

# The Theory of Transnational Companies (TNCs) – A Research Agenda

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## Our research focus on TNCs

Starting from our previous work on *evolving business cultures* and *organizational change* (see below for some articles in this field), we apply formal models of, for example, cultural learning and organizational competition, to better understand phenomena in the field of Transnational Companies (TNCs). Currently, our research agenda covers the following topics:

- By applying *models of cultural evolution*, we research corporate cultures at different levels of analysis and relate our findings to TNCs. On a firm-level, organizations evolve idiosyncratic firm cultures that are influenced by organizational size, learning and socialization dynamics based on, for example, role models such as the entrepreneur, and general settings at the national or regional level. TNCs that comprise organizational subunits stemming from different countries or regions thus face several challenges: while enjoying scale- and transaction cost-related advantages, they might face increased transaction costs due to *cultural distance* between their constituent parts. This is a tradeoff TNCs have to resolve. One way to do so would be to increase cultural homogeneity within the TNC. This might, however, come at a cost: a certain degree of cultural variety may enrich organizational creativity and enhance employees' motivation. Our approach offers some new insights into these issues.
- Organizational developments of the kind described above *coevolve with the firm's business environment*, which is another aspect of our formal modeling endeavors. Nascent, turbulent market environments require another kind of corporate culture than more mature business environments with a higher share of routine tasks. This observation affects the relative competitiveness of TNCs as compared to specialized, small manufactures and influences their organizational structure and managerial strategy.
- Beside internal cultural distance between organizational subunits, TNCs are concerned with *institutional distance* in their home and/or host countries or regions. They may actively strive to transform these settings in their favor to reduce the distance between their own governance structures and the institutional environment. We explicitly try to capture this important aspect in our formal models.
- At a rather general level of theoretical analysis, we scrutinize the reasons *why TNCs exist* vis-à-vis specialized domestic producers. To tackle this fundamental issue in TNC-related research, we combine formal models of competition between these organizational forms with innovative change in different markets to give a rationale for why TNCs exist and why these concentrate in

knowledge-intensive industries. In this field of work, we show that the increasing international pace of innovation and advantages accruing from internalization of knowledge generation are reasons for the existence of TNCs.

- In any case, our analysis of evolving business cultures in TNCs is based on a *naturalistic approach* that provides a behaviorally enriched theory of the firm. It draws on insights from other disciplines, such as psychology, anthropology, and sociology among others. Furthermore, it is argued that one reason why firms exist is because they are suitable organizations within which cooperative corporate cultures based on human social predispositions can evolve. Formal models then show how the biased transmission of cultural contents via social learning processes within the firm influence employees' behavior and the performance of the firm. These thoughts include TNCs as conglomerates of organizational divisions with idiosyncratic cultures and as coordinated, cooperative networks.

### **Working papers on TNCs:**

- "Corporate Culture, Cultural Distance, and the Transnational Company" (Christian Cordes, Sarianna Lundan and Georg Schwesinger).
- "The Pace of Innovation and the Existence of Transnational Companies" (Christian Cordes, Sarianna Lundan and Georg Schwesinger).

### **Previous work on evolving corporate cultures:**

- "A Corporation's Culture as an Impetus for Spinoffs", Working Paper (Christian Cordes, P. Richerson and G. Schwesinger).
- Cordes, C., Richerson, P.J., McElreath, R. and Strimling, P. (2011): "How Does Opportunistic Behavior Influence Firm Size? An Evolutionary Approach to Organizational Behavior", *Journal of Institutional Economics* 7(1): 1-21.
- Cordes, C., Richerson, P.J. and Schwesinger, G. (2010): "How Corporate Cultures Coevolve with the Business Environment: The Case of Firm Growth Crises and Industry Evolution", *Journal of Economic Behavior & Organization* 76(3): 465-480.
- Cordes, C., Richerson, P.J., McElreath, R. and Strimling, P. (2008): "A Naturalistic Approach to the Theory of the Firm: The Role of Cooperation and Cultural Evolution", *Journal of Economic Behavior & Organization* 68(1): 125-139.
- Cordes, C. (2007): "The Role of 'Instincts' in the Development of Corporate Cultures", *Journal of Economic Issues* 41(3): 747-764.