

Go Right or Left? State Can Define What Is Legitimacy for MNEs

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Abstract

Several years ago, bird flu is a hot global issue for all country. Production of influenza drug Tamiflu is also a controversial issue. Because of Tamiflu does a property right own to Roche, some states want to produce Tamiflu before influenza is global pandemic. Several countries have asked Roche for the right to make generic copies of Tamiflu. For example, Taiwan is the first of such countries that has requested licensing. Taiwan wants to negotiate with Roche in order to ensure that the country has sufficient stockpiles of the drug to cope with a potential bird flu outbreak. But Taiwan started work on its own version of Tamiflu without waiting for the manufacturer Roche's consent. Taiwan government said they had applied for the right to copy the drug - but the priority was to protect the public life. Taiwan also approached Roche Holding AG for a licensing deal under which local companies could produce its Tamiflu vaccine.

Nobel prize-winner Sir John Sulston called for reform of the drug patent system to allow faster stockpiling and wider access to the life-saving antiviral flu drug Tamiflu around the world. And latter, Roche represented the desire to contact with the World Health Organization for increase production. Why Roche change its mind?

The protection of private property right is the most important principle for capitalism. The patent of Tamiflu is also a private property right and a core competency for Roche. Why some countries want to produce Tamiflu in spite of protection of patent? And latter why Roche granted approval of an additional manufacturing site in another country for increasing worldwide production capacity? Because of life-saving is legitimacy over profit of patent protection at present. MNEs must face global issues about an infectious disease, environmental protection, Anti-terrorism and so on. These issues are world wide about many states, MNEs are also involved. Roche is an example that firm has patent as core competency, while state face emergency about life-saving, state can make decision for some action that break patent protection.

Why and when state can make decision to break patent protection that the most important principle for capitalism? Legitimacy is an answer and a criterion for state and MNEs. Legitimacy justified the organization's role in the social system and helps attract resources and the continued support of constituents (Parsons 1960). State has heavy impact on MNEs operation in host country. Because of state has supreme authority to regulate all domestic firms. They depend on contingency to decide what content of legitimacy to regulate firm's behaviors. Then, state became a mediator for MNEs action. So, this implication for MNEs is that legitimacy is not a fixed concept or value, but depends on contingency. MNEs should detect the content of legitimacy and response adequately for gain legitimacy or resources.

Legitimacy is an ambiguity and abstract term. The concept of legitimacy is hard to measure and it encompasses political, social and economic system. The legitimacy from economic system may not equal to political system defined. Legitimacy has complexity for a MNEs existing political, social and economic system simultaneously. Only the political system has the power to punish those who don't obey law or regulation. MNEs response these pressure from state and detect the variation of changing allocation of value. For manager to make decision about entry mode, this perspective is a frame of reference. What happen to host country/world, how we response these variation adequately? This is an issue about "fit" between political system and economic system. The variation in any place may cause 'butterfly effect', bird flu is a case. Then some principles/values will be changed, life-saving is important than patent protection. MNEs have to response these events, and maintain their survival or performance simultaneously.

How detect the variation allocation of values is a further research. MNEs detect political system's signal may cause bias. Because political signals sometime be tacit or ambiguous. Organizations have to sense making for the right message. Especially, MNEs face the institutional duality. MNEs need carefully response the policy of two or more countries, parent and host countries. If these countries have antagonism among them, MNEs need more sensitive for response.

In this global era China is arising, so many MNEs want to go there. But these MNEs must face a different economic and political institution with mother country. One of considerations is government's policy. They need to be sensitive about China's political system for survival and performance. They need more signal or principle for decision making.

In future research we will code the china 500 companies in several years newspaper for finding their response to government's policy or regulation. This will represent organization's response and provide some signals to detect. And provide some guideline for MNEs managers for their "adequately" response to government.