

## **MNC Expansion and Target Environment Hostility**

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*We offer an alternative account of MNC expansion and the environment hostility the MNC faces in target environment. While it is an attempt to embody the absence manifested in traditional MNC literature, it is not a marginalized relativist account. We used different examples supported by theory to reveal a 'version' of what MNC is, what it can face as well as what target environment is and how it experiences the MNC and its expansion. The account is an endeavor to go beyond reification of the MNC and the contexts in which it exists with an aim to explore the endeavors of the MNC to exist across different contexts. We question the variance of what exists, is allowed to exist, across space and time.*

### **INTRODUCTION**

Traditionally M&A deals have been considered as phenomena on their own sake; regardless of space and time they are experienced. The different experiences leading to different interpretations and practices were hardly of concern. In this paper, we challenge such a conceptualization. The reality of the phenomenon becomes a temporal and spatial reality. Experience and related practices and symbols reflect and refract the institutional configuration of specific time and space. Unless the context and time is the same, even the same phenomenon induces different experience. Even difference in time creates variation within the same space, as the practices and symbols change their underlying the institutions along the time. For example, two deals with MNCs with same country of origin and target country can receive different reaction when carried out in different time intervals. One of them can be welcomed and go unseen, while the other can generate a hostile reaction. The experience of M&A phenomenon changes from one time to another, creating only temporal reactions to temporal realities.

Dubai Ports (DP World) acquired the London-based Peninsular & Oriental Steam Navigation Co. (P&O) in 2006 for \$6.8 billion, to become the world's third-biggest container-port operator. This acquisition received attention not only in Europe, but in the U.S. as well. The transaction marked the end of the 169 years of independence for P&O that is known for transporting cargo across the former British Empire (Agence France Presse, 2006). Despite the United Arab Emirate (UAE)'s good relations with the U.S. government (US Fed News, 2006), the deal caused political uproar in the U.S. Consequently, DP World agreed to sell terminals in New York, Newark, Baltimore, Philadelphia, Tampa and New Orleans (Bloomberg News, 2007).

On the other hand, in 2007 Saudi Basic Industries Corporation (SABIC)'s purchase of GE Plastics went unnoticed. SABIC, one of the world's 10 largest petrochemicals manufacturers, acquired GE Plastic for a purchase price of \$ 11.6 billion—further concentrating the market for petrochemicals. Despite of traditional anti-monopoly sentiment in the US, the deal received hardly any news coverage let alone state or public reaction.

The international expansion strategies of MNC's, defining their foreign investments—subsequently the M&A's—reveal understandings, practices and symbols that relate to experience of organizations in country of origin (i.e. generally where the headquarters are located). The meanings that the practices and symbols take within certain context display institutional configuration of the both MNC country of origin and target country. The choice of entry mode, management and structure of subsidiaries and patterns of within and across organizations communication in MNC network exhibit country of origin institutional configuration. On the other hand, the reaction to MNC reveals the degree to which the practices and symbols introduced by the MNC can be internalized or at the most accommodated within the target institutional configuration. Contradiction between two different institutional configurations of different spaces, which were transformed by different temporal sequences, lead to a negative experience in the target environment. Such a negative experience, in turn, gives rise to hostility at different levels of target country. The degree of hostility, unwelcomed negative experience due to a 'perceived' intruder, is defined by depth and strength of the contradiction manifested.

Overall, all acquisitions are not equal; they exist and are evaluated within different realities of space and time. Some mergers and acquisition deals become critical while others are ignored. We develop a conceptual framework built on institutional theory and explore two questions: 1) Why are some environments hostile, and 2) Why do some acquisitions face a hostile environment while others do not? While we focus on the variance in target environment hostility, the MNC country of origin, and the target country industry characteristics, we aim to understand the dynamics of institutions and organizational identity. Below, to explain hostility arising in the target country, we review three separate literatures, beginning with the organizational literature focusing on the MNC. Then, we show that by including Friedland & Alford (1991)'s conceptualization of institutions, we can add a more thorough understanding of reactions MNCs face upon their entry to target market. Finally, we review the literature on organizational identity and image to show how negative evaluations and experiences related to "foreignness" are formed. These evaluations essentially reflect the heightened contradiction among the target country institutions due to entry of the MNC parent. The contradictions are experienced both in material everyday practices and symbolic meanings. Yet, they are most visible in practices manifested by the actors.

## **THEORY IN MNC CONTEXT: LIABILITY OF FOREIGNNESS, INSTITUTIONAL LOGICS AND ORGANIZATIONAL IDENTITY AND IMAGE**

Traditionally MNC in organizational literature is conceptualized as disembedded from the society, relatively free from political and social pressures of their home base (Lane, 2007). Recently, this perspective advanced its hold on organizational theory by conceptualization of "metainstitutional level (Djelic & Quack, 2003: 11)". In their recent overview of institutional theory in MNC context, Kostova et al (2008) supports existence of a 'metainstitutional level (Djelic & Quack, 2003: 11)' which is becoming more detached from national level (aka meso level) institutions. Looking at institutional theory differently in MNC context only diverts our focus from main phenomenon of interest, which is the influence of variance in institutional configurations across borders. The variance in not only institutional configuration, but also their effects on the MNC depending on space and time is the matter of interest. MNC is a separate organizational form, more complex and prone to high level of conflict (Kostova et al., 2008). However, MNC is still not a separate reality from the institutional configurations it emerges from. Hence, the inherent complexity and conflict reflect the contradiction among different institutional configurations they attempt/ fail to exist in.

In organizational theory focusing on MNC context, the impediments MNCs face in the target environments they enter are mainly examined under the liability of foreignness research stream (Zaheer, 1995; Zaheer & Mosakowski, 1997; Kostova & Zaheer, 1999). In the following section, we will review research in this stream. This review will be followed by an examination of "institutional logics" research, which forms the foundation of our conceptualization. And, finally we will go over organizational identity and image literature highlighting its lack of concern for multiple institutional environments.

### **MNC and Liability of Foreignness**

The liability of foreignness literature, with its limited conceptualization (Zaheer, 1995; Zaheer & Mosakowski, 1997; Kostova & Zaheer, 1999), and empirical works, overall, seems to have used the taken-for-granted institutional theory concepts. These concepts are mainly built on a structuralist macro perspective on institutions (DiMaggio & Powell, 1983, 1991; Meyer & Rowan, 1977), which assumes a duality of material practices and symbolic system. Such a divide inhibits integration of material practices and meaningfulness of these practices. Therefore; little attention is paid to the dynamism and temporal nature of meanings underlying material presentations such as environment hostility, and costs incurred due to being foreign.

An in-depth analysis of the MNC context using institutional theory was presented by Kostova and Zaheer (1999). Their examination lays out the main framework of the MNC legitimacy. The scholars identified main sources of liability of foreignness as the process of legitimization and its complexity, imperfection, and bounded rationality. With an emphasis on taken-for-grantedness of the assumptions and stereotypes, the focus is on cognitive aspects of the liability of foreignness.

Empirical work following the liability of foreignness conceptualizations does not seem to extend the theory. Within boundaries of the conceptual framework defined, these studies offer limited institutional explanation. For example, Miller and Parkhe (2002) define the determinants of liability of foreignness as “nationalistic and discriminating behavior on the part of host country consumers, firms and institutions” (p.57) and “embeddedness” (p.57) of local firms in the host environment. Similarly, Elango et al. (2009) emphasize foreign firms’ lack of familiarity with the environment, host environment customer and regulator lack of knowledge on the foreign firms as the elements leading to liability of foreignness. Generally in LOF studies, unfamiliarity between the target environment actors and the MNC as a source is emphasized. Similar solutions, involving isomorphism of the MNC to the target country companies, are offered.

The main problem with both theoretical and empirical studies involving LOF seems to be conceptualization of institutions as rigid, fixed realities consisting of separable domains of rules, norms and cognitions, which can be examined isolated from macro level institutional contestation. Such a perspective conceals dynamism and fluidity inherent in institutional configurations. In current LOF framework, cognitive and normative domains are harder to overcome compared to a regulatory domain (Kostova & Zaheer, 1999:70). Instead of separating domains, the approach should be more integrating, bringing together “individual agency and cognition and socially constructed institutional practices and rule structures” (Thornton & Ocasio, 2008:101).

In their overview, Kostova, Roth and Dacin (2008) argue that the application of institutional theory in MNC context has been confined to a “narrow set of neoinstitutional ideas” (p.994). We further argue that this stems mainly from the fact that a) separate domains within institutional order are conceptualized, b) these domains are assumed; they are not explicitly analyzed, and c) temporal and spacial reality of socially constructed concepts are ignored. Within a restrained framework, the previous studies on liability of foreignness regard the institutional environment consisting of three separate domains, which grants legitimacy. And, this legitimacy can be attained through isomorphism (Kostova, Roth and Dacin, 2008:995). Our conceptualization of MNC in target environment is not restricted to ‘cognitive domain’ as an end in itself. It is rather based on institutions that shape that cognition in a specific time and space. The legitimacy, along with its necessity, and liability of foreignness are temporal and spacial based on dominant institutional configurations of certain trajectory. The dynamism of the configurations are enabled through change in institutional logics, which can be succinctly defined as “a set of material practices and symbolic constructions – which constitutes [institution’s] organizing principles and which is available to organizations and individuals to elaborate (Friedland & Alford, 1991:248)” Such a perspective answers the call of Kostova, Roth and Dacin (2008) in theorization of social environment as a social construction which is both material and symbolic, not ‘either / or’, and call of Thornton & Ocasio (2008) in applying institutional logics to the MNC context.

## **Institutional Logics and the MNC**

Institutional logics literature is a part of new institutional theory stemming from the seminal work of Friedland & Alford (1991). Contrary to deterministic approaches of institutional theory emphasizing isomorphism (Meyer & Rowan, 1977; Zucker, 1977; DiMaggio and Powell, 1983, 1991), Friedland and Alford (1991)'s view focus on influence of diverse and contradictory institutions on individuals and organizations. The logics of institutions provide a link between institutions and action, thereby forming a bridge between structural perspectives of Meyer and Rowan (1977) and DiMaggio and Powell (1983) and Zucker's micro level process oriented approach (Thornton & Ocasio, 2008). While Friedland and Alford (1991) conceptualized institutions and institutional logics at the societal level, the following works adopted industry level perspectives. Such a perspective focused on reflections and refractions associated with specific institutional configurations rather than institutions themselves. Below we will briefly review contributions of institutional logics literature to the organizational theory, and continue with our contribution to the literature.

The institutional logics literature offers a wide range of explanations on organizations—such as attention in organizational decisions (Thornton & Ocasio, 1999), organizational strategy and structure (Thornton, 2002), status claims (Lounsbury, 2002), R&D networks and organizational learning (Lam, 2003), use of rhetoric and legitimization (Suddaby & Greenwood, 2005), change in organizational governance (Thornton, Jones, & Kury, 2005), market entry timing (Lee & Paruchuri, 2008), change in business group strategy (Chung & Luo, 2008), origins of corporate networks (Bhappu, 2000), and collaborative relationships (Reay & Hinings, 2009). All studies, except for Chung & Luo (2008) and Lam (2003), examined organizations in their local environments. Putting an emphasis on industry level reflections of institutions, these studies focused on the change in values, assumptions, perceptions and practices (Thornton, 2002; Lounsbury, 2002; Suddaby & Greenwood, 2005; Thornton et al., 2005; Reay & Hinings, 2009).

In contrast, there is little conceptualization on contradiction among not only within but also between institutional configurations dominant in different contexts. The most suitable context to examine such contestations is multinational corporations (MNC's). Two studies that use institutional logics in MNC context are Chung & Luo (2008) and Lam (2003). Both studies used institutional logics at industry level to explain variation in MNC subsidiaries and organizations, overall, in environments where reflections of divergent institutional configurations are forced into association. Chung & Luo (2008) argue that coexistence of competing institutional logics—introduced by foreign MNCs entering Taiwan (i.e. German, Japanese and U.S.)—provides the domestic organizations an opportunity to change. According to the study, the stakeholder/ shareholder models of foreign firms seem to influence the family based corporate structure in Taiwan. Lam's (2003) research reveals that the American MNCs are better at adapting to their environment compared to the Japanese MNCs, thanks to their decentralized and flexible corporate structure stemming from the 'liberal market institutions' of the U.S.

Both Lam's logics of the 'professional community' and the 'organizational community' (2003:697), and Chung & Luo's 'institutional logics of corporate governance (2008:767)' are mechanisms of reproduction; they involve social relationships through which individual behavior is attained. They reflect and refract institutions; but they are not institutions. Hence, they can be labeled as rituals, having different meanings depending on the context. Such conceptualization restricts the institutional logics literature's ability to explain environment hostility which can be explained at both societal and industry level using institutional logics. Societal level institutional logics "constitute the cosmology within which means are meaningful, where means-ends couplets are thought appropriate and become the naturalized, unthought conditions of social action, performing the substances at stake within them (Friedland, 2002: 383)". On the other hand, industry level reflection and refractions, which are labeled as industry level institutional logics (i.e. Thornton & Ocasio, 2008; Thornton, 2004, 2002, 1999), are *mechanisms* of reproduction.

Duality between industry and societal level institutions decouples one level from the other. This can be considered as a serious problem because duality between levels leads to an isolated industry level analysis, which hampers the efforts in understanding the meanings that drive the actions and actions that drive the meanings. Such an analysis also limits our understanding of actor's interests and identity, as

existence of certain identities and interests are tied to societal level institutions and social relations that make them real (Friedland, 2002).

To our knowledge, there are no studies on environment hostility integrating societal level institutions and their industry level reflection and refractions. We do not refer to resistance limited to a domestic industry or organization in a specific national environment at a specific time and space; but to the resistance when different institutional configurations of different national environments come across in different contexts. Examined in light of specific time and space, the resistance becomes a temporal and spatial reality. Due to fragility of institutional configurations, the resistance at different levels is not fixed. Using institutions and their logics mainly at the societal level (Friedland & Alford, 1991), we argue that institutions define identity, interest, power, and action of the individuals, groups and organizations in an institutional environment, making them distinct from any other. The environment hostility arises from contestation between different institutional configurations, while variation in local hostility arises from temporal nature of configurations.

Within our theorization of environment hostility, the concepts of institutional logics, and identity are tightly linked. Institutions provide individuals, groups and organizations with a sense of self (identity) as they define institutions' organizing principles and are accessible to organizations and individuals (Friedland & Alford, 1991:248). The interests, values and assumptions of individuals and organizations are ingrained in prevailing institutions (Friedland & Alford, 1991). Therefore, the means and ends of actors' interests are facilitated and restrained by dominant institutional configurations. The actors reproduce and defend the institutional logics stemming from dominant configurations because the institutional logics, unless transformed, maintain the configurations that foster the perceived common status, power balance and interests. This kind of identification generates cooperative behavior which seeks to protect the interests of the collective against the competing identities (Thornton & Ocasio, 2008: 111). Based on this definition of institutional logics, environment hostility can be defined as a political opposition stemming from differences in interests, values, assumptions and practices at specific time and space.

Thanks to institutional configurations, which constantly reveal a shift of institutional systems, not only environment hostility, but also environment hospitality has a temporal nature. Thus environments deemed as hostile / hospitable today may not be so in the future depending on their historical progression. Therefore, we would like to emphasize that the five main institutions and dominant institutional configurations of the West can change, thanks to their dynamic logics, in time. The configurations are not fixed, neither anything they define. None of the examples given may apply in the future; the enemies of today can be business partners tomorrow. However, the institutional contestation is the only permanent fact in this conceptualization full of temporary realities.

### **Organizational Image and Identity**

The existing literature on organizational identity and image offers a rich body of research that provides various conceptualizations (see Gioia et al., 2000, for a summary), and empirical studies (Dutton & Dukerich, 1991; Gioia & Thomas, 1996; Elsbach, Sutton & Principe, 1998; Hoffman & Ocasio, 1999; Elsbach & Bhattacharya, 2001; Corley & Gioia, 2004; Bansal & Clelland, 2004; Deephouse & Carter, 2005; Haines, 2006). However, the organizational identity and image literature seems to be organization centric, discounting the influence of institutions on the meanings attached to identities and images (Glynn, 2008).

Additionally the literature mostly remained within domestic boundaries, dealing with the local organizations reflecting institutional configurations of that time and place. Both theoretical and empirical research are confined to the U.S. –i.e. organizational image and identification (Dutton & Dukerich, 1991), impression management tactics (Elsbach, Sutton & Principe, 1998), impression management and shareholder value (Bansal & Clelland, 2004) industry level attention and identity (Hoffman & Ocasio, 1999), organizational disidentification (Elsbach & Bhattacharya, 2001), organizational identity change (Corley & Gioia, 2004), organizational legitimacy and organizational reputation (Deephouse & Carter, 2005), social movement organizations and management of controversial identity (Haines, 2006).

Within context of MNC, this U.S. centric conceptualization of identity and image that lacks a consideration of variety in institutional environment, which leads to differences in perceptions and understanding, is inadequate to explain target environment hostility. The meaning associated with an organization outside its home environment is defined by the dominant institutional configuration of the environment entered. The pattern of practices, symbols and understandings are different in this new environment, the industries within which the organizations are embedded are distinct; hence the organizations and the way they do things are different. An appropriate definition of identity requires consideration of temporal and spacial dynamics that explains the perceptions and evaluations leading to hostility.

In theorization of environment hostility, we argue that different institutional configurations in diverse settings influence the identity formation in ways that are not necessarily compatible. Therefore, with its organizational structure and strategies—including mergers and acquisition activities—the MNC reflects the institutional configuration of its home country. Its aggressiveness, communication and cooperation patterns, future planning, expansion patterns, perception of loyalty and trust all become evident in MNC’s dealings with organizations from different institutional environments. The reaction to the MNC’s expansion is also a reaction to practices and symbols associated with its institutional configuration. For example, the reaction Wal-Mart’s expansion to Germany, due to its aggressiveness, lack of respect for suppliers and labor unions, is not only a reaction to Wal-Mart. The practices that are normal and appropriate for the U.S. business environment are encouraged to keep the market flexible and competitive (Sorge, 2007), which is not the case for Germany.

## ENVIRONMENT HOSTILITY

We examine target environment hostility in two levels: macro (societal) and industry level. Although the main reason is the same in both cases, namely contestation within and among institutions, the difference in domain of conflict (within or between/among) and its reflections necessitate different levels of analysis. Below is a simplified table on our following conceptualization of environment hostility.

**TABLE 1**  
**ENVIRONMENT HOSTILITY AT DIFFERENT LEVELS**

<b>Between</b>	<b>Within</b>	<b>Hostility</b>
Capitalism	State	Macro level
Democracy		
State	Capitalism	Macro level
Family	Capitalism	Industry Level
Democracy		

### Macro Level Hostility

Macro level environment hostility refers to the cases in which three historically dominant institutions of the West, institutions of bureaucratic state, democracy and capitalism (Friedland & Alford, 1991), contradict not only each other but also may reveal internal conflict. When we refer to within state contradiction, it refers to opposition within the government on what state can and should do. Within institution contestation allows for different interests with different objectives to arise and struggle for power by using various strategies, including rhetoric. Rhetoric used is defined by the contestation and interests advanced or defended. Hence, the actors that can mobilize the power that public have (election of government and representatives, strikes, protests) will have more leverage in the contestation. The accommodation of different institutional practices and symbols while advancing or defending principles

of an institution will enable the actors to combine power derived from different institutions and change or defend the meanings and practices.

Within institution of capitalism contradiction refers to conflict on what can be commodified and traded freely. The within institution contradictions arise primarily due to their conflict with other institutions. For example, institution of state may contradict with institution of capitalism creating conflict on whether water should be bottled and sold for money by private parties or distributed to public by the state. The power and interest of actors in both institutions are defined by the context, they are historically dependent (Friedland & Alford, 1991). If the institution of the state historically incorporates practices and symbols related to control and allocation of natural resources, the actors maintaining and defending the institution mobilize public—accommodate institution of democracy—to limit expansion of institution of capitalism to its domain of control. However, if there is a divide within the institution of state over whether water should be commodified, then the contestation between institution of capitalism and state can become fiercer. Such a contestation would divide the actors defending institution of state, and allow for different interests pursue different collaborations and use different rhetoric.

The case of DP World acquisition is an example of contestation among institution of state, capitalism and democracy. The institution of state, maintained and defended by government at that time, contradicted with institution of democracy. Although institution of state accommodated institution of capitalism, allowing sales of ports as commodity and source of rent, it conflicted with institution of democracy. The elected representatives, whose power and interests are defined by institution of democracy, mobilized the public through use of social movement organizations. The decision of the government or non-interference of the government was converted into a public issue that has to get consent from public. To make the matter a public issue, a problem arousing public emotions and attention was needed. Democrats (the opposition party) used port security and terrorism, transforming the issue one from ordinary business deal complying with logics of capitalism and state to one that threatens institution of democracy. The issue was depicted by democrats in such a way that it required majority consent. And, the majority formed its opinion on the issue based on the stories crafted by the democrats who opposed the state authority.

Such a resistance to state authority and its centrality is defined by US institutional system that is defined by specific episodes of space and time. In the US any practice or symbol representing centralized state structure, a central bank, unified power of government and non-regulated markets would contradict with institution of democracy. This is related to the American tendency for decentralized state structure, separated governmental powers and market regulation aimed at restricting market concentration is embedded in founders' experience of regulative and intrusive English state (Friedland & Alford, 1991). The context specificity of the environment hostility can be observed by lack of reaction to the SABIC acquisition of GE plastics. The SABIC deal went all unnoticed as if it never happened, despite of the fact that it was a giant American company, GE plastics, being acquired by SABIC. The acquisition decreased number of big players in raw plastic industry from four to three, leading to further concentration in the market. Yet, there was no reaction, despite the fact that restriction of market concentration is one of the practices embedded in American history. This phenomenon can be explained by lack of stark contestation between the institution of state and democracy, although institution of capitalism does not seem to be accommodating institution of state. A concentrated market indicates increased dominance of principles related to institution of capitalism at the expense of state and public control over allocation of resources and human activities. In spite of the contradiction implied by the deal, there was no open contestation. The lack of already existing tension in the US saved SABIC from state and public attention. There was no apparent contestation of power among parties of different interests. This, in turn, avoided various conflicting rhetoric strategies leading to mobilization of public.

#### *DP World Deal as Scandal*

Looking at two different cases of M&A involving MNCs with similar country of origin, it is crucial to realize importance of publicity accompanying the contradiction among institutions emphasized by the

DP World deal. Deals emphasizing contradiction among different institutions, such as the case in SABIC deal, go unnoticed. What was it that made DP World deal so special and disruptive?

Ritual behaviors are the media through which values are manifested, rules for reaching ends and the conceptualization of ends are constructed. These behaviors maintain and reproduce the institutions by defining one's self through a conditional existence based on patterns of practices and system of symbols. One is denied of existence, if he/she fails to understand and act in institutionally defined ways. As the actors within a certain institutional configuration maintain, reproduce and defend their world through rituals that define their positioning, access to material benefits, and social relationships connecting them to the institutional order, it is only natural that any practice, or symbol that transgresses the rituals is considered to be a wrong doing 'transgression' which entitles the person performing the transgression as deviant.

Not every transgression receives open hostility or sanctioning from the actors. It may be overlooked due to parties involved, especially if it involves authorities from state or the elite (Adut, 2005). A contamination of state representatives or the elite implies significant damage to not only their credibility and reliability as representatives, but also institutional configuration that they reproduce. Questioning of authorities reproducing a certain institutional configuration triggers questioning of symbols, meanings and practices that they derive their power and interests from. Extension of questioning to differences in understandings and practices leads to institutional change, which shifts the power from existing authorities to dissidents supporting an alternative institutional configuration. Therefore, even if a transgression exists, it will be tolerated as long as it remains unknown to public. However, once it is communicated to the public, publicity generated changes the meaning and influence of transgression on the institutional configuration (Adut, 2005).

Involvement of state officials and elites combined with importance of the deviant within certain social circles only makes the reaction to transgression more intense. The fury of public gets more substantial and destructive as a result of continuous communication among press, an authoritative figure communicating the transgression, and intended audience within the public. The intended audience refers to the fact that not everyone within the public reacts to the communicated message, the authority communicating the message must address it to the group (s) that is sensitive the message. It is important that the actors receiving the message identify with the message and unite with a feeling of dissent and request for action (Adut, 2005). Yet, it is usually the strategic communication more than the consensus that defines how the public transgression is resolved (p.235). Following Adut (2005), we will name this "disruptive publicity of transgression (219)" a *scandal*. To resolve this fury and avoid further contamination, the officials reveal extra effort and enthusiasm in closing the case (Adut, 2005). This generally signals harsh measures or beyond necessary caution by the officials to avoid outbreak of questioning of practices and understandings.

DP World deal was turned into a scandal. Although the government, representing the institution of state, first approved of the deal, they had to take back their support and approve of DP World's sale of their stake in the ports. The deal going public through news coverage and heated public debate, through communications initiated by the opposition (democrats), marked start of macro environment hostility for the DP World. The communication among popular press, representatives in opposition, and social activists did nothing but increase the fury against the DP World. This fury against DP World also contaminated the government's image due to its approval of the deal. The rhetoric of the opposition focused on terrorism and national security, which were successfully addressed by DP World. The official statements from state agencies, news wires and statements of the prior business partners of the multinational all attest the fact that the MNC carried out operations across Europe, had business dealings with Israel, and on top of all it had no intentions to interfere with the port operations. However, the audience, to which opposition communicated its message, still had the fear of a terrorist attack with an emerging cynicism for business and government relations and business world itself. Therefore, it did not take long for the wave of hostility arouse across the country, blaming both the government and business for supporting such a deal 'that threatened the national security of the US'. The accusation implied treason, selling the assets that are 'vital for national security' to the 'enemy'. Additionally, whoever

supported the deal was deemed to be 'anti-American'. Supporting a deal that was as legitimate as any other deal of an MNC in the US suddenly became synonymous to being anti-American. Association with anti-American image coupled with upcoming elections made it only worse for the government. They had to act hastily and resolve the matter once and for all. The residing government ended up yielding to the opposition leaving the DP World no choice but to give up its stake.

Macro and industry level hostility varies not only across M&A cases, i.e. DP World vs. SABIC, but also across contexts. Resistance to state authority, such as in the US, is less likely in the Continental Europe institutional system. The Central European system promotes and favors concentrated institutional powers in pursuit of objectives (Friedland & Alford, 1991). Hence practices and symbols associated with centralized state (i.e. Germany), a central bank (i.e. Deutsche Bundesbank and attempts to empower ECB), and market concentration (i.e. Volkswagen<sup>1</sup> and Porsche merger) are welcomed in Continental Europe. This explains the lack of hostility against DP World in its previous European port acquisitions and acquisition of P&O (a British company with heritage) in the UK.

*Proposition 1: Societal level hostility (macro) against the MNC (the acquirer) depends on the extent to which contradiction among the institutions is emphasized by the acquisition.*

### **Industry Level Hostility**

Industry level hostility arises primarily due to contradictions within institution of capitalism and its contradiction with other institutions, especially institutions of democracy and family. The main principles of institution of capitalism reveal practices and symbols that are related to accumulation and commodification of human activity (Friedland & Alford, 1991). These practices and symbols naturally conflict with institutions that uphold the practices and symbols associated with freedom, equality and loyalty in collectivities formed, namely institutions of democracy and family. Institution of capitalism promotes transformation of every human activity into economic activities allowing for management of activities within a market system (Friedland & Alford, 1991). Such an institutional system encourages individuality, competition and inequality by principle. Therefore, every activity, symbol or meaning that opposes such logic also contradicts the institution itself that defines the related interest and power.

The conflicts among these institutions are not always apparent though. These institutions are interdependent (Friedland & Alford, 1991); the interplay of power among them defines the power of business elites and populist demands over the political scene. The contestation among them is generally contained when the institutions accommodate extension of a certain institution in their realm. However, such an accommodation might not be possible in every context, in different definitions of space and time. For instance, banks of 18<sup>th</sup> and 19<sup>th</sup> century UK were governed patrimonially mainly by founding owners, while such a structure was not feasible for 20<sup>th</sup> century and onwards (Stovel & Savage, 2006).

The extent to which institution of capitalism accommodates other institutions is also space and time specific, different contexts with varying history reveal different practices, symbols and meanings associated with capitalism. This can be observed by the difference in production regimes of advanced economies of the West. The pattern of production regimes in West can be examined in two: Business-Coordinated Market Economies (CME) and Liberal Market Economies (LME). While CME is a pattern observed in Northern European economies (i.e. Germany, Sweden, Switzerland), LME is observed in Anglo-Saxon economies (i.e. the UK and US) and Ireland (Soskice, 2007).

These production regimes are reproduced through various rituals that define the "membership rules" (Lawrence, 1999) of the industries. The membership rules are redefined as the rituals reflecting the societal institutions change along with the institutional environment. These rules are not only material practices, but they are also charged with what it means to be a member and who can be called a member. They refer to a symbolic world that is enacted through membership, which will cease to exist once the membership loses its meaning. The membership rules define what it means to be a member, the identity of the member, the status of different members, the perception of members of other members and non-member organizations. Interaction, domination structures and information sharing is established through

membership rules in the industry (Lawrence, 1999). Looking at industries embedded in CMEs and LMEs, one can observe the clear demarcation in interaction, domination structures and information sharing.

CME is an example of how institution of capitalism accommodates institutions of family (loyalty, acting in collective), democracy (role of labor unions), and state (framework for the market system) in Northern Europe. In CME business coordination takes place at the industry level. Such a system promotes industry-defined unions, within-industry technology transfer and diffusion, technical norm-setting and specialists training (Soskice, 2007). Key actors are business associations and industry unions. The state ensures the maintenance of the system by sustaining a framework that encourages cooperation, collective action, and communication. In CME, industries tend to be more cohesive, in which communication, collaboration and loyalty is high. Most of the research and production takes place in home country rather than in host countries as the skills and communications required are mainly developed in the home country, hence considered as advanced for the other markets. Promotion of long-term cooperative institutional framework for companies is in the interest of North European business (Soskice, 2007). Such a framework “maintains their high status, their security and their networks, and uses their expertise, which is often a combination of high technical competence and the ability to develop consensus solutions (Soskice, 2007: 179)”.

On the other hand, LME is an example of the way institution of capitalism accommodates the other institutions in Anglo-Saxon countries and Ireland. The state cannot deal with business in collectives, as industries consist of loose relations (Soskice, 2007). The institution of capitalism limits extension of institution of family and of democracy to maintain deregulated markets with strong competition requirements. For instance, contrary to CMEs loyalty to a collective, strong labor unions negotiating for workers are absent in LMEs. The power of collective action and communication is absent in the US and UK business context. Therefore, promotion of deregulated institutional framework for companies is in the interest of companies in the UK and US. Such a framework allows for a strong competition environment for companies with short term horizons, which gives them little incentive to cooperate (Soskice, 2007). Hence, they can hardly react as a collective and negotiate with the state as one.

Wal-Mart's initial failure in Germany is a good example of the way an MNC with LME country of origin can conflict with the target industry in a CME, leading to both open hostility as well as subtle reactions. Wal-Mart's acquisition of active businesses in the retail industry was the right one as the German market was overcrowded with well-established players. However, Wal-Mart's ignorance of the competitive structure involving key competitors, suppliers, labor unions and customers brought its demise (Senge, 2004). If it were in a LME, its strategies would have fared well, as they would have not revealed any contradiction to the existing practices and understandings of doing business in the retail industry.

The aggressive corporate and business strategies of Wal-Mart required expansion of institution of capitalism in expense of institutions of family and democracy, which implied an institutional change starting from industry wide practices and understandings. Therefore, expansion of the US MNC in the German market became a threat to the system from which key German retailers, suppliers, workers and consumers derived their power and interests.

*Proposition 2a: To the extent to which the acquirer identity conflicts with the industry membership rules defines the strength of the rejection revealed in the host environment.*

Production regimes, which reveal the extent to which institution of capitalism accommodates other institutions, define characteristics of the individual organizations as well as the characteristics of the industries. While characteristics of the industries define the membership rules, the characteristics of the individual organizations define their identity.

### *Identity and Image*

The social embeddedness of an organization defines which elements in the environment matter, when they matter, how they come to being and change over time and how they match/conflict with each other (Glynn, 2008:420). An MNC forms its identity through its communications with the various actors that

are embedded in both its home environment and the target environment. Different patterns of communication, symbols and meanings stemming from different institutional configurations naturally influence the content of the exchange. Every institutional configuration reveals different patterns of industrial practices and symbols. The corporate strategy of the MNC, revealing its country of origin, influences how the subsidiary is perceived and admitted as a member of the industry. This is mainly due to the fact that MNC country of origin generally defines the MNCs' mode of entry into the target market and choice of subsidiary management (Lane, 2007).

For example, industries embedded in a CME, where cooperation, loyalty and long term objectives are encouraged, would foster practices and symbols that maintain and extend such a system. Therefore organizations in such an industry would have characteristics that support the existing institutional configuration. On the other hand, industries in a LME, where strong competition, flexibility and short-term focus are fostered, encourage practices and symbols that maintain and extend such a system. Hence, organizations within such industries have characteristics supporting the institutional configuration they are embedded in.

The Wal-Mart expansion to Germany serves as a good example in this case as well. The German companies Wal-Mart acquired carried out their operations with a long term focus that fostered trust, long term relationships, loyalty, and good relations with unions. Their identity naturally reflected the business environment defined by institutional configurations of a CME. Wal-Mart's hasty attempts at changing practices and understandings embedded in the market system were not welcomed by the members of the industry, as they threatened the existing interests and power balances in the industry. Therefore, almost every member of the German retail industry took stance against Wal-Mart. The strongest player of the industry, Metro AG, cornered Wal-Mart through series of acquisitions and financial help to weak companies, the suppliers got out of their engagements, the customers switched to German competitors, and finally labor unions disgruntled (Senge, 2004).

The norms, practices, understandings, meanings and symbols relating to a specific industry is maintained, defended and extended by individual organizations supporting those characteristics and meanings. The power and interests of the organizations stem from the meanings, practices and symbols they are embedded in. It is in the interest of a German organization to defend the system of cooperation, trust, long term relations, in case of any attempt of aggressive acquisition targeting an actor within the system. Any practice or symbol that contradicts with already existing institutional order that supports this system becomes a power issue especially for the key players of the industry. This will naturally deepen the already existing contradictions among institution of capitalism and institutions of democracy, family and state.

*Proposition 2b: To the extent to which the acquirer identity conflicts with target identity defines the strength of the rejection revealed in the host environment.*

## **DISCUSSION**

An MNC does not simply put forward itself, once an MNC enters a target country. It is continuously molded in its self-statement—consisting of mode of entry, practices, symbols used, public announcements, communications with the different actors. Not only its identity, but also its experience is socially constructed. The MNC experience that emerges in target country is not fixed; it is shifting, relative, spacial and temporal. Not only the MNC changes over time through changes in practices and symbols reflecting and refracting institutional configurations of country of origin, but the target country experience and perception of the MNC changes within its own trajectory. Therefore meaning of and practices related to being 'foreign', 'acceptable', 'appropriate', 'hostile', 'aggressive', and 'similar' both change and get changed by dominant institutional configurations. Requirements for appropriateness can change, or even more interesting they can be tolerated even if they are unacceptable misfits. Deals that get hostile reactions can be accommodated at a later time depending on interests and power balances that reflect different configurations fostering different practices and symbols. Liability associated with being

foreign or strong negative reactions, such as environment hostility, are transient. Therefore, they should be examined as such. Environment hostility is a story of institutions in ever contestation and interdependence, revealing their presence both at macro and micro level, within and across contexts with which they are bonded.

Considering pace of international business and globalization, a better accommodation of practices and symbols across borders is always possible. It is possible not due convergence of institutional configuration across spaces, but due to realignment of institutions allowing for improved capital, human, knowledge flow. Such an accommodation requires expansion of an institution (s) in expense of others within institutional environments with diverse trajectories. However, institutional change required does not imply that the configurations fostering them have similar arrangements among institutions. The expanding or accommodating institutions, and the degree of expansion/ accommodation all depend on the path travelled, the trajectory followed. Hence, the contestation is ever present even when there is harmony of practices across settings. And, this harmony is only transient.

## CONCLUSION

As a final remark, we would like to emphasize that we do not argue for a marginalized relativist account of MNC expansion, but one that embodies the absence manifested in traditional MNC literature. We used different examples supported by theory to reveal a 'version' of what MNC is, what it can face as well as what target environment is and how it experiences the MNC and its expansion. This is an attempt to go beyond reification of the MNC and the contexts in which it exists with an aim to explore the endeavors of the MNC to exist across different contexts. We question the variance of what exists, is allowed to exist, across space and time.

## ENDNOTE

1. Porsche as a tenth brand to VW, which already includes Audi, Bentley and Czech manufacturer Skoda, as well as the VW brand.

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