COMPETITIVE ADVANTAGES OF MULTINATIONAL COMPANIES – A REVIEW OF THEORETICAL APPROACHES

ABSTRACT

According to knowledge and network-based theories of multinational companies (MNCs), the main source of MNC competitive advantage is the creation and transfer of knowledge within the MNC system. The processes of knowledge creation and knowledge transfer are extensively investigated in the present literature. However, there are issues that are still underdeveloped, such as control and organizational mechanisms as a micro foundation of modern MNC theories. This paper is aimed at presenting an overview of the modern theoretical approaches of MNC competitive advantages from the managerial point of view. The applicability of these concepts is further considered in the case of MNC affiliates doing their business in transition economies in order to provide guidelines for future empirical research.

Key words: multinational companies, knowledge-based theory, network-based theory, transition economies.

INTRODUCTION

MNCs are recognized as the main actors of e international business, international business financing and global economies. According to Ghoshal and Bartlett, MNC is a firm that has substantial direct investment in foreign countries that it actively manages. The value of their sales in host countries overpasses the value of trade (imports and exports) in today’s world economy. Multinational companies attracted scientific and public attention

1 Dr Biljana Pesalj, Assistant, Faculty of Economics, University of Belgrade, E-mail address: biljana.pesalj@gmail.com
from the moment of their appearance, and especially from the beginning of their intensive growth (during the 1960s). There are many interesting and important issues concerning MNC that have been elaborated in the literature such as motives of internationalization, forms and strategies of internationalization, effects on host and home countries, political aspects of MNC activities, emerging forms of international business financings, corporate social responsibility of MNC, relationship between the headquarters and MNC affiliates, etc. However, many questions have remain unanswered, such as particular mechanisms used to coordinate MNC’s activities, particularities of MNC affiliates doing their business in transition economies, etc.

Modern theories of MNC, such as knowledge-based and network-based theories, indicate that in comparison to national\(^3\) companies\(^4\) the ability to create and transfer knowledge internally is one of the main competitive advantages of MNCs. Drawing upon knowledge-based and network–based theoretical views MNC is considered “repository of knowledge and a superior way of organizing knowledge transfer across MNC units”.\(^5\) In the largest number of studies, (theoretical and empirical) MNC is considered a differentiated network where knowledge is created in various parts of MNC and then internally transferred to different interrelated units.\(^6\) The creation of innovation in MNC is no longer focused on the home country, but could be dispersed throughout the MNC system. There are authors which point out that innovative activities of foreign subsidiaries are a crucial part of innovative performance of MNC as a whole.\(^7\) Subsidiary’s local business networks (i.e.

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\(^3\) We use the term “national companies” to denote those that organize their production activities in a sole country in contrast to multinational companies.


\(^5\) Kogut Bruce and Zander Udo, ibid., p. 625.


involving suppliers, customers and competitors) are often a critical source of innovation and capability development for the subsidiary.\textsuperscript{8}

In the paper, we first present the literature review on the theory of international business and theory of MNC with the focus on the modern approaches such acknowledge-based theory, network-based theory and social capital theory. Then we consider the applicability of these modern views of MNC as a possible theoretical background for the empirical research on MNC in transition economies. Namely, transition economies suffer from many distortions in comparison to developed ones and are specific in many aspects; therefore, they may require modified theoretical approaches to the conceptualization of MNC. We discuss the results of the most recent empirical studies conducted in some of the transition economies. The objective of this analysis is to facilitate and improve the process of establishing hypotheses and conducting future empirical research on different aspects of MNC in transition economies. The empirical results are expected to reflect at some point the modification or alternation of the MNC theoretical conceptualization, doing business in transition economies.

**DUNNING’S ECLECTIC PARADIGM**

Until the late 1980s, the dominant accepted theory of FDI was Dunning’s eclectic paradigm (OLI theory). Within the scope of this theory, Dunning proposed three main determinants of international activity of the firm and they are as follows: ownership, location and internalization (OLI triad). According to this traditional approach to the internationalization processes and MNC, firms are motivated to internationalize their business in order to exploit their ownership or firm specific advantages.\textsuperscript{9}

Traditional approaches consider that there is just one-way direction of knowledge transfer and learning – from headquarters to foreign subsidiaries. Market imperfections and high transaction costs are seen as the main reasons why MNCs prefer transfer of knowledge-based assets using FDI (within the MNC system) to using market mechanisms.

\textsuperscript{8} Tsai Hsin-Ju and Yamin Mo, “Organizational influences on innovation transfer in multinational corporations”, Workshop on knowledge flows, School of Business and Management, Queen Mary, University of London, 2007, Internet: http://www.qmul.ac.uk/~bsw019/tsai 16/1/2008.

However, as Dunning has noticed in his later work, OLI triad needed to be supplemented over time because, apart from the mentioned determinants of international activity of firms, MNCs are increasingly investing abroad in order to protect or augment their core competences. Therefore, the existing MNC theory was not powerful enough to offer a comprehensive interpretation of the actual international business activities. During the 1980s, as a response to criticism, Dunning introduced dynamic variables connected with the strategy of the firm. In his papers, at the beginning of 2000, Dunning concluded that there was the growing importance of relational assets (productive inter-firm and intra-firm relationships that determined the amount and structure of international business) that largely influenced OLI triad of variables of international business.

TRANSITION FROM TRADITIONAL TO MODERN VIEWS OF MNC

A change in the academic and research focus in dealing with MNC could be noticed at the end of the 1980s. In the period before the 1980s, the research in the field the MNC was mostly related to the analysis of the relationship between headquarters and affiliates and the analysis of the decisions to invest abroad as could be noticed in the Dunning’s work. But then, the focus moved to the activities of coordination in managing the network of foreign affiliates and to the analysis of competitive advantages resulting from the economy of scope of that kind of network. This change of focus called for a new theoretical, conceptual and methodological background. The research in the field of international business and MNC has been very fruitful during the past two decades and has thrown light upon many aspects of the nature, strategy and organization of the multinational enterprise.

The change in the theoretical approach was evident in the conceptualization of the MNC organizational model. Regarding the model of MNC there are generally two main schools of thought. The first (traditional) line of thought used a model of the home-based MNC. The implication of this view of organization and management of MNC is that MNC makes a clear distinction between core and peripheral activities for the improvement of competitive advantages on a global scale. Core activities are always kept in the home country, while only peripheral activities are allocated to affiliates. The second

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(new, modern) line of thought includes several models of MNC, such as the geocentric firm,11 the diversified MNC,12 the inter-organizational network13 and the heterarchical MNC.14 Without going into details and differences between these organizational models, we note that all these models have in common the suggestion that there are complex organizational structures and management processes in MNC aimed at upgrading competitive advantages by combining “global integration” and “local differentiation” of MNC. Since we consider this second stream more acceptable and more present in the modern literature, we focus on the concept of MNC as a differentiated inter-organizational network (transnational solution given by Bartlett and Ghoshal15) as one of the approaches within this strand. The concept of MNC as a differentiated inter-organizational network means that MNC cannot be regarded as a uniform organization, but as a system of interrelated and interconnected organizational parts that are very different. The organizational parts of MNC differ greatly in their characteristics as well as in their contribution and role in the development of the competitive advantages of MNC as a whole. We do not consider the approach of Bartlett and Ghoshal as superior in comparison to, for example, the model of Hedlund or others, but we choose this approach because it has initiated a number of empirical studies that have considerably contributed to the understanding of sources of MNC’s competitive advantages.

The most recent developments in theories of the firm view a firm as a “knowledge-creating entity”16 and argue that knowledge and the capability to create and use are the most important sources of a firm’s sustainable competitive advantage.16 As many authors point out, there has been a

15 Bartlett Christopher and Ghoshal Sumantra, Managing across borders: The transnational solution., loc. cit.
revolutionary transition from the conceptual model of MNC, as a market failure approach of internalization theory and transaction costs theory, to knowledge–based theories of the firm.

The new perspective of MNC is based on the application of knowledge and network theories. The knowledge-based theory of MNC mainly deals with the characteristics of knowledge, transfer of knowledge and determinants of these processes. Within the knowledge-based theory, there is a large body of literature that deals with R&D units that are seen as the main sources of the knowledge creation.17 On the other side, the network theory and particularly the embeddedness concept give some more evidence on the other MNC source of knowledge – knowledge created and assimilated in the close cooperation with local partnering organizations. These two approaches will be presented in the following text.

THE NETWORK-BASED THEORY OF MNC

MNC’s affiliates are the main sources of competitive advantages of MNC because they build deep and long-term relationships with local business partners as well as with other units of the MNC system. Due to these close relationships, new knowledge could be created. The main characteristic of this knowledge is that it is tacit – embedded in a specific context.

Embeddedness could be defined as a set of close relationships with partner organizations in the business network and it relates to the intensity of information exchange and to the level of adjustments made between business partners. The term “embeddedness” has its origin in the classification of different types of knowledge systematized by Lam.18 This author used tacit – explicit and individual – collective dimensions to identify the following four types of knowledge: embrained (individual-explicit), embodied (individual-tacit), encoded (collective-explicit) and embedded (collective-tacit). Embedded knowledge is tacit and context-specific (collective) ingrained in inter-dependent routines, technologies and procedures as well as in individuals who share common experiences and values. Such characteristics raise higher ambiguity and complexity barriers to transferability of this type of knowledge.

17 Further analysis in this field showed that R&D units have very important roles in the MNC system.
The concept of affiliate embeddedness in the business network of relationships with stakeholders is opposed to that of traditional business contact, which a firm makes with its suppliers and consumers and that ends with the exchange. Some relationships in the business network of the affiliate are developed over time, so they evolve from traditional relations to a high level of cooperation and integration. Therefore, the more the affiliate is dependent on its partners in carrying out its business activities and the more it is adjusted to them, the more it is embedded in the business network. If partner organizations are also dependent on the affiliate and adjusted to it, it is more possible that the affiliate embeddedness will be stimulated, because the interdependence leads to the creation of long-term cooperation. So, the higher the interdependence between an affiliate and its partners, the more embedded the affiliate will be in the business network.

Further research based on the application of the embeddedness concept clearly indicates that relationships in the network have an influence on affiliate performance. Researchers in this field hypothesize and empirically prove that the closer the business cooperation of the affiliate with partner organizations the easier it is for the affiliate to assimilate new knowledge that comes from outside the MNC system. Consequently, the affiliate is able to innovate and improve its performance in the local market (market performance).

The empirical research has also found that the ability of MNC affiliates to assimilate new knowledge from the local business environment could be a crucial source of competitive advantage for MNC as a whole and not just a source of market performance of an affiliate. The empirical research


dealing specifically with technological knowledge has confirmed the hypothesis that a higher level of external technological affiliate embeddedness is correlated with higher importance of that affiliate for the development of MNC as a system.\textsuperscript{23}

Authors Andersson et al.\textsuperscript{24} focused on the role and performance effect of the subsidiary’s embeddedness. This study found that external subsidiary embeddedness had a positive impact on the development of products (market performances) and the processes in MNC (performances of MNC as a whole through transfer of knowledge). The results of the Andersson et al.’s study also indicate that there might be a negative relationship between external embeddedness and influence (power) of the subsidiary inside MNC. These results indicate the paradoxical effect of embeddedness. Namely, embeddedness is a way to provide some new competences for the subsidiary and increase its performance and performance of other units, but on the other hand, it could lead to a reduced interest in contributing to the MNC’s overall performance. These remarks point out that there are some conflicting forces inherent in the federative MNC: 1) gravitation of units, based on the mutual interest in business within the same organization and 2) centrifugal forces as a result of subsidiaries’ embeddedness in the unique local business contexts. This issue will be further discussed in the following segment within the context of knowledge transfer.

THE KNOWLEDGE-BASED THEORY OF MNC

Knowledge-based theory of MNC views these companies as “social communities that specialize in the creation and internal transfer of knowledge”.\textsuperscript{25} This approach is used by Kogut and Zander\textsuperscript{26} to make an evolution of the theory of MNC suggesting that MNCs have superior efficiency in knowledge transfer across borders than through external market


\textsuperscript{26} Ibid.

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mechanisms. MNCs are specialized in transfer of tacit knowledge\textsuperscript{27} that could not be distributed successfully through the market.\textsuperscript{28} These authors have empirically proven that the less codifiable and the harder to teach is the technology, the more likely transfer will be done inside the firm. The new perspective of the firm argues that organizations have distinctive advantages in comparison to some institutional mechanisms such as market. These distinctive advantages are based on organizations’ particular capabilities for creating and sharing of knowledge, having in mind tacit knowledge, in particular.

The research of knowledge-based and network-based theories provided the re-assessment of the role of the subsidiary, suggesting that it could be strategic in the MNC system. It is now largely accepted that knowledge, created and accumulated in the network of MNC’s organizational units, is a strategically important source of MNC competitive advantage.\textsuperscript{29} MNCs have the possibility to access this stock of knowledge, but also to combine it in order to find some new ways of their use. But, there are many challenges for the MNC management concerning successful transfer of knowledge across units. Namely, there are authors that indicate that transfer of knowledge inside the

\textsuperscript{27} Tacit knowledge is too complex and could not be transferred through the market, so MNCs appear to be efficient vehicles for the transfer of this type of knowledge across the borders. Competences are idiosyncratic, specific, tacit, non–codified knowledge that is very difficult to transfer from one affiliate to another. Speaking of the knowledge transfer it is important to notice the difference between explicit knowledge and tacit knowledge. Explicit knowledge is objective and can be expressed in forms such as: data, scientific formulas, specific actions and manuals. Tacit knowledge is difficult to codify and formalize because it is embedded in individuals and is experiential and subjective. Tacit knowledge such as belief, perspective, mental models, ideas and ideals are embedded in people, while organizational knowledge is embedded in organizational processes, procedures, routines and structures. Since explicit knowledge could be easily transmitted it could also be easily imitated by competitors and because of that it is not likely to be a source of competitive advantage. In contrast, tacit knowledge is difficult to access from outside, it is so hard to imitate and because of that it is very important in the creation of distinctive competences. It is clear that tacit knowledge is hard to transmit and it could be done only with the exchange of key people and all the systems that support them (Nonaka Ikujiro, Toyama Ryoko and Nagata Akiya, “A Firm as a Knowledge-creating Entity: A New Perspective on the Theory of the Firm”, \textit{Industrial and Corporate Change}, 9, 1, 2000, 1-20).

\textsuperscript{28} Kogut Bruce and Zander Udo, “Knowledge of the firm and the evolutionary theory of the multinational corporation”, \textit{loc. cit.}

organization is very difficult due to the characteristics of knowledge itself, the specifics of the donor, the specifics of the receiver, and the nature of the relationship between them. It has also been suggested that there are significant barriers to knowledge and innovation transfer because knowledge is embedded in social capital. Affiliates develop long-term relationships with its external partnering organizations. In these relationships, organizations are deeply involved and develop their absorptive, problem-solving and innovative capacity. But, this capacity (knowledge) is developed inside a specific context that could be completely useless in a different context. In this way, the question of successful transfer is raised and further, competences of the management to coordinate and motivate knowledge-sharing are brought to front.

Complex and close relationships that the affiliate has with its stakeholders could create competences and knowledge that could not be easily applied within a different business context. Knowledge, developed by the affiliate, critically depends on the business context, and even on specific relationships. This feature is positively correlated with the ability of the affiliate to create new knowledge. For example, close and long-term cooperation with certain consumers or suppliers provides enlargement of the affiliate’s capacity to solve problems and to create new knowledge. But, the more the solutions are adequate for a specific context the more difficult they are to apply in the business context of other affiliates in the system. As a consequence, it is assumed that the technological embeddedness of the affiliate is positively correlated with the competence development, but also with the characteristics of the context. So, it could be concluded that there is a trade-off between embeddedness (which determines the market performance of the affiliate) and the possibilities of knowledge transfer to other organizational units of MNC (which determines the organizational performance of MNC affiliates).

However, even though these theoretical considerations sound reasonable they have not been confirmed by the previous empirical research. The study of Andersson et al. has shown that the affiliate embeddedness in the network of

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business relationships is positively correlated with the competence development of MNC as a whole. This conclusion does not imply that all the relationships that an affiliate has with its partners are equally important and that affiliates should be equally embedded in all parts of the network. It means that only some relationships have these features, and they have to be recognized and developed.

With regard to these challenges, there is a very important line of research that is focused on the ability of the subsidiary to act as a mediator between external and internal network of MNC. This research stream is especially focused on knowledge transfer within MNC, its determinants and effects on the performance. Studies investigate characteristics of knowledge transfers, the characteristics of the sender and/or the receiver, the relationship between organizational design and knowledge transfers and the relationship between knowledge transfers and performances of the sender or receiver.

ORGANIZATIONAL MECHANISMS AND KNOWLEDGE TRANSFER IN MNCS

Reviewing the knowledge-based approach to MNCs, authors Foss and Pedersen point out that even though it is a very popular and leading modern approach, in the theory of MNC there is still “a lack of adequate understanding of many of the causal mechanisms and contextual factors in relation between knowledge processes and organizational factors”. Despite a great contribution of the knowledge-based theory to better understanding of MNC on the basis of investigation of importance, determinants and performances of knowledge transfer there are still some important aspects that are

33 Kogut Bruce and Zander Udo, “Knowledge of the firm and the evolutionary theory of the multinational corporation”, loc. cit.
underdeveloped. More research is needed on issues of organizational control mechanisms that would give micro foundations to the knowledge-based theory of MNC. More attention needs to be devoted to some issues such as “provision of incentives, the monitoring of managements and employees, etc.”38 and how they may influence the core processes investigated within the knowledge-based theory of MNC – transferring and deploying of knowledge. In the most recent studies using knowledge-based approach of MNC, we could notice that these remarks of Foss and Pedersen are still valid in the present.

In order to deal with these issues especially useful is the literature that applies the concept of differentiated MNC. This approach largely provides an empirically based insight into the organizational aspects of knowledge transfers between MNC units. Also, the approach to the research of organizational mechanisms that is based on the social capital theory has provided some very useful insight.

To foster knowledge flows within MNC, the parent company has at its disposal tailoring and control mechanisms in order to provide that knowledge is shared among units and consequently that performance is increased.39

The other relevant argument is revealed in the study of Björkman et al.40 Namely, the process of competences development engages human resources that are nowadays the most valuable resource. Once created, transfer of knowledge that is tacit and the context is specific requires the assistance of the same human resources that participated in the process of creation. So, the subsidiary might face some trade-off between the engagement of resources in the process of competence creation and in the process of knowledge transfer to other units. Therefore, headquarters need to apply some mechanisms to motivate affiliates to engage its resources in the process of knowledge outflows for the benefits of other units and MNC as a whole, since the same resources could be used in the process of competence development for its own benefits, leading to a better position in the MNC system.41

38 Ibid., p. 341.
41 Ibid.
Mahnke et al.\textsuperscript{42} contributed with a new perspective of the contributing subsidiary – a unit that shares knowledge with other parts of MNC, analyzing its motives to do so and effects on its performance. These authors investigated reasons that would induce units to share their knowledge with other units in the MNC system. Their empirical research revealed that the relationship among knowledge outflows and the level of performances of the focal unit was inverse “U” shaped. This type of relation indicates that a subsidiary may increase its performances by increasing knowledge outflows to a certain point when costs overcome benefits and knowledge sharing starts to influence negatively on the performances of the subsidiary. Mahnke et al.\textsuperscript{43} indicate that while subsidiaries are very interested in receiving new knowledge from other units, as a contributing subsidiary they may hesitate to engage in the process of knowledge outflows. Because of that, these authors point out that contributing subsidiaries need some incentives (benefits) from the headquarters to increase its propensity to share knowledge with other units.\textsuperscript{44}

Knowledge transfer is undoubtedly useful for the receiving MNC unit, but more important is the question how to motivate creative subsidiaries to engage in the sharing and transmission of their competences. From the previously presented studies it is found that the embeddedness of the subsidiary leads to the creation of knowledge, but it could also result in the larger interest of the subsidiary for its external network than for internal – for other units and sharing the created knowledge with them.\textsuperscript{45} Studies that investigated the relationships between knowledge-sharing and subsidiaries’ performances showed that after some point subsidiaries are not interested in knowledge outflows because it decreases their performances.\textsuperscript{46} Since transfer of tacit knowledge requires the involvement of human resources that were involved in their creation, there is a


\textsuperscript{43} Ibid.

\textsuperscript{44} Ibid., pp. 4, 8, 17.

\textsuperscript{45} Andersson Ulf, Forsgren Mats and Holm Ulf, “Balancing subsidiary influence in the federative MNC: a business network view”, loc. cit.

\textsuperscript{46} Mahnke Volker, Pedersen Torben and Venzin Markus, “Why do MNC subsidiaries engage in knowledge sharing with other subsidiaries and what are the implications for performance”, loc. cit.
trade-off between engaging these valuable resources in the process of the knowledge creation and the process of knowledge outflows. All of these three mentioned arguments point out that a strong role of control and motivational mechanisms of the headquarters is needed in order to stimulate creative subsidiaries in the process of sharing of their competences with other units, since there are many factors that dissimulate that.

THE SOCIAL CAPITAL THEORY IN RESEARCH OF ORGANIZATIONAL MECHANISMS

The application of the social capital theory in the research of the relationship between organizational mechanisms and knowledge transfers has given some new insight into control mechanisms that could be used to stimulate knowledge-sharing. A deeper analysis of determinants of knowledge transfer in MNCs has distinguished determinants originated from the external environment of MNCs, this also including the internal one. Starting from knowledge-based theories of the firm and following suggestions and previous analysis of some authors Gooderham applies the social capital theory in the analysis of internal capabilities and mechanisms that determine successful knowledge-sharing within MNC. Nahapiet and Ghoshal suggest that well developed social capital in the enterprise contributes to the cooperation and better integration of its parts and units and consequently improves performance of knowledge transfer. A number of studies argue that social capital plays a critical role in transfer and exchange of network knowledge and explore social capital determinants of knowledge transfer network. The special capabilities

47 Björkman Ingmar, Barner-Rasmussen Wilhelm and Li Li, “Managing knowledge transfer in MNCs: the impact of headquarters control mechanisms”, loc. cit.
of organizations for creating and transferring knowledge are identified as a central element of organizational advantage. A number of authors, among the first Nahapiet and Ghoshal,\textsuperscript{52} suggest that the theory of social capital provides a good basis.

The analysis of Gooderham\textsuperscript{53} is interesting because this author proposes a conceptual model for the study of intra-MNC knowledge transfers on the basis of the social capital\textsuperscript{54} theory, which is complemented with the influence of the external environment and the influence of management - initiated practices. This author starts from the studies suggesting that the possession of knowledge transfer capabilities determines the transfer performance and at the end performance of MNC.\textsuperscript{55} Gooderham\textsuperscript{56} investigates the importance of management initiated practices that could initiate and improve knowledge transfers. He proposes three sets of management practices and mechanisms that could be applied in order to improve social capital and increase the efficacy of the knowledge transfer and they are as follows: transmission channels, motivational mechanisms and socialization mechanisms. Each of these mechanisms influences knowledge transfer through the determinations of some of the elements in the structure of social capital – cognitive, relational and structural (as proposed by Nahapiet and Ghoshal\textsuperscript{57}).

A number of researchers\textsuperscript{58} have indicated the importance of mechanisms that increase the level of sharing common corporate goals and a cooperative attitude. The Gooderham’s proposition\textsuperscript{59} is that socialization mechanisms

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\item Nahapiet Janine and Goshal Sumantra, “Social capital, intellectual capital and the organizational advantage”, loc. cit.
\item Gooderham Paul, “Enhancing knowledge transfer in multinational corporations: a dynamic capabilities driven model”, loc. cit.
\item Social capital is consisted of assets that are created in the network of relationships.
\item Inkpen Andrew and Tsang Eric, “Social capital, networks, and knowledge transfer”, loc. cit.
\item Gooderham Paul, “Enhancing knowledge transfer in multinational corporations: a dynamic capabilities driven model”, loc. cit.
\item Nahapiet Janine and Goshal Sumantra, “Social capital, intellectual capital and the organizational advantage”, loc. cit.
\item Gooderham Paul, “Enhancing knowledge transfer in multinational corporations: a dynamic capabilities driven model”, loc. cit.
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visits, meetings, trainings and especially performance appraisal of employees) increase cognitive social capital and in that way improve knowledge transfer. Gooderham\textsuperscript{60} takes motivational mechanisms as distinctive management initiated practice that could improve knowledge transfer.

Within this analysis, we see that the social capital theory could be a fruitful basis for a deep investigation of the particular sources of MNC competitive advantages.

**MNC’S MODERN THEORETICAL CONCEPTS IN TRANSITION ECONOMIES**

MNC affiliates differ a lot inside the MNC system in terms of their competitive advantages and relative position in the system.\textsuperscript{61} MNC affiliates in transition economies can be expected to have an inferior relative position, meaning that they mainly act as receivers of knowledge coming predominantly from the headquarters. This is because of the characteristics of the business, social, and political environment in transition economies, which might still be unfavourable. This might be further due to the fact that affiliates have been relatively newly established in these economies and it takes time to develop long-term quality relationships with local partners and to create particular knowledge.

The support to this explanation can be found in the study of Subramaniam and Watson.\textsuperscript{62} They distinguish the interdependencies between MNC organizational units as being as follows: unidirectional (e.g. from the headquarters to the subsidiary only), bi-directional (e.g. the headquarters to the subsidiary and vice versa), or multidirectional (e.g. across multiple subsidiaries). Consequently, these authors typify MNC sub-units in the following way: lone stars, passive stars, dominant stars, or constellation stars. Lone stars are subsidiaries characterized by no significant relationships with other sub-units and a dominant simple ownership relationship with the headquarters. Consequently, the coordination needs of this type of subsidiary are modest.\textsuperscript{63}

Passive stars are characterized by a narrow, moderate degree of interdependence typically limited to the headquarters. Unlike lone stars that are

\textsuperscript{60} Ibid.

\textsuperscript{61} Andersson Ulf, Forsgren Mats and Holm Ulf, “Subsidiary Embeddedness and Competence Development in MNCs – A Multi – level Analysis”, loc. cit.


\textsuperscript{63} Ibid.
more independent, passive stars are inter-dependent, but only with the headquarters, because they receive inputs from the headquarters like products and/or technology and return value such as repatriated profits. This profile describes the traditional view of MNC. According to this subsidiary profile, it can be expected that coordination mechanisms will also be traditional, remaining in the domain of financial reporting to the headquarters.

The other two subsidiary profiles are characterized by a higher level and broader scope of inter-dependence and it can be expected to be found in developed markets that provide the creation of specific knowledge, which can be transferred to other units in the system. Dominant stars are characterized by unidirectional influence over other sub-units, including corporate headquarters. “These are subsidiaries that have developed a particular competence or skill that contributes to the global competitive advantage of the MNC as a whole.”

Constellation stars are subsidiaries characterized by a high degree and broad scope of multidirectional influence. Constellation stars are in accordance with the modern, network-based view of MNC proposed by Bartlett and Ghoshal.

On the basis of this short description of the typology of MNC subsidiaries based on their inter-dependencies by Subramaniam and Watson, we suggest that affiliates in transition economies are most probably of the passive stars profile. An additional support for this suggestion can be found in Moilanen. This author explored knowledge transfer between a MNC Western head office and its subsidiaries in the former Soviet Union with a focus on accounting-related knowledge. In the early phases of business establishment in a transition economy, it was found that the role of accounting was emphasized in order to ensure satisfactory reporting. This is in line with the conclusion of the Giacobbe’s recent study. This author suggests that the establishment phase of

64 Ibid., p. 919.
the subsidiary is associated with limited administrative and operational information concerning subsidiary activities, which therefore, leads to intensive headquarters controls. The tight monitoring of the subsidiary’s performance as well as the recruitment and training of suitable employees to manage the foreign subsidiary are seen as control mechanisms that minimize the challenges and risks associated with managing the foreign subsidiary in a transition economy.

The presented results of the studies conducted in transition economies indicate that modern approaches in the MNC conceptualization might not be adequate in the research of different management issues of MNC affiliates in transition economies. Namely, modern views of MNC are developed and applicable in developed economies. However, the reality of transition economies in this field turns to be quite different. The presented evidence suggests that traditional views of MNC (at least related to affiliates doing business in transition economies) could be more appropriate. More precisely, if knowledge or network-based theories would be used as a theoretical background to establish research hypotheses, it would result in evidence that could not be adequately interpreted.

CONCLUSION

During the last two decades, there has been intensive development in the field of MNC theories. The view on the MNC system has been considerably changed in terms of its organization, roles of the headquarters and affiliates in the system as well as the sources of MNC competitive advantages. Particularly important and elaborated are knowledge-based and network-based theories, and therefore, they are a good basis for empirical research and further development in the field of micro foundations of MNC theories. The application of knowledge and network-based theories as a theoretical background has resulted in many important empirical findings on the sources of competitive advantages of MNC’s affiliates and the MNC system as a whole. However, many important management issues remain ambiguous, representing fruitful fields for some future research. The design and role of elements of the management control system such as performance measurement systems, reward systems, and coordination systems are some of the most important. The paper is devoted to the review of modern contributions to the MNC theory from a managerial point of view.

A large part of international business literature is devoted to the consideration of particularities of transition economies as hosts of MNC
systems. These elaborations mainly deal with some macro aspects such as the effects – positive and negative of MNC activities on transition economies as host countries. However, these elaborations initiate numerous important questions in the management field. Since the system of MNC is the most often conceptualized as a differentiated inter-organizational network, the position of MNC affiliates doing their business in transition economies is assumed to be quite different in comparison to affiliates in developed economies. These differences are present at the level of age and business experience of the affiliate, business and political conditions, different risks, management competences and skilful workforce. Therefore, during the establishment phase affiliates in the transition economies could have inferior position in the system of MNC in terms of its contribution to the market and organization performances, participation in the creation and transfer of knowledge, etc. The presented recent empirical results indicate that the relationships between the headquarters and the affiliate doing its business in transition economy could be more properly conceptualized using traditional – classical view of MNC than following modern contributions coming from the knowledge and network-based theories. Namely, affiliates in transition economies mainly act as receivers of knowledge predominantly coming from the headquarters and these affiliates are characterized by classical (traditional) dependency on the MNC headquarters.

The present paper indicates that the theoretical approaches that have been usually applied to investigate MNC affiliate issues need to be cautiously employed when these propositions concern affiliates doing business in transition economies. These propositions should be established rather on the basis of the previous empirical evidence than on the basis of the existing theoretical approaches.

LITERATURE


Prema teorijama multinacionalnih kompanija (MNK) zasnovanim na znanju i na mreži osnovni izvor konkurentskih prednosti MNK je kreiranje i transfer znanja unutar sistema MNK. Procesi kreiranja i transfera znanja ekstenzivno su obrađeni u literaturi. Međutim, pojedini aspekti su još uvek nedovoljno razvijeni, kao što su na primer mehanizmi kontrole i organizacije kao mikro osnovne savremenih teorija o MNK. Ovaj rad ima za cilj da pruži pregled literature savremenih teorijskih pristupa u razmatranju konkurentskih prednosti MNK, s stanovišta upravljanja preduzećem. Primenljivost ovih koncepata se dalje razmatra u slučaju filijala MNK koje posluju u tranzicionim ekonomijama, s ciljem pružanja smernica za buduća empirijska istraživanja.

Ključne reči: multinacionalne kompanije, teorija zasnovana na znanju, teorija zasnovana na mreži, tranzicione ekonomije.