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## **The interplay between HQ legitimation and subsidiary legitimacy judgments in HQ relocation: A social psychological approach**

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## INTRODUCTION

It is well established in international business research that legitimacy is critical for a Multinational Corporation (MNC) to survive and endure across its different contexts, markets and stakeholders (Chan & Makino 2007; Delmestri & Wezel 2011; Kostova & Zaheer 1999; Kostova et al. 2008; Kostova & Roth 2002). This body of research has typically explored legitimacy, “a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions” (Suchman 1995: 574), from the perspective of external stakeholders. This focus on external legitimacy highlights the complexity of maintaining legitimacy for MNCs given the multiple institutional environments in which they operate (Chan & Makino 2007; Kostova et al. 2008; Kostova & Zaheer 1999). By comparison, this paper focuses on internal legitimacy, “the acceptance and approval of an organizational unit by the other units within the firm” (Kostova & Zaheer 1999: 72), which has received less attention despite its theoretical and empirical significance.

When internal legitimacy has been considered, the concern has primarily been on how subsidiaries build legitimacy for their decisions and actions with their parent (Kostova & Zaheer 1999; see also Bouquet and Birkinshaw 2008a). Thus, these studies have overlooked an important aspect of internal legitimacy, namely that decisions by the MNC parent may also need to be legitimated within subsidiaries (Kostova & Roth 2002), and particularly those subsidiaries that need to take action for these decisions to be implemented.

Considering such processes of legitimation is important because we know that legitimacy is associated with attitudes and behaviors that largely determine people’s responses to decisions or changes (Tost 2011; Huy et al. 2014; Vaara & Monin 2010). The lack of attention to legitimation processes in Headquarters (HQ)-subsidiary relationships is a serious omission given that we know this relationship forms a fundamental part of decision-making in the MNC organization (Blazejewski & Becker-Ritterspach 2011; Dörrenbächer & Geppert 2006; Geppert & Williams 2006; Kim & Mauborgne 1993), and is also often characterized by conflict and resistance due to geographic distance and cross-border tensions (Balogun et al 2011; Bouquet & Birkinshaw 2008b; Clark & Geppert 2011; Mudambi & Navarra 2004; Schotter & Beamish 2011). Hence understanding

subsidiary evaluation of the legitimacy of MNC parent decisions and the associated social dynamics provides an opportunity to develop a more holistic picture of the tensions and conflict in HQ-subsidiary relationships and their implications. This is especially the case for controversial decisions that have the potential to generate conflict between the parent and subsidiary.

To explore internal legitimation we need to reconsider the theoretical basis of what analysis of legitimacy and legitimation is typically based on in the international business context. In particular, this requires moving theoretically from an institutional theory oriented approach focusing on legitimation strategies towards a perspective that enables a focus on legitimacy evaluations or judgments. For that purpose, we draw from advances made by social psychologically oriented organization scholars (Bitektine, 2011; Tost, 2011; Bitektine & Haack, 2015) to elaborate on the dynamics of legitimacy judgment formation and evolution over time. The socio-psychological perspective enables exploration of legitimacy from the audience's perspective. Accordingly, we define legitimacy judgments as the evaluations of organizational members that assess specific actions or decisions as desirable or appropriate within a specific context (Bitektine, 2011; Tost, 2011). Also, consistent with these recent social psychological approaches we recognize the need to focus on legitimation as a process (Bitektine 2011), that requires dual consideration of the legitimacy judgments of organization members' and the managerial legitimation strategies, that is the efforts to shape, reinforce, or suppress legitimacy judgments (Bitektine and Haack 2015).

Thus, we pursue a dynamic perspective conceptualizing MNC internal legitimation processes in terms of an interplay over time between the legitimation strategies of MNC top managers and subsidiary legitimacy judgments (see also Huy et al. 2014; Vaara & Monin 2010). This leads us to formulate our research questions as follows: How do subsidiary legitimacy judgments form and develop over time in response to HQ managers' legitimation strategies in the case of controversial decisions? How does the MNC move on in the face of conflict over legitimacy?

To be able to study these legitimation processes in context we focus on the phenomenon of MNC headquarter (HQ) location decisions, since office relocations represent significant yet relatively rare strategic events (Coeurderoy & Verbeke 2016). The dynamics of MNC HQ relocations has received little attention until relatively recently (Laamanen, Simula, & Torstila 2012). The research

there is elucidates the motives for, and likelihood of, relocation decisions in terms of factors such as investment, employment and tax returns (Birkinshaw, Braunerhjelm, Holm, & Terjesen 2006; Laamanen et al. 2012). It also shows that these location decisions can be controversial externally and internally, and thereby result in legitimacy struggles, since they typically involve one country and one subsidiary gaining at the expense of others.

We examine these dynamics by drawing on a qualitative, longitudinal, real-time case study of the reorganization of the European region of an MNC dealing in fast-moving consumer goods (FMCG). The reorganization involved the bringing together of two divisions which also necessitated a reconsideration of the regional head office location and subsequently its relocation. The location chosen needed to facilitate the new strategy which included centralization of functions, such as marketing, to build on growing synergies across Europe, but also increased efficiency. Thus, the new regional office was likely to be controversial internally as it would lead to a change in mandate for subsidiaries who would have less autonomy in decision-making under a more centralized business model, and have implications for the career paths and locations of subsidiary employees. Our research design enabled tracking for close to three years of how the relocation decision, and its implications for individuals and the organization, was communicated internally, and provided data on how one subsidiary, the UK, experienced the decision and the changes that unfolded.

Our findings reveal a clear temporal pattern in the way both HQ legitimation strategies and subsidiary legitimacy judgments develop in the context of contentious decisions. We show how the particular combination of legitimation strategies used by HQ managers led to negative subsidiary legitimacy judgments based in instrumental, relational, and moral considerations, also influenced by the local subsidiary context. To enable the MNC to move on, HQ managers needed to reinforce legitimation through additional strategies that indicated an inevitability of the decision to the subsidiary. This led subsidiary members to engage in coping and compliance, manifested in black humor and cynicism as forms of dissonance reduction, in response to the perceived inevitability of the decision. Thus, our analysis shows how MNCs can move on with controversial decisions such as HQ relocations even in the context of a lack of full internal legitimacy.

Our analysis makes three contributions. First, by unpacking the dynamics of processes of internal legitimation it adds to research on legitimacy and legitimation in MNCs (Delmestri & Wezel 2011; Kostova & Roth 2002; Kostova & Zaheer 1999; Kostova et al 2008). Through our introduction of a social psychological approach we are able to place a focus on subsidiary judgments to develop a model that elucidates how these judgments form and evolve over time and how they are influenced by HQ managers' legitimation strategies. Second, our findings add to what we know about the tensions that characterize MNC sub-unit relationships and the role of power and politics in them (Balogun et al. 2011; Clark & Geppert 2011; Schotter & Beamish 2011). Finally, our empirical analysis also adds to nascent research on HQ relocation (Laamanen et al. 2012) by highlighting the internal legitimation challenges that are likely to often characterize these decisions.

### **A DYNAMIC PERSPECTIVE ON SUBSIDIARY LEVEL LEGITIMACY**

#### **Legitimacy in MNCs**

Legitimacy is a key issue in international business research, and this has resulted in an increasing volume of theoretical and empirical work on legitimacy, especially in the MNC context (Chan & Makino 2007; Delmestri & Wezel 2011; Kostova & Zaheer 1999; Kostova et al 2008). This stream of research has established that because MNCs operate in multiple institutional and cultural contexts, legitimacy is not a straightforward issue but one that involves multiple arenas and ongoing concerns (Delmestri & Wezel 2011; Kostova et al 2008; Kostova & Roth 2002). A key part of this work has been the distinction of external and internal legitimacy, the former referring to how the MNCs operations, decisions, or actions are perceived by external stakeholders, and the latter to how these are viewed from inside the corporation (Kostova & Zaheer 1999; Kostova et al. 2008).

As we have established in the introduction, international business research has so far primarily focused on the challenges for MNC parents of seeking and maintaining external legitimacy within multiple host country environments, neglecting the equal importance for MNC parents of building and maintaining legitimacy for their decisions internally with their subsidiaries (Chan & Makino 2007; Delmestri & Wezel 2011; Kostova et al. 2008; Kostova & Roth 2002). How MNC parents build internal legitimacy is not a straightforward consideration, however. It is not just that the HQ-subsidary relationship is often characterized by conflict and resistance due to geographic

distance and cross-border tensions (Balogun et al 2011; Birkinshaw et al. 2000; Bouquet & Birkinshaw 2008b; Clark & Geppert 2011; Geppert et al. 2016; Jarzabkowski & Balogun 2009; Mudambi & Navarra 2004; Schotter & Beamish 2011; Schmid & Daniel 2011). In addition, there is not always a simple dyadic relationship between MNC parents and subsidiaries, since MNCs are often composed of nested hierarchical relationships between corporate headquarters, regional headquarters and subsidiaries (Hoenen & Kostova 2015) rather than linear chains of decision-making. As a result, a regional unit, for example, has to face three ways to build legitimacy for any decisions – externally, internally and upwards with the parent, and internally and downwards with relevant subsidiaries.

The neglect of considerations of internal legitimacy in international business research is significant since legitimacy theory brings benefits to the study of internal reactions to change, partly because it places a focus on change-agent recipient interactions in a way that integrates the macro-institutional with the micro-sociological, but also because it avoids the common tendency to view managers as in the right and employees as irrational and unnecessarily obstructive if they show any signs of disagreement or resistance (Huy et al 2014). Hence a consideration of internal legitimacy strikes at the heart of discussions in the international business literature regarding the nature of the tensions that characterize HQ–subsidiary relationships and decision-making. Nevertheless, a shift to the study of internal legitimacy requires an understanding of the audience’s perspective in processes of legitimation. Importantly, it requires a focus on legitimacy judgments of the rarely studied internal audience.

### **A Social Psychological Perspective on Legitimacy Judgments**

There are several perspectives on legitimacy, including more institutional and social psychological approaches (Deephouse et al. 2017; Suchman 1995; Suddaby et al. 2017). In prior research, most attention has been paid to the strategies of those trying to build legitimacy, which has typically implied an institutional perspective. Research has explored how issues are framed (Creed et al. 2002; Maguire, Hardy, & Lawrence 2004) and how impression management is used in legitimation (Arndt & Bigelow 2000; Elsbach & Sutton 1992; Elsbach 1994). For example, Creed et al. (2002) show how agents build legitimating accounts by mobilizing and combining elements from multiple broader cultural accounts. Others have singled out specific elements in rhetorical justifications (Green 2004,

Suddaby & Greenwood 2005), discursive strategies (Vaara et al 2006; Vaara & Monin, 2010), legitimating narratives (Golant & Sillince 2007) or framings (Lefsrud & Meyer 2012).

Some studies propose that legitimation strategies may extend beyond the rhetorical and discursive to involve other actions, such as coercive tactics to do with enforcing decisions and changes based on formal authority or other power bases (Bitektine & Haack, 2015; Suchman, 1995), including non-verbal as well as verbal cues (Suchman, 1995; Bitektine & Haack, 2015; Rao, Greve, & Davis, 2001; Tost, 2011). More importantly, however, this focus on legitimation strategies has led to a neglect of in-depth consideration of stakeholders' legitimacy judgments until relatively recently (Bitektine 2011; Tost 2011), despite early recognition of the role of the audience in the construction of legitimacy and legitimacy as a socially constructed phenomenon (Suchman 1995).

We therefore adopt a social psychological perspective on legitimacy (Huy et al. 2014; Tost 2011; Zelditch 2006) that encourages a focus on legitimation processes, i.e. attention to legitimation strategies and legitimacy judgment formation over time (Bitektine, 2011; Bitektine & Haack, 2015; Tost, 2011). Important in this is the recognition of the influence of legitimation strategies on the formation and suppression of legitimacy judgments (Bitektine & Haack, 2015). This perspective thus enables a dual consideration of legitimation strategies of MNC managers *and* legitimacy judgments of subsidiary members. Attention is given to how evaluators arrive at legitimacy judgments (Bitektine & Haack 2015), and the content of such judgments (Tost, 2011), emphasizing the subjective assessment of legitimacy and the neglected role of the "audience" in legitimation dynamics (Bitektine 2011). The exploration of the evaluator's perspective provides for insight into the social and cognitive factors that are part of judgment formation and that can compromise the efforts of those seeking legitimacy for their organizations (Bitektine 2011). In addition, those advocating a social psychological perspective extend consideration of legitimation strategies beyond the discursive, to include other actions and tactics.

Social psychologists and institutional theorists differ in the way they consider legitimacy judgments (Tost 2011). Institutional theorists typically differentiate between pragmatic, moral, and cognitive. Pragmatic legitimacy relates to stakeholders' support for an organization's activity based on calculations of their own self-interest. Moral legitimacy relates to approval of an organization and

its activities by its various stakeholders, in terms of whether the particular activity is considered to be “the right thing to do” (Suchman 1995: 579). Cognitive legitimacy, on the other hand, deals with taken-for-grantedness (Suchman 1995; Bitektine 2011), in other words the absence of questioning regarding the validity of an entity or challenges to it.

From a social psychology perspective, Tost (2011) stresses the need to look at the content of legitimacy judgments to understand “*the substantive perceptions and beliefs that underlie the judgment of an entity as legitimate or illegitimate*” (687). She therefore maintains that since cognitive legitimacy represents the *absence of content* it is not part of the substantive content of legitimacy judgments. It is only when there is an absence of cognitive validity that stakeholders are likely to engage in more effortful evaluative judgments (Bitektine 2011; Drori & Honig 2013). Tost (2011) argues instead that the content of legitimacy judgments comprises three dimensions: drawing on consideration of instrumental, relational, and moral legitimacy from social psychology, equating instrumental legitimacy judgments with pragmatic through the self-interested orientation involved in both; and citing overlap between the moral categories since this category in both literatures is related to an “audience’s socially constructed value system” (p 692 and Suchman 1995: 579). An entity is viewed as legitimate on instrumental grounds when it is “perceived to facilitate the individual’s or group’s attempts to reach self-defined or internalized goals or outcomes” such as “perceptions or beliefs related to the effectiveness, efficiency, or utility of the entity.” (p 693). Relational legitimacy exists for an entity when it “communicates to the individual that she or he is accorded respect, dignity, and status within the group context” (p 690) and is “perceived to affirm the social identity and self-worth of individuals or social groups and to ensure that individuals or social groups are treated with dignity and respect and receive outcomes commensurate with their entitlements.” (p 693-4). This judgment is to do with process, how the decision is being carried out, since it is concerned with perceptions of the treatment of individuals in terms of fairness or benevolence. Moral legitimacy exists for an entity “when it is perceived to be consistent with the evaluator’s moral and ethical values.” (p 694).

### **HQ Relocation as a Revealing Context**

To examine these processes in context we focus on the issue of HQ relocation. MNC office relocations

represent rare yet significant strategic decisions (Coeurderoy & Verbeke 2016) and, as such, are likely to be controversial. Studies show how such decisions alter the balance in terms of winners and losers between host country governments (see Laamanen et al. 2012) because as a head office relocates, some host governments may be losers and others winners in terms of, for example, investment, employment, and tax opportunities. Furthermore, the acceptability of new organizational forms may vary across locales due to differences in local cultural scripts (Delmestri & Wezel 2011).

Internally, HQ relocations have to be legitimated to subsidiary employees, who may also be winners and losers, since some employees may need to relocate to keep their jobs and others may have to accept new processes and systems, and lesser promotion opportunities as subsidiaries change to accommodate the new head office and their relationship with it. Some studies have examined the strategies used by subsidiaries in responding to dual internal and external pressures for legitimacy (Hillman & Wan 2005). However, we argue that it is particularly important to understand dynamics of legitimation for strategic decisions in MNCs, such as HQ relocations, that require senior managers to build legitimacy not only externally with host governments but also internally with subsidiary based employees. Given the cross-border issues involved, some controversial decisions may never gain full legitimacy in all parts of the MNC, which raises questions as to how these dynamics play out over time.

If a relocation is accompanied, as here, by a new strategy and a shift in the HQ-subsidary dependence-independence balance, this may also result in a reduction in mandate for subsidiaries, which can exacerbate the sense of winners and losers. Furthermore, when studying parent/regional/subsidiary change processes to understand those subtle and nuanced dynamics through which both HQ and subsidiaries subjectively reconstruct their relationships with each other, and of which legitimacy is a part (Huy et al 2014), it is particularly interesting to study subsidiaries where voice and political power is high (Balogun et al 2011; Bouquet & Birkinshaw 2008a; Geppert & Williams 2006). Balogun et al. (2011) argue that this means focusing on subsidiaries with a strategic position and economic performance that render them important, alongside an institutional embeddedness in their local country that accords them greater independence of practices and authority than others may have. Such subsidiaries “represent critical cases of MNC voice, political tensions between independence and interdependence, and their effects as they unfold during times of strategic

integration.” (Balogun et al. 2011: p 768). In this paper we therefore explore how subsidiary legitimacy judgments form and develop from the perspective of such a subsidiary in the context of controversial HQ relocation decisions.

## **METHODS**

The research is based on a qualitative, longitudinal case study that follows the implementation of strategic transformation in the European Division of Brand Co, an international FMCG organization. The initial purpose of the research was not to explore issues connected with the decision to relocate the European regional HQ, but to focus on the change process in the MNC in general and in the UK subsidiary in particular. The issues surrounding HQ relocation and its legitimation as part of the change process only surfaced as change progressed and the relocation decision played out.

The UK subsidiary had historically been used to significant autonomy in Brand Co and had been one of the highest performing subsidiaries within Europe, with its largely unique, UK centric, stable of brands. Thus relocation of the European head office, which had been in the UK, and accompanying changes represented a significant shift in mandate for the UK, and more so than for other subsidiaries with a less country centric stable of brands and less historical success.

What was interesting in the data was the way members of the UK subsidiary constantly challenged the European managers’ legitimation claims for the choice of location and its implications for the way the regional organization was structured, despite the fact that the relocation and restructuring was one many other organizations had undertaken and did not require extensive external legitimacy work. Another interesting factor was that apparently legitimacy for the decision was never fully established in the UK, yet the European organization was able to move on. As such, the research follows an inductive approach, in which we followed interesting lines of enquiry that emerged from the case study.

A single exploratory case study is ideal for our purposes because such studies provide access to phenomena such as ours that are difficult to access or observe (Eisenhardt & Graebner 2007; Yin 1994) and because it provided the means for examining the temporal dynamics of building internal legitimacy with subsidiaries in MNCs. In particular it provided access to 1) how senior European managers sought to legitimate the choice of HQ location and the relocation implications to their

European subsidiaries, 2) how staff in one subsidiary, the UK, facing a significant change in mandate, responded in terms of legitimacy judgments, and 3) how the MNC moved on from this to generate the needed acceptance, if not full legitimacy, for the decision. Our qualitative data provide access to the worldviews of people under study and the insiders' point of view, consistent with the actor-centered approaches called for both in research on MNCs (Piekkari, Welch & Paavilainen 2009) and legitimacy (Bitektine & Haack 2015). In particular, a focus on legitimacy judgment formation requires attention to both the communicative and the nonverbal actions of the evaluators as manifestations of their cognition (Tost 2011).

The European division was restructured at the end of 2005 to create a more integrated mode of operation across its European subsidiaries in response to changing and increasingly competitive European market dynamics. The restructuring was positioned as part of the solution. It centralized marketing and other functions in order to create faster decision-making and innovation while taking advantage of growing synergies across Europe and also generating economies of scale. In particular, it created a single European region from two previous regions, for which there was to be a new Regional HQ in a location that supported the new strategy by facilitating the desired integration and the drive for efficiencies. A new European board was formed, to which country VPs and their country boards reported. The centralized marketing function was to hold the P&L and decision-making power (strategy, marketing) for brands across Europe. The leadership of all the newly centralized functions and departments were to be based in the new European HQ with the European Executive Team. Only the sales function was to be left local to focus on retailers.

At the end of 2005, all that had been said about the new HQ was that it would be based in a tax-efficient location. Those who accepted positions in the new structure (e.g. senior marketing people) that were likely to require relocation to the new head office were required to confirm they were aware of this and were willing to relocate. Meanwhile, they continued to work in their existing locations. It was said that for Brand Co to be able to take full advantage of any new location including, for example, tax advantages, all decision-making would need to take place there, *“and so, the senior team have to be resident there. You can't commute, you can't have an apartment there and come home at weekends ... You have to live there, and if you've got a family, your family have to be*

*there and your children have to be in the education system, etc, etc, etc.*" (UK Manager, Dec 2005).

At the end of August 2006 the chosen HQ location, Eurocity in Switzerland, was announced. Now those due to relocate had to decide whether they were really willing to do so. In addition, the location decision started a new wave of change-related activity at the European level and among those who potentially had to relocate. The senior European managers needed to communicate the decision in a way that convinced those affected, e.g. those who had to relocate to the chosen city, but also others who would feel the consequences of the relocation as colleagues and decision making moved. This set off a chain of events summarized in the timeline in Figure 1.

*Insert Figure 1 about here*

### **Data Collection**

The data were collected by the first author as part of the larger research project following the overall implementation of change in the European Division of Brand Co, and the co-evolution of the European strategy and structure and the UK subsidiary. Fieldwork was conducted over a period of nearly three years, from end of 2005 to August 2008. The data collection was designed to facilitate the study of both what was happening at the European level as change developed and in the UK. The first author therefore spent considerable time at the UK offices, providing access to UK managers and employees, but also individuals now in European managerial roles who remained in the UK until relocation to the new head office later in 2007. Data were collected from interviews, focus groups, and observations of key organizational events, and included a range of documentary evidence, together providing the dual European / UK access required.

First, documentary evidence was collected in the form of internal European and UK newsletters and email announcements, intranet announcements, conference speeches, and presentations by the European President and other senior European managers. The purpose of this data collection was to capture background data on the change process and also what was being communicated across Europe and specifically in the UK. Importantly, it also enabled the tracking and analysis over time of legitimation strategies adopted in seeking to build internal legitimacy for the relocation and associated changes.

Second, the first author undertook observation of key organizational events (as well as

observations of day-to-day activities when on site). These included, for example, UK management team change workshops (March 2006 & December 2006) and annual UK employee conferences to enable tracking of the change process in the UK. Also important was observation of European leadership team annual roadshows to the UK (end of 2005, early 2007), to enable tracking of how change was communicated by senior European managers, thus providing additional access to their legitimation claims. Consistent with best practice, extensive field notes were taken at all of these events and typed up within 24 hours, including details of who said and did what, and with copies of relevant PowerPoint presentations.

Third, essential to capturing European and UK perspectives on change, its progress and its impact, were interviews. Interviewees were selected to facilitate this, leading to a pool of approximately 35 individuals who were interviewed regularly throughout 2006, 2007 and 2008. This included the UK Senior Managers, their direct functional reports, senior European Marketers, and senior UK based marketers. Interview protocols focused on current change actions being undertaken by the interviewees and others, and their views and perspective on the progress of change, with earlier interviews also focusing on the background to change. The pool was largely stable; anyone that left or moved role was typically replaced by their appointed successors. In all, there were 226 interviews. These were of an average length of 45 minutes to 1.5 hours. Interviews were recorded and transcribed, with notes taken and typed up within 24 hours on the odd occasions when an interviewee requested not to be recorded, or the interview took the form more of an informal conversation. Since the purpose of the research was not initially a focus on the relocation, individuals were not selected as interviewees with this in mind. However, due to the nature of the change process, many of the European managerial interviewees were in roles requiring relocation. Thus, interviews provided access to first-hand views on those involved in the changes. And, of course, everyone knew organization members earmarked for relocation and were impacted by the relocation and associated changes as they got underway.

Fourth, data were collected through focus groups in the UK (46 in total) to extend data collection beyond UK senior managers and their reports. These were run across functions (sales, marketing, logistics, finance, HR) and were designed to facilitate access to views in the UK about the change process, and track its progress in the UK subsidiary. Individuals were selected to be

representative of function and hierarchy. 50 – 60 organization members regularly attended these groups (an average of 10 per group), but the numbers could vary as individuals moved roles or left the organization. Discussion focused on views of the change process, including of course the relocation. All focus groups were recorded and transcribed with the permission of the attendees. The groups were facilitated to take advantage of the “snowball effect” (Balogun, Huff & Johnson 2003) whereby participants build on contributions from each other.

Thus, the data provided real-time access to the ways in which European HQ managers sought to build legitimacy internally for the head office relocation along with the responses in the UK subsidiary to these legitimation strategies. Interviews with UK managers, and focus groups with UK non-managerial staff, captured the responses of subsidiary members to the legitimation strategies of the European HQ managers. If we understand legitimacy in terms of constituents’ perceptions of organizational actions, and in terms of “a *relationship* with an audience, rather than being a *possession* of the organization” (Suchman 1995: 594), these interviews and focus groups were key in gaining insight to the legitimacy judgments of subsidiary actors. They allowed us to track the dynamics of HQ legitimation strategies and UK recipients’ legitimacy judgments and how these developed over time. Media texts were also gathered that showed how such relocations were communicated by the Swiss authorities and the legitimation claims in them.

### **Data analysis**

In the first stage of analysis we constructed rich descriptions in the form of timelines and accounts (Langley 1999; Balogun et al. 2011) of key events in the introduction and implementation of the relocation decision. In this descriptive account we captured details of the key legitimation strategies through which European HQ managers attempted to convince internal constituents of the rationale for the changes and the benefits that would be realized from the new head office location. We also captured key themes in responses of UK employees to these legitimation attempts to determine the nature of the judgments they were developing and why. This enabled us to identify interactions between strategies and judgments, but also importantly to analyze each separately in detail to better understand the interaction and how the subsidiary members’ legitimacy judgments were developing.

In our second stage of analysis we interrogated the data inductively in order to identify the

emergence and persistence over time of different themes in the legitimation strategies of European managers and in the UK responses. We used NVivo qualitative software package to search and code the data and to organize and examine further the central themes emerging in the analysis. Consistent with the principles of inductive data analysis (Miles & Huberman 1994), our coding of data and the development and revision of categories was undertaken in an iterative process with the authors reaching agreement on the prevalence and interpretation of central themes and, over time, aggregate dimensions that link to existing theoretical constructs. Our early coding was very detailed and based on the terminology of the research participants to create in vivo codes (Van Maanen 1979). We then clustered these into thematically related categories (Gioia, Corley & Hamilton 2013). See Figure 2.

*Insert figure 2 about here*

Our coding and analysis of the thematic categories for the European managers' internal legitimation strategies led us first to identify certain types of claims. We identified claims which could be categorized according to appeals on the basis of personal or organizational benefits and in terms of the strategic business case underpinning the changes. For example, we categorized managers' claims about "overall quality of life" and claims that the new location offered "Quality of transportation infrastructure" as appeals based on personal and organizational benefits. Our coding and analysis of these thematic categories also showed that rhetorically European managers' legitimation strategies included similar claims to those used by local Swiss officials and other relocating companies (e.g. in the media) over time as they responded to broader criticism about such corporate moves. We categorized claims to do with the business benefits that would flow from colocation in a central location, such as efficiency, growth, collaboration and faster decision-making, as appeals based on the strategic benefits for the move.

In addition to legitimation claims, we identified the use of other legitimation strategies which were evident in the actions of European managers. To consider how to categorize these we first turned to Bitektine and Haack (2015) who divide strategies into 1) rhetorical to do with the content of the messages; 2) credibility to do with the extent to which message speakers are influential due to position or status; 3) validity "staging" to manipulate perceptions of targeted evaluators; and 4) coercion / inducement. We identified that some actions were consistent with Bitektine and Haack's

strategies of inducement and coercion, for example, seductive relocation visits, and classified them as such. However, we then identified a third category of strategies to do with building credibility for the decision, which appeared to be a cross-over between Bitektine and Haack's (2015) strategies of credibility and validity, including endorsement by results and pushing ahead with conviction.

Next, our coding and analysis of responses from the UK subsidiary identified central themes in their evaluations that were contesting the legitimation claims of the European HQ managers. In their evaluations the UK made (negative) judgments about the claimed personal and organizational benefits, and the strategic business case. As we analyzed and thematically clustered these judgments in the early stages of the legitimacy building process, we found categories similar to those proposed by Tost (2011), and used by Huy et al (2014), and we regularly returned to their examples and definitions to help our categorizations.

We identified judgments about the significant practical consequences for those asked to relocate to Switzerland, such as issues to do with children's schooling and language and spouse's careers, but also personal careers. We also found judgments about organizational benefits, such as a significant potential for loss of organizational knowledge. In addition, connected to the mandate loss for the UK, and the new way of doing business with centralization in Switzerland, we found judgments about the new business model and its inability to meet the perceived need for local decision making for local brands (and therefore market share and profit) that prior decentralization and autonomy had enabled. We categorized all of these judgments as evaluations of instrumental legitimacy, since they were to do with an individual's or group's attempts to reach internalized goals or outcomes (Huy et al. 2014). These judgments reflected evaluations typical of the instrumental to do with personal impact and self-interest as well as more organizational-level concerns to do with the organization's effectiveness and efficiency (see Tost 2011).

We identified judgments to do with poor treatment of individuals and categorized these as evaluations of relational legitimacy (Tost 2011; Huy et al 2014) since actions were judged as not promoting or protecting individuals' dignity, entitlements or self-worth. Although in some cases, there appeared to be overlap in evaluations of instrumental legitimacy and relational legitimacy, the differentiating factor was to do with the implementation process and not just the outcome. For

example, while we classified issues to do with negative family or career outcomes as an instrumental evaluation, the evaluation that people were being asked to accept the decision without receiving any compensation, such as a salary uplift, was classified as relational, as this was judged as not treating individuals with dignity or giving them outcomes commensurate with their entitlement.

Finally, we categorized judgments we identified about the organization, such as putting profits before employee welfare, as judgments of moral legitimacy (Tost 2011; Huy et al 2014), since these were considered as inconsistent with the evaluator's moral values. Again, there were apparent overlaps here. For example, evaluations that the move to Switzerland was a cost saving exercise and potentially damaging to a business, because it would result in a loss of knowledgeable personnel and take decision-making away from the market were classified as instrumental, whereas evaluations that moved beyond this to suggest that putting profits before people was wrong were classified as moral, since this was an evaluation to do with a clash between company actions and what individuals believed should be valued. Tost (2011) points out that such overlaps should be expected giving the example that if a practice is deemed efficient it is an instrumental evaluation, but in a culture that values efficiency, it may also influence evaluations of moral legitimacy.

As change progressed, however, we identified additional evaluations to do with a sense of inevitability of the decision, and also a sense of cynicism expressed through black humor and mockery of the business case presented. See Figure 2. Our analysis showed these evaluations to be influenced by European managers' actions as well as their particular legitimation claims.

From our data analysis we built tables of supporting evidence for our identified categories of legitimation strategies and legitimacy judgments. We provide some of these as supporting quotations for our coding in the text, with additional quotations left in tables. See Tables 1 – 4 in Findings. Our analysis of legitimation strategies and judgments also revealed the temporal unfolding of legitimacy dynamics over the period of the research as described in the following sections.

## **FINDINGS**

As a result of our analysis, we identified three key phases through which European HQ managers' legitimation strategies and UK subsidiary legitimacy judgments evolved over time: initiating legitimation as part of the decision announcement resulting in early legitimacy judgments (end of

2005 to announcement of office location in August 2006), building legitimation as the decision is implemented resulting in the development of judgments and conflict over legitimacy (August 2006 to mid-2007), and reinforcing legitimation to enable moving on through rationalized judgments that lead to acceptance, if not full legitimacy, in the subsidiary (mid-2007 to August 2008). See Figure 1.

### **Phase 1: Initiating legitimation and early legitimacy judgments**

This phase focuses on the initial announcement of, and legitimation claims for, the need for a new head office as part of the launch of the new strategy and structure by the European managers. It leads to early negative UK subsidiary legitimacy judgments as individuals question the appropriateness of the proposal, and reveals how early claims and judgments of these have longer-term consequences. In particular, the negative judgments formed in this decision announcement phase are important to the way judgments subsequently develop.

#### ***HQ Legitimation strategies: Initiating Legitimation***

Early on, before the particular location had been announced, the new HQ did not feature heavily in communications. Communications were focused primary on the rationale for the new strategy and structure. At the European leadership team annual roadshow to senior UK managers in December 2005, which focused on the new strategy and structure, the presentation positioned Brand Co against competitors as having a structure that hampered efficiency and effectiveness across Europe, with its country-specific focus leading to complex, slow decision-making. The presentation did, however, suggest the importance of a “*tax efficient location*” for the new European HQ as a key component of the new European strategy.

***Legitimation claims: strategic benefits of co-location.*** European HQ managers sought to initiate legitimacy for the decision through claims connected to the strategic business case for efficiency and effectiveness. Relocation and colocation in one place would produce interconnected strategic benefits of efficiency, growth and faster decision making, “*to accelerate decision-making, clarify responsibilities and generate the greatest opportunities for growth in the EU Region*” (Email Announcement, Nov 2005) and “*Current structure hampers effectiveness and efficiency ... complex internal decision making ... for example 12 people from 10 different countries wanting a say in for example the advertising*” (European leadership team annual roadshow to senior UK managers, Dec

2005) and “*our new EU organization will also drive growth by reducing costs*” (Email Announcement, Feb 2006).

### ***UK Response: Forming Early Legitimacy Judgments***

In 2006 early judgments about the legitimization claims, prior to the announcement of the new HQ location, largely centered on speculation about whether claimed business benefits would be achieved given possible negative consequences.

***Evaluations of instrumental legitimacy: business implications.*** From the beginning, in 2006, there were concerns in the UK that the claimed business benefits of effectiveness and efficiency would have negative implications, such as a loss of talent since the organization did not have a “*fully mobile workforce.*” (UK Interview, Mar 2006), with estimates of a 30% loss. “*I think there are a lot of people in that situation that have had to accept jobs ... knowing its somewhere in Europe. So I think there could potentially be a lot of fall out ... people are waiting to see where the new headquarters is*” (UK Interview, March 2006). Subsidiary employees raised concerns about the roles required to move and the implications of the relocation for the business: “*In order to satisfy that tax efficient model certain key roles in the organization will have to relocate ... We are certainly running a risk in forcing that issue, and we’ll have to force the issue if we are to satisfy this tax thing.*” (UK Interview, March 2006).

Interviews with UK research participants, both those due to stay in the UK and those in roles earmarked for relocation, revealed a certainty that tax was an important element in the choice over the location of the new head office. For example, “*The announcement says ... That organization will be based in a tax advantaged location, yet to be decided*” (UK Interview, Dec 2005) and “*If we go with what we know at the moment which is that the business will be run from a tax efficient location ...*” (UK Interview, Mar 2006). They questioned the other claimed strategic benefits, particularly the benefits of a shift to centralized decision-making given the country-centric nature of some of the UK brands and tastes, “*People think it is all about cost ... There is a misunderstanding by the people who have made the decision about the nature of the market. There is a lot of local brand.*” (UK Interview, March 2006). “*At the end of the day, tax efficiency aside, a business stands or falls on its people. Maybe I’m being too purist.*” (UK Interview, Jun 2006)

## **Phase 2: Building legitimacy and developed judgments**

This phase focuses on the legitimation process following the announcement of the actual HQ location in August 2006 and the commencement of the relocation. It details the attempts at building legitimacy for the chosen location and its implications through more detailed legitimation claims and other strategies including building credibility and inducements and coercion. It details the resulting negative UK subsidiary legitimacy judgments and how they develop.

### ***HQ Legitimation strategies: Building Legitimation***

Once the decision was announced in August 2006, there was far more communication about the new head office and its location. HQ legitimation claims to do with the strategic business case were supplemented with claims that mirrored established external claims used by the Swiss authorities (and others) to legitimate decisions by companies to relocate in Switzerland. These emphasized personal and organizational benefits.

*Insert Table 1 about here*

***Legitimation claims: personal and organizational benefits.*** Following the announcement by the European President of the location of the new European head office as Eurocity in Switzerland in August 2006, the organization announcements framed the decision in terms of organizational benefits such as a central location with a good infrastructure, and personal benefits such as quality of life for those due to relocate, in addition to any financial benefits, “*The team rated [the City] highly as a headquarters city on several key factors, including: Ease of doing business; Quality of transportation infrastructure; Availability and quality of housing, schools and office space; Quality of life*” (Email Announcement, Sept 2006), and “*It’s the location that provides the most benefits of all locations investigated based on a number of criteria, including quality of life, central location within Europe, housing and overall financial attractiveness.*” (Employee magazine, spring 2007).

These communications echoed strongly the external legitimation claims in the media justifying the practice of foreign companies relocating European headquarters to Switzerland, and in which the business and personal benefits of the location, such as quality of life, were stressed more than tax as the key rationale for the decision. For example, in 2004, other companies locating their European headquarters in Switzerland argued that “*it offers access to (relevant) experts as well as a*

*multilingual environment and favorable tax conditions ... (the city is) at the heart of Europe and offered high living standards and salaries and simple procedures for visa applications.”*

**Legitimation claims: strategic benefits of co-location.** The claims to do with the strategic benefits of relocation were reinforced following the announcement of the new location in Switzerland, *“I am convinced that this change, consolidating our headquarters in [Switzerland], will strengthen our team and help us further accelerate the growth of our region.”* (Email Announcement, Sept 2006). A new project to facilitate the relocation, “Project Europe,” was announced at the European leadership team annual roadshows in early 2007 and in email and intranet communications. “Project Europe” was to realize the strategic benefits of relocation and colocation in terms of efficiency, growth, teamwork, collaboration and faster decision making, *“Central location to improve effectiveness and efficiency; EU leadership team ... located in one place; Replace “wasted time” ... with “quality time” spent on innovation and growth”* (European leadership team annual roadshow to UK leadership team, Feb 2007) and *“European Leadership Team, marketing management and functional management together in a single location in [Switzerland] with the aim of enhancing teamwork, collaboration, alignment and speeding-up decision making.”* (Email announcement, spring 2007).

**Building credibility.** The senior managers also sought to build credibility for the choice of relocation and colocation, through emphasizing improvements in business results, *“we have already accomplished a great deal. Although there is still some way to go, our Q1 results, which saw EU organic growth up 2.9% on the previous year, demonstrate that the steps we are taking as the right ones to deliver consistent growth.”* (Newsletter, July 2007). They pushed ahead with conviction, taking every opportunity to emphasize the success to date of the decision and its support from within the organization, *“In line with our expectations, 65% of those offered to relocate to the new office have chosen to make the move”* (Newsletter, April 2007). The new office itself was a success – *“a milestone.”* Meanwhile, there were also attempts to acknowledge the efforts of staff (their pain) in supporting the move, we recognize *“the dislocation and upheaval in moving to a new location, and thanks those who are relocating to the new office”* (Newsletter, June 2007)

**Inducements and coercion.** Following the September 2006 announcement and early

communications of the decision, it was not just the level of communication justifying and explaining the decision that was stepped up through organizational announcements and intranet information. Formal processes were put in place to facilitate the relocation of staff. Staff who needed to relocate, both those who were informed of the need to relocate when taking up their roles in the new structure at the end of 2005 and those only recently informed of the implications of the chosen location, had to fill in a form. Those who were not willing or did not want to relocate had to say so, take an exit package and leave so that someone else willing to live in Eurocity could be appointed or recruited to that role. The need to respond to this ultimatum in a relatively short period of time carried a threat and was to some extent coercive, but typically exit brought with it a good package. The emphasis was on inducements. Those taking the 'seriously considering it' or 'yes' options were invited on a visit to look at the new offices and the area and discuss housing and school opportunities. For example, one UK manager commented, "*So they're saying it's all ready so you can come whenever you like and why don't you come for one day or for dinner or maybe two days a week. And then we'll go out for dinner, maybe have a look round ... And then the other bit is they think to get ... to guarantee our children places in the best schools we should sign them up now.*" (UK Interview, May 2007).

#### ***UK Response: Developed Legitimacy Judgments***

The legitimacy judgments of the UK subsidiary revealed a strong temporal dimension, whereby evaluations of early legitimation claims are not forgotten and influence subsequent instrumental, relational, and moral judgments, leading to internal legitimacy conflict. These subsidiary legitimacy judgments show that senior manager legitimation strategies failed to build legitimacy not just at the instrumental, but also at the relational and moral level.

#### ***Insert Table 2 about here***

***Evaluations of instrumental legitimacy: business implications.*** Following the announcement of the head office location, evaluations of instrumental legitimacy in terms of business implications became more negative. This was a period in which decisions had to be made about relocations and individuals began to choose whether they would move. There was significant questioning of organizational impacts, such as loss of talent and business knowledge, as individuals chose to take exit packages instead of relocating, and concerns about the impact of this on the ability to make

appropriate decisions for local country-based brands. There was, for example, increasing speculation in the UK around the potential numbers refusing to move to Switzerland, *“I think the business is naïve to think that only fifty percent of the people won’t go, I think it’s going to be higher. And they’re going to have to work damn hard to retain the people they do.”* (UK Interview, Nov 2006). Concerns were about a *“skills drain”* as *“they will lose a huge number of people and a huge amount of experience. And we already see that with certainly from the UK very few people. But when I talk to my counterparts in other countries it is a similar story.”* (UK Interview, Jun 2007). Individuals were openly questioning the extent to which there was a match between the new organization structure driven by the relocation and colocation decision and the declared organization strategy, questioning the ability of a centralized structure to make appropriate local decisions once those with local knowledge had left, *“I think it’s mad, it’s absolutely mad isn’t it. Why the hell would you want to be marketing (a local brand) out of Eurocity when you’ve got ... it’s only a local brand”* (UK Interview, Jun 2007).

The conviction from early 2006 that the decision was strongly influenced by cost efficiencies and tax remained, and was strengthened by experiences of Project Europe, *“Yeah. I mean on meetings I sit in it’s over run with tax people ...really it’s all down to a tax decision.”* (UK Interview, Jun 2007). The case for the other claimed strategic benefits was weak, *“[Switzerland] is not a bad place to be I’m sure, but the motivation has got very little I’m sure to do with its fantastic suitability as a world class city and much more to do with the business benefits that come with it.”* (UK Interview, Feb 2007)

***Evaluations of instrumental legitimacy: negative family and career implications.*** For those due to relocate, from early on in 2006, legitimacy judgments also included speculation about the personal impact. For those in jobs who knew their position was due for relocation (e.g., senior marketing managers now in the marketing structure) there were very personal concerns about implications for families, such as partners’ careers and the implications for income and these grew once the location was known, *“You have to assume that my husband can’t get a job because he can’t speak Swiss or German ... So, we’d lose half our income and you know so are you going to compensate me with half my income, with you know a 100% increase in my income? Of course*

*you're not.*" (UK Interview, Aug 2006).

As individuals had to decide whether to relocate once the actual choice of location had been made towards the end of 2006 and into 2007, individuals typically expressed more significant negative assessments of the personal benefits arising from the move, in contrast to the positive benefits claimed by senior European managers. These assessments related in particular to partners' careers, language difficulties, and children's schooling, "*So that's the, you know and all the family stuff, my wife's career is going quite well and that is taking off, so we've got all that to consider really. The kids are very happy, very settled, doing very well in school.*" (UK Interview, Nov 2006). A move to Switzerland also had negative career implications related to becoming a global assignee. Previously global assignments were rewarded with a return by the individual to their home country in a more senior position. Now a move to Switzerland appeared to be a permanent, life-changing decision, "*In the old days ... when I went ex-pat it was ... I went in with the full knowledge that it's two or three years and I'll be back ... now, they're asked ... go to [Switzerland], become localized in [Switzerland] and then your career path will move round in Switzerland. So you're sort of saying move my family forever.*" (UK Interview, June 2007)

***Evaluations of relational legitimacy: poor treatment of individuals and poor outcomes***

More fundamentally, the UK subsidiary judgments were being influenced by the actions of European HQ managers as much as their legitimation claims. It was perceived that the actions being taken to support people in relocation decisions failed to treat individuals with respect or provide outcomes or support commensurate with their entitlement, given the level of upheaval involved. This led to a lack of relational legitimacy for the new head office decision. As the European managers developed their approach to relocation of the head office in Switzerland from the end of 2006 and into 2007, and pushed ahead with conviction in the face of individuals choosing not to relocate, individuals believed that the European managers were adopting a 'hard-nosed' approach, "*my boss says he has a pile of CVs on his desk of talented people wanting to move to Switzerland ... I thought that was ... slightly insensitive ... he was telling people that he could do without them.*" (UK Interview, June 2007). It was said that there was a "growing culture of 'we will do this'" regardless of employee concerns, which indicated that the European managers were putting cost savings before people, which could only be

negative for the organization. The decision was “agonizing” for individuals, “*The company is playing a tough love strategy with them, here’s the deal, take it or leave it.*” (UK Interview, Nov 2006).

In addition, it was thought that the relocation process left individuals, if they made the choice to relocate, with poor outcomes and recompense for what they would be doing to support the company. For example, there was no relocation assistance for the partners of those relocating, “*if you’re the senior brand manager here and your spouse has got a job of equal standing or better, then you’ve got to provide help for them to be able to relocate and find jobs.*” (UK Interview, Feb 2007). The packages on offer did not compensate for the upheaval, “*all that pain and family grief ... for a financially neutral position. No way*” (UK Interview, Feb 2007). Also, the need to move showed no consideration for the family of those relocating, “*80% of my responsibility remains in the UK ... So I’ve said I don’t get this, I’ve got to move my whole family to [Switzerland], from the UK, to spend a few days a week back in the UK.*” (UK Interview, Feb 2007).

**Evaluations of moral legitimacy: profits before employee welfare.** As the relocation process proceeded, and the impact of the decision was increasingly felt in the UK, negative judgments were strengthened, not just by issues of relational legitimacy, but also moral legitimacy as individuals made values based judgments. Concerns grew that the move was primarily about cost saving and this meant that profits were being put before other issues such as employee welfare, “*I just think structuring your business around ... efficiency first, consumers, customers, employees are you know, playing second fiddle to P&L management.*” (UK Interview, Nov 2006), and the company was positioning this as excusable, “*It’s the people axis, we are involved in a corporate cost saving relocation exercise and the business has set its stall out to say, ‘it’s okay to lose 50% of these people’. That’s a not a message I enjoy as a business. I think that says it’s a headcount saving.*” (Focus Group, Jun 2007).

Alternative explanations for the decision were voiced. Experiential evidence was cited in support of the belief that the move to and centralization in Eurocity was about a “*milk strategy*”, in other words, about saving money and building short-term profit rather than investing in the future potential of the business or in employees, “*I’m not surprised people in the business see ... what’s happening as a milk strategy, because they see a lot of things being based on saving money, they see, I would suspect... I think a lot of people do see ... the creation of an office in [Switzerland] as*

*creating quite a lot of personal carnage.”* (UK Interview, Jun 2007).

### **Phase 3: Reinforcing Legitimacy and Moving On**

The third and final phase has to do with moving on in the face of a lack of success in building legitimacy to date, and continuing hostility to the decision. European HQ managers focused on attempts to reinforce legitimacy. They made efforts to achieve absolute consistency in legitimation claims by reframing the benefits and costs in a way that developed a coherent story of the organizational benefits, and the relocation and associated changes as a logical extension of the strategic business model for a responsible corporation. However, the employees in the UK subsidiary continued to question the strategic rationale for the relocation and colocation, persisting with the evaluation that it was all to do with various forms of cost savings, with poor outcomes for those who did relocate. Importantly, a sense of inevitability also emerged. This sense of inevitability was accompanied by their own understanding of plausible (alternative) explanations for the decision in terms of costs and tax savings, and a certain cynicism about the changes. We show how these responses enabled the organization to move on through employee coping and complying, despite a lack of full scale legitimacy.

#### ***HQ Legitimation Strategies: Reinforcing Internal Legitimation***

***Legitimation claims to do with a business improvement project.*** During this time, HQ legitimation claims were reframed. Appeals on the basis of personal implications, such as ‘quality of life’ largely disappeared. Instead, communications developed the previously claimed strategic rationale into a more coherent story. There was increasing consistency in the legitimation claims being communicated in different channels. Claims regarding the strategic rationale for the move and its delivery of desired strategic benefits were strengthened and featured more prominently in communications. Communications and announcements focused increasingly on the new HQ and Project Europe as primarily a “*business improvement project*”, “*Setting strategy in (Switzerland) and implementing it effectively in markets adds up to a winning combination which will benefit our customer, our consumer – and us.*” (Email Communication, March 2008)

***Insert Table 3 about here***

***Legitimation claims to do with being a responsible corporation.*** The tax issue raised by

employees was very clearly acknowledged, “*There is a potential tax benefit ... but tax is not the primary reason we need Project Europe*” (Email Communication, March 2008), but the focus was placed on the need to do business differently to support the new marketing structure, and Project Europe as a business improvement project. The company was demonstrating the characteristics expected of a responsible corporation, for example, in the same communication, “*not evaluating potential tax implications of our business decisions would simply be irresponsible.*”

***Claiming success and coercion.*** Legitimation claims continued to focus on building credibility through drawing on endorsement by results, “*We should all be proud of last year’s near 4% top line growth.*” (Email Communication, April 2008). Furthermore, they engaged in stronger coercion. The relocate or exit stance was softened a little with some individuals given more flexibility to stay in their home country but commute for some of the time. However, the organization had been frequently recruiting directly to Eurocity to replace those who did not want to relocate and were taking exit packages. These new individuals, notably, did not question the strategic business case for the chosen location. Furthermore, they rejected the argument that those based in Switzerland could not make good decisions both at a European level and locally, “*It’s not true. Sorry, flat out, it’s not true. That’s an arrogant behavior. People are people, the psychological processes we go through are absolutely identical.*” (New European HQ manager, June 2008).

#### ***UK Response: Moving on: Rationalized Judgments and a Sense of Inevitability***

***Evaluations of Instrumental legitimacy: questioning the business case.*** The UK staff continued to question the strategic benefits, raising issues with the loss of knowledge and expertise, resulting in a lack of effectiveness for the business, “*one would hope that in Eurocity they will have skilled and knowledgeable people ... I’m not confident they’re finding that ... My experience of some of the people in my function in [Switzerland], they’ve just joined [Brand Co]. They don’t know much about the business. So they have quite a bit to learn.*” (UK Interview, Feb 2008). The perception remained that it was all about cost savings rather than any other claimed benefits, and thus would not lead to good results for the business, “*Everybody in the world knows it’s a cost saving project and we pretend it’s something else because the move to centralized marketing isn’t actually done the way they are doing it.*” (UK Interview, Apr 2008).

***Insert Table 4 about here***

***Evaluations of relational legitimacy: poor outcomes.*** There were more evaluations to do with poor outcomes for those who did relocate, which did not match what had been promised or compensate for the upheaval, such as an unattractive working environment in the new head office, “*it’s not a particularly tempting environment at the moment because it doesn’t seem like ... a fantastically great place to work. And yet it was sold as a great work-life balance ... when I go there I’m not like, wow, get me here now* (UK Interview, Nov 2007) and “*it’s not a very attractive place to be ... We did some nice things but the office is soulless.*” (UK Interview, Feb 2008).

***Complying: Accepting inevitability.*** Alongside these legitimacy judgments, a new sense of inevitability pervaded the UK concerning the move to Eurocity and the outcome of the changes. Judgments to do with moral legitimacy appeared to be replaced by an acceptance that the very business model they wanted to reject was going to happen. There was an acceptance of the cost saving motive as a fact – what was happening was going to happen. The relocation and new European structure was needed to deliver the efficiency savings, despite the perceived negative consequences, so the UK had no choice in the matter: “*The profile it’s got all the way up from the top on this as being one region, and you can see it in the press that we’ve set up the headquarters and all this, so I think it will be forced upon [us].*” (Focus Group, Aug 2008). The UK was now part of an integrated European operation driven by an organization wanting efficiency gains through centralization and location, “*It’s about a European company and we have to accept that ... Yeah, and I think that’s one of the things.*” (Focus Group, Aug 2008). And “*... we’re moving to Eurocity and I feel that ultimately we will be a distributor who executes within those parameters*” (UK Interview, Feb 2008).

***Coping: Cynicism.*** Alongside the sense of inevitability, there was also evidence of cynicism about senior managers’ legitimation claims. The cynicism appeared to be a form of cognitive dissonance reduction, enabling the UK to accept the decision through alternative explanations as to why it was really happening and why it was therefore inevitable. The cynicism manifested itself in the UK through increasing mockery of, and a black humor about, the claimed logic for the relocation to Switzerland and the associated changes, “*If you want to be close to your customers and your consumers you ought to be in the country where your customers and your consumers are ... Not in a*

*canton in Switzerland where ... you've got more billionaires per square kilometer than anywhere else in the world.*" (UK Interview, Apr 2008).

This cynicism seemed to stem in part from perceived contradictions between the legitimation claims and actions of the European managers. The UK continued to cite tangible experiences of the cost saving practices of the European managers, with no tangible evidence of the promised investment in growth (as would support the claimed strategic benefits), *"What we see is a raft of announcements every few weeks of more reorganization and cuts etcetera but I can't quite see the delivery."* (UK Interview, Feb 2008). And *"And then you say what's really increased in focus is Project Europe ... Will it sell more boxes ... make us a better marketing company? No, of course it won't. It's about the efficiency."* (UK Interview, Apr 2008). Such experiences supported an alternative and coherent account to do with business efficiency savings, against the account promoted by the senior managers to do with growth, innovation and a business improvement project.

#### **BUILDING INTERNAL LEGITIMACY IN HQ RELOCATION: A PROCESS MODEL**

As a result of our analysis, we offer an inductively derived process model that elucidates the role of internal legitimacy in contentious decisions, such as HQ relocation, in MNCs. Although our case has specific features, our findings identify overall patterns that contribute to our understanding of how contentious decisions may or may not be legitimated in subsidiaries. Figure 3 below provides a summary of our model. Our findings reveal a clear pattern of attempts at initial legitimation when the decision is first communicated: this leads to early legitimacy judgments built largely on speculation. As details of the decision are fully formulated and implemented, this is followed by a strong focus on building legitimacy through a wider range of strategies, incorporating actions as well as claims. These strategies lead to a more developed set of increasingly negative legitimacy judgments due to the way the dynamics between the strategies and judgments play out within the local subsidiary context. The lack of achievement of legitimacy and the consequent ongoing questioning of the decision trigger the move to the third phase. There is a shift to reinforcing legitimacy through a set of changed legitimation strategies; these lead to acceptance of the changes, if not full-scale legitimacy, and hence allow the MNC to move on.

*Insert Figure 3 about here*

This model highlights two dynamics that are central to how legitimacy is built and evaluated for contentious decisions in MNCs. The first is a dynamic between legitimation strategies and legitimacy judgments. The second is a temporal dynamic in how both the legitimation strategies and legitimacy judgments evolve over time. These dynamics are central to how the MNC moves on from a lack of full legitimacy for the decision. They are also underpinned by the cross-border nature of the HQ relocation decision. In what follows we unpack these two dynamics and also highlight how the MNC context influenced them.

### **The Dynamic between Legitimation Strategies and Legitimacy Judgments**

The first dynamic of note is between legitimation strategies and legitimacy judgments (marked by arrows between the two in Figure 3). We build understanding of the dynamic between legitimation strategies and legitimacy judgments by drawing on a social psychological approach to legitimacy (Bitektine & Haack 2015; Tost 2011) to highlight the role of instrumental, relational, and moral aspects of legitimacy judgments. In addition, we find that the MNC context, the cross-border nature of the HQ relocation decision, with nation-based winners and losers, significantly affects the interplay between HQ legitimation strategies and subsidiary instrumental, relational and moral legitimacy judgements.

Issues of instrumental legitimacy relate to both overall strategic considerations and family and career implications. These are heightened by the MNC decision-making context. The family and career implications that influence judgments of instrumental legitimacy include language and schooling issues that impact opportunities for spouses and children in ways that would not arise for within nation moves. Other issues of instrumental legitimacy relate to the shifts in subsidiary mandate caused by the relocation. Issues of instrumental legitimacy are also linked with relational legitimacy in terms of how sympathetically they are dealt with. Action based strategies, such as use of inducements and coercion, are important in relational judgments: HQ managers are evaluated not just against what they claim, but against what they do in respect of individual concerns. We see this particularly in the second phase as individuals have to make difficult choices.

We also identify how the evaluation of legitimacy issues implies moral reflection. When actions are evaluated as being inconsistent with the evaluator's moral and ethical values (profits

should not trump all concerns for welfare, for example) issues of moral legitimacy can result. Furthermore, moral issues are values based, and can therefore vary within an MNC across subsidiaries with different cultural scripts (Delmestri & Wezel 2011). For example, in our case, the UK subsidiary valued its relatively high level of autonomy and embeddedness in the local economy. This led to assessments that relocation put cost savings above other considerations, irrespective of the extent to which this altered what had been a strength of the business, for example, local decision-making. Thus we provide support for those who argue that instrumental, relational, and moral views of legitimacy should not be considered alternative explanations for evaluations of the degree to which legitimacy is judged: legitimacy is evaluated on instrumental, relational, and moral bases simultaneously (Tost 2011). In the context of controversial decisions in MNCs we find that it is the combination of instrumental, relational, and moral considerations that form the roots of legitimacy conflict.

### **The Temporal Evolution of Legitimacy Strategies and Judgments**

The second dynamic of note is a temporal dynamic, both in the legitimization strategies and the legitimacy judgments (marked by arrows between phases), whereby what happens in an earlier phase influences (and potentially constrains) what is done subsequently, creating a type of path dependency over time. The first phase, during which the decision is first communicated, involves initial legitimization through claims about the business case for the decision. Since specific implementation choices may not be complete, little else can be done. However, this leaves an exposure since once all decisions have been made, this may lead to modified legitimization strategies in the building phase. Meanwhile, early legitimacy judgments are formed only from the sketchy details of the strategic business case presented in the initial legitimization strategies, and specific considerations that might subsequently appear less appropriate – such as the tax motive in our case. They tend to be based on questioning of the initial claims. These judgments nevertheless leave a memory trace or residue that influences later judgments developed in response to subsequent legitimization strategies. This first phase is then significant for how things subsequently unfold.

The second phase then involves building legitimization not just for the decision, but for the specifics of it, such as in this case the location. Early legitimization claims need to be reformed, and a wider spectrum of more comprehensive legitimization strategies employed, leading to more developed

legitimacy judgments. Our case shows how legitimation claims for the business case surrounding the decision may now be supplemented with general scripts or established legitimation claims that are frequently used by MNCs in similar situations. This may not have been possible in the first phase without knowledge of the specifics of the decision. However, this may result in a perceived hiding, or downplaying, of motives with negative implications for how internal legitimacy judgments develop. Efforts are also made to build credibility, underscored by the endorsement of results, acknowledging “the pain,” and pushing ahead with conviction. Yet as this case shows, the result may lead to use of legitimation strategies that do not deal directly with the sources of legitimacy conflict since they continue to contain elements questioned by the subsidiary in their judgments. Partly because of this, HQ are likely to supplement its legitimation strategies with strong inducement and coercion, which can result in perception of a “*hard-nosed*” approach that contributes to issues of relational and moral legitimacy. Such circumstances tend to result in legitimacy conflict, and possibly crisis, if the subsidiary judgments are overwhelmingly negative.

It is the failure to achieve full legitimacy and the possibility of a legitimacy crisis which could result in negative consequences for the MNC that triggers the third phase. This phase is characterized by legitimation strategies designed to enable the MNC to move on by reinforcing legitimacy despite a lack of full-scale legitimacy in all its subsidiaries. HQ managers may seek to address some of the criticisms in their claims, but largely respond to any resulting conflict with what others have termed a “domination strategy” (Dörrenbächer & Gammelgaard 2011), hardening their line by reframing their claims to develop a coherent and persistent story of a clear strategic business case. These claims need to be shaped by what has been said and done previously if they are not to lose face. In addition, senior managers may move from strategies of inducement and coercion to strategies that are more straightforwardly coercive, indicating that no opposition will be tolerated, such as in our case hiring people externally to replace those not willing to relocate. Finally, these strategies are supported by ongoing efforts to build credibility by continually emphasizing how successful the change has been.

However, prior subsidiary judgments continue to influence current judgments despite new claims and actions: the concerns remain as the new claims and actions are unable to address them. Existing subsidiary values and beliefs also act as a residue, contributing to a continuation in

subsidiary judgments that are not addressed by ongoing legitimation strategies despite persistence in repetition, since these are an extension of previous (failed) strategies. Thus rather than producing full-scale legitimacy, these ongoing judgments, in combination with the consistency and persistency in senior manager legitimation strategies in which there is no indication of any change of course, lead instead to a sense of inevitability. The subsidiary engages in strategies of coping and compliance expressed through cynicism and black humor. Cynicism and black humor are forms of cognitive dissonance reduction (Festinger 1957) commonly occurring in situations of change (Bacharach et al 1996); they allow individuals to reconcile experienced inconsistencies. This is underpinned by the fact that the subsidiary members can, through their cynicism, construct an alternative and plausible explanation for the decision in which there are advantages for the organization, although not necessarily the ones claimed by company managers. This resolves dissonance and allows the company to move on.

## **DISCUSSION AND CONCLUSION**

The purpose of this paper has been to elucidate the role of internal legitimacy in MNCs confronted with contentious decisions. For that purpose, we have studied a revealing case of HQ relocation and on that basis developed a process model that can also, with due caution, illuminate such processes in other contexts. By so doing, we make three contributions to existing research. First and foremost, we add to previous research on legitimacy in MNCs (Delmestri & Wezel 2011; Kostova & Roth 2002; Kostova & Zaheer 2009) by unpacking the dynamics of building internal legitimacy at the subsidiary level from a social psychological perspective. Second, our analysis enables us to contribute to what we know about the tensions that characterize HQ-subsidary relationships and the role of legitimacy and power in them (Balogun et al. 2011; Clark & Geppert 2011; Schotter & Beamish 2011). Third, our study also adds to nascent research on HQ relocation (Laamanen et al. 2012). We will elaborate on these contributions below.

### **Contributions to Research on Internal Legitimacy in MNCs**

Previous MNC research on legitimacy has focused primarily on external legitimacy (Delmestri & Wezel 2001; Kostova & Zaheer 1999; Kostova et al 2008; Kostova & Roth 2002), which has led to relative oversight of internal legitimacy. In particular, we still know little about internal legitimacy

from the subsidiary perspective, and how MNC parents build legitimacy for their decisions with subsidiaries, even though this is likely to be a crucial issue when MNCs deal with contentious decisions such as HQ relocation. Our analysis is an attempt to partially fill this research gap, and the inductively derived process model elucidates some of the key dynamics at play.

In particular, our paper introduces insights from social psychological approaches to legitimacy (Bitektine 2011; Tost 2011; Bitektine & Haack 2015) into research on legitimacy in the MNC context, which has thus far been dominated by institutional approaches. The social psychological approach enables us to focus on subsidiary legitimacy judgments and the dynamic relationship between HQ legitimation strategies and subsidiary legitimacy judgments through evaluations in terms of instrumental, relational, and moral legitimacy. This helps us to understand the “other side of the coin” that has been largely missing in previous international business research on legitimacy: the perspective of the subsidiary rather than the perspective of external stakeholders. In addition, our analysis unravels the various ways in which these judgments may or may not be successfully steered by HQ legitimation strategies. Furthermore, the social psychological approach helps to understand how moving on is enabled without full legitimacy for a decision. This is at least in part due to cognitive dissonance reduction (Festinger 1957) in and through means such as cynicism and black humor.

Finally, our analysis reveals the inherent problems that external legitimation poses for internal legitimacy in MNCs, adding to research on the complexities and dynamics of legitimacy and legitimation in the MNC context (Kostova & Zaheer 1999; Kostova & Roth 2002; Kostova et al. 2008). As our case vividly illustrates, strategies used to legitimate externally, in which claims draw on existing scripts that have particular relevance in the locale in which the organization is relocating, may not generate the required levels of legitimacy internally across all subsidiaries as they may not have resonance with employees in other locales.

### **Contributions to Research on Legitimacy and Power in HQ-Subsidiary Relationships**

It is now frequently acknowledged that changes in MNC-subsubsidiary relationships involve micro-political negotiation processes involving conflict as an integral part of the subsidiary development process (Birkinshaw et al. 2000; Bouquet & Birkinshaw 2008b; Dörrenbächer & Geppert 2006;

Dörrenbächer & Gammelgaard 2006; Jarzabkowski & Balogun 2009; Kim & Mauborgne 1993; Taplin 2006). Yet with a few exceptions (e.g., Balogun et al. 2011; Clark & Geppert 2011) there is a lack of understanding of how negotiation processes unfold between HQ managers and subsidiary managers in times of radical change. Hence our model complements not only models of internal legitimacy, but also studies that seek to account for how the negotiation processes between HQ managers and subsidiaries play out.

In particular, although building legitimacy across all subsidiaries affected by a parent decision may not be possible, the parent does need to move on in the face of conflict. Our model is revealing as to how this may be accomplished, showing how MNCs can move on despite a lack of full-scale legitimacy. Furthermore, as we argue above, legitimacy brings benefits to the study of internal reactions to change since it places a focus on change-agent recipient interactions in a way that avoids the tendency common in studies of resistance to view managers as in the right and employees as irrational and unnecessarily obstructive (see Huy et al. 2014). By focusing on legitimacy, we bring an additional dimension into consideration of the negotiation processes in the MNC-subsidiary relationship.

Balogun et al. (2011) show how conflict between the center and subsidiaries can be reduced during change that alters the center-subsidiary dependence-independence balance through negotiations that involve reconciliation in which both sides make adjustments as the change process proceeds. Here, in a context in which reconciliation was not possible, we uncover a different dynamic. Instead of legitimacy through reconciliation, our analysis reveals a specific kind of power dynamic that builds on reframing to ensure consistency in legitimation claims and increasing use of coercion on the part of HQ. This may include not just replacing people who do not actively support the changes, but taking the opportunity to recruit individuals from the new locale who have different cultural scripts or who have worked in similarly structured organizations. Engagement in strategies of cognitive dissonance reduction by recipients of change left with little choice in the face of legitimation strategies suggesting the inevitability of the decision is the key to the “success,” for want of a better term, of this approach to legitimization, because recipients have to find a coping mechanism that resolves the discomfort caused by dissonance.

It is important to note in this the increasing consistency in claims and actions that contribute to a sense of inevitability, which in turn enables compliance (Clark and Geppert 2011). Here top management's power-based strategy, a 'hard-nosed' approach in which they toughen their line, had a major impact on the sense of inevitability. The fact that the subsidiary members could still express their evaluations of a lack of legitimacy for the decisions through cynicism in their own discourse appears to have enabled them to distance themselves from the decision and its implications, so that they could move on and comply. Our case clearly shows how this discourse that criticized the decision was a major coping mechanism that allowed the subsidiary managers and employees to deal with the ramifications of the controversial decision.

### **Contributions to Research on HQ Relocation**

Finally, our analysis adds to research on HQ relocation. HQ relocation has become an important topic in its own right in International Business research (Laamanen et al. 2012). Our analysis contributes to this new stream of research by adopting a subsidiary perspective from which national and local issues are highlighted in addition to global or international concerns. Our analysis deepens understanding of how HQ relocation decisions cause disruptions in HQ-subsidary relationships, and lead to reformulations of subsidiary roles and identities, and how all this involves sociopolitical processes and dynamics that should be taken seriously if we are to understand the longer-term, multifaceted implications of HQ relocation decisions. In particular, our analysis highlights the struggles over legitimacy that HQ relocation decisions often lead to, as well as how subsidiary managers and employees can cope with and move on from decisions that are not as such perceived as legitimate.

### **Limitations and Future Research**

This analysis has limitations that should be taken seriously when interpreting the findings. The specific nature of the legitimation dynamics depend on the industrial and cultural context, and our case has its idiosyncratic features. For instance, the UK setting may emphasize a cultural or institutional tendency to value the autonomy or independence of the subsidiary more than would be the case in other contexts. It is also likely that depending on their mandate, subsidiaries may be more or less resistant to HQ relocation. In our case, the mandate of the UK subsidiary was challenged by the relocation. In other cases, the reactions could be different. Thus future research should analyze the

differences in legitimacy judgments within and across subsidiaries since people may experience relocations in very different ways depending on their background, position and, for example, national origin. It is also important to examine the dynamics of internal legitimation in MNCs for contentious decisions other than HQ relocations, and to focus particularly on the legitimation dynamics uncovered in this context. Our findings require much greater scrutiny in different contexts to build our understanding of the relationship within and between legitimation strategies and legitimacy judgments in MNCs over time, and how this may lead to particular patterns in strategies for moving on.

Future research could go further in exploring the micro-level dynamics, for instance by focusing on particular messages or arguments coming from HQ and examining how they are perceived in subsidiaries. This would shed more light on how legitimacy judgments are formed at the very micro-level and how this varies in an MNC context in comparison to, for example, more straightforward national contexts lacking the complexities of multiple industrial and cultural contexts. In addition, future studies could explore in more detail the various micro-level rhetorical strategies that may be used to achieve inevitability and examine more closely how the inevitability judgments of employees may change over time and the implications of these for the longer term. Future studies could also draw from other social psychological theories – such as procedural justice or distributive justice (Kim & Mauborgne 1993; Monin et al. 2013) – and combine their insights to develop a more elaborate understanding of the different aspects of legitimacy judgments in MNCs. In all, future studies should build on the use of the social psychological approach to advance our understanding of legitimacy in MNCs and international business.

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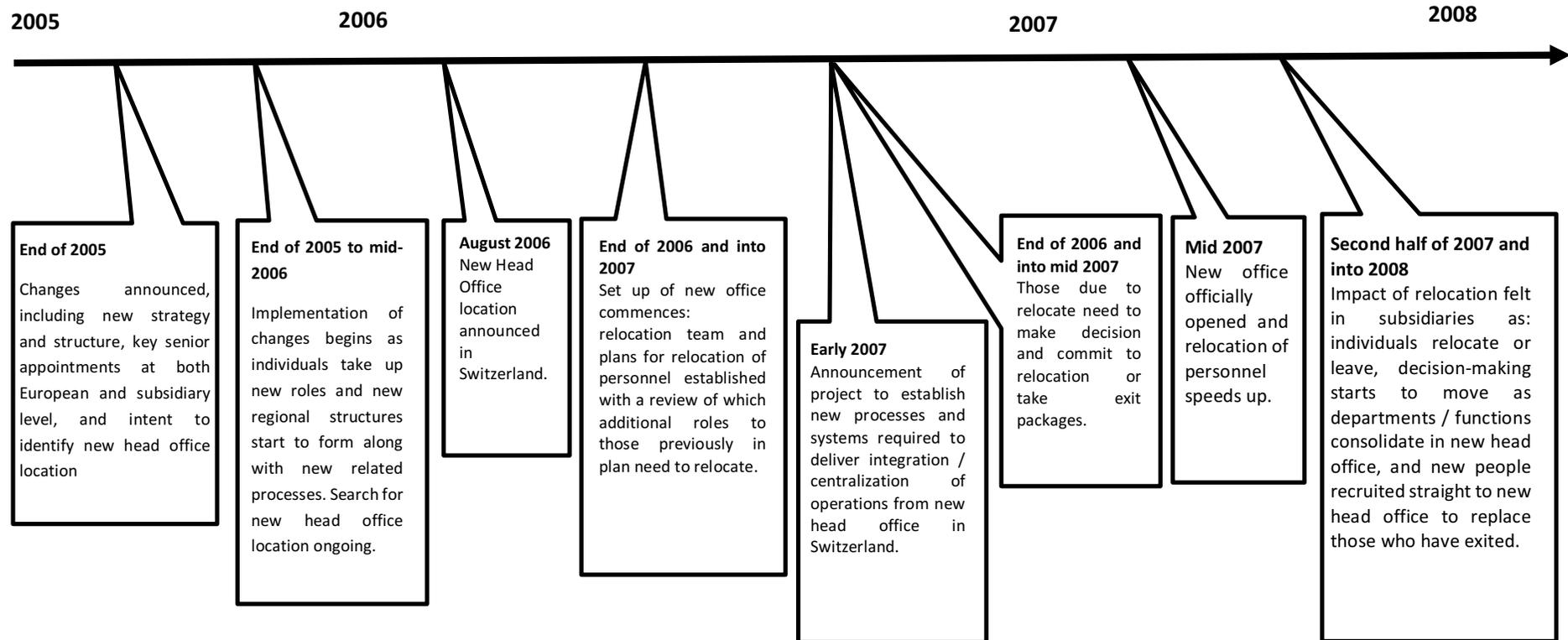
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Figure 1: A Timeline of Events

**Phase 1: Initiating Legitimation & Early Judgments**

**Phase 2: Building Legitimation & Developed Judgments**

**Phase 3: Reinforcing Legitimation & Moving On: Rationalized Judgments**



**Figure 2: Data Coding Structure**

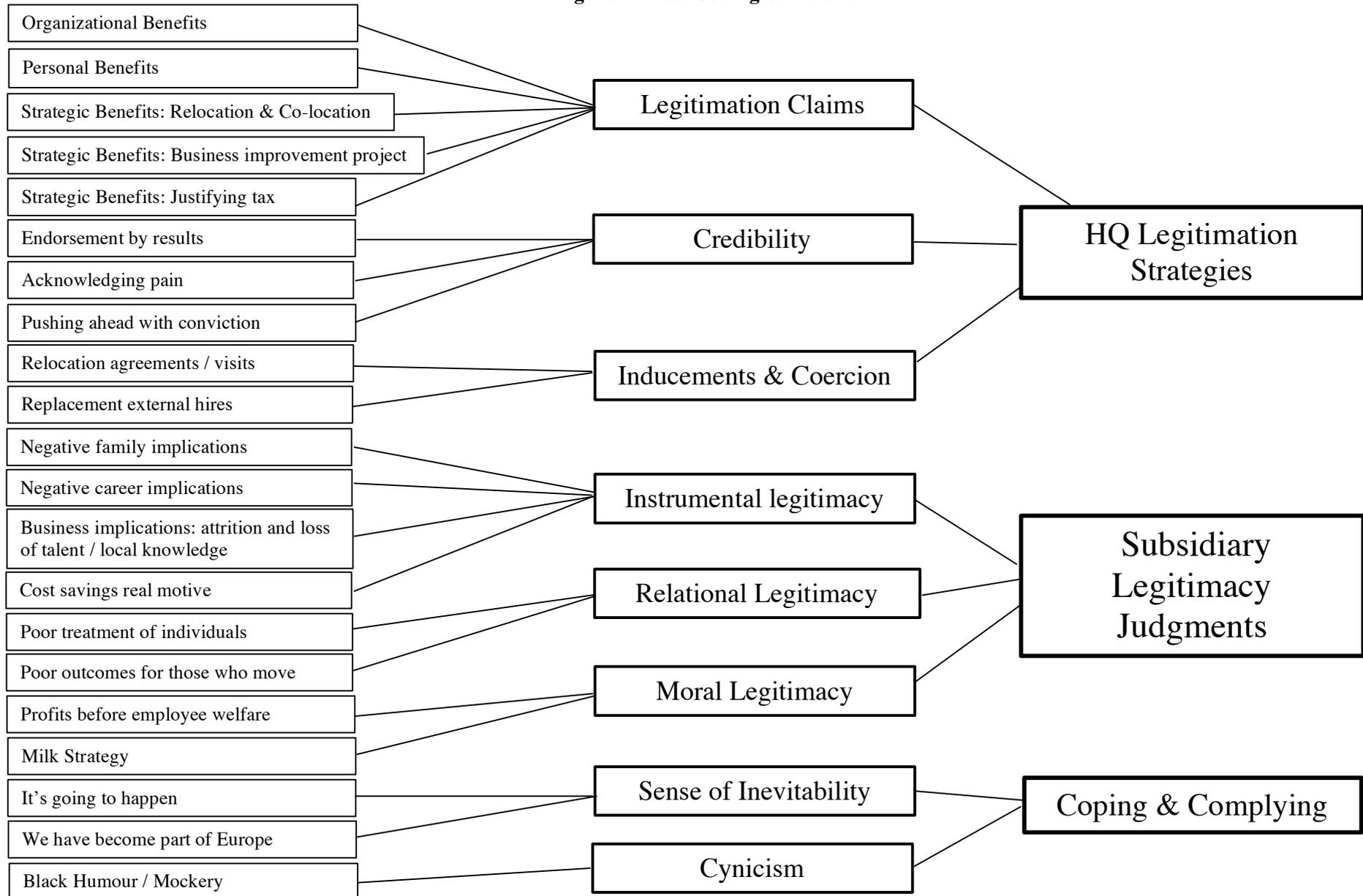


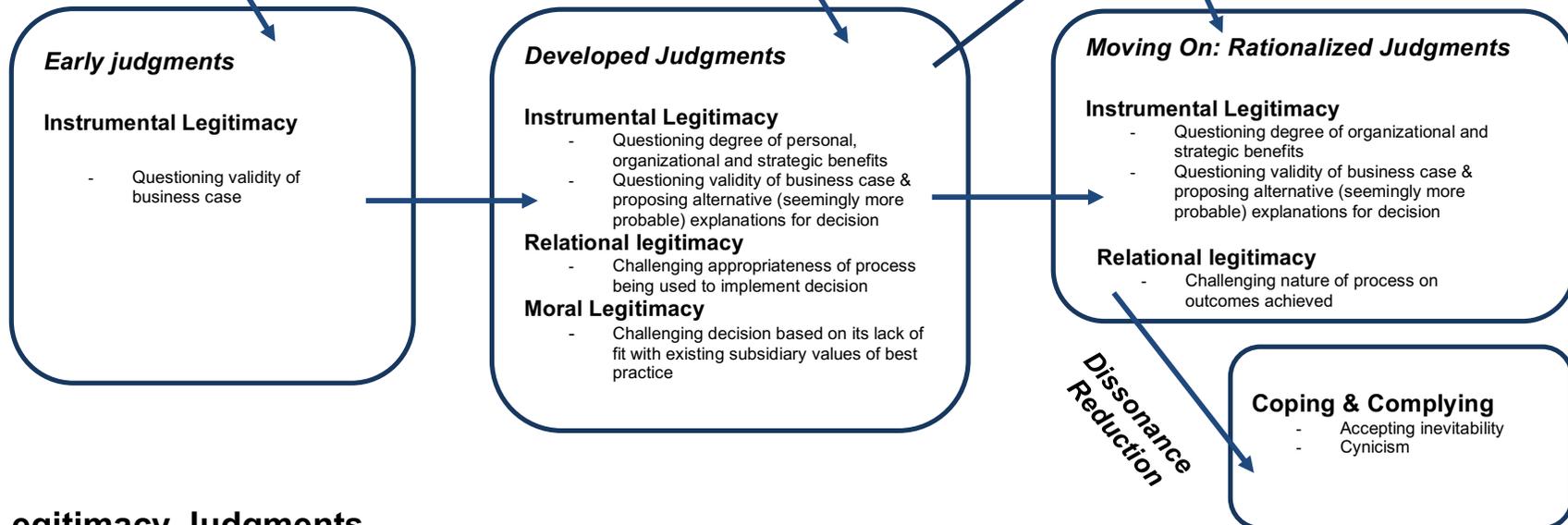
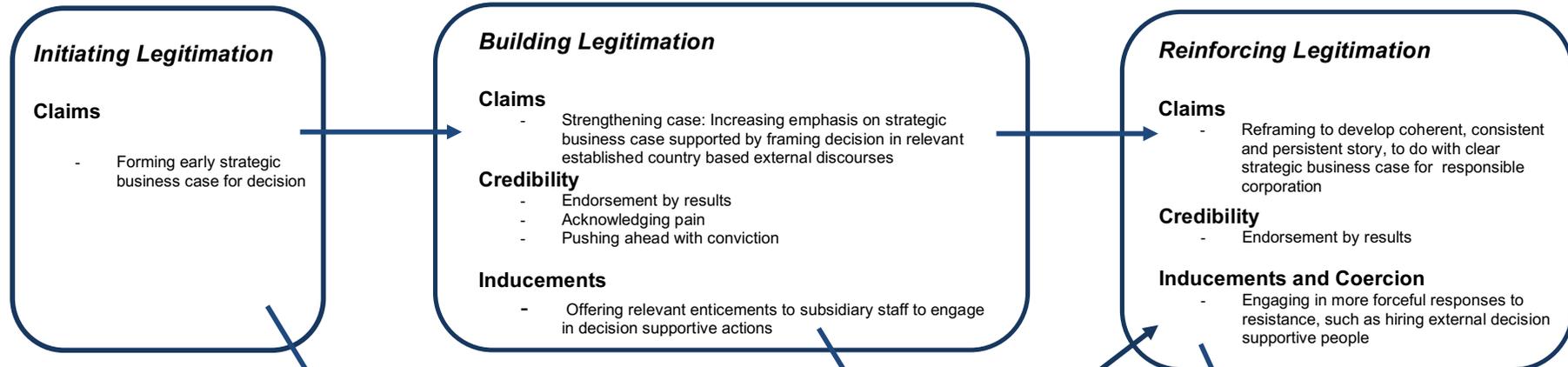
Figure 3: Process of Legitimation of MNC Contentious Decisions

Phase 1

Phase 2

Phase 3

HQ Legitimation Strategies



Subsidiary Legitimacy Judgments

**Table 1: Building Legitimacy: Legitimation strategies**

<b>Organizational benefits</b>	<p>“Central location: Ease of doing business; Centrally located within Europe; Quality of transportation infrastructure; Financial attractiveness” (Slides, ‘Roadshow’, Feb 2007 )</p> <p>“[Location] was chosen based on a number of important criteria including geographic location, transportation links ...and business taxes.” (Email Announcement, Spring 2007)</p>
<b>Personal benefits</b>	<p>“Overall quality of life: Availability and quality of housing, schools and recreation activities; Out of 52 top international cities, ranked #1 in the 2006 Mercer Quality of Living survey.” (Slides, ‘Roadshow’, Feb 2007 )</p> <p>“[Location] Was chosen based on a number of important criteria including ... quality of life” (Company intranet in Spring / Summer 2007).</p>
<b>Strategic Benefits from relocation &amp; co-location: Efficiency and Growth</b>	<p>“Our EU senior team is looking forward to establishing a single region headquarters in [Eurocity] and the efficiencies that will result from having our teams in one location”. (Email Announcement, Sept 2006)</p> <p>“provide the enabling platform we need to accelerate growth of our business”. (Email announcement, Feb 2007)</p> <p>“Ensures to have the European leadership team, marketing management and functional management teams together in one location. This is a critical step to enable us to work closer together and drive faster decision making to deliver against our growth charter.” (Email Announcement, May 2007)</p>
<b>Strategic Benefits from relocation &amp; co-location: Teamwork, collaboration, faster decision making</b>	<p>“Our plans to bring the European leadership, marketing management and functional management teams together in a single location in [Eurocity] ... This will be a critical step to enable us to work closer together and drive faster decision making.” (Email Announcement, January 2007)</p> <p>“An important second phase of the model was announced in 2006 to bring the European Leadership Team, marketing management and functional management together in a single location in (Eurocity) with the aim of enhancing teamwork, collaboration, alignment and speeding-up decision making” (Company intranet in Spring / Summer 2007).</p>
<b>Credibility: Endorsement by results</b>	<p>“2006 results indicate we are heading in the right direction” (‘Roadshow’, Feb 2007)</p> <p>“The business results demonstrate that our European marketing-led strategies are already taking us in the right direction. ... We haven’t chosen an easy path but we believe it is the right one.” (Email announcement, April 2007)</p>
<b>Credibility: Acknowledging pain</b>	<p>“We clearly asked a lot of the organization and a lot from our people. However, I am convinced that all the effort has been worth ... I can tell you that we improved in several areas for the first time in many years ... This is a tremendous achievement and I thank you all for that.” (Email Communication, Jan 2007)</p> <p>“You have proven before that you are capable of embracing change and I’m sure you will rise to the new challenges ahead. We haven’t chosen an easy path but we believe it is the right one. And I want you to know how much the EU Leadership Team and I appreciate your extraordinary efforts and commitment” (Email Communication, April 2007)</p>
<b>Credibility: Pushing ahead with conviction</b>	<p>“[The CEO] joined in a tour of (the new office), visiting the spacious, open-plan work area ... and seeing first hand all the hard work ... there was a real buzz around the building ... enthusiasm and excitement” (Intranet news item, June 2007)</p> <p>“The office... is a milestone ... as [our CEO] noted in his remarks, it’s already demonstrating results” (Intranet news item, June 2007)</p>

**Table 2: Establishing Legitimacy Judgments**

<b>Instrumental legitimacy</b>	
<b>Negative family implications</b>	<p>“What do you do? What do you do? There’s people equally saying, “Oh you’ve got to go to [Eurocity] but my husband works or my wife works”, how’s that going to work? ... It’s a big old ask.” (UK Interview, Sept 2006)</p> <p>“He came to ask me my advice ... He said, well, my wife said to me, ‘you are currently away 3 days a week, which is tough, but I live in England surrounded by friends, you want me to move to [Eurocity], without family, where we know no one, in a foreign language which we don’t speak ... and then you are going to be away 4 nights a week, because of your job. I’m not sure that’s something we should be contemplating,’” (UK Interview, Nov 2006)</p>
<b>Negative career implications (need to be a global assignee)</b>	<p>“You know, it’s not a small decision. It’s a life-changing decision, because [Eurocity] ain’t for the next 12 or 24 months. This is a permanent, you know, my job, I will be in [Eurocity], my next job will be in [Eurocity], potentially for the rest of my life. So the endgame is where you need to start in terms of the debate. Do we want to spend a significant proportion of our next years in [Eurocity]?” (UK Interview, Nov 2006)</p> <p>“The nature of this departure, for someone at my level, is such that you are actually embarking on a nomadic career with [Brand Co] ... So traditionally, whereas marketers might have traditionally been the leaders at the national level, you will probably have a better blend between sales and marketers doing those roles. So what they are asking you to do is to leave your country of origin, probably never return” (UK Interview, Feb 2007)</p>
<b>Business Implications: Centralization will cause attrition</b>	<p>“Yes the attrition rate numbers that are coming out from [Eurocity] seem to...they’re probably running 40/50%, which is phenomenal. I don’t know how, to be honest, the business can manage with that kind of attrition rate” (UK Interview, Nov 2006)</p> <p>“I am worried about how many people we will lose here ... particularly if you are a woman, with young kids and a husband working, here in the UK ... they are going to be surprised. About the number people saying thanks, but no thanks. (UK Interview, Nov 2006)</p>
<b>Business Implications: Centralization will cause loss of business knowledge</b>	<p>“That’s going to be your problem, and the top management aren’t seeing that at the moment. They’re not seeing the loss of skill drain. We’ve got people in jobs – I went to XX’s meeting – we’ve got people in jobs I wouldn’t even give them the most basic job here. I mean, really worryingly not great people.” (UK Interview, Nov 2006)</p> <p>“I think there is concern that a lot of people aren’t going and what sort of effect that’s going to have on the business if you’re losing a lot of high level experienced people and just purely because they won’t move to [Eurocity] ... are we actually going to be able to replace their knowledge and their experience. Is it going to have an impact on the business?” (Focus Group, Jun 2007)</p>
<b>Efficiency savings the real motive</b>	<p>“I don’t think that came across yesterday. I mean I get the impression that we chose [Eurocity] because it’s the world’s number one city. I think we all know, we chose [Eurocity] because it’s got financial benefits for us as an organization.” (UK Interview, Feb 2007)</p> <p>“Why they’re doing this is purely for efficiency gains, nothing else.” (Focus Group, Jun 2007)</p>
<b>Relational Legitimacy</b>	
<b>Poor treatment of individuals</b>	<p>“This is the nervousness you see, once you’re asked, you either go or you’re out the door .... I’ve got until 15<sup>th</sup> December, I have to say I am definitely not, or I might be, I am seriously thinking about it, you have to tick one of those boxes. Then you go for your orientation visit” (UK Interview, Nov 2006)</p>

	<p>“I think the comment also about the lack of emphasis on soft stuff was also with [Eurocity], you know, people saying well ... it’s about numbers, that the impact on peoples’ lives. If you actually have to take your families to this huge...and that doesn’t seem to be taken into account.” (UK Interview, Nov 2006)</p>
<p><b>Poor outcomes for those who move</b></p>	<p>“If... you know, it could well be men who now, you know, strangely enough have professional wives. So if you move the man in the career, there is... there should be no expectations that the women just kind of go ha, ha, ha I’ll just give up my xx thousand pound a year job and come and be a wife in [Switzerland].” (UK Interview, Feb 2007)</p> <p>“The financial package offered is supposed to equalize what someone gets in their home country. So I’m starting from a point – fine, first I don’t even buy that assumption. If you want people to leave their country of origin indefinitely, and make this an enormous success, you should be seeking to incentivize people, you shouldn’t have such stringent rules in place. More importantly, my bloody balance sheet doesn’t even adhere to your rule! It should at least be financially neutral” (UK Interview, Feb 2007)</p>
<p><b>Moral Legitimacy</b></p>	
<p><b>Profits before employee welfare</b></p>	<p>“It worries me that you can say we’re just prepared to lose forty, fifty or sixty percent of those people, we can just afford to do that. Then you see the presentations, ‘the most important thing in this company are our people’” (UK Interview, Nov 2006)</p> <p>“I think about the move to [Eurocity], the number of people moving, and it’s just been handled really as though people are resources. They did rather sarcastically say the whole restructuring, kind of the people agenda, seems to have been so low down.” (UK Interview, Nov 2006)</p>
<p><b>A milk strategy</b></p>	<p>“Everyone recognizes that there may be some impact on decision making and effectiveness at local level, but so compelling is the cost saving, that they are prepared to do it. Which to me means your strategy for Europe is milk – maximize cash input, maximize cash. (UK Interview, Nov 2006)</p>

**Table 3: Reinforcing Legitimacy: Legitimation strategies**

<p><b>Strategic Benefits: A business improvement project</b></p>	<p>“This is a business improvement project in support of the marketing-led business model, one we have to – and want to – implement to align how we work with the new marketing-driven business model.... we’re standardizing and harmonizing our processes across functions and across the EU ... (Email Communication, Jan-Feb 2008)</p> <p>“We are not taking on any Phase of (our strategy) only for tax reasons. This is the way we in the EU implement the global strategy to provide profitable, sustainable growth.” (Email Communication, March 2008)</p>
<p><b>Strategic Benefits: Justifying Tax</b></p>	<p>“Project Europe ... includes the changes required for [Brand Co] to become a European Operating Company ... legally and organizationally” (Email Communication, Jan-Feb 2008)</p> <p>“Once we decided to adopt a marketing-led business model and to bring our EU management team together in one place, we were, of course, free to choose the best location. In our first update in early 2007, we listed “business taxes” as one of the criteria we used to make that decision. [Brand Co] is a publicly held company and not evaluating potential tax implications of our business decisions would simply be irresponsible.” (Email Communication, March 2008)</p>
<p><b>Credibility: Endorsement by results</b></p>	<p>“Our business results one year later confirm that (our strategy) is a winning business model ... I am confident that we are creating a more efficient, effective, winning organization.” (Email announcement, October 2007)</p> <p>“Our recent business results demonstrate that we are moving in the right direction” (Email Communication, Nov 2007)</p>

**Table 4: Moving on: Legitimacy Judgments**

<b>Instrumental Legitimacy</b>	
<b>Business Implications: Centralization will cause loss of business knowledge</b>	<p>“Last year from a marketing perspective they were being run by UK employees who knew the market well, and now both those marketing departments are being run by people [Eurocity] based, who aren’t from the UK, who don’t have so much understanding of the UK market ... Running it from the distance, and without knowing the local market so well” (Focus Group, Apr 2008)</p> <p>“It feels like we’re having to re-educate somebody every other week ... whether they’re French or German or whatever, you’re tending to have to go through the whole, ‘Let me explain to you what it is like.’ So it’s not just that they’re new people that you’re building a relationship with, in business terms their starting point is quite different. ‘What do I expect? I’ve worked in this market and it’s going to look like this, isn’t it?’ ‘No it doesn’t work like that at all.’” (Focus Group, Apr 2008)</p>
<b>Efficiency savings the real motive</b>	<p>“So when I was presented with the project the project guys were saying, ‘This is not a tax saving project.’ And if you talk to anybody else, outside of the project team, they all say, ‘We’re only doing it for tax saving.’ ... In theory, if you’re trying to reorganize yourself as a marketing organization, and you’ve moved decision makers into a team office in [Eurocity], you do need to change workflows to make sure the decisions have been appropriately made. ... So that’s the sort of logic behind it. The reality is, I think, that there are huge savings to be had.” (UK Interview, Nov 2007)</p> <p>“I’ll be really blunt here. All we’re trying to do here is move our share price.” (Focus Group, Apr 2008)</p>
<b>Relational Legitimacy</b>	
<b>Poor outcomes for those who move</b>	<p>“From what I know of the [Eurocity] organization, it’s a very long hours culture, for example, it seems to be. It’s very numbers driven. It’s very .... Very kind of a bit reactive, shoot from the hip, rather than being really sort of visionary and strategic” (UK Interview, Nov 2007)</p> <p>“And we’ve never drawn up the, here’s the gain in tax. Here’s the loss in human capital. Is that still the right balance? We’ve never had that honest open discussion.” (UK Interview, Feb 2008)</p>
<b>Cynicism</b>	
<b>Black Humor &amp; Mockery</b>	<p>“You could drive a cart, a bus and horses through that strategy that says “Well you’re saying be close to consumers and the people making all the strategic decisions about the consumers are not British, are not sitting in the market, aren’t being exposed to the market or the people or the culture so, you know ... we don’t have international brands of that scale. We have a bunch of regional brands” (UK Interview, Apr 2008)</p> <p>“In my marketing group it’s not a year of putting consumers and customers first, it’s cost increases and weight reduction programmes really. That’s fine, there’s nothing wrong with that, it’s the right thing to do for our business, I’m sure. Improving our profits .... But don’t kid yourself you’re trying to do something different” (Focus Group, Apr 2008)</p>
<b>Accepting Inevitability</b>	
<b>It is going to happen</b>	<p>“So therefore [Brand Co] have chosen, because of the cost saving benefits, to make the decision. So with that goes an organizational issue and you accept that, you know” (UK Interview, Nov 2007).</p> <p>“Certainly as we move to Project Europe and a European base ...then yeah you can’t leave the organization as it is, it’s just one of those things” (UK Interview, Aug 2008).</p> <p>“Got no choice, have we, really?” (Focus group, Aug 2008)</p>

<b>We have become part of Europe</b>	<p>“And in there somewhere there was this sense of, you know, the world is changing around us... ..our comfortable little home is being broken up. We’re all looking in...working for different groups, and we don’t meet at the top at the UK VP like we used to. Acknowledge that that’s changing and we’re now part of the...we can’t just celebrate success as a UK business, we have to celebrate success as part of an EU business.” (UK Interview, Feb 2008)</p> <p>“I think one of the things that the sales probably identified which is more decisions made by [Eurocity], obviously that’s a very conscious effort on behalf of our, and certainly my team’s part, but our, our part by pushing decisions their way ‘cause that’s how we have to operate in a compliant environment” (Focus Group, Aug 2008)</p>
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