

# The Evolution of Principles and Practices in Multinational Firms

**Lars Huemer**

BI Norwegian School of Management  
Sabbatical address:  
Universidad Adolfo Ibañez, Balmaceda, Recreo, Viña del Mar, Chile  
lars.huemer@uai.cl

## **Abstract**

This work in progress paper presents a study of Norwegian owned aquaculture firms and their international operations. The overall focus is on how principles and practices are established, interpreted and utilized between organizations set in different institutional contexts. Firms involved in international operations meet different 'rules of the game' in their various locations, and this creates particular challenges. Dissimilarities in institutional structures between countries are likely to influence the trade-off between responsiveness in terms of local adaptation, or global integration of organizational principles and practices. International firms must acknowledge economic issues, as well as social and ethical dilemmas brought on by differences in economic conditions, competitive drivers and cultural values.

The research question behind this particular paper is to study how organizational practises/routines co-exist and evolve with the values/principles of multinational enterprises? The purpose of the paper is to initiate a conceptualisation of principles and practices in MNCs and to present some initial case illustrations, in order to discuss avenues for future research. The paper briefly presents the industry in Norway and Chile, the focal firms and the research method employed. A literature review follows, and the paper ends with some tentative case illustrations and future research issues.

**Key words:** Multinational firms, institutional context, principles, practices, aquaculture.

## **Norway and Chile: two leading aquaculture nations**

The aquaculture business is a young industry very much still in the process of developing its characteristics. Aquaculture is also an exciting and controversial business. The industry carries a promise of a blue revolution; producing most of the world's marine produce, alleviating poverty and food shortage, as well as safeguarding marine resources for future generations. On the other hand, it has also a bad reputation and is regarded by many as a health hazard and as environmentally unsustainable (see e.g. the Economist 2003).

Since 1992 Chile has been second to Norway in terms of farmed salmon and trout in the world, and is expected to pass Norway during 2005 (Bjørndal and Aarland 1999). Foreign investment in aquaculture in Chile borders US\$ 252million between 1990 and 2001. Norway alone stands for 51.6% of this amount. The Chilean aquaculture industry has been regulated since 1991 under the General law of Fisheries and Aquaculture, but except for matters of licenses, Chile imposes few regulations on its salmon aquaculture industry compared with Norway (Bjørndal 2002). Norway and Chile thereby provide different institutional settings. Norwegian firms need to remain competitive and simultaneously sensitive to practices appropriate to an international workplace. This is a challenge, as exemplified by the experiences made by Norwegian aquaculture giant Cermaq.

In the summer of 2003, the state owned firm Cermaq was accused of exploiting its Chilean employees and the Chilean environment in an article with the title 'Everything for Norway' (Ergo 2003). One of Cermaq's foreign subsidiaries, fish farming firm Mainstream, was charged with breaking basic employee privileges, such as gambling with employees' security and unionisation rights, among other unacceptable actions. The state owned firm was presented as making the best, financially, of the institutional setting in Chile, a country with less rules and regulations for 'how to play the aquaculture game'.

## **Cermaq**

Cermaq ASA (previously Statkorn Holding) was established in January 1995 by the business part of Statens Kornforretning (now Statens Landbruksforvaltning). In March 2000 Cermaq entered into an agreement with Danisco regarding the take over of the fish feed companies EWOS AS, EWOS Ltd (UK), EWOS Chile S.A. and EWOS Canada Ltd. EWOS is one of the global leaders in salmon feed production and one aquaculture actor that invests heavily in R&D through its subsidiary EWOS Innovation.

In September 2000 Cermaq purchased the operations of the fish farming companies Pacific National Group Ltd and Prime Pacific Seafarms Ltd in Canada. In November 2000 Cermaq purchased the fish farming company Mainstream Salmones Y Alimentos S.A. in Chile and fish farming companies Mainland Salmon Ltd, Shetland Norse Ltd and Aquascot Group Ltd in Scotland. Cermaq then decides to gather the operations in its fish farming division under the Mainstream name. This is done in order to develop and strengthen the profile of the fifth largest fish farming company in the world. After a short time of operation Cermaq HQ sends Chilean managers to take over the businesses in Canada and Scotland.

After these acquisitions Cermaq needs to develop its identity as a global aquaculture firm. In Barcelona in 2003 Cermaq launches what is called its *Passport to sustainable aquaculture*. The passport highlights a number of core values and stakeholders. In order to create value for their shareholders, identified as the most important stakeholder, Cermaq commits itself to sustainable aquaculture. To achieve this objective, the group intends to remain focused on their *customers* and *suppliers* and maintaining the quality of their *product*. The passport also stresses that the key to achieving improved revenues through sustainable aquaculture is to demonstrate respect for *each other*, the *consumer*, and the *communities* and *environment* in which the different Cermaq firms operate. Additional key stakeholders are thereby employees, suppliers, the fish, community, consumers, and customers. Core values include *Business mindedness*, *Sharing success and concerns*, *Preparedness*, *Integrity* and *Prudence*.

This Passport was jointly developed (with input from HQ) by managers from all subsidiaries, and is now to be implemented, with 'local flavouring', as expressed by HQ, in the different national sub-units. The outcome of this local favouring process is supposedly influenced by differences in institutional settings as well as in the relational norms that exist in the different localities.

This process takes place simultaneously with the turmoil that Cermaq faced after the criticism of some of its Chilean operations. Although Cermaq HQ regards the criticism as both unfair and misleading, according to interviews recently conducted, they have taken the situation seriously. For instance, the organization is currently cooperating with Chilean authorities over an environmental certification system, and has begun discussing with Norwegian union leaders about the rights of its Chilean employees.

## Research design

The project is a longitudinal study of the co-evolution of institutional duality and practice adoption in order to understand how institutional and relational factors interact, e.g. how principles and practices become institutionalised over time in organizations. To date 45 interviews in Norway and Chile have been conducted, including the corporate HQ of Cermaq, and a number of its Mainstream and EWOS subsidiaries, in addition to suppliers and other actors in the aquaculture industry. The study intends to focus on the values behind the Passport and its following interpretations into practices with respect to general management, R&D, manufacturing, sales and purchasing.

## Firm practices and principles: Transfer & translation

### *Transfer in a global world*

The local-global equilibrium has been discussed for some time in the international business literature, particularly in terms of global integration or local responsiveness in the various activities and functions of the multinational organization (Prahalad and Doz 1987). Studies on MNCs and their transfer activities have traditionally assumed that the MNC has a home base, out of which firm specific and country specific advantages flow (Dos et al 2003). Recent research stresses that one of the biggest concerns MNCs face regarding internationalization is assessing the fit of what they wish to transfer from this home base abroad to the new host environment (Brennan 2004). Internal transfers of practices are important for all types of organizations, but critical for MNCs, for a primary advantage that a MNC brings to foreign markets is its superior knowledge, to be used in subsidiaries worldwide (Kostova 1999). The focus on global strategies and transfers of innovations and best practices within MNCs has largely implied a process of replication.

Today it seems as if the pendulum has moved in favor of a more local strategy as a response to the difficulties produced by earlier global and integrative strategies. Coca Cola and its think

locally act locally strategic priority is one example. The manager of Coke Belgium stressed the necessity of going from being a Global Master to being a Global network of local champions. Likewise, McDonalds presents itself as a network of local entrepreneurs (Verdin, Subramanian, de Koenig and Van Pock 2003).

### ***Translation in a local world***

Increased emphasis on the local dimensions in the global-local equilibrium involve other views of (a), the home HQ-foreign subsidiary relationship; (b) the transfer process.

Some researchers point out that the home base is not the only important base. Certain models of internationalisation address the possibilities of foreign units taking on major strategic roles within the multinational firm, from the corporate perspective (Bartlett and Ghoshal 1989) or from the national subsidiary point of view (Bresman et al 1999). This is also the case in this study, particularly with respect to Mainstream, originally a Chilean firm that now is the global platform for Cermaq's farming operations. Overall, the interorganizational approach to the MNC has meant a shift in focus when studying MNCs. It puts the subsidiary in focus to a larger extent, because it is a crucial link for the accumulation of knowledge generated from business activities in various market networks (Andersson et al 2001).

The transfer of an object or idea implies that it is moved from one place to another relatively intact. This notion has been thought ill suited for business research and it has instead been proposed to us the term translation (Latour 1986). Translation implies that a phenomenon in one context is moulded into another context. It is thus not the same phenomenon in both contexts; rather it is similar in certain aspects and different in others. Knowledge translation has been defined as the process where knowledge on one setting re-occurs in a modified form in another setting (Choi and Eriksson 2001). Hence, when the importance of the local dimension increases, the focus turns to modification and adaptation of knowledge that also has symbolic dimensions (e.g. Kostova and Roth 2002). What is missing in our knowledge base, according to Brennan (2004), is an understanding of the process of re-contextualization, how transferred organizational assets take on new meaning in distinct cultural contexts. There is a necessity of looking at these ideological people dependent processes.

### ***Relating principles to practices in a global-local world***

The objects of transfer or translation are usually practices or organizational routines. These activities/procedures have previously been related to norms and values in different ways.

Feldman and Pentland (2003) distinguish between principles and practices *within* routines. What they call the ostensive aspect is the ideal or schematic form of a routine. It is the abstract, generalized idea of the routine, or *the routine in principle*. The performative aspect of the routine consists of specific actions, by specific people, in specific places and times. It is *the routine in practice*. Both of these aspects are necessary for an organizational routine to exist, they argue. This line of work centers on the routines themselves.

Similarly, Kostova (1999) argues that the success in international practice transfer depends on the meaning and value of the practices. Implementation of a practice implies the degree to which recipient units follow the formal rules implied by the practice. Internalization is the state in which employees at the recipient unit attach symbolic meaning to the practice, i.e. they infuse it with meaning (Selznick (1957).

Routines have also been argued to foster the perceived legitimacy of organizations as institutions if their behavior conforms to established norms. Hofstede (in Kostova 1999) argues that the rules of a practice reflect underlying values and beliefs. Such practices may include rules for how to behave towards certain stakeholders based on values and beliefs about e.g. ethical business conduct. From a global integration/transfer standpoint, Hedlund (1986) suggested that it could be expected that the creation of common norms, values and standards will facilitate knowledge integration within the MNC, and this knowledge can be conveyed through relationships between organizational MNC members.

From a more local adaptation/translation viewpoint, the impact of the corporate system on the competence of a specific subsidiary can be questioned because (the use of) shared norms, values and standards can work in both ways. These mechanisms may create a system of effective and regular flows of information (as argued above), but there is risk that they will impede subsidiary learning because they may be inadequate for the specific business activities of single subsidiaries (Grant 1996).

Irrespective of perspective, it seems justified to relate the principles, the idea of what constitutes the organizations identity, with its actions, i.e. its practices. Acknowledging firm principles, or the organizational identity, is essential for our understanding of firm practices, in line with the idea that 'who you are' influences 'what you do'. How one acts may depend more on who one is, who others think one is, and who one aspires to be than any objective assessment of the opportunities and costs associated with a given direction (Albert 1998). Consequently, an organization's identity affects the strategic choices it makes and the actions it takes (Rindova and Fombrun 1998).

### **This study's approach**

There are two main issues involved in the suggested conceptualisation of the evolution of principles and practices in MNCs. The first relates to the global-local tensions and the notions of transfer and translation; the second concerns the link between principles and practices.

The global-local continuum has an impact on whether the object in question, often organizational practices or routines, are transferred or translated. However, according to Verdin et al (2003) the challenge consist of approaching the local-global dilemma in a more dynamic way, where the goal is not to identify the perfect fixed point on the local-global range, but rather to provide a framework for analysing and continuously reflecting on the consequences of the local-global tension in a changing international playing field. This means that the notion of transfer not ill suited per se. But rather than initially using a distinction between transfer or translation, the study intends to follow the IMP tradition in focusing on the *interaction* between organizational units located in different institutional contexts, while acknowledging a more dynamic approach to the local-global tensions.

As to principles and practices, previous work largely seems to assume that practices have pre-existing, and defined, values and meanings. Studying a firm's principles is the same as saying that we need more understanding also on the 'meanings of meanings and values'. For instance, in Kostova's (1999) study of value and meaning based strategic organizational practices, the success of transfer is predicted by the diffusion of a set of organizational rules along with the transmission of meaning of these rules among individuals of the recipient organization. Kostova is arguably correct in suggesting that strategic organizational practices acquire symbolic and normative meaning for organizational members. But, there are values and meanings preceding these practices as well. Similarly, Feldman and Pentland's (2003) work on ostensive and performative aspects of organizational routine focus on the principle inherent in the routine, the idea of the routines itself but not the underlying value/principle. The focus seems to be that the routines become value laden.

In previous research much has been done on exogenous change forces with respect to organizational practices/routines, including market changes or new technologies. What this study adds to this list are the principles that explain what kind of organization the MNC intends to be, i.e. its organizational identity. Involved here is an explicit distinction between principles that are both endogenous and exogenous to the organizational practices.

### **Case illustrations and possible avenues for future research**

The Cermaq Passport is an interesting illustration of principles and practices in a multinational group of firms. It identifies core values that potentially face different and possibly conflicting

interpretations in Norway and Chile. The core values or organizational principles were initially translated into the following guidelines:

- *Business mindedness* = We are always thinking of generating cash and opportunities for profit. All other goals come naught if we fail.
- *Sharing success and concerns* = In order to create a positive working environment where success is shared and problems solved, we encourage networking, personal development, teamwork and open communication.
- *Preparedness* = We anticipate change and capitalize on growth opportunities through hard work and creative thinking.
- *Integrity* = We adhere to a code of ethical values such as fairness, loyalty and respect so that we maintain our pride and earn trust.
- *Prudence* = We are disciplined and reasoned. We depend on skill and good judgment in use of resources, and we manage risk proactively.

The Passport is in other words an attempt to make a tacit understanding of corporate values or principles more explicit. But the process of interpreting these principles into practices in different subsidiaries has just begun. There is significant ambiguity in various units as to what the Passport really means.

During the creation of the Passport it seems as if the Chileans focused more on business orientation, but that they are struggling more on a day-to-day basis with the idea of sharing success and concerns. Norwegian managers are more inclined to stress a need for more implementation, to put more concrete guidance behind the values. But one manager in Chile has taken an initiative to run a seminar series with a philosophy professor to discuss these values, what they are and what they may mean for his organization in terms of behavior.

From the HQ's point of view, there seems to be *transfers of practices* from Chile to Canada and Scotland (in terms of procedures at the sites) and also a transfer of principles in terms of e.g. business mindedness. This is achieved through the use of trusted expatriates.

There are also attempts to *transfer principles* from Norway to Chile (in terms of sharing success and concerns). Moreover, the employees as stakeholders are increasingly acknowledged in Chile. However, the necessity of getting a 'local flavor' is continuously stressed by managers in both Norway and Chile.

### ***Future research issues***

This work in progress paper can hopefully generate a discussion around future research issues.

One possibility is to go deeper into how different institutional settings influence the development of firm routines and practices. The other side of this question would be to acknowledge that there is a danger in overlooking the pro-activity of international firms interacting with national institutional bodies. These firms often have the expertise to assist in the formulation of business relevant policies and may be in favourable positions to set emerging standards in different dimensions. The question would thereby be how the development of firm routines and practices influence different institutional settings?

Another area could be to focus more thoroughly on the implementation process in the different subsidiaries.

The notion of sustainable aquaculture is not unique to Cermaq, its main competitors are using similar arguments. It would be interesting to study the external network to these firms in order to get a better view of the roles different actors play (suppliers NGOs, governments etc) in order to transform an industry to become more sustainable.

## References

- Andersson M, U Holm and C Holmstrøm (2001). Relationship configuration and competence development in MNC subsidiaries. In H Håkansson and J Johanson (eds), *Business network learning* (185-205). Amsterdam: Pergamon.
- Albert, S. (1998). The definition and metadefinition of identity. In D.A. Whetten, & P.C. Godfrey (Eds.), *Identity in Organizations: Building theory through conversations* (pp. 113). Thousand Oaks: Sage.
- Bartlett C and S Ghoshal (1989). *Managing across borders: The transnational solution*. Boston. HBS Press.
- Bjørndal, T. (2002). The competitiveness of the Chilean salmon aquaculture industry. *Aquaculture Economics & Management*. 6: 97-116.
- Bjørndal, T. and K Aarland (1999). Salmon aquaculture in Chile. *Aquaculture Economics & Management*. 3, 3: 238-253.
- Brennan Mainstream Y (2004). When Mickey loses face: Recontextualization, semantic fit, and the semiotics of foreignness. *Academy of Management Review*, 29(4), 593-616.
- Bresman, H., J. Birkinshaw and R. Nobel (1999). Knowledge transfers in international acquisitions. *Journal of International Business Studies*, 30, 3: 439-462.
- Choi S-G and K Eriksson (2001). The internationalisation process as knowledge translation in international business relationships. In H Håkansson and J Johanson (eds), *Business network learning* (69-88). Amsterdam: Pergamon.
- Doz Y, J Santos and P Williamson (2003). The metanational: the next step in the evolution of the multinational enterprise. In J Birkinshaw et al (eds), *The future of the multinational company* (154-168). Chichester. Wiley
- Ergo, T. (2003). Alt for Norge, *Dagbladet* 28/6.
- Feldman M S and B T Pentland (2003). Reconceptualizing organizational routines as a source of flexibility and change. *Administrative Science Quarterly*, 48(1), 94-119.
- Grant R M (1996). Prospering in dynamically-competitive environments: Organizational capability as knowledge integration. *Organization Science*, 7(4), July-August.
- Hedlund G (1986). The hypermodern MNC: A heterarchy? *Human Resource Management*, 25(1) 9-25.
- Kostova, T (1999). Transnational transfer of strategic organizational practices: A contextual perspective. *Academy of Management Review*, (24(2), 308-324.
- Kostova, T. and K. Roth (2002). Adoption of an organizational practice by subsidiaries of multinational corporations: Institutional and relational effects. *Academy of Management Journal*, 45,1: 215-233.
- Latour B (1986). The powers of association. In J London (ed), *Power, action and belief: A new sociology of knowledge*, Boston: Routledge and Kegan Paul.
- Prahalad CK and Y Doz (1987). *The Multinational Mission: balancing Local demands and global vision*. New York. The Free Press.
- Rindova, V. P. & Fombrun, C. J. (1998). The eye of the beholder: the role of corporate reputation in defining organizational identity. In D.A. Whetten & P. C. Godfrey (Eds.), *Identity in Organizations: Building theory through conversations* (pp. 62-66). Thousand Oaks: Sage.

Selznick P (1957). *Leadership in administration: A sociological interpretation*. New York: Harper Row.

The Economist, 8/9 2003 Vol 368 Issue 8336: p 9. & p 19-21

Verdin P, V Subramanian, A de Koenig and E Van Pock (2003). Eglobal organizations: Beware of the pitfalls. In J Birkinshaw et al (eds), *The future of the multinational company* (143-153). Chichester. Wiley