The (Un)Predictable Factor: The Role of Subsidiary Social Capital in International Takeovers

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THE (UN)PREDICTABLE FACTOR:

THE ROLE OF SUBSIDIARY SOCIAL CAPITAL IN INTERNATIONAL TAKEOVERS

Abstract

Purpose: In this paper we investigate how the implementation of headquarters-originated employment practices affect MNC ability to exploit the value of organizational social capital of the acquired subsidiary.

Design/methodology/approach: We use qualitative insights collected over 16 years from a Danish company to illustrate how a foreign MNC's interference with the balanced structure of relations, norms, and roles in a subsidiary jeopardized the value of existing social capital.

Findings: We argue that changes in the collective perception of employment practices create the collective response, constructive or destructive, resulting respectively in the gain or loss of the performance benefits arising from organizational social capital.

Research implications: We suggest two guidelines and two general propositions for future research on the value of organizational social capital in international take-overs.

Originality/value: Our results indicate that local management and employees could use organizational social capital as a unique feature of the local business system when competing with other subsidiaries in the same MNC.

Keywords: social capital, employment practices, MNCs, qualitative research

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INTRODUCTION

The importance of social capital for the performance of multinational corporations (MNCs) has been addressed by various scholars (Kostova and Roth, 2003; Taylor, 2006, 2007; Li et al., 2007; Mäkelä and Brewster, 2009). However, only few explicitly addressed the governance of organizational social capital and performance consequences for the focal subsidiary and, more generally, for the MNC (e.g. Gooderham et al., 2011; Reiche, 2012). This is problematic since as Nahapiet and Ghoshal (1998) argue, subsidiaries vary in their ability to promote and exploit social capital, and these differences define variations in organizational outcomes. As Tsai and Ghoshal (1998) conclude, the challenge for future studies is to "explore variables such as organizational attributes to advance theory on social capital in the organizational setting" (p. 474).

This discussion is especially relevant for those MNCs that expand by acquiring internationally (Chung et al., 2014). Recently, it was claimed that social capital should be viewed as a *valuable resource* that "on the one hand, facilitates the sociocultural integration in MandAs [mergers and acquisitions] and, on the other hand, enables MNCs to take advantage of opportunities" (Rottig, 2011, p.414), thereby contributing to the performance of the acquired subsidiary. The value of organizational social capital is often considered as a balance between benefits (justification for individual commitment, facilitator of a flexible work organization, means of managing collective actions, and facilitator of intellectual capital) and costs (maintenance costs, foregone innovation, dysfunctional stable power arrangements within the firm) (Leana and Van Buren III, 1999; Adler and Kwon, 2002; Gooderham et al., 2011).

However, in the organizational social capital literature, researchers have argued that organizational social capital is being shaped by the employment practices used in the focal organizational unit. Over time externally and internally aligned employment practices (those displaying the strategic, horizontal, organizational and environmental fit; see Paauwe and Farndale, 2012), produce balanced structure of social relations, norms and roles, resulting in collective goal orientation and shared trust. As Leana and Van Buren III (1999) argue, employment practices "provide an effective means of managing organizational social capital, thus extracting its value for the organization and its members" (Leana and Van Buren III, 1999, p. 538). However, when MNCs take over subsidiaries in other countries, they often bring along their "national baggage" – headquarter-originated employment practices. Previous literature documented numerous clashes between the headquarters-originated employment policies and the local practices in use in the subsidiaries (e.g., Tayeb, 1998; Ferner and Quintanilla, 1998). The clashes are explained at macro-level by the differences in national business systems and corporate isomorphism (e.g. Ferner and Quintanilla 1998), the socio-cultural and political economic characteristics of the location (e.g. Tayeb 1998), norms and regulation in the host countries (e.g. Fenton-O'Creevy et al., 2008), etc. Additionally, those clashes are caused by the fact that MNCs encounter employment relations systems in the subsidiaries that differ markedly from those in their home countries (Edwards and Ferner, 2000; Collings et al., 2008; Gunnigle et al., 2009; Navrbjerg and Minbaeva, 2009). As a result, at micro-level, employees experience high levels of psychological distress, role ambiguity and anxiety from uncertainty (Chung et al., 2014).

The clashes between headquarter-originated and local employment practices inevitably affect the existing social capital and influence the emerging social capital at the subsidiary. However, the exact mechanisms explicating the complex relationships between implementation of new practices and social capital remain black-boxed. The question, therefore, is: How exactly/through which mechanisms does the implementation of headquarters-originated employment practices affect MNC ability to exploit the value of organizational social capital of the acquired subsidiary, and ultimately improve organizational performance? The paper aims at exploring this question. Theoretically, we draw upon Leana and Van Buren III's (1999) theorization of the components and consequences of organizational social capital. However, we take their theory significantly further by specifying complex relationships between employment practices and organizational social capital within MNCs. We introduce two variables that link employment practices and social capital: the collectively shared perception of employment practices in use and the nature of the collective response to the implemented practices. We argue that changes in the collective perception of employment practices create the collective response, constructive or destructive, resulting respectively in the gain or loss of the performance benefits arising from organizational social capital.

Empirically, the research is designed as a longitudinal case study. We use qualitative insights from a Danish company to illustrate how a foreign MNC's interference with the balanced structure of relations, norms, and roles in a subsidiary jeopardized existing social capital. This interference meant that the MNC failed to extract the full value of the social capital for the benefit of the organization as a whole. The Danish company, which employed approximately 400 people, was taken over by an Italian/UK-based MNC in 2001. In 2011, the Danish subsidiary was closed. The availability of 16 years of data, spanning from before the takeover to ten years after the acquisition, makes it possible to analyze the immediate views of managers and employees during the takeover as well as those that developed over time. The study's qualitative method makes it possible to investigate changes in the enterprise's cooperative culture over the 16-year timeframe.

The paper is structured as follows. To ground our paper in the existing social capital literature, we begin with definitions of social capital, focusing on the conduits of subsidiary social capital. We then theorize about the previously black-boxed relations between employment practices and social capital. We use the case study to explore these relations and after presenting and discussing our findings, we put forth two theoretical propositions explicating these relations and highlight the main conclusions of our study.

THEORETICAL BACKGROUND

Definitions of social capital

“Social capital” is broadly defined as an asset embedded in the social relationships of individuals, communities, or societies. Social capital “is not a single entity but a variety of entities, with two elements in common: they all consist of some aspects of social structures, and they facilitate certain actions of actors – whether persons or corporate actors – within the structure” (Coleman, 1988, p. 15). The central propositions of social capital theory are that it is collectively owned and that it is rooted in the social relations among individuals. As a result, it facilitates the achievements of organizational goals that otherwise “could not be achieved in its absence or could be achieved only at a higher cost” (Coleman, 1994, p. 304).

Social capital has been extensively studied as a concept that can link the actions of individuals and collectives (Coleman, 1988; Portes, 1998). These studies have been carried out at different levels of analysis – individuals (Burt, 1992), organizations (Leana and Van Buren III, 1999), communities (Putnam, 1993), industries (Walker et al., 1997), and nations (Fukuyama, 1995).

In the organizational social capital literature (Leana and Van Buren III, 1999; Adler and Kwon, 2002), social capital is defined as “a resource reflecting the character of social relations within the firm that can be realized through members’ levels of collective goal orientation and shared trust, which create value by facilitating successful collective action” (Leana and Van Buren III, 1999, p. 538). Adler and Kwon (2002) characterize social capital as “the goodwill available to individuals or groups. Its source lies in the structure and content of the actor's social relations. Its effects flow from the information, influence, and solidarity it makes available to the actor" (p. 23). The notion of goodwill has been described in various ways, but it generally involves norms of sharing that enable members of an organization to "tap into resources derived from the organization's network of relationships without necessarily having participated in the development of those relationships" (Inkpen and Tsang, 2005, p. 151).

The concept of social capital has also been used extensively in the international management literature (Nahapiet and Ghoshal, 1998; Kostova and Roth, 2003; Lengnick-Hall and Lengnick-Hall, 2006; Taylor 2006, 2007; Gooderham et al., 2011). It has often been assumed that "the existence of social capital to create an environment conducive to valued discretionary behavior on both sides of the relational dyad … headquarters and a foreign subunit" (Kostova and Roth, 2003, p. 302). Empirical studies show that MNC social capital increases the effectiveness with which the interdependence between headquarters (HQs) and subsidiaries is managed, promotes knowledge transfer between units, and supports coordination and collaboration across geographical and cultural borders (e.g., Li et al., 2007; Mäkelä and Brewster, 2009; Gooderham et al., 2011; Reiche, 2012).

Employment practices and social capital

A delineation of the employment practices that condition the development of a social capital is crucial for our understanding of the value of organizational social capital. In unpacking the concept of organizational social capital, Leana and Van Buren III (1999) consider possible ways in which organizational social capital can be supported and maintained through an organization's employment practices (see Figure 1, shadowed boxes). The authors suggest three groups of employment practices, which support and maintain: (1) stable relationships among organizational members; (2) organizational reciprocity norms; and (3) bureaucracy and specified roles. They also define two components of organizational social capital – associability and trust – and stress that both must be present at some level for a firm to have organizational capital. According to these researchers, in order to achieve associability, individuals must be willing to subordinate their goals and associated actions to collective goals and actions (Leana and Van Buren III, 1999). Without some level of trust, collective goals are unlikely to be either agreed upon or attained. Overall, Leana and Van Buren III (1999) suggest that employment practices can provide "an effective means of managing organizational social capital" that "is realized through members' levels of collective goal orientation and shared trust, which create value by facilitating successful collective actions" (p. 538).

Despite the significance of Leana and Van Buren III's (1999) contribution, their research has several shortcomings. First, the exact employment practices that affect the level of organizational social capital within a firm, and thus extract the value of that social capital for the organization and its members are not specified. Second, the relationships between employment practices and social capital are black-boxed. In other words, Leana and Van Buren III (1999) suggest a causal relationship between the two focal variables (employment practices and social capital), but do not theoretically explain how/through which mechanisms these two variables are related. This may be the underlying reason for the first shortcoming. In the following, therefore, we introduce two mediating variables that link employment practices and social capital: shared perceptions of employment practices in use and the nature of the collective response to the implemented employment practices.

- INSERT FIGURE 1 AROUND HERE –

UNPACKING THE BLACK BOX

When employment practices are implemented, they produce a reaction among employees, as "each employee processes the information in a way that elicits some reactions, be they affective (attitudinal), cognitive (knowledge or skill) and/or behavioral" (Wright and Nishii, 2006, p. 12). The differences in reactions are caused by differences in perceptions of the implemented practices, or "variation[s] in the schemas individuals employ in perceiving and interpreting HR-related information" (Wright and Nishii, 2006, p. 12).

Although perceptions are formed and assessed at the individual level, we argue that it is more beneficial to focus on the shared perceptions of employment practices to predict employees' reactions to implemented employment practices. In a collective, there is some consensus in perceptions of employment practices, which is "likely to reflect a common set of beliefs concerning the nature of the exchange relationship and the cause-and-effect principles governing that collective" (Kehoe and Wright, 2013, p. 5). Even if there are differences in individual perceptions, those differences will be filtered by individuals through the contextual influences and sense-making efforts of the collective (Bowen and Ostroff, 2004). In terms of the support and maintenance of organizational social capital, this shared perception of the employment practices held by the collective is key. It enables an autonomous individual to identify with the collective, and make his/her individual goals and actions secondary to those of the collective. Collective responses (actions) are also determined by the shared perception, just as individual responses are determined by conditions of individual actions (see Coleman, 1990).

We argue that if employees share a perception of implemented employment practices as promoting stable relationships, strong norms, and specified roles, then the nature of the collective response is likely to be constructive rather than destructive. Constructive responses move the collective towards the pursuit of collective goals and actions (rather than the pursuit of individual goals and actions), and they sustain resilient trust even among individuals connected only on a general level. In such conditions, organizational social capital provides performance benefits, that outweigh costs.

On the other hand, if the collective perceives the employment practices in use as sabotaging existing stable relationships, undermining norms, and changing specified roles, then the nature of the collective response is likely to be more destructive than constructive. Destructive responses move the collective towards the pursuit of individual goals and actions at the expense of collective goals and actions, and trust becomes fragile and dyadic. This results in the loss of the performance benefits arising from social capital and increase of costs.

What kinds of collective response can be expected? One of the sets of categories that was found useful for describing collective behavioral responses are exit, voice, loyalty, and neglect – commonly referred to as EVLN responses (Farrell, 1983; Rusbult et al., 1988; Withey and Cooper, 1989; Turnley and Feldman, 1999). The EVLN responses differ along the dimensions of constructiveness versus destructiveness ("in terms of impact on the employee-organization relationship", Rusbult et al., 1988, p. 602) and activity versus passivity (in terms of "the impact of an action on a problem", Rusbult et al., 1988, p. 602) (see Figure 2).

- INSERT FIGURE 2 AROUND HERE –

The recognition of a wide range of possible responses can be credited to Hirschman's (1970) work on exit, voice, and loyalty. Exit is equivalent to "voluntary separation or turnover from the job" (Farrell, 1983, p. 597). This "painful decision to withdraw or switch" (Hirschman, 1970, p. 81) often indicates that "the employee believes the situation is unlikely to improve" (Farrell, 1983, p. 597). Some researchers view "thinking about leaving, organizing a search, looking for another job, and quitting" as part of an exit (Withey and Cooper, 1989, p. 525). "Voice" is defined as "any attempt at all to change, rather than to escape from, an objectionable state of affairs" (Hirschman, 1970, p. 30). It is defined as "actively and constructively trying to improve conditions through discussing the problem with a supervisor or co-workers, taking action to solve problems, suggesting solutions, seeking help from an outside agency like a union, or whistle-blowing" (Rusbult et al., 1988, p. 601). "Loyalty" is a less clearly defined response. Hirschman views loyalty as neither an exit nor a voice response, suggesting that loyal employees "suffer in silence, confident that things will soon get better" (Hirschman, 1970, p. 38). Withey and Cooper (1989) define loyalty as having active elements (changing the situation, doing things that are supportive) and passive elements (being quiet). However, they urge that future research "operationalize loyalty as active support for the organization, using the most prototypical acts to measure the construct" (Withey and Cooper, 1989, p. 537). To the above, Rusbult, Zembrodt, and Gunn (1982) introduce a fourth response: neglect. As neglect is not directed at the recovery of the relationships, it differs from loyalty. According to Withey and Cooper (1989), "neglect may be shown by putting in less effort, not working at a relationship, and letting it fall apart" (p. 522). Definitions of the main concepts are summarized in Table 1.

- INSERT TABLE 1 AROUND HERE –

The existing literature did not contain enough insights to allow at this stage to deduct any hypotheses on the relationships between shared perception of implemented employment practices and the nature of the collective response. Hence, to refine our expectations and come up with propositions, we use a longitudinal research design as the basis for inductive theory development that occurs via recursive cycling among case data and existing literature (Eisenhardt and Graebner, 2007).

METHOD

We use process research which is "concerned with understanding how things evolve over time and why they evolve in this way" (Langley, 1999: 692). Empirically, process research focuses on evolving over time phenomena. That is, we are interested in addressing questions about "how and why things emerge, develop, grow or terminate over time” (process studies) and no so much concern with “variance questions dealing with covariation among dependent and independent variables “ (variance studies) (Langley et al., 2013: 1).

Data

The enterprise was established in the mid-1920s and was family owned until the mid-1970s. At that time, 75 percent of the company was bought by a (union-controlled) domestically based investment fund. The remaining 25 percent was bought in the 1980s by the same organization. In 2000, the entire enterprise was bought by an Italian company operating in the same industry but ultimately owned by a London-based equity fund. In 2005, the Italian multinational, including its subsidiaries, was acquired by a US equity fund, which was owned by a major bank. The Danish company’s turnover revolved around EUR 95 million over the years. The workforce fell from 550 in 1995 to 380 in 2005. The white-collar workforce took the biggest blow in this respect, as it was reduced by more than 50 percent due to the fact that many administrative tasks were moved to the operational HQ in Italy and the financial HQ in London.

The data used in this analysis were collected over a period of 16 years (1995 to 2011). We visited the enterprise five times over the 16-year period, specifically in 1995, 2001, 2005, 2008, and 2011. A total of 31 interviews were conducted, with 14 interviews taking place in 1995-96, four occurring in 2001, two in 2005, six in 2008, and five in 2011 (see Table 2 for an overview over interviewees over the years).

- INSERT TABLE 2 AROUND HERE -

Interviewees were CEOs, employee representatives, local union representatives, and HR managers and employees both in Denmark and Italy. We used a convenience sample (often determined using a “snowball” method). To a certain degree it was elite interviews (Tansey, 2007) as so far as informants either had been employed for several years at the enterprise or were in a central position at the enterprise (like HR-manager, shop steward or CEO). This enables us to employ process tracing, a method that “attempts to identify the intervening causal process – the causal chain and causal mechanism - between an independent variable (or variables) and the outcome of the dependent variable” (George and Bennett, 2005: 206). Interviews in Denmark were conducted in Danish, while interviews with Italian respondents were conducted in English. For all interviews, a semi-structured interview guide was employed. We asked our respondents to reflect upon management-employee negotiations and cooperation, use of institutions (collective bargaining, IR, health and safety legislation), work organization, ownership structure, and after the take-over HQ-subsidiary relations, management style in Italy, and HQ-management/subsidiary management relations. We encouraged respondents to provide their own narrative about the dynamics of the relations in the subsidiary, recent events at the subsidiary and the implications for management-employee relations. The data from the interviews were supplemented with annual reports and other written material, including employee handbooks and press releases.

As Barley (1990) points out, trust is mandatory in doing qualitative longitudinal studies in one and the same entity over more than a decade. Towards building the necessary level of trust, at every visit we discussed the reports from the previous rounds with the employees and management and briefed about the goals of the next stage of the research process. Issues of interest differed over the years. In 1995, the enterprise was chosen by the authors from a pool of companies that had presented themselves as vanguards of HRM issues at conferences and in the media. As such, these organizations were viewed as possible benchmarks for the development of HRM in the Danish context. The focus was on new HR techniques and how they matched the Danish IR system. At the time, HRM was a relatively new concept in Denmark. In 2001, the focus was on the decentralization of the collective bargaining system, while in 2005 internationalization and the foreign takeover were in focus. In 2008 and 2011, the focus was again on internationalization, and on the HQ-subsidiary relationship.

Although the focus changed over the years, the comprehensive in-depth interviews had a common element in that they focused on cooperation among management (Italian and Danish) and Danish employees. In 2005, it was clear that social capital was a variable of importance in the company's cooperative culture. This therefore became one focal point of the interviews.

The data was analyzed and categorized, when possible, using different codes following the original theoretical definitions (see Table 1). The first group of codes covers descriptions of shared perceptions of employment practices as signaling stable relations, strong norms, and specified roles. The second group describes the nature of collective responses. The third group captures organizational social capital in the form of collective goal orientation and shared trust among members. The final group contains codes describing the value of organizational social capital. This group is further divided into benefits (justifications for individual commitment, facilitators of a flexible work organization, means of managing collective actions, and facilitators of intellectual capital) and costs (maintenance costs, foregone innovations, and dysfunctional stable power arrangements within the firm).

FINDINGS[1]

Pre-takeover: 1995

In the 1970s and 1980s, the originally family-owned enterprise was taken over by a Danish investment firm. The general perception among employees was that this takeover "changed the tone" of management-employee relations. Efficiency became a main concern, and both middle managers and employees experienced a "colder" management approach, which was characterized by fewer social considerations for the employees. This was accentuated in the mid-1990s by a lack of reinvestments, which employees perceived as a sign that management was considering outsourcing the simpler parts of production. The shared belief among employees was that the plant could be very competitive if only the necessary investments were made in new machinery and technology. Management did not deny the outsourcing rumors and even used the threat of outsourcing in the yearly wage negotiations. In fact, local negotiations on wages and working conditions were characterized as "tense", as they revolved around "rather unrealistic demands from both sides". At the time, management ritually used the threat of "outsourcing part or all of the production to Poland" as leverage for adjusting the employees' demands. As such, the management-employees negotiation style within the Danish cooperative collective bargaining model was rather adversarial and social capital was limited. In fact, any initiative from the side of management was looked upon with distrust.

Despite the distrust, the work design continuously improved. In fact, employee satisfaction was high in 1995 in regards to the influence they had on daily work routines. The enterprise had started

[1] All of the quotes contained in these sections are taken from the interviews unless otherwise indicated

experimenting with self-managing team production at the shop-floor level in 1979, but the concept was not fully implemented across the plant until the early 1990s. The introduction of self-managing teams faced a number of challenges: resistance among foremen; employees' insecurity about the new roles. There was also some resistance among union representatives, as they viewed the teams as an attempt by management to infiltrate the workers' collective (despite the fact that the introduction of this new concept meant that management gave up part of its management prerogative). In the end, the system found its ground and enhanced quality by making smaller teams responsible for the production of complete machines.

Our analysis shows that employees as well as management employ social capital in a quite sophisticated manner. While negotiations on wages and the employment situations are characterized by low trust and voice from employees, the daily work is taken place in a cooperative atmosphere with relatively high trust. Without this nuanced analysis of shared (and not-shared) perceptions of employment practices and collective response, the full picture of social capital at the enterprise is not clear.

During the takeover: 2001 to 2010

In 2000, the enterprise was bought by an Italian MNC operating in the same industry but in a lower-quality segment. The Italian company also had a British subsidiary and a German subsidiary within the same sector. The Italian MNC was ultimately owned by a London-based equity fund.

The takeover drastically changed the management structure. All strategic decisions regarding the Danish plant were made by the Italian MNC, while the Danish management took on a role of middle management. While the takeover was expected to generate synergies between the companies, the Italian HQ made no secret of the fact that the takeover was financially motivated. Even though the Danish product line was within the same area as the products produced by the rest of the MNC's subsidiaries, the goal was to turn the Danish enterprise around and resell it at a profit within five years (the time perspective typical of equity funds).

In terms of management style, the new Italian management was described by a Danish manager and an employee representative as "highly involved" in the Danish enterprise. HQ representatives often visited Denmark, and their suggestions were formulated as "orders, rather than as inputs for discussion". Furthermore, all procurement decisions were centralized, and the purchasing department and the major part of RandD were relocated to Italy. The Danish management team lost competence and influence, and everyone at the Danish plant knew that the major strategic decisions were made in Italy.

The period after the takeover can be divided into two phases: redesign and reverse diffusion.

Phase one: Redesign of the work organization 2001-2004

Immediately after the Italian takeover in 2001, the formerly team-based organization was replaced with Tayloristic assembly lines. This change was accompanied by considerable investments in new machinery. This was a major surprise for the Danish management and employees, as the team-based production was believed to be the major reason for the foreign company's interest. This was particularly true because the Danish company's dominance on the high-end market was attributed to the quality-conscious, self-managing teams.

The new Tayloristic work organization was perceived by the Danish employees and management as a major step back. The health and safety of the workers were jeopardized, as, for example, the standardized job sites could not be adjusted to the different heights of the employees. Furthermore, neither employees nor management were heeded by the Italian management, even though they voiced their concerns on several occasions.

In addition to the changes in work design, the Italian management introduced lower-quality materials for use in the products, such as plastics instead of metals. As the Danish employees were proud of producing state-of-art products within its segment, this shift was not well received. Although productivity climbed after the introduction of the new production line, the in-process quality fell and more machines had to be repaired after the product was finished.

These changes resulted in a lack of commitment and motivation, which was noted by the Italian management in hindsight:

> Our style is characteristic of the Italian perspective. It is more direct than collaborative. This has been a shock, I think... [creating] some problems in terms of motivation with the people in Denmark. (HR manager, Italy, 2008)

The employees tried time and again to make it clear to management that the new work design was a step back. It entailed less influence and discretion as well as a worsened health and safety at the workplace, but their protests were to no avail. In response, the employee representatives contacted the Danish health and safety authorities. In Denmark, employee health and safety are regulated by the state and not open to negotiation. A direct contact from employees to health and safety authorities is always a serious step as it is an expression that neither of negotiating parties have been able to reach a common understanding of what needs to be done and hence as such they are in need for arbitration.

The actions of employee representatives resulted in some changes in the work organization. More importantly, it affected relations between Italian management and Danish employees. An external party (the state authorities) was brought in, which made it clear to the Italian management that a legal institution for voice could be applied if employees were ignored on the enterprise level.

As previously mentioned, the Italian MNC had two other subsidiaries in the UK and in Germany. It soon became apparent that at least one of the three subsidiaries had to be closed. The three companies went through a due diligence process focused on productivity. The benchmarking figures showed lower productivity per employee in the Danish subsidiary than in the two other subsidiaries. For this reason, the Italian management decided to shut down the subsidiary in Denmark.

In response to this decision, the Danish managers (with a backup from the employee representatives) prepared and presented the results of another benchmarking process, which emphasized: (a) the high level of education and autonomy among the Danish subsidiary's blue-collar workforce, and (b) the ease with which employees could be hired and fired in Denmark (a high level of numerical flexibility combined with relatively high income security – the "flexicurity" system; Bredgaard et al., 2006). The Italian management took the report into consideration and ultimately changed its decision. The Danish subsidiary remained opened, while the German subsidiary (with a low level of numerical flexibility) was shut down. This exercise had another positive outcome: through collaboration and cooperation, a common ground and a mutual understanding of the challenges were developed, which resulted in a higher level of trust between the Danish management and the Danish employees.

Nevertheless, annual negotiations on wages and work conditions in the Danish plant remained tough, and the situation was not eased by the fact that local management had a limited mandate from the Italian HQs. The relationship between the Danish management and the Danish employees became a nuanced game. However, the possibility of lower wages was never part of the due diligence report that the Danish subsidiary presented to the Italian HQ, which might have been an important factor in the Danish parties' ability to maintain a high level of trust and, hence, social capital.

The analysis illustrates that the local management and employees – while maintaining an adversarial relationship in the yearly negotiations – also is able to find a common ground when under pressure from the Italian HQ. We might say that social capital is in play at two levels:

- *At company level* management and employees deploy the tacit social capital build up over the years to establish the team-work organization. It turned out that despite hard yearly negotiations, management and employees had a common interest in the survival of the enterprise. Instead of deploying blind loyalty (which could have been expected from Danish management), or neglect (which could have been expected from employees), they raise a common voice. The collective response is a univocal from management and employees alike, and it is only possible because of a cooperative culture built up over time at the enterprise,
- *At institutional level*, the institutions build around flexicurity is deployed to make the voice heard to the Italian management; especially the 'flexi-part' of flexicurity, i.e. the flexibility to hire and fire employees was made use of report, and while the Danish subsidiary might have made their voice heard anyway, the flexicurity argument was probably decisive in making the Italian HQ listen.

Phase two: Reverse diffusion – 2005-2010

In 2005, the entire MNC-group was sold to a US-based bank and investment firm. For the Danish subsidiary, neither the economic future of the group nor the relationship with the Italian HQ seemed to change. However, there were some changes in the dynamics of social capital. The Italian HQ began to understand – and appreciate – the Danish way of organizing employment relations. Originally, as described above, the Danish employees criticized the work design imposed by the

Italian HQ, which offered them less discretion and worsened their health and safety situation. They were accustomed to a high level of autonomy and to making decisions on their own. Even the Danish managers were reluctant to introduce the new work design, knowing that the self-managing team model entailed a high level of quality consciousness and, hence, better products.

At the same time, the Italian management was surprised by the general approach to conflicts, first displayed by the voice of employees and management, secondly build in to the Danish Industrial Relations system. While Italian management was used to conflicts in Italy entailing strikes and lower levels of productivity over long periods of time, strikes are only allowed in the Danish industrial relations system during the yearly wage negotiations. If there are disagreements or conflicts at other times, a mediation system comes into play, which entails clear guidelines for resolving disputes without interrupting production. As an Italian manager commented when looking back at the experiences with the Danish subsidiary:

> What is also interesting is the speed [of resolving industrial conflicts]. If you have a controversy on the site, then you have a second level of judgment. In addition, decisions are made very fast on that level – and they are not always in favor of the union. We do not have such a system here [in Italy]! (Plant manager, Italy, 2008)

The Danish management had to remind the Italian management "to go easy on [the Danish] shop stewards in negotiations". In contrast to what the Italian management was used to, a high level of mutual respect and discussions were part of the negotiation culture. The Italian management had to be reminded to change its attitude when participating in any kind of negotiations with Danish unions or employee representatives:

> Every year, I have to repeat myself before the local negotiations start: "Remember, respect the shop stewards". (HR manager, Denmark, 2008)

Another manager was equally impressed with the Danish industrial relations system, especially the flexicurity model that was presented in the Danish due diligence report. The model had been in place for several years:

> I have now been through seven or eight annual negotiations with Danish managers ... I have been surprised by the flexibility to hire and fire people, and by other factors ... My impression of Denmark is that if you are able to establish a discussion with the Danes and convince them … then you can do interesting things. In recent years, the Danish managers did very good things with the unions. (HR manager, Italy, 2008)

Over the years, the Italian management learned that the “Danish package” of a collaborative IR system, and responsible, quality-conscious, loyal employees offered mutual benefits. However, looking at the employees options faced with a new management style, the institutionalized IR-system played a major role in defining their collective response: As strike/exit would be illegitimate, employees (and management) have voice, neglect and loyalty left – and as neglect is against the cultural values in a company living on high- quality products, The replacement of the self-managing teams with assembly lines had cost in terms of quality, even though the old-fashioned work design enhanced productivity. As such, the Italian management did not truly understand the social capital built into the Danish subsidiary’s way of doing things and the group ultimately lost some valuable features of the work organization as a result. Only because the Danish management and employees were vocal about the qualities of the system did the enterprise survive in the first place. As such, a mix between voice and loyalty was deployed - loyalty is towards quality, the brand, the continuous existence of the company, and their voice is made heard by delivering an alternative interpretation of the company’s assets. In a later phase, this became an interesting educational case for the Italian company. In fact, in 2008, the Italian HQ decided to experiment with team organizations at its Italian site. This was a direct result of its experiences with the Danish enterprise and another subsidiary.

The Danish subsidiary also learned some things in its encounters with the Italian HR culture. Among these was the lesson that many things are taken for granted. In their encounters with the foreign approach to HR, the Danish employees and managers realized how much inherent trust and shared perceptions were built into their daily work and negotiations. By contrasting their own ways of organizing work and negotiating with “the Italian way”, they understood that the level of conflict between management and employee representatives was relatively low on an international scale, even though the parties themselves felt the negotiation culture was rather conflictual from a national perspective. The encounter with the foreign HR approach revived the social capital and created a shared understanding of “us” (the Danish plant) versus “them” (the Italian HQ). Several interviewees referred to this perception as “the North team versus the South team”.[2]

The Danish system carried a price in terms of labor costs. In 2008, average expenses (including pension, social security, etc.) per hour for a blue-collar worker in Italy totaled EUR 21, while the corresponding figure for a Danish employee was EUR 31. However, the most easily measurable paybacks for the Italian management were: (a) lower absenteeism in the Danish enterprise, (b) liberal redundancy rules, and (c) a high level of quality consciousness on the production lines. Less directly measurable elements included the aforementioned social capital, though this was an

[2] These quotes were explicit references to the reality show *Survivor*.

important factor for (a), (b), and (c) on both the micro level (enterprise) and the macro level (flexicurity).

After a little less than a decade with the Danish enterprise in the portfolio, the Italian HR manager was asked to indicate which employment relations system he preferred:

> I would find it very interesting if we could maintain the same level of collaboration with the union in Denmark and have a longer duration [of the local agreements]. (HR manager, Italy)

Epilogue: Closure of the enterprise – 2011

In June 2010, the Italian HQ decided to close the Danish plant. The decisive issues were post-financial crisis considerations, such as economies of scale and labor costs. The Italian plant produced 100,000 units per year, while the Danish subsidiary produced only 30,000. Another important element was the fact that over the decade under Italian ownership, synergies had been discovered between the companies. As a consequence, know-how and RandD had been shared, and knowledge was ultimately transferred to the Italian HQ. This made it less problematic to close the Danish subsidiary. As of early 2014, the Danish subsidiary existed only as a sales and service unit that employed around 35 people. The original Danish brand was kept, but it was now produced in Italy.

In contrast to 2008, the flexibility of the Danish subsidiary and the liberal Danish redundancy rules meant next to nothing in 2010. This flexibility was only interesting at the subsidiary level; when the MNC as a whole had to make decisions on cutbacks, other factors came into play. Specifically, labor costs were in the Danish subsidiary’s disfavor, and in economic recession, social capital while acknowledged and appreciated by the Italian HR, was of secondary importance

When the message about the shutdown was presented, the Danish employees' reaction came as a surprise to the Italian management:

> How different – and better – the culture is [in the Danish subsidiary] than the Italian one! When we announced the shutdown, the employees were silent … nobody said a negative word about the Italians' way of seeing things. In Italy, I could not even imagine a meeting like that … You normally negotiate with the union without talking directly to the employees. (HR manager, Italy)

Even at the time of the announcement, the employees focused on the survival of the brand they had been part of for many years:

> At the end, there was a period for questions, but there were very few questions. The few questions were essentially: Will [X] brand be maintained as a brand? Instead of being concerned about themselves, the employees were more concerned about the brand! That was impressive and, in a way, moving. I was very, very impressed, and moved. (HR manager, Italy)

The closure took one year to complete and was finalized in June 2011. Employees were given generous redundancy packages, a fact confirmed by the unions. After the announcement of the closure, employees and the unions had 21 days to present an alternative in the form of a restructuring proposal, but these efforts failed. Employees who remained with the company for the final year received a bonus for their willingness to stay and complete production, and for teaching the Italian managers and employees about the production process.

The four phases: A summary

The *first phase* described above is characterized by a situation in which the company is relatively independent in terms of international developments. Sales are affected by shifts in the economy, but employment practices are basically an internal affair at the enterprise level, framed by the Danish industrial relations system. Although employers and managers evaluate the employment relations and the cooperative culture as mediocre compared to other enterprises, the relations are stable. The parties agree on the overarching philosophy regarding the roles of the parties and the system for conflict resolution institutionalized in the collective bargaining and labor market systems, which define the rules and procedures. The work organization is based on self-managing teams. Despite the disagreements and conflicts, the trust between management and employees, framed by the flexicurity system, are preconditions for stable employment relations at the company level.

In the *second phase*, which occurs after the Italian takeover, the enterprise is confronted with internationalization on a new level. It is not only dependent on international relations through sales (and imports of raw materials) but also through the employment practices introduced by the new Italian HQ. The first and most visible change is the introduction of a new work design based on assembly lines to replace the self-managing teams. When employees voice their dissatisfaction, Italian HQ ignored them. The response from employees is not neglect, exit, or loyalty. Instead, employees engage in a response through more formal institutions, i.e., the health and safety authorities.

In the same phase, it becomes clear that a due diligence of the Danish subsidiary and two other subsidiaries will be decisive for deciding which subsidiary to close. The takeover and the initiatives that followed had a profound effect on the shared perceptions of employment relations at the subsidiary. While the initiatives destabilized the relations between the enterprise and the Italian HQ, and created a low-trust relationship, they also pushed relations between management and employees in the Danish enterprise in a more cooperative direction. Prior to the takeover, the emphasis was on disagreements and conflicts. However, when confronted with the consequences of the takeover, the parties find a new overarching common ground. Through their encounter with another employment practice, the Danish parties understand that they have a fine-tuned system for employment practices and cooperation that is different from the Italian, and that this system can be an asset in the international competition for survival. To make the company attractive in this competition, the Danish parties: (a) find common ground by adopting an "us" (employees and managers in the Danish plant) versus "them" (the Italian HQ) view and (b) use the Danish flexicurity model to introduce the important parameter of redundancy to the due diligence process.

As such, the mixture of the enterprise's social capital and the overarching system of labor relations make the "Danish package" attractive enough for the Italian HQ to decide in favor of this enterprise. However, it is the takeover by the Italian MNC that serves as the catalyst – it forces the parties in the Danish enterprise to understand that social capital is an asset and a competitive advantage. While the trust between the employees in the Danish subsidiary and the Italian HQ is low, trust between Danish employees and the Danish management is enhanced through the meeting with another, more aggressive employment practice. The Danish management's buffer function is an important part of the enhanced trust . When confronted with the drastic changes, the collective response in the subsidiary is considered. The response to the new interference is voice – a common voice among management and employees. Neglect is not an option, as the employees are proud of the quality produced, and exits could only occur on the individual level. In such situations, loyalty is on "standby". In this instance, employees and management consider the situation, and decide that voice (in the form of an alternative due diligence process) would be a promising response.

Interestingly, the common response is based on organizational social capital but framed in the common understanding of flexicurity, which is based on institutionalized social capital.

In *the third phase*, relations between the Italian MNC and the Danish subsidiary stabilize, with Danish management as the mediator. Social capital re-emerges in the Danish subsidiary when it is confronted with the Italian employment practices. The social capital in the Danish subsidiary (embedded in the institutionalized social capital) guarantees flexibility in the employment relations on some parameters such as hiring and firing. The Italian HQ has not seen this type of flexibility in its other subsidiaries. More surprisingly for the Italian HQ is the fact that redundancies do not seem to significantly affect employees' loyalty towards the company and or their commitment to product quality. Over the years, it becomes clear to the Italian HQ that the social capital in the Danish enterprise is a factor that fully offsets the higher labor costs. Loyalty is stabilized; neither exit nor neglect are options; and the collective voice is to a still higher degree heard. Interestingly, there is a reverse diffusion of employment practices and work organization from the Danish subsidiary to the Italian HQ.

In *phase four*, the financial crises hits hard and the Danish enterprise is shut down as a result of a relatively simple calculation of economic costs, benefits, and possible synergies. In this time of crisis, labor costs become decisive, while the benefits of social capital seem to fade in the mind of the Italian management. However, the Italian management acknowledges that even in this high-stress situation, the employees' loyalty towards the enterprise and the brand remains unchanged. Even though the exit is forced upon the subsidiary, voice in protest is only a symbolic gesture. This response is even institutionalized in given procedures and in the unions.

The four stages are summarized in Table 3.

- INSERT TABLE 3 AROUND HERE –

DISCUSSION

In this section, we reflect on our findings and suggest several implications for research. At the beginning of the paper, we defined subsidiary social capital as the goodwill available to the subsidiary's collective (management and employees). Following our case organization for 16 years, we observed social capital being gradually derived from the structure and content of the subsidiary network relationships, enabling subsidiary employees to tap into resources derived from the organization's network of relationships. Further, findings of our exploratory case study clearly indicate that organizational social capital is not a single, monolithic entity. When focusing on management and employees relations, we observed at least two forms of social capital: one rooted in the social relations between Danish managers and employees, and second – on relations between Italian managers and Danish employees. These two forms of social capital co-existed within the subsidiary, but in their development they followed different trajectories shaped by different shared perception of implemented employment practices and the consequent nature of the collective response. Figure 3 illustrates the differences in trajectories.

- INSERT FIGURE 3 AROUND HERE -

Social capital between Danish managers and employees was relatively low at the beginning. Yet, due to the somewhat positive perception of the implemented employment practices and subsequent constructive collective response from the employees, the social capital remained somewhat stable over time. After the take-over, through collaboration and cooperation (health and safety action, response to due diligence report), the common ground, resilient trust and closer relations between Danish managers and employees were established, leading to a stronger social capital between Danish managers and employees. However, over time the strength of social capital decreases since employees realized that Danish managers are losing their management prerogative and power in decision making. Danish employees are unable to use this form of social capital as a resource for achieving individual goals.

The second line in Figure 3 shows the trajectory of the development of social capital between Italian managers and Danish employees. Although the foreign acquirers were welcomed in the subsidiary, the level of social capital quickly went down. Specifically, in the case study, when headquarters imposed the new work design, the move was perceived by the subsidiary's collective as lowering its discretion, questioning its autonomy, and jeopardizing its flexibility. The collective response changed from being constructive to more destructive (from voice to the threat of neglect). Over time, after Italian managers adjusted and somewhat changed their attitudes to a "Danish package", the level of trust gradually started growing resulting in growth of social capital.

Another interesting observation is related to how the subsidiary collective (management and employees) tapped into the resources available in institutionalized social capital (rooted in external networks) to ensure that its voice was heard. The subsidiary's collective clearly benefited from the 'multiple embeddedness' (Andersson et al., 2002) in both external (e.g., local institutions in the case of health and safety conflict) and internal (e.g., with sister subsidiaries in the case of due diligence report) networks (Meyer et al., 2011; Yamin and Andersson, 2011). Indeed, in using subsidiary social capital to facilitate the achievement of organizational goals that otherwise "could not be achieved in its absence or could be achieved only at a higher cost" (Coleman, 1994, p. 304), the management and employees of the Danish subsidiary did not distinguish among the different roots of the social capital. When internal MNC social capital was weak and almost non-existent, the subsidiary relied on resources from other social structures – other networks in which it was embedded. First, the Danish employee representatives made their voices heard by trying to change the work organization through the (legal) health and safety system by pointing out that the new assembly lines were unhealthy for the employees. Second, they used the flexicurity system as a framework for a different due diligence process.

In our case study, we showed that some part of the high level of social capital in the Danish subsidiary was institutionalized in the Danish industrial relations system. The relatively high level of trust between the parties on the subsidiary level was possible because the collective agreements and the labor legislation were finely tuned to accommodate the parties' expectations. For example, the employees accept liberal redundancy rules because the unemployment benefits were relatively generous and because the active labor market policy was designed to help the unemployed quickly return to work. What is more surprising and more difficult to explain in institutional terms is the ongoing loyalty and quality consciousness that seemed to be embedded in the workforce despite the turmoil, the redundancies and, ultimately, the closure. Even when faced with the shocking news that the enterprise was about to be closed, the employees seemed more concerned about the brand than their own futures.

Based on the above, we suggest a modification of the research logic presented in Figure 1, as social capital modifies the relationships between shared perceptions of employment practices and the collective response. We suggest inclusion of this modification as a guideline for future research:

Guideline 1: Future research should consider how existing institutional social capital could potentially moderate the relationships between shared perceptions of employment practices and collective responses at the subsidiary level.

Another interesting finding was related to reverse diffusion. Over time, especially after the constructive collective responses from the subsidiary, the Italian HQ began to understand the benefits of the subsidiary's social capital. The social capital that re-emerged in phase II showed a much higher organizational value than Italian management expected. This changed the attitudes of the Italian management and, in turn, the ways in which it managed employment relations in the Danish subsidiary. Hence, we suggest another modification to the research logic presented in Figure 1, as organizational social capital affects the employment practices intended for implementation at the subsidiary. As a guideline for future research we suggest:

Guideline 2: Future research should consider whether the value of subsidiary social capital could potentially moderate the relationships between the HQ-originated employment practices and the shared perceptions of the implemented practices by minimizing the gap between the HQ-originated employment policies and the local practices in use in the subsidiary.

If the benefits of organizational social capital outweigh the costs, then the moderation effect will be positive. In other words, the gap between the imposed and in-use practices will be minimized over time. In addition, a reverse diffusion of employment practices may take place. If the costs of organizational social capital outweigh the benefits, then the HQ unit will its push own agenda and rely on home-grown employment practices.

CONCLUSION

The purpose of the paper was to explore the relationships among employment practices, social capital, and the value of social capital. We proposed two additional components of these relationships: collectively shared perceptions of employment practices in use and the nature of the collective response to implemented employment practices. We used an exploratory case study to illustrate and further nuance the research logic presented in Figure 1.

As has been well described in the literature and seen in practice, there are numerous clashes between HQ-originated employment practices and local practices in acquired enterprises. In this paper, we show that by employing employment practices that are sensitive to the local cooperative culture on a micro level and on the IR system level, MNCs benefit from often unexpected returns on their investments in the form of advantages in work organization and cooperative culture. We also illustrate how easily these advantages are lost.

With the story of a local enterprise developing from a Danish, family-owned firm into an MNC-owned subsidiary over 16 years as the starting point, the analysis shows that MNCs do not always understand the complexity of the business system in the country in which they invest. When confronted with employment practices that deteriorate the working conditions and ultimately threaten the subsidiary's survival, subsidiary employees and management use social capital to find common ground for voicing their dissatisfaction. Responses in the form of exit, loyalty, or neglect are not used. Rather, voice responses in different forms are chosen. The high level of social capital at enterprise and institutional levels makes this the most obvious choice.

We conclude that social capital is underexposed when MNCs overtake subsidiaries, which could result in a no-win situation for the MNC and for other stakeholders. Our results also indicate that local management and employees (in cooperation) are capable of using social capital as a unique feature of the local business system when competing for resource allocation with other subsidiaries in the same MNC (Ghoshal and Bartlett, 1990). By "selling" social capital as an important resource for the quality of the products and services provided by the subsidiary in question, management and employees may be able to compete with other subsidiaries in the same MNC, even though labor costs in the country may be considerably higher.

Our overall conclusion may be presented in the form of two general propositions for future research on this subject:

> *Proposition 1. If implemented employment practices are sharedly perceived by the collective as promoting stable relationships, strong norms, and specified roles, then the*

nature of the collective response is likely to be constructive rather than destructive. In other words, the likelihood of voice and loyalty responses is higher than the likelihood of exit and neglect responses. Constructive responses move the collective towards the pursuit of collective goals and actions (rather than the pursuit of individual goals and actions), and they sustain resilient trust even among individuals connected only on a general level. In such conditions, organizational social capital provides performance benefits, that outweigh costs.

Proposition 2. If implemented employment practices are perceived by the collective as sabotaging existing relationships, undermining norms, and changing previously agreed-upon roles, then the nature of the collective response is likely to be more destructive than constructive. In other words, the likelihood of neglect and exit responses will be higher than the likelihood of voice and loyalty responses. Destructive responses move the collective towards the pursuit of individual goals and actions at the expense of collective goals and actions, and trust becomes fragile and dyadic. This results in the loss of the performance benefits arising from social capital and increase of costs.

Limitations

This research suffers from a number of limitations that should be acknowledged. Due to the exploratory nature of our paper, we only focus on the constructive versus destructive dimension of the EVLN responses. However, future research should expand our propositions to include active versus passive collective responses. A consideration of voice and exit versus passive loyalty and neglect may also be interesting, especially in more liberal, compliance-based, market-pricing HR systems (Lepak et al., 2005; Mossholder et al., 2011). Indeed, the fact that we did not observe neglect or exit as responses may be related to the flexicurity system, and may indicate that the work ethic is basically institutionalized as a norm. First, while exit in other social settings might be traumatic and have serious consequences for the individual or the group, exit under flexicurity is: (a) part of the system (flexibility), and (b) cushioned to a certain degree by generous unemployment benefits and an active labor market policy. Second, as exit is generally a choice with less significant consequences, an employee's choice to stay is very much *a choice*; hence, there is limited legitimacy in failing to fulfill the psychological contract as an employee, which includes the delivery of high-quality labor. Of course, economic fluctuations play an important role, as high unemployment rates make exits more risky, even in the presence of a flexicurity system.

Indeed, in terms of generalizability, the obvious limitation is our one-country/IR system perspective. The use of voice "is heavily entrenched in the labour market policies of many advanced and industrialized countries" (Luchak, 2003, p. 115), which may not be the case for non-western countries (Mellahi et al., 2010). As the case study shows, even within the group of advanced, industrialized countries, the type and level of voice (and other responses) differ considerably depending on the institutional context and norms.

Many interaction effects among employment practices can be imagined and hypothesized. Future empirical research should therefore investigate whether different combinations of employment practices result in different collective responses. For example, employment practices supporting organizational norms may be more relevant for active and constructive collective responses, such as the activation of voice as a function of loyalty and the activation of voice as a residual of exit, while employment practices that stabilize relationships among individual by developing rules and procedures may be more relevant for more passive responses, such as passive loyalty and neglect.

Finally, by adopting the EVLN typology, we inherited all of the definition and boundary problems associated with it. In retrospect, we concur with those authors who argue that the EVLN responses may even be interdependent and that it is difficult to identify the exact sequence of responses. For example, loyalty has been named as a key concept in the battle between exit and voice (Hirschman, 1970, p. 82) in that voice may be seen as a function of loyalty and also as a threat to exit. It is difficult to draw a strict border between neglect and passive loyalty (Withey and Cooper, 1989). In fact, the commonly accepted sequence begins with loyalty: “If nothing changes, and enough time passes, the next response is voice. If voice is unsuccessful, the employee will then resort to exit or neglect, the choice among these depending largely on the availability of alternatives” (Withey and Cooper, 1989, p. 537). However, there may be a third alternative to exit and neglect – passive loyalty. This response reflects a decision to simply settle with unavoidable workplace characteristics rather than exiting or neglecting due to bonds on an interpersonal level rather than loyalty to the organization.

Despite these limitations, we believe our research is timely, as it adds more depth to the ongoing conversation among researchers and practitioners about what makes international takeovers effective.

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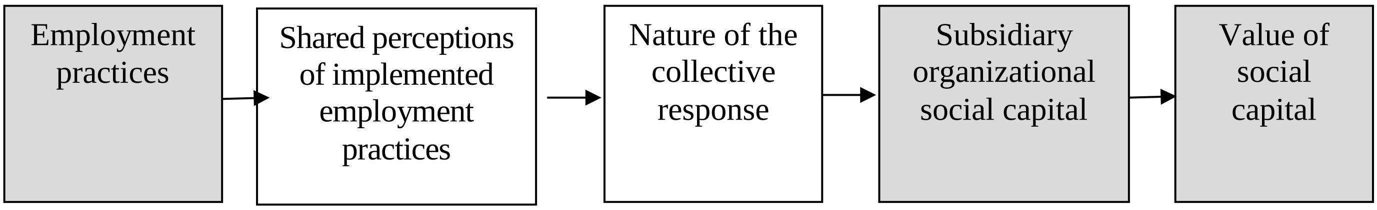
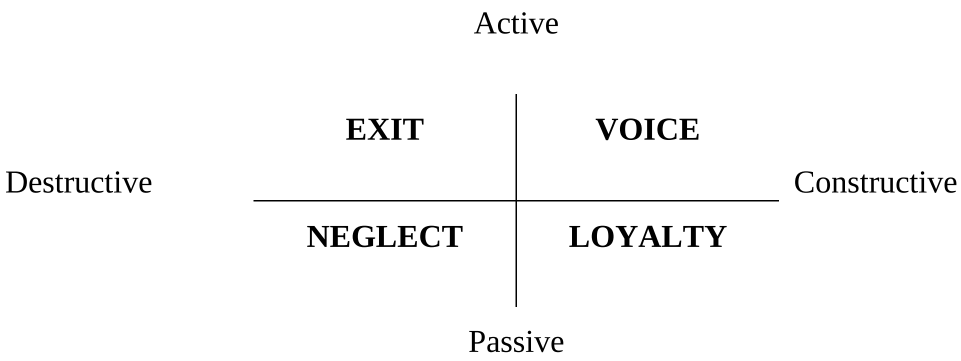
Figure 1. Research logic



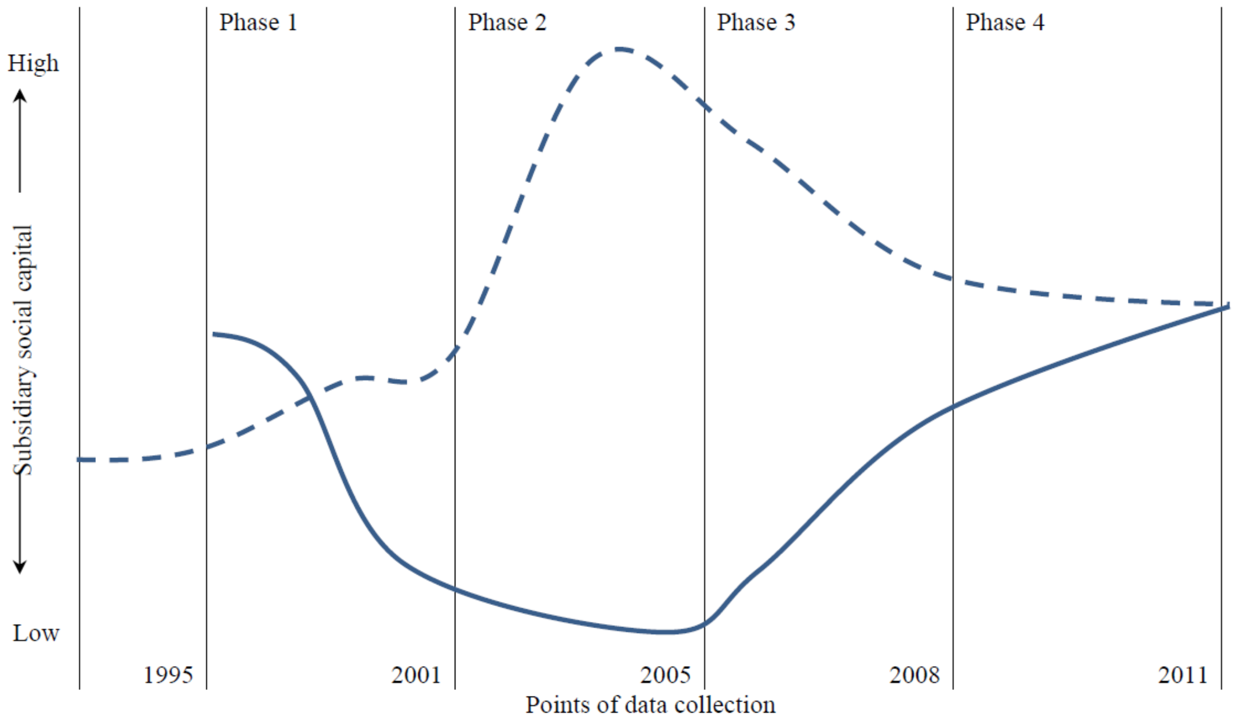
Source: Leana and Van Buren III (1999), modified. Original boxes in Leana and Van Buren III's model are shadowed.

Figure 2. The EVLN responses



Source: Rusbult et al., 1988, p. 601

Figure 3: Trajectories of social capital



Social capital between Danish managers and Danish employees

Social capital between Italian managers and Danish employees

Table 1. Definitions

Shared perception of employment practices as promoting:	
- Stability in employment relations	To build relational contracts among employees and between employees and management
- Organizational reciprocity norms	To establish an overarching philosophy, as well as corresponding norms within which different individuals enact that philosophy
- Bureaucracy and specified roles	To circumvent the need for stable relationships among individuals by developing rules and procedures that define the social structure in terms of positions rather than people
Nature of the collective response	Constructive (voice and loyalty) and deconstructive (exit and neglect); active (voice and exit) and passive (loyalty and neglect)
Organizational social capital	
- Associability	Collective goals and actions
- Trust	Fragile/resilient; dyadic/generalized
Value of organizational social capital	
- Benefits	Justification for individual commitment, facilitator of a flexible work organization, means of managing collective actions, and facilitator of intellectual capital
- Costs	Maintenance costs, foregone innovation, dysfunctional stable power arrangements within the firm

Table 2: Interviewees at the subsidiary and at the MNC from 1995 to 2011

	1995	**2001**	**2005**	**2008**	**2011**
CEO DK company	1			1	
HR-manager DK company	1*	1*	1*	1*	2**
Factory manager DK	1				
Line Mangers/foremen	5				
Shop stewards DK company	3*	3	1*	1*	1*
Employees DK company	3				
HR-manager Italian MNC				1	1
Factory manager Italian MNC				1	
Shop stewards Italian MNC				1	
DK union representative					1
Total	14	4	2	6	5

* over the 16 years, two interviewee were recurrent: The HR-manager and a shop steward for the unskilled blue collar workers
** one ex-manager, one present manager

Table 3. Findings

	Shared perception of implemented employment practices	**Nature of the collective response**	**Subsidiary social capital**	**Value of organizational social capital**
Pre-takeover (1995-2000)	Conflicting collective negotiations Threat of a closure as part of negotiations High employee satisfaction Self-managing teams	Voice within a collective bargaining system institutionalized in the flexicurity system	Micro: Semi-conflictual in a cooperative Macro: Employment relations marked by stability Specified roles for management and employee representatives	For management • Industrial peace • Quality consciousness • Less external control • Brand loyalty • Flexi(curity) (the emphasis is on the “flexibility” part) For employees • (Fle)xicurity (the emphasis is on the “security” part) • Meaningful jobs (self-managing teams)
During takeover I (2001-2005)	Dissolution of self-managing teams lowers commitment Introduction of Tayloristic work design leads to worsening of health and safety, and lower commitment/quality consciousness	Voice: action in the form of a due diligence report Continuation of collective bargaining No exits or strikes	Macro: Stable employment relations Micro: Danish subsidiary employee-management: enhanced trust Italian HQ-Danish subsidiary: low trust	Negatives: Loss of social capital in the form of loyalty and quality consciousness Low morale due to the threat of redundancies Positive: Higher productivity
During takeover II (2005-2010)	Common understanding of Danish employment relations among the Italian HQ and Danish subsidiary	Stable collective bargaining framed by flexicurity system Voice the main collective response Italian HQ listens and communicates	Italian HQ realize the benefits of social capital, partly institutionalized in the employment relations system Diverse diffusion of social capital from Danish subsidiary to Italian HQ Not implementable in Italy due to different employment relations institutions	High trust High quality consciousness Brand loyalty Acceptance of the use of hiring and firing
Epilogue (2011)	Mass-redundancies and closure of the enterprise	Acceptance – part of flexicurity	Industrial peace over the one-year closure period	High brand loyalty and quality consciousness Generous redundancy packages