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Do the strategic decisions of multinational energy companies differ in divergent market contexts? An exploratory study

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ABSTRACT

In the European energy industry, different countries' national institutional frameworks have evolved divergently in response to increasing concerns about environmental issues. This paper explores the influence of these divergent national institutional frameworks on the strategic behavior of multinational company (MNC) subsidiaries. Differences in MNC subsidiaries' strategic decisions in different countries, regardless of common capabilities and strategies, illustrate the importance of this influence. The paper focuses on the strategic decisions that determine which energy technology MNCs choose to acquire or invest in. MNCs are the predominant force in the European energy industry, and our understanding of their strategic decisions regarding choice of technology is an essential step in achieving a low-carbon energy industry. Our analysis is based on a longitudinal case study of Vattenfall, a Swedish multinational energy company. Findings confirm that even in the energy industry—a capital-intensive, national, and institution-based industry—MNCs follow their core global strategy to such an extent that it may prevail over local institutional considerations. Nevertheless, as European energy markets become deregulated and renewable energy matures, local institutions are likely to play a more dominant role, and MNCs will increasingly need to comply with local institutions' guidelines. The paper offers recommendations for policymakers and several managerial implications.

1. Introduction

International awareness of climate challenges has steadily grown in recent decades, with social sectors seeking to find solutions to these challenges. In Europe, where the present study took place, key targets on emissions dictate that in 2020, emissions levels, energy consumption produced from renewable sources, and energy efficiency should improve by 20% with respect to 1990 levels [33]. To meet this target, European countries have enforced a range of national policies [18,41,66], and their social norms have evolved divergently [18,115]. To illustrate this point, whereas countries like Germany and Spain have focused on renewable energy, enacting generous feed-in tariff systems [41,53], other countries such as the UK have chosen to promote nuclear power as an alternative [9].

A question that arises is to what extent do diverse local institutions influence multinational companies (MNCs) in the European energy industry? MNCs are identified as companies able to affect opportunities for the whole market [13]. In the current European energy industry, MNCs are the predominant force in the European energy market [94], and they have a notable market share in fossil-based and nuclear power assets. Therefore, emerging low-emissions energy sources built on completely new technologies can challenge MNCs' established technological assets [58,98], and offer fierce competition [58]. Proactive or reactive strategic behaviors by MNCs in response to this threat is what defines the pace of technological adaption [58]. Hence, if the aim is to restructure the market by introducing low-emissions technologies, it is essential to understand how MNCs with their dominant market positions[1] (i.e., considerable assets in the current technological regime) act in relation to the diverse institutional frameworks of different European countries.

According to the literature, when faced with diverse local institutions, MNCs have two choices. First, MNCs can follow their core global strategies[2] across divergent market contexts. A core global

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[1] The dominant market position of MNCs in European energy industry is clear. Their power generation market share in 2009 was approximately 85% in Sweden [14], 85% in Spain [48], and more than 90% in France [47].

[2] When MNCs expand outside their home country, they must consider local institutions. The difference between global or local strategies, however, is rooted in the extent to which MNCs attempt to benefit from or minimize dissimilarities among regions. For further reading, please refer to [6] and [64].

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strategy is "*the centralized management of geographically dispersed activities*" [74]: P. 14), and it is built on similarities across regions [64]. Second, MNCs may develop local strategies [15,64] requiring multiple domestic strategies with locally adapted planning in different regions [3,59]. Local strategies aim at meeting the specific demands of each region [64] and stimulating management processes compatible with the environment [6].

As of now, while some authors have indicated that most MNCs' headquarters control their subsidiaries' strategies through a global strategy [15,25], others have suggested that subsidiaries' strategies are more or less decided by local policy frameworks and social commitments to the local environment [15,61]. The findings are hence inconclusive, and the approach adopted by MNCs may largely depends on the industry [15]. Research on how energy MNCs act in this area, however, is somewhat lacking (see, [115]). To fill this knowledge gap, we aim to answer the following research question: *Do specificities in national policy frameworks and social commitment lead MNCs to adapt local strategies in local markets to the detriment of their core global strategy?*

Addressing this lack of knowledge is essential for three reasons. First, MNCs are critical in the energy industry. In many countries, MNCs have dominant market positions, which means that they own and manage a significant share of energy production facilities [94]. Accordingly, to design effective market instruments in favor of low-emissions technologies and good forecasts, understanding how MNCs form strategies across regions is essential. Second, analyzing MNCs' performance in different countries sheds light on the significance of differences among societies' (e.g., customers') traditions, norms, and behavior. This significance appears to influence energy companies' performance and the construction of energy markets, knowledge of which remains limited [90]. Indeed, while scholars have analyzed psychological aspects of energy technology end-users [7,97,114,115], there is still a lack of knowledge about whether and how people's norms and beliefs can influence decisions for sourcing and using energy today [91]. Third, the European Commission has keenly pursued harmonization in recent decades [32]. The effectiveness and consequences of harmonization are likely to improve as our understanding of certain linkages deepens—specifically, our understanding of linkages between MNCs' strategic decisions and national regulatory frameworks within Europe. Finally, this knowledge yields recommendations for policymakers on how they can effectively stimulate decisions by MNCs. It also leads to managerial implications that would help managers to meet new energy industry demands.

This was a multidisciplinary study based on case study analysis. We collected empirical data on the expansion of Vattenfall, a well-known Swedish state-owned MNC, across its three operations in Sweden, Germany, and the Netherlands. Vattenfall, which began providing its services in 1909, is currently the leading Swedish energy producer [14] and is ranked among the top six energy producers in Europe [107]. We supplemented our findings with additional case studies on similar MNCs in the European energy industry.

The paper has the following structure. Section 2 introduces the background for this study. Section 3 describes the method. Section 4 presents the case study and discusses findings. Finally, Section 5 sets forth conclusions.

2. Background

2.1. The role of institutions in an industry

North [70] defines institutions as "*rules of the game in a society*." Baron ([4], P.74) associates institutions with "*government policies that affect the structure and functioning of markets and the competitive advantages of its participants*." Adopting a broader perspective, Johnson and Björn ([118], P. 26) defines institutions as "*sets of habits, routines, rules, norms and laws, which regulate the relations between people and shape human interaction.*" All these definitions underline the role of institutions in firms' structure and performance (cf. [80]. Hence, institutions are deterministic factors of economic success [1] because they can order new products or services to be established and can call for new markets [27].

The concepts behind institutions have been addressed in different studies [83]. Scholars have discussed how institutions confine national markets using two conventional boundaries [49]. First, institutions bind energy companies' activities through legal and written institutions, which has been referred to as *hard* institutions [49,113]. Examples of such institutions are national policies that allow energy companies to grow while pressuring them to adopt compliant strategies [57]. The importance of hard institutions on the development of renewable energy technologies is evident from the vast literature offering arguments for and against each policy framework for developing renewable energy technologies (e.g., [8,20,21,34,54,85,109]).

Second, institutions establish limits through characteristics of local markets (e.g., norms and values of individuals, firms, and societies), namely *soft* institutions [68,113,115]. Relatively few studies have addressed constraints enforced by soft institutions, but their importance has been noted [115]. Soft institutions can both positively and negatively influence investment in certain types of energy technologies such as renewable energy technologies. To illustrate this point, [114] found that on average around 25–30% of customers in Germany were willing to pay an extra fee for acquiring electricity from renewable sources, which provided an additional motivation for investment in renewable sources. In contrast, public opposition to wind power because of its negative impact on the landscape is a barrier to wind power investment in certain regions [115].

Another way of classifying institutions is to conceptualize them as being either exogenous or endogenous [51]. In this categorization, exogenous institutions are the rules imposed upon firms, which firms do not contribute to [83]. In contrast, endogenous institutions can be influenced by firms and can even be the product of organizational set-up [83]. Theories on endogenous institutions accordingly explain that institutions are the results of different individuals' decisions that vary in response to political and economic conditions [1,40]. Furthermore, institutions can be developed, changed, and even blocked by organizational activities and preferences [83,88]. North [70] touches upon endogenous institutions by reporting that, (P. 16) "*institutions are not necessarily or even usually created to be socially efficient; rather they, or at least the formal rules, are created to serve the interests of those with the bargaining power to devise new rules.*" Accordingly, while institutions serve to form and regulate companies, the same companies may also influence those institutions [28].

In all, institutions are effective instruments for an industry in transition, but they cannot be considered "a given" [88]. In practice, firms, especially those with dominant market positions, can get some freedom from obligations imposed by institutions and may even influence institutions [46,88]. This paper does not focus on how MNCs—dominant actors in the European energy industry—affect institutions. Instead, the paper explores the strategic behaviors of MNCs whose competencies are influenced by contradicting emerging institutional frameworks.

2.2. Establishing MNCs within the framework of divergent institutions

The energy industry depends heavily on institutions [49]. Recently, institutional frameworks in different European coun-