspective considered institutional setting as exogenous variable that constraint firm activities and performance mechanism. The other set of thinking was led by sociologists (e.g. DiMaggio & Powell, 1983; Meyer & Rowan, 1977; Scott, 1995, 2008) who considered institution as both endogenous and exogenous variable and assumed that firm activities are embedded in social contexts comprising certain regulative and cultural-cognitive institutions. Apart from the above new-institutionalism literatures, comparative capitalism/institutionalism and comparative business systems literatures (e.g. Whitley 1992; Hall, & Soskice, 2001; Fligstein, 2001) also influence the rise of institution-based thinking in international management and strategies (Collinson and Morgan, 2009; Jackson and Deeg, 2008; Redding 2005). This theoretical perspective I use in developing tri-space framework.

The justification of using comparative institutionalism and business system perspective is that it offers two major benefits in understanding and using institutional theory in MNE studies: first, it assumes that interactions between institutions and firms give rise to a business system- particular set of rules of the game- in which firms operate, it means both influence each other and create a space called 'business system' within the greater national institutional space. Thus, business system is a system of management and organising economic activities by firms, often for a particular sector, in a particular society, which is underpinned by the nature of institutions in that society. Second, it considers institution as both constrainer and enabler for firm activities. Thus, I use Whitley's (1992, 2010) concept of institution that, in fact, includes both the pioneering works of institutions i.e. North (1990) and Scott (2008) and offers a clear-cut typology of institution that IM researchers can easily work with (See: Table 1).

Table: 1 Typologies of Institution Used in International Management Research

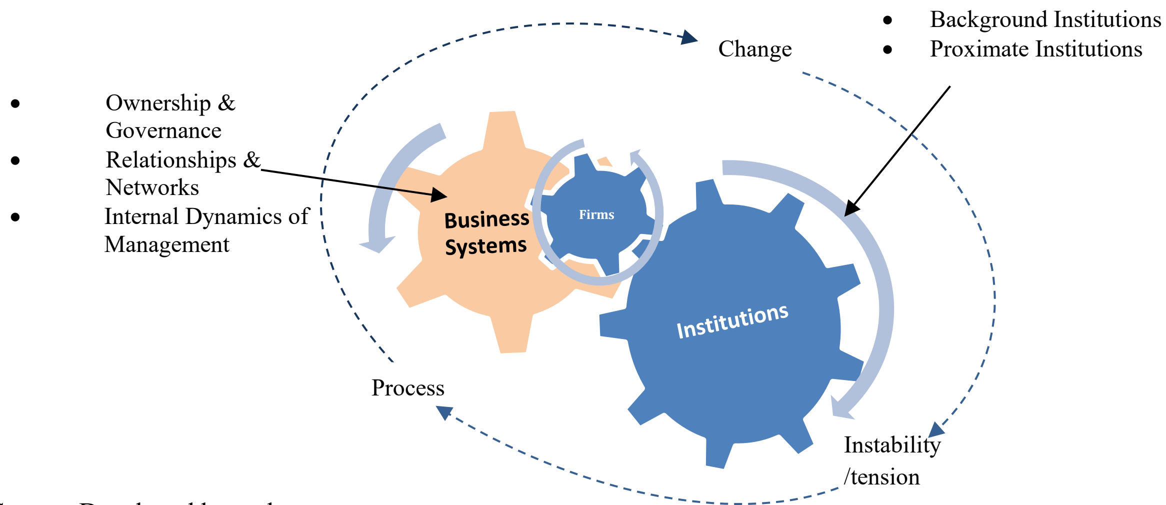
Institutionalism			**Comparative Institutionalism/ Business Systems**	
Degree of Formality (North, 1990)	Examples	Supportive Institutional Pillars (Scott, 1995;2008)	Key Social Institutions (Whitley, 1992)	Key Institutional Features (Whitley, 2010, 1992)
• Formal Institutions	Laws Regulations Rules	• Regulative	• Proximate Institutions	• State structures and policies (including regulations) • Financial system • Labour system
• Informal Institutions	Norms Practices Values/Ethics	• Normative • Cognitive	• Background Institutions	• Norms governing trust and authority relationships : • e.g. Trust in formal institutions and non-kin relationships • e.g. Paternalist/Contractarian/Communitarian justification of authority

Source: Developed by author

Institution and Business System- as a Space in National Context

Institution and business system, in fact, combines two spaces: one is the institutional space at national level, while the other is business system where daily and strategic interactions of firms take place, which is underpinned by the greater institutional space. Differences in national context, therefore, can give rise to different business systems, for example, China as a country has national institutions that combine rules, regulations, norms and values that apply to entire Chinese context. However, it has provincial governments, which are typically independent in nature and competing with each other. They make rules, regulations, norms for its society limited to its regional geographic context. Regional social spaces often contain different cultural norms and values due to different ethnicity and sub-culture rooted in its background. As a result, each regional space can have different business system. Wad (2001) in his study on Malaysian Auto industry cluster found a different business system than that of a national business system. It means industrial or sectoral differences may also underpin different business systems within the same national space. In the same vein, Rana, (2014) found differences in management system between MNEs and the local firms in Bangladeshi institutional context.

Figure. 2 Interdependency Between Institutions and Firms that Constitute Business System



Source: Developed by author

Figure 2 illustrates the mechanism of developing a business system within national institutional context. In figure I illustrate business system as a separate entity from institution so that mechanism of interaction is clearly visible, but in reality it confines in national political geography that contains certain form of institutional context. The figure illustrates mechanism i.e. daily and strategic interactions between firms and institutions that continuously pose tensions and instability. Thus changes are inevitable in business system(s) with change of institutional condition and nature of firms. However, it is assumed that in order to be a noticeable change in business system there needs to be a change in dominant institutions, leading to a change in society. These interactions are considered to be a process, so it is dynamic and there is instability and tension in the process of change. According to Whitley (1992:6) "business systems are particular arrangements of hierarchy-market relations which become institutionalised and relatively successful in particular contexts (institutional contexts). They combine differences in the kinds of economic activities and skills which are authoritatively coordinated in firms, as opposed to being coordinated through market contracting, with variations in market organisation and differences in how activities are authoritatively directed.'

Business system comprises mainly three characteristics: (a) nature of ownership and governance pattern (i.e. nature of the firms) (s) (b) nature of network and relationships among the actors (both within the firm, between firms, and between firm and the external actors) (c) nature of internal dynamics of the management systems in the firm (See Table 2). It is assumed that these three components are affected by the two relevant types of institutions: 'social background institutions' and 'proximate institutions.' The former refers to more cultural-cognitive institutions while the latter indicates state and state-organised institutions (See Table 1).

Table 2. Business System Characteristics

1. Nature of Ownership and Governance *(Nature of the Firm)*
    - The degree to which private managerial hierarchies coordinate economic activities
    - The degree of managerial discretion from owners
    - Specialisation of managerial capabilities and activities within authority hierarchies
    - The degree to which growth is discontinuous and involves radical changes in skills and activities
    - The extent to which risks are managed through mutual dependence with business partners and employees
2. Nature of Network and the Relationship between the Actors *(Market Organisation)*
    - The extent of long-term co-operative relations between firms within and between sectors/industries
    - The significance of intermediaries in the coordination of market transactions
    - Stability, integration and scope of business groups
    - Dependence of co-operative relations on personal ties and trust
3. Internal Dynamics of Management in Firms (*Authoritative Coordination and Control System Within the Firms)*
    - Integration and interdependence of economic activities
    - Impersonality of authority and subordination relationships
    - Task, skill and role specialisation and individualisation
    - Differentiation of authority roles and expertise

- Decentralisation of operational control and level of work group autonomy
- Distance and superiority of managers
- Extent of employer-employee commitment and organisation-based employment system

Adopted from Whitley, 1992

In the business system (BS) concept, the differences in the kinds of economic activities and the skills (managerial and labour skills) in a society are seen in three fundamental dimensions, because firms differently respond to different institutional conditions in different market economies: first, how are economic activities and resources to be coordinated and controlled? Second, how are market connections between authoritatively coordinated economic activities in firms to be organised? Third, how are activities and skills within firms to be organised and directed through authority relations? The ways in which each of these issues is dealt with in different institutional spaces are, of course, interdependent and together constitute distinctive configurations of hierarchy-market relations in those spaces, which Whitley (1992) calls business system.

There are three major aspects on which Whitley placed central emphasis in the conceptual framework of the business systems. One is institutional configuration and diversity, the second is the corporate governance of the firms, and the third is coordination and control systems between firms or collectivities of the firms within and between sectors.

How IM Studies Can Benefit from BS and Institution?

I will highlight two points to explain how IM study can benefit from comparative business system and institutions.

First, consideration of institution and business system can help IM researchers to pin point research focus at the intersection between international management and strategies. Business system characteristics' combine both organisational phenomena, for example, ownership, governance, management, and economic relationship phenomena, for example, coordination, cooperation and control mechanism between firms and between firms and institutions. Thus, researchers can zoom into a particular characteristic of BS that interests them and can understand how that characteristic is shaped in a business system; be it sectoral or national, based on the logics of the institutions. For instance, MNE subsidiary may behave in a way for 'internal management', but researcher can examine whether that behaviour is similar, different, or hybrid compared to other firms in the same business system and how institutional features in that space underpin this particular characteristic.

Researcher can explain a particular type or pattern of business system characteristics by the logics of institutions.

Second, apart from a logical framework that illustrates interactive relationship between institutions and BS characteristics', Whitley (2000) further integrates BS concept with the notion of dynamic capabilities (Teece et al., 1997). He illustrates how different types of business systems encourage different forms of innovation patterns. IM studies, thus, can use this framework to understand firms' innovation and organisational capabilities in different institutional context. Whitley (2007) argues that due to differences in coordination of economic activities in different institutional contexts, innovation patterns and technological specialisation vary considerably, thus the innovation strategies developed at the firms tend to be different. He identifies six major types of business systems: fragmented, coordinated industrial districts, compartmentalised, collaborative, highly coordinated and state organised, and shows their association with five types of innovation strategies: dependent, craft-based responsive, generic, complex and risky and transformative strategies, which possess different characteristics. Firms with different kinds of governance structures and organisational capabilities—authority sharing, types of organisational career and network specific dynamic capabilities—generate competitive competences and pursue these innovation strategies in varied institutional contexts. As a result, institutional differences in market economies lead to variations in innovation strategies and patterns of innovative performances in different industries (Haake, 2002).

Whitley's subsequent contribution to a more detailed discussion of innovation and organisational capabilities appeared in the book *Business systems and organisational capabilities.* It discusses how dynamic capabilities of firms lead to innovation in business systems, which are affected by the institutional structures, and subsequently give them competitive position (Whitley, 2007). Organisational capabilities, however, are thus subjected to institutional conditions and the firm's authoritative structure that they entail (Whitley, 2003; 2010). In this book, he presents eight types of business systems and six types of innovation systems that are developed on the basis of various natures of institutions and organisational capabilities (see Table 3).

Table 3 Different Business Systems and Variety of Strategic Actors

Type of Business System	Variety of Strategic Actors	Type of Strategic Actors
Fragmented	Low	Owner-controlled specialised firms
Compartmentalised	Low	Isolated hierarchies
Integrated	Low	Owner-controlled conglomerates, plus state elite-firm owner network

Conglomerates		
Financial Conglomerates	Some	Holding companies, major subsidiaries
Project Networks	Some	Specialist firms, business services providers, local and dispersed reputational networks
Industrial Districts	Considerable	Owner-controlled specialised firms, local states, co-operatives, reputational networks, training and technical colleges, labour unions
Collaborative	Considerable	Most of the above, plus employers and trade associations, labour unions
Highly Coordinated	Many	Most of the above, plus inter-market groups, vertical networks and trading companies

Adopted from Whitley (2007:18)

Whitley (2007) argues that globalisation creates common financial pressures for leading companies and state elites in the major OECD countries and these forces are likely to increase the heterogeneity of policy responses and firm strategies. The continuing differences in the ways that economic activities are organised and governed across market economies emphasise the variety of economic rationalities and performance standards in the world. This pluralism of competitive competencies and logics (rationales) of economic action highlights the diversity of criteria for evaluating the performance of firms and their innovations. Whitley added that in analysing national institutional regimes and allied forms of economic organisation it is important to identify major endogenous factors of the institution, for example, particular combinations of state structures and policies, public science systems, dominant institutions governing economic activities and their linkages with exogenous ones that are critical in different political economies, especially the changing nature of dominant interest groups, and that lead to variations in innovation systems. He further points to two of the key exogenous factors that encourage changes in these business systems; one is the growing internationalisation of business regulation (by global agencies) and the second is increasing influence of coordination of trade and related economic policies by nation-states, particularly in regional trading blocs such as the EU. Whitley (2007) attempts to integrate institutional analysis of organisation and capability theory to study international management and innovation.

2. Civil Society- as a Space in National Context

Civil society actors have been increasingly becoming a dominant pressure group and watchdog for government and firms operating in national context. However they also collaborate with the government and firms in creating value added services for society as long as those are in line with their mission. Although it has global network, e.g. transnational civil society actors, my focus at this point is on civil society actors that work in national context. They develop a space- as a community, cognitive value, and social power- in national context that contains separate roles, rules, and norms that are independent from the influence of the government and private profit-seeking concerns. It is, however, true that the role of CS in national context is influenced by the nature of institutional condition. Civil society is defined as: ‘A community of citizens characterised by common interests and collective activity; that aspect of society concerned with and operating for the collective good, independent of state control or commercial influence; all social groups, networks, etc., above the level of the family, which engage in voluntary collective action’ (Oxford English Dictionary, 2014). Thus, CS comprises NGOs, associations, activist groups that represent communities, social and political movements, and special interests of all ideological persuasions, all ranging from local to global geographical levels. Over the past decade, there has been a dramatic expansion in the size, scope and capacity of civil society around the world, which has been aided by the movement of globalisation, the expansion of democratic governance, telecommunications and economic integration. Civil Society Organisations, under the name NGO have become more important actors for delivery of social services and implementation of other development programmes, as a complement to government action, especially in regions where institutions (e.g., government) seem to be weak, for example, in post-conflict situations, action against poverty, action against literacy, action against freedom and democracy, women’s rights and freedom, action against terrorism, media sovereignty and freedom of speech, action for good governance and the fight against corruption.

Apart from their social roles, civil society organisations also appear as intermediate organisations between business and citizens. Take an example of two NGOs in Bangladesh: Grameen Bank and BRAC. They not only provide micro-credit/finance to their millions of members, but also have invested in almost all sectors in their country of origin, Bangladesh. Bangladesh host more than 2500 formal CS organisations, of them only BRAC has 100,000 full-time employees, with operations in 14 countries, and is operating over 60,000 primary and pre-primary schools, a university, several not-for-profit companies and thousands of community clinics. Grameen Bank has over two billion USD as asset, fifty four not-for- profit large scale companies in different sectors. Of the companies, Grameen Bank has seven joint venture operations with leading MNEs from Europe and USA. CS phenomenon in most of the developing countries is more or less similar to Bangladeshi example; this is because developing countries possess weak institutions in which CS tends to appear as complementary to formal and informal institutions.

The civil society sector is not only emerging as a clear societal space in many parts of the world, it is also quite varied in terms of its nature and composition. The rapid emergence of organised civil society and of nongovernmental organisations (NGOs) as organisational manifestations of broader social movements has been dramatically altering the global political-cultural-economic landscape. NGOs are organisational actors that do not belong to either the government sector or the for-profit/market sector. They represent communities (space), social and political movements and special interests of all ideological persuasions that range from local to global geographical levels.

Recently, NGOs as the organisational manifestation of CS have become a research interest in international management, and recent years have seen the maturation of perspectives on them. One stream of studies describes how NGOs affect business and government and their relationships (Doh and Teegen, 2002; Doh & Guay, 2006), while the other examines the direct relationships between NGOs and IB (Teegen et al., 2004; Lambell et al., 2008; Vachani et al., 2009; Kourula & Laasonen, 2010). As non-state and non-market entities, NGOs are often referred to as constituting the 'third' sector (Teegen et al., 2004; Lambel et al., 2008) that possesses social agency/power with its own identity and influences and can change, in some cases, the existing institutions and market behaviour (Dahan et al., 2010; Kourula and Halme, 2008; Guay et al., 2004). Scholars see CS as an institutional entrepreneur -filling regulatory vacuum (Dahan et al., 2010), service/good provision vacuum (Yunus, 2010), industry-institute creation (Doh and Guay, 2006), and co-optation and oversight (Dahan et al., 2010). MNEs engage with CS actors for many reasons, including access to resources and expertise (Dahan et al., 2010; Nebus et al., 2010) and seeking legitimacy and credibility (Kourula and Halme, 2008), which reduce transaction cost and liability of foreignness (Vachani et al., 2009). Like institutions, CS is located in a national and global context; thus MNEs must consider the influence of CS in both contexts. CS actors in the two contexts are often linked through formal or cognitive connections; thus violation of their expectations in one context may have impacts in the other. Although IM studies tend to examine complementary roles of NGOs and activist groups towards MNE operation, it did not consider another CS actor i.e. associations that also play similar role for MNE management.

At this point I will highlight two perspectives of CS in international management: enabler and constrainer to MNE operation.

CS as Enabler:

This dimension can be explained from resources dependency and transaction cost point of view.

Resource Dependency Point of View:

Civil Society (i.e. NGOs, Foundations, and associations) appears as a resource provider to MNEs in emerging markets and this leads to a resource dependency dimension (see Teegen, et al. 2004; Lambell et al. 2008; Nebus et al., 2010). This dimension greatly affects MNEs mode of internationalisation, establishment in host context, and growth strategies that lead to reducing liability of foreignness, liability of newness and cost of doing business abroad. Take an example of Telenor and Novo-Nordisk in Bangladesh. Telenor made joint venture with Grameen Telecom- a sister concern of Grameen Bank for entering in Bangladeshi market. Novo-Nordisk made strategic alliance with Bangladesh Diabetes association (BADAS) for selling and distributing insulin products to country-wide diabetes centres organised by BADAS. When Telenor entered Bangladesh, Grameen Bank provided credit facilities to its millions of members in rural areas to buy cell phone from Telenor. BRAC is now one of the largest institutional customers of Telenor in Bangladesh. Similarly, BIRDEM, the largest diabetes hospital that is operated by BADAS is the largest institutional customer of Novo-Nordisk's insulin in Bangladesh. Both MNEs earned cognitive and socio-political legitimacy in host context due to their partners' reputation and network in social context. MNEs on the one hand seek legitimacy from civil society and on the other they collaborate with NGOs/associations to earn joint legitimacy from governments and global institutions. A good example of this is the Starbucks-CARE (Co-operative for American Relief Everywhere) strategic alliance. With a philanthropic motive, Starbucks was initially donating to CARE projects and selling coffee to the countries that CARE projects operate in. The relationship has evolved into a two-way exchange of ideas and management personnel, including joint design of workplace codes of conduct for Starbucks' coffee plantations and factories (Austin, 2000).

Transaction Cost Point of view:

Based on the idea of transaction cost, Vachani et al. (2009) claim that MNEs incur additional costs when civil society, specifically NGOs, presses them to conform to some norms or rules that they usually don't follow or have not planned to follow. From a single case study, they draw a number of propositions. The case is about the European pharmaceutical MNE that wants to sell AIDS drugs to distributors in South Africa. NGOs are pressing the MNE to sell those drugs at an affordable price to developing countries. So, on the one hand MNE needs to negotiate with local distributors about the terms and conditions for promotion, sales and distribution of drugs to local pharmacists, hospitals and government agencies. On the other hand, MNE must make sure that those distributors are reliable and trustworthy, so that they won't sell those drugs on the black market, sending them back to the European market for higher prices. This situation is conditioned by the unreliable legal system in the country based on what MNC can be ensured to write a contract covering all future contingencies during ex ante bargaining, especially in view of opportunism. Here, 'opportunism' refers to the human condition of 'self-interest seeking with guile, to include calculated efforts to mislead, deceive, obfuscate and otherwise confuse' (Williamson, 1996:378). As a result, bounded rationality makes it impossible to anticipate all contingencies in a weakly regulated state to smoothly execute the contract. Bounded rationality refers to the limitations of human cognitive capacity and rationality—behaviour is intentionally rational, but only limitedly so (Simon, 1991). In this situation, the lack of trust in distributors due to weak or absent regulative infrastructure in Africa increases the transaction cost. Even though the MNE wants to include the cost of breach of contract in the price to the developing country, the differential pricing may be so high that it cannot afford to sell the differentially priced drugs through independent distributors, which might be affordable to the locals in that developing country. Firms would require selling the drugs in a captive or wholly owned distribution operation that might necessitate hybrid arrangements (alliances) with NGOs to reduce transaction costs.

However, if the MNE is reluctant to reduce the price of that AIDS drug for developing countries, there is also transaction cost involved. NGO pressure can result in high transaction costs for the MNC because it is forced into a public relations campaign to address accusations of attempting to exploit developing country customers as well as incurring legal and lobbying costs from discouraging the local government from permitting local manufacture to produce a generic version of the drug (innovative drug). These escalating transaction costs can change the balance of costs and benefits of the pricing strategy of the MNE, forcing it to change its strategy and seek new governance mechanisms to implement a differential pricing strategy in the developing country market. Moreover, NGOs can engage MNEs to produce both positive and negative impacts. Since MNEs attempt to maximise profits they often generate negative externalities, such as environmental pollution, and then there is pressure from NGOs to curb these harmful effects. Alternatively, MNEs seeking to implement strategies for enhancing social welfare may face serious implementation challenges that can be alleviated by NGOs.

To understand the role of NGOs in reducing transaction costs for MNEs, I take the example of Hewlett Packard in India. This case is an example of an enhanced social development strategy of MNEs that goes beyond negative impacts, and also beyond what would usually be expected from multinationals that focus solely on profit making (Dunn & Yamashita, 2003). HP initiated a series of 'i-communities' in economically deprived areas, such as the town of Kuppam in the state of Andhra Pradesh, India, to enhance the welfare of its rural population. These communities use public-private-NGO partnerships to enhance economic development through technology (ICT). NGOs promote the projects and involve community support that reduces the transaction costs to HP, otherwise HP would have to incur the additional costs of negotiating in an unfamiliar environment. HP is able to use the projects to build markets, test products and expand global marketing knowledge with the help of NGOs. This experience provides HP with valuable knowledge on how to identify and negotiate with rural customers, which positions HP to reduce the search, monitoring and enforcement costs of doing business in rural markets in India and other developing countries in the future. In addition, HP receives positive reputation effects in development circles.

MNEs' social development strategies therefore vary along two important dimensions: the proactive outlook of MNEs, in which they are able to make alliances with NGOs and receive co-operation from them, and the reactive outlook of MNEs that leads them to acquire legitimacy from civil society when they encounter challenges.

CS as Constrainer:

In a similar vein, CS can also constrain MNE activities, particularly from the perspective of resource dependency and transaction cost.

In contrast of positive effects, NGOs can create negative effects for MNEs in foreign markets. In the case of Coca Cola in India, Coke was put on the defensive when activists accused its Indian subsidiary of diverting groundwater, polluting the water table and soil and exposing customers to toxic waste and pesticides. Coke was not at all prepared to deal with these charges, and even had difficulty responding to accusations regarding residual pesticides in its drinks. Indian lab tests showed the presence of pesticides, and tests subsequently commissioned by Coke were viewed as biased (Stecklow, 2005). Thus, Coke ended up bearing high transaction costs in managing relations with a wide range of stakeholders—customers, shareholders, distributors and government officials.

Similar type of incidents happened with Arla and Nestle in Bangladesh. First, in October 2008 Arla and Nestlé were charged with selling contaminated milk in Bangladesh. Human Rights and Peace for Bangladesh (HRPB), an NGO, filled a writ petition asking for the High Court's intervention on grounds of public safety. Second, in September 2011 Danwatch published a report made by ActionAid that accused Arla of price dumping in Bangladesh. The report claimed that since Dano, Arla's milk brand in Bangladesh, had the leading market share in the country, the profits it made resulted from the subsidy given by the EU to Arla Europe. The report, entitled 'Milking the Poor', further argued that large amounts of imported milk powder hinder investment in the local dairy sector, which keeps local famers poor (Rana 2014). Both initiatives taken by local and internal NGOs had hampered MNE sales and reputation not just in local market but questioned legitimacy of the MNEs in international market also.

The above discussion thus clarifies how CS actors affect ownership, governance, relationship and capability dimension of MNE subsidiary in host emerging markets. Thus, MNE behaviour tends to be shaped by CS space in national context, depending on the nature and configuration of CS space in that particular national context.

3. Transnational Communities- as a Space in Global Context

The concept of *'transnational community'* (Morgan, 2001a; 2001b; 2001c) points to a global space from where transnational actors affect the internationalisation of firms and their governance in host context. Morgan (2001a), borrowing the term from ethnic and migration studies, argues that 'transnational community' indicates the global spheres to which multinationals are connected through relational, governance, regulative and cognitive bonding. This is the way he wants to understand the extent of globalisation practices in business and management, more particularly the effects of internationalisation on national business systems. In this article my aim is to delineate this concept for understanding its effect on MNE behaviour and to know the dominant actors in this space.

Building on the argument of multiple networks of multinationals, mobility of people together with global connectivity and the increasing influence of multilateral organisations, Morgan (2001a) conceptualises the 'transnational community' as a global network to which MNEs' functions are connected, and thus they are globally embedded with respect to many actors within transnational space. He further argues that the national business system characteristics' are therefore shaped by the actors of the transnational community from outside the nation in addition to the actors inside the national context. This argument, although it builds on the work of several previous researchers, puts a question mark over the assumption that firms' strategies and structures are conditioned only by the national institutions and business systems actors (host and home countries). 'Transnational community' is the emergent property of the internationalisation of economic activities and cross-national social connectivity. Economic activities at the international level are driven by firms, multilateral financial institutions, and nation-states (political actors, in the case of regional economic integration), while cross-national social connectivity is led by the mobility of people and the connectivity of civil societies across the globe (both cognitive and formal relations). However, in both cases—i.e., cross-national economic and social connectivity—multilateral agencies and multinational firms play crucial roles.

Transnational Communities and the Actors in It

'Transnational space' refers to an arena of social action distinct from that of the 'national' context. This is an arena of social interaction where the main nodes of connection between groups cross over national boundaries. However, this concept is distinguished from what may be called 'international' space. In this context, international space refers to settings where these cross-border connections are controlled and structured by powerful national actors, either states or firms; thus the modes of connection are about negotiating between different national 'orders.' 'Transnational social space' implies a more open-ended set of cross-border connections between multiple nodes in which the forms of interaction become more than simply the sum of interactions between different 'national' units, constituting a social space of its own. In this respect, transnational social space constitutes an arena in which new social actors may emerge (Morgan 2001a). The actors in transnational community can be clearly understood by the argument of bottom-up vs top-down effect, as Morgan (2001a) refers.

Transnational communities- as a bottom-up effect

Morgan (2001a) highlights the concept 'mobility of the people' in transnational communities as per the arguments of Portes et al. (1999:217). They assert that immigrant groups in advanced countries frequently move back and forth between their country of origin and the countries they live in. They live dual lives, speaking two languages and making a living through continuous regular contact across national borders. The same is true of the emigrants who work for transnational firms or multilateral organisations/agencies. The amount of mobility has dramatically increased since the effects of globalisation have set in, due in part to regional integration, the liberalisation of markets and the shortage of human resources around the world. This bottom-up transnationalism is another dimension in addition to the top-down effects of global agencies and the regional blocs (Morgan, 2001a). For example, Vertovec (1999) shows that there is a diverse set of conceptual premises underlying the meaning of the term 'transnationalism,' ranging from the idea of a specific type of social formation (often a diaspora community) through forms of consciousness and cultural production to the role of capital and the development of new sites of public and political activity.

This bottom-up effect in transnationalism is important in the internationalisation process for three reasons. First, it is concerned with how actors develop new practices in the context of an internationalising process such as migration. Second, it is concerned with how this leads to changes in the existing institutions and the creation of social relationships that are qualitatively distinct from those previously existing. In both these respects, they provide evidence to those who study firms and international economic activities that it is possible to maintain an understanding of institutional contexts at the same time as recognising change arising from internationalisation processes. Third, their emphasis on 'globalisation from below' reveals the distinctiveness and contingency of these processes within specific contexts. This approach makes no assumptions about the end result while at the same time it recognises processes of change (Morgan 2001a).

Such multiple networks among individuals, firms and multilateral agencies at the cross-national level form the building blocks of transnational social space, contributing to the construction of this rather than constituting social actors in themselves.

Studies on diaspora communities with cross-border investments and operations are becoming an interesting emerging theme within the broad research scope of international business (Gillespie et al., 1999). Take an example of Telenor in Bangladesh. Iqbal Z. Quadir, a Bangladeshi diaspora in USA and a former employee at Atrium Capital in New York, drove the entire process of internationalisation of Telenor to Bangladesh. In fact, it was his idea and initiative to take Telenor to Bangladesh through a joint venture with Grameen Bank, an NGO (Isenberg et al., 2007; Rana 2014). Diaspora community members have been a special and important subset of foreign investors in countries like China, and are playing a catalytic role in creating home-grown MNCs in another large, emerging country, India. Ramamurti (2004) reveals that in China nearly 80% of inbound FDI in the 1980s came from overseas Chinese investors, while the flood of non-Chinese FDI began only in the 1990s. In other words, China's development might have been very different had there not been 50 million people of Chinese origin living in the Asia-Pacific Rim, many of whom combined their capital, technology and access to export markets with cheap Chinese labour to produce China's export boom. Similarly, the Indian software and knowledge-based industries have profited from the know-how, market access, capital and guidance of the Indian diaspora in the US and Europe (Kapur and Ramamurti, 2001). The huge distance separating India's software cluster from its main market (the US) is overcome partly by modern communication links and partly by social networks that connect Indians at home with Indians abroad. Again, Western MNCs rushed into India's software and services clusters only after the country's competitiveness in this sector was demonstrated beyond doubt. A country's dispersed population is more likely to invest in the homeland than other foreign investors because there is a lower degree of liability of foreignness.

Tung (2008) examines the interrelationships among brain circulation or 'triangular human talent flow,' ethnic diasporas (specifically, Chinese and Indian) and a country's international competitiveness. The study reveals that the lowering of immigration and emigration barriers to the movement of people and the emerging concept of boundary-less careers (narrowly, globalisation effects) have all contributed to the phenomenon of brain circulation and global knowledge flow. Her study replaces the traditional concepts of brain drain versus brain gain with the term 'brain circulation' because of the growing mobility of human talent across international boundaries. She broadens this idea to the point that the notion 'brain circulation,' to a certain extent, comprises all three of the dimensions mentioned above that form 'ideological and cognitive' transnational communities.

Transnational communities- as a top-down effect

Transnational communities cannot be understood as simple bottom-up responses to globalisation; they have to be conceptualised in terms of the interplay between top-down projects of transnationalism pursued by powerful actors and bottom-up processes of mutual identification and collective awareness, since it is through this interaction that transnational social space is created, distinct from the national level (Morgan, 2001a).

There are three dominant actors that participate in top-down development of transnational communities: MNE as a transnational community and the global institutions and global civil society as a transnational community.

a) *MNE as a Transnational Community:*

This dimension has two characteristics': MNE as a complex organisational network and MNE as a global financial instrument i.e. internationalisation of finance.

- MNE as Complex Organisational Network: This dimension has been conceptualised by Morgan (2001a, 2001b), considering the differences between a 'transnational company' (TNC)—a firm with global operations and complex management systems—and a 'multinational company' (MNC)—a firm that has HQ-based corporate governance in multiple countries (See: Bartlett and Ghoshal, 1989). However, this distinction, based on corporate governance and relationships between the two types of firms, has been made to facilitate understanding of the nature of complexity within the network of the multinational or transnational firm. In this article I use MNE to refer both types of firm. At every stage MNEs need to consider the social basis and the precarious and conflicting nature of the social order that develops within them. Borrowing from Morgan, (2001a; 2001b; 2001c) and other authors, I select four constructs that constitute this dimension:
    - Relations between headquarters and subsidiaries (i.e., nature of corporate governance)
    - Relations between different subsidiaries
    - Relations between subsidiaries and actors in the global value chain

Morgan describes a transnational company that possesses a complex network and relationships within its organisation across the world and is often known as a 'global firm' or a '*global heterarchy.'* The transnational company (TNC) or global firm takes locational decisions according to a range of criteria, such as closeness to markets, costs, access to capital and closeness to sources of innovation and knowledge. Its products are developed on a global scale, while the various local sites are not necessarily producing for their local or even regional markets. Rather, they are producing particular elements of a product that will be put together from the output of a range of plants, and each plant will produce what it is best equipped to produce (in terms of level of skills and knowledge, technology and investment) instead of what is required by a local market.

The plants are coordinated across the global value chain to produce what are termed 'world class' products available (perhaps with some minor local modifications) to the world market (see Dicken, 1998). Research has emphasised that although there are central planning mechanisms in such firms, sites can extend or develop their activities in new directions subject to resources being available at the local or corporate level (Birkinshaw, 2000). Because sites are likely to be integrated into complex intra-firm networks of supply and production that cross national boundaries, it therefore becomes difficult to disentangle one location from a range of others (see Dicken, 2011). This phenomenon is evident in the global commodity chain and the global value chain of TNCs (Gereffi, Humphrey & Sturgeon, 2005). Therefore, commitment to and trust in a location is a high-risk strategy for a company that requires a lot of decision-making efforts. In structural terms, global firms have been described as 'hybrids' or 'differentiated networks' (Nohria & Ghoshal, 1997). The differentiated network is composed of distributed resources linked through different types of relations: (i) the 'local' linkages within each national subsidiary, (ii) the linkages between headquarters and subsidiaries and (iii) the linkages among subsidiaries themselves. The complex and multifaceted pattern of relationships within the company provides the means to innovate rapidly for national, regional and global markets, as well as to maximise the efficiency of the company's operations by locating production, R&D and marketing/sales efforts wherever it is most appropriate (Morgan, 2001c). However, definitions of multinational and transnational firm provide us with the two extremes of firms' operations in global space, but in reality firms' operations may not be at these extremes, but rather in between.

Morgan (2001b) argues that it is within transnational/global firms of this sort that possible 'transnational communities' seem most likely to emerge (Morgan, 2001a). Such firms are built on extensive interactions across various sites and among numerous actors, and these interactions may be shaped by a complex array of structural features within the firm, such as product divisions, geographical divisions, headquarters functions or project teams. This leads in two directions. One is concerned with multiple processes of competition between individuals, units and local plants in such a system where evaluations and monitoring of contributions is conducted continuously. In one sense, TC is related to issues such as human resource management at global level, including coordination and control, standards and organisational culture that often become closer to own national base as a form of defence. For example, it may be reinforced by a nationally based trade union struggling to protect jobs or influenced by the local coalitions of interests between managers and other employees to 'save' plants from closure. In another sense, it also leads to the development of transnationally coordinated interactions both as a resistance to control (for example, in the form of co-operative trade union activity across national boundaries to resist plant closures) and as a more formal or informal pattern of co-operation across plants either to share information (e.g., in European Works Councils) or to impede headquarters' plans.

The other direction concerns 'learning' across different sites of the firm. This, in itself, may be coercive. For example, the application of best practice standards from one plant to another may lead either to heightened competition between plants or some form of co-operation between employees over resistance to such practices. Global-local tension in relation to human resource management begs the question of how MNCs can or should balance the pressures to develop globally standardised policies and compliance with the local pressures to be responsive to the peculiarities of the context (Edwards & Kuruvilla, 2005). 'Reverse diffusion,' mainly the transfer of practices from foreign subsidiaries to the domestic operations (HQ), however, leads to another dimension of learning in corporate governance in this sort of firm (Edwards & Ferner, 2004).

The structural framework of this sort of transnational company, or in some cases of multinational companies, then opens up a new transnational space by creating multiple forms of linkages across sites and between actors in different sites that do not usually exist in the HQ-controlled 'multinational' type of company. Typically, multinational companies would involve vertical information sharing based on an existing pattern or model of production, while managerial movement would be up and down (that is, between headquarters and subsidiaries) rather than across subsidiaries, divisions and the head office. Senior managers would build their careers mainly in the head office and the home country. The company as a whole would tend to be led by managers from the home base. Key issues in terms of internationalisation would remain essentially about national adaptation, for example, how expatriates adapt and assimilate in foreign postings. Employee struggles based mainly on national interests and mechanisms for transnational coordination would be limited. On the other hand, in the transnational company, there would be a thick web of communicational possibilities vertically and horizontally available mainly to managers but also to a limited extent to other groups within the workforce. Managers' careers would be varied and involve movement across different subsidiaries as well as into the head office. Senior management would reflect a wider group of nationalities and experiences than that of a multinational enterprise. Learning would be somewhat dispersed, often disorganised but usually multi-directional in terms of its effects. Employees would have varying opportunities for transnational learning and co-operation reflected in formal and informal mechanisms of management (Morgan, 2001a).

- MNE as Global Financial Instrument: This dimension is related to the financial ownership by foreign shareholders around the world that affects the transnational or multinational firm's strategies and structures. The internationalisation of capital markets has encouraged an increase in foreign ownership and control of shareholding at the company level, thus, on the one hand, it has reduced companies' dependence on domestic financial institutions (Whitley, 1999), while on the other hand it has significantly impacted corporate restructuring worldwide (Useem, 1996).

With regard to financial internationalisation, there are, as Hassel et al. (2003) suggest, a number of dimensions that need to be considered, each of which can vary independently of the others and can therefore have distinctive consequences. The degree of financial ownership, the sources of the ownership and the objectives underlying the ownership are the most important dimensions that affect transnational firms' strategies. For example, the overseas portfolio investment is usually managed by institutional fund-owners, mostly based in the US and the UK, that are primarily operating with a 'shareholder value'-driven set of goals for their investments (Williums, 2000, Lazonick & O'Sullivan, 2000). Unlike individual shareholders, they invest 'other people's money,' and thus they are prone to take proactive steps to protect or to increase the value of the companies they have invested in. Since the institutional investors often represent Anglo-Saxon governance norms and priorities, they have played a central role in disseminating the so-called 'shareholder view' to the management of the companies in many countries. Nowadays, companies frequently grow through mergers and acquisitions, and increasingly they use their own stocks, instead of cash or domestic bank debts, to finance these operations. It is in the international capital markets where the 'correct' market value of the companies' stock is determined. This consequently affects the firm's strategies and structures in the national business system, because foreign shareholders channel their influence at the company level so that their objectives are achieved. A case from the Finnish capital market illustrates this phenomenon very clearly. Tainio et al. (2001) studied the 30 largest Finnish companies, paying attention to investigating the development of their foreign stock ownership, corporate restructuring and the channels of foreign investors' influence. Their study concludes that the national business system of Finland was reshaped by this phenomenon.

Foreign portfolio ownership of Finnish companies started to increase after the full liberalisation of foreign share ownership in 1993. Low stock prices due to the economic recession and the related high growth potential of Finnish companies made them attractive investment targets. As the recovery of the companies progressed, investors' expectations were fulfilled and the demand for the stocks remained high. The most significant foreign shareholders of Finnish companies are major American investment funds such as Franklin Research, Fidelity Management and Research, Capital Research Management, Alliance Capital Management, Morgan Stanley and Merill Lynch and the two largest public pension funds, CalPERS and TIAA_CREF. In Finland, managers found foreign owners more demanding than local owners. Since 1993, foreign share ownership has increased rapidly, and by the end of 1999, 65% of the stocks of Finnish companies were foreign-owned. Nokia, which dominated the Helsinki Stock Exchange, had 86% of its stock in the hands of foreign owners. The major Finnish companies have thus come under the constant scrutiny of global investors and financial analysts.

Foreigners are more concerned with getting prompt returns on their investments. They do not intervene in operational matters and only expect the value of their Finnish shares to increase. Thus, foreign owners are active in creating conditions to ensure that this actually happens. Under these demands Finnish companies experienced a managerial revolution that had not been witnessed before. They have now started to operate in a similar way to American and British firms, adopting the Anglo-Saxon shareholder view with a whole owner-driven management culture into Finnish companies (Moen & Lilja, 2001). With their arm's-length relationship, foreign investors are distant, dispersed and often 'faceless' to the Finnish companies, yet they influence firms through multiple channels. Of them, one is the indirect market channel (exit-influence) and the second is direct personal channel (voice influence). 'Exit-influence' means that shareholders affect management by the threatened or actual sales of their shares on the stock market. Their stock trading and movements justify the motives and the logic of sales. Finnish managers, however, feel strongly that the outcomes of these stock market operations, i.e., changes in the share prices, mean concrete punishment or reward.

Despite the unpopularity of interlocking directorship, one study by Kentor and Jang (2004) on the Fortune Global 500 between 1983 and 1998 finds a significant increase in the total number of interlocking directorates (directors who sit on the boards of multiple multinationals at the same time), even greater than the growth in transnational interlocks. This growth is predominantly among firms within the European community and between firms in Europe and the US. This finding suggests that there is, indeed, an emerging transnational business community that is becoming predominant. Interlocking directorates in multinational or transnational firms, therefore, possess centralised ownership and control that derive the 'global elites' holding substantial power to change the national as well as global institutions and the business systems.

b) *Global Institutions and Global Civil Society as a Transnational Community*

There has been a 'shared standard' of quality, process, norms and values at the global level that guide global firms operations and, in some cases, national institutions too. Without these global shared standards, it is difficult to build and sustain economic relationships in the greater social context. These shared values and standards are embedded in formal and informal institutions and civil societies (i.e., NGOs and activist groups) that govern and monitor economic transactions at the global level and set the 'rules of the game' (Djelic & Bensedrine, 2001).

Based on Durkheim's sociological view, Morgan (2001a) argues that the development of international economic activity cannot be coordinated simply through market relationships. Sociologist Durkheim has pointed out that all economic contracts need to embed in an agreed-upon social framework, whether that arises from a nationally based code of regulation and commercial law or some sort of international equivalent (see Braithwaite and Drahos, 2000; Wiener, 1999). These emerging standards may be embedded in formal institutions of international regulatory bodies or in private mechanisms (such as credit ratings). If a nation or firm does not show willingness to abide by these standards, then it will find it difficult to engage in the form of international trade for which the standards are designed. Therefore, while national business systems are characterised by certain forms of national institutions and the types of firms and their relationships, international standards and regulatory institutions from the non-national (global/regional) level directly and indirectly shape the national institutional characteristics and the firm's behaviour. First of all, one can distinguish the degree to which these global standards are industry-based or government-based. The former implies voluntary compliance of firms in order to resolve cross-border issues. The latter (government-based) implies more strongly the governmental agenda for cross-border regulation. In most cases, regulatory organisations emerge out of the interplay among the three groups of actors: global institutions, states, and global civil society.

- The global regulatory institutions: These (multilateral institutions) institutions are divided into three categories: first, information sharing and regulative procedures, second, regulatory bodies with enforceable power and third, the monitoring, control and sanctioning of activities. However, the characteristics of the three categories overlap with each other in most cases (Morgan, 2001a).

First, in one sense, firms are asked to provide information, which is collated and monitored by the regulatory organisation. The regulatory organisation may also seek to negotiate certain standards with firms, and failure to meet those standards leads to others refusing to do business with the contravening firm. For example, banks that wish to engage in international business transactions have to meet certain standards of capital adequacy set by the Basel Committee (a group of central bankers from the main industrialised countries), now known as the Basel Accord. If they do not wish to engage in international transactions and business, they need conform only to national standards. Transnational firms engaged in processing, extraction, mining and construction businesses must follow the UN Global Compact's Ten Principles, while multinationals registered in a member country stock exchange need to follow the guidelines of the IOSCO (International Organisation of Securities Commissions). Around 10,000 MNEs participate in UN global compact programme, and this indicates that their corporate behaviour, particularly related to social and environmental sustainability, tends to be in line with the UN guidelines and values. Apart from this, there are some industry-specific standard agencies like the ISO that standardise business processes all over the world. Hancke and Casper (2000) make this point clear in their study of ISO-9000 in the French and German automobile industries. The impact of certification on the processes within firms can vary enormously depending on the national institutional context. The coercive effects on the firm are strongly mediated by the competences and skills of the managers and the workers implementing the standards. This becomes a signal across borders of conformity to certain international standards.

Second, regulatory bodies are based on control that involves an extra dimension. Thus, failure to conform to the regulations leads not only to loss of business but also to fines and other forms of punitive sanctions both on the state that allows the practice and on the firm that violates the rule (by the IMF, World Bank, UN, etc.). One best example is the International Telecommunication Union that governs telecom industry of the world. It even sets the standards and provides bandwidth to each and every county. In contrast, multilateral institutions often intervene and change the national institutions that create new order of business opportunities and challenges for MNEs and local firms. The best example of this is the case of the IMF's structural adjustment programme during the 1980s. Not all regulatory structures take this form (see Djelic & Bensedrine, 2001; Braithwaite & Drahos, 2000), and even within those that do, these dominant perspectives do not necessarily remain dominant without the continual exercise of power in the face of possible challenges and tensions in the national and global social contexts. It is clear that 'systemic' problems in managing cross-border relations are leading to a wide variety of international regulatory organisations. It is, however, argued that there is a gradual shift in the purpose of these organisations. This shift is from sharing information to co-ordinate cross-border relations more effectively towards the establishment of systems to standardise business practices (Braithwaite & Drahos, 2000). Examples of this are the WTO, the anti-dumping settlement wing in the WTO, the Basel Accord, etc. The measures taken by the WTO affect domestic regulatory policy changes that fundamentally challenge states' policy-making discretion. Such policy issues are: market access, rights of establishing foreign enterprises, trade-related investment measures (performance requirement) and the protection of intellectual property rights (Sell, 2000).

Third, this process involves more active monitoring, control and sanctioning of activities. Thus, these processes establish the possibility of forms of transnational communities. In other words, this process is a social setting where new solutions and forms of activity may emerge and make an impact on national systems of regulation. However, these communities arise in specific circumstances; the pattern of roles that has emerged in international regulatory organisations is structured by past actions and in particular by the power and influence of particular nation-states. International regulatory agencies thus clearly do not float free of national business systems. Powerful states and firms will tend to shape the regulatory agency in particular ways. Other nations and social actors will also seek to exert an influence, so the empirical question concerns the degree to which this results in a transnational space where the regulatory agencies establish a transnational community distinct from particular national interests.
The crucial area in this respect is the financial sector, including the group of international regulatory organisations around the financial sector ranging from the World Bank, the International Monetary Fund and the Basel Committee to the International Organisation of Securities Commissions (IOSCO).

- Global Civil Society: Kumar (2007) expanded the concept of civil society to 'global civil society' in which he argues that the globalisation and expansion of information technology and communication allows people around the world to be connected through cognitive relationships. Thus the people of Earth have entered in varying degrees into a universal community, and it has developed to a point where a violation of rights or global norms in one part of the world is felt everywhere. In this discussion I will shed light on the global phenomena of civil society. A good example of global civil society is anti-globalisation and the Wall Street Occupy movements. The violent protests at the WTO meetings in Seattle in 1999 and the World Bank meeting in 2000, the demonstration at the World Economic Forum (WEF) meetings and the formation of the 'parallel' World Social Forum (WSF), as counterweight to the WEF, indicate the existence of a global network of broader citizen-driven social movements. These globally networked civil society and NGOs possess some universal norms and values, mostly related to welfare, development and safeguarding nature and species.

In 1997 the Nobel Peace Prize was awarded to the International Campaign to Ban Landmines; two years later it was presented to 'Doctors Without Borders', an NGO dedicated to providing healthcare access globally (Teegen et al., 2004); six years later, in 2006, it was presented to Grameen Bank and Professor Yunus for poverty alleviation projects. These awards signal official recognition of the growing importance of NGOs globally in solving some of the world's most troublesome problems. The Yearbook of International Organisations reports that the number of international NGOs has increased from 6,000 in 1990 to more than 50,000 in 2006, and that Civil Society Organisations (CSOs) have also become significant players in global development assistance. The OECD (Organisation for Economic Co-operation and Development) estimates that CSOs provided, as of 2006, approximately US $15 billion in international assistance (World Bank, 2010).

Unlike intergovernmental organisations, GNGOs are not subject to the same parochialism that binds state actors or to limits facing intergovernmental organisations. GNGOs can more readily promote interests of global concern (Kamat, 2003). As GNGOs are not subject to the political pressures that individual states or local NGOs face, they can more effectively advocate for sustainable initiatives (Fowler, 2001). They can also help to 'level the playing field' by providing resources to weaker states and by lobbying stronger states on matters of global societal importance. However, they can often be dominated by powerful state interests (Beckfield, 2003) or those of corporate funders (Phillips, 2002; Kamat, 2003), which can undermine the interests of society at large and/or exacerbate sovereignty challenges facing weak states (McCarthy, 1992; Sandberg, 1994). Very interestingly, GNGOs often fund local NGOs for establishing companies in developing countries to address social problems or improve quality of life in that context. In 1997 Open Social Foundation provided around 10 million USD to Grameen Bank to develop a telecom company named Grameen

Telecom, which subsequently form a joint venture with Telenor from Norway, called Grameenphone, in Bangladesh.

Within the process of global governance, GNGOs, as the formal agents of civil society and globally integrated organisations, are highly significant political actors and an organisational sector. As argued by Ramia (2003) and Teegen et al. (2004), the consolidation of the GNGO sector has driven MNE management to the larger GNGO closer strategy models. The key manifestation of this strategy can be seen in the role of GNGOs in the implementation process of intergovernmental development projects that involve MNEs; such projects are carried out by the World Bank, IMF, European Union and UN.

GNGOs network and collaborate not only with different states and MNEs but also with the supra-national institutions. They may not always be invited to get involved, but they spontaneously respond in reaction to others (GNGOs) due to similar ideological and cognitive connections. Governments or international institutions like the UN may often seek collaboration with GNGOs in regulatory standard setting. In the governance of and collaboration within the global value chain of MNCs, GNGOs operating globally can facilitate and monitor activities and ask firms to adhere to certain standards that may in fact violate global trading regimes between states. In this regard GNGOs can move freely as private actors since they are exempt from state and WTO sanctions. The *extraterritorial reach of GNGOs* is targeted by MNEs in the case of developing country practices, and this happens when there is weakness or absence of the proper institutional settings (Dahan et al., 2010).

International management studies therefore should not only conceptualise the roles of and relationship between MNC and GNGO from the perspective of the 'rule-takers' but also from the 'rule-makers.' Braithwaite and Drahos (2000) empirically show how both MNEs and GNGOs become active regulatory agents in creating the 'regulatory space' that fosters the globalisation of the rules or norms set in the global governance process. There is a well-established tradition in the disciplines of labour economics and industrial relations of research on trade union activities in relation to a wide array of regulatory functions. They include: the conditions under which labour is supplied (Booth, 1995; Pencavel, 1991), the regulation of wages and working conditions (Blair & Crawford, 1984; Gahan, 2004), the regulation of occupational health and safety schemes and training programmes (Braithwaite, 1985; Parker et al., 2004). GNGOs contribute to defining the global regulatory and governance orders within which MNEs, national governments and GNGOs themselves operate (e.g., Braithwaite, 2002; 2006; Jordana & Levi-Faur, 2004; Picciotto, 2002). Doh and Guay (2006) present two cases to illustrate how GNGOs change or create global regulations. First, the dispute over trade in genetically modified organisms in Europe was led by mainly three NGOs—ATTAC, Greenpeace and Friend of the Earth—which eventually changed the regulation of this trade. Second, relaxation of intellectual property rights for HIV/AIDS medication in developing countries was backed by Doctors Without Borders.

Conclusion

This paper presents a comprehensive discussion on the three spaces and the actors within them that shape MNE behaviour and strategy formulation in host markets. It combines institutional and business system analysis with organisational capabilities together with global dimensions of institution and organisation in explaining how MNE strategies are shaped.

One important contribution of this paper is the integration of the three different concepts-institutionalism and business system, civil society, and transnational communities- that illuminates IM researchers to broaden their understanding on societal dynamics and actors that affect MNE strategies in international management. The other important contribution is the incorporation of a broader view of 'institution' and the civil society dimension; both indicate constraining and enabling dimensions for MNEs. Use of business system concept will help IM studies to understand the characteristics' of management system and organisation of economic activities that are authoritatively developed in a particular sector, region or national business system, depending on the nature of institutional context.

Tri-space framework will, hopefully, be able to help answering 'how MNEs behave' and 'what factors/actors from the three spaces affect their behaviour'.

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