MULTINATIONAL CORPORATIONS

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Summary

This article describes the nature, dynamics, and theories surrounding the multinational corporation. After ensuring that an accurate description is established the entry considers the dimensions and disposition of foreign direct investment made by multinational corporations. This reveals the dominant position of corporations headquartered in the richer countries and some important imbalances between the economic size of countries and the numbers of corporations headquartered in them.

Theories relating to multinational corporations are divided into theories of corporate behavior in general and theories of corporate globalization. Profit-seeking and competition as explanations of corporate behavior are seen as too simple for the modern corporations which have bureaucratic structures and is in a position of oligopoly. Organizational dynamics are derived as much from internal profit-taking as traditional views of surpluses. The theories of corporate globalization are useful inasmuch as they emphasize the role of the corporation in the global political economy. The incentives of seeking resources, labor, and markets are examined as well as the seeking and creation of suitable investment environments which allow surplus to be derived from factors extraneous to production. The resource-based corporation is less important as manufacturing has changed its input demands but there is an increasing dependency on oil. While the search by corporations for cheaper labor exists in labor-intensive industries, it has been overemphasized as a general concern. Many factors, especially political risk, mean that during the last decades only about 30% of multinational corporation investment has been in low-waged countries. The search for presence in markets is continuing, which accounts for the interest in regional trading arrangements and China. In seeking the best investment climates many attempt overtly or covertly to alter the host country sociopolitical environment. In conclusion, it is noted that the large multinational corporation is a core organization of the twenty-first century and the market rationality it uses as legitimation is being undermined by size and concentration in industrial sectors. The manner in which the multinational corporation develops, the opposition that it generates and its relations with state and societies, will be an important determinant of the possibility for sustainable development.

1. Introduction

If the definition of a multinational corporation is taken as any corporation with a subsidiary abroad then in 1998 there were 60 000 such companies owning 500 000 foreign affiliates. The sales of these corporations amounted to at least 40% of total world production and involved approximately 100 million employees. The multinational corporation is, therefore, more than a company selling products. As the vehicle for global investment, as the owner and developer of the bulk of modern technology, and as the principal producer for world trade, it is important to discussions and theories of modern human history. In such a position the corporation assumes a sociopolitical power the effects of which are felt at all levels and in all parts of global society. Thus there is no need to argue the corporation’s importance to sustainable development for, as a major producer and distributor, it is both a cause of environmental pollution and owner of the technology which could help prevent it. This means that the subject matter linked to the multinational corporation is vast, but rather than select one area or approach this short entry will at least attempt to signal the various linkages and approaches.

For the past decades the multinational corporation has been a key subject to be found at the center of political and ideological debates. This special situation has meant that proponents, opponents, and critics are sometimes assigned to one or other of these positions: ideological brackets and all writings about business and business organizations are considered suspect by one or other of the groups. Furthermore, one of the most powerful forces in modern societies—the media—is owned and controlled by multinational corporations, which means that the general circulation of information concerning them is often biased, lacking in objectivity, or part of a corporate supporting mythology. An entry designed to have a longer life than a newspaper or academic article must attempt to identify trends that are likely to persist rather than focus on the most immediate issues.

2. Definitional Problems

2.1 Firm, Enterprise, Company, or Corporation

In essence multinational corporations may be defined as privately owned organizations which have production, whether goods or services, and the generation of financial surpluses, as objectives, and, which own assets used for such production in more than one national unit in a global complex of nation-states.

In economics the term “firm” is used and in general literature sometimes “enterprise” or “company.” Each of these terms produces images and connections which disguise the real nature of the multinational corporation. “Firm” when applied to the modern corporation is misleading as the term is attached to classical economic theories in which “firms” maximize certain variables within a competitive market framework. To ascribe these characteristics to a modern multinational corporation is empirically erroneous; international accounting and costing make quantitative approaches difficult, and competition in markets is constrained or, in some industries, nonexistent. Likewise, “enterprise” implies the creative combination of labor and capital by an entrepreneur, a situation that is far removed from the contemporary reality of the modern corporation in which procedures are bureaucratized and chief executive officers are appointed for organizational leadership rather than entrepreneurial skills. “Company” was the original term for the larger firm incorporated within laws originating at the beginning of the Industrial Revolution and, currently, it implies a lesser degree of formality than is appropriate to the modern corporation with its charter and legal personality in law. It is still, however, used interchangeably with corporation.

For these reasons “corporation” is the most accurate and although company can be used synonymously, other terms should be avoided.

2.2 Transnational, Multinational, or Global

The difference between the use of the designation transnational and multinational has been linked to a division of perception. Here it is argued that multinational is more accurate than the often used transnational or global. Multinational implies operating in several countries. It implies nothing about the relationship of the corporation with the boundary or with structures of global economy. Transnational means operating over and above nations and borders. Yet the multinational corporation derives a large part of its surpluses and operational rationale from the segmentation of the world into different tax, environment, labor, and consumption regimes through the existence of the nation-state and the cultural and historical particularities it possesses. Global implies global operations, yet many multinationals only operate in a select number of countries and have a core objective of using international production to service a single national market. However, the inclusion of financial corporations and banks in the multinational discussion permits the use of both transnational and/or global in relation to banks and non-bank financial corporations as their production assets are not necessarily fixed or established in a national state.

Definitions and history are made concrete by contemporary fact and example. Most people would know what a multinational corporation is and by way of definition would refer to a specific corporation or group of corporations. Thus corporations such as Coca-Cola, Ford, Nestle, Shell, Nike Shoe (see Table 1) are known in almost every country, partly from the consumption of their products and partly because the sale of their products requires large advertising budgets which are aimed at name recognition.

3. History

The closest historical analogy of the modern multinational is the colonial state monopoly enterprise of the seventeenth to nineteenth centuries. These were distinct organizational structures and “headquarters” in the metropolitan states to which the surpluses were dispatched. These corporations were semigovernmental operations and were agents of state imperialism. The most famous and typical was the British East India Company which operated under different names for nearly 300 years. This was the preferred model of the British Empire but came under attack both from geopolitical rivalries, such as with the Dutch in Indonesia, and from the Americans during the War of Independence. The latter began the process by which the corporation was legally separated from the state under the impact of the writings of Adam Smith. Against this development was the consolidation of the national state, from, but not formally part of the government of, but not of, a nation may still be an agent of state foreign policy, and is still perceived as the representative of that state, its culture and position, in the world.

In the modern period and outside of the colonial context of that time, the large companies from the US, such as Ford and Standard Oil, operating in Europe and Latin America in the 1920s and 1930s, are the earliest examples. There were some European corporations with international operations such as Michelin (Tire) Company but the international operations tended to be confined to neighboring countries in Europe. Typical of the early example of a current global corporations was that of Colgate-Palmolive, which through mergers in the US grew large enough in the soap industry to buy soap manufacturers in Britain, France, and Germany, establishing subsidiaries in Sweden, Italy, Poland, and Switzerland. The expansion of Colgate-Palmolive accelerated substantially, as did other US corporations, in Europe after the end of the Second World War. The corporations and the expansion were essentially based either on resources, such as oil and rubber, or on manufacturing.

These corporations were able to achieve their size and large-scale production by virtue of the large internal market of the US, and size brought the capacity to own and operate plants abroad. The combination of the US internal market size and the British surrogate internal market of the Empire meant that in the period after the Second World War, US and UK headquartered corporations acquired a numerical ascendancy that still persists today, despite the UK having an economy, in national income terms, smaller than Japan, Germany, and France in 1998.

3.1 Contemporary Trends: Newcomers, Sectors, and Concentrations

Since that time to the present there have been three basic developments in the spread and nature of multinational corporations. The first is that multinationals began to originate from other countries originally excluded by history or lack of industrial development. The first entries were from the larger economies of Europe—Germany and France—and then somewhat later from Japan. Although many nations are headquarters to multinationals it is still the big five—the US, UK, Germany, France, and Japan—that occupy a dominant position. The second trend has been the increased presence of multinationals producing services, particularly financial services. The services sector is now larger in terms of foreign investment than the manufacturing sector.

The third trend has been the corporate concentration in the industrial sectors. In almost all global sectors there are now four or five dominant corporations which substantially control the production and direction of the sector. A fourth trend, associated with the third, is the increase in size of the corporations.

4. Current Size, Nationality, and Sectors

4.1 Size

The size of a corporation can be judged on several criteria such as employment, assets, sales or profits, or market capitalization (the amount of stock times the current stock market value). Each one of these criteria is important for special purposes—numbers employed is important to both labor unions and politicians because of the sensitivity of employment in politics, profits are of crucial importance to stock holders, while assets are important to lending banks and investors. The best known corporations are not necessarily the largest or the most powerful. Thus Coca-Cola, known the world over for its soft drinks and advertising, is in fact a rather small company with more than 83 companies larger than it in the US alone—at least based on its sales figures.

There are several available listings of the largest multinational corporations. The best known and oldest is that by *Fortune Magazine*, which every year lists a "Global Five Hundred" by revenue and other criteria and provides considerable information concerning their operations. The United Nations Conference on Trade and Development (UNCTAD) provides a 100-corporation listing based on their foreign assets, while the Financial Times (FT) Global 500 listing uses the market capitalization criterion.

From the standpoint of general interest, sustainability, and socioeconomic concerns, the sales figures, also known as revenue or turnover, are the most important. The sales figure of the corporation—the amount of money involved in the sales of its products or services—is a proxy indicator for power. Sales minus profits equals expenditures in the corporation's "budget" analogous to a government department or an international organization. Thus the sales figure of the corporation shows how much the corporation spent in any year on purchasing labor, resources, investments, and goods in order to yield any desired surpluses. In 1998 Toyota corporation had at least US$90 000 million to spend while, for example, the United Nations system had only about US$10 000 million or the central government of Spain about US$200 000 million

Global 500 rank	Corporation	Revenues (US$ millions)
1	General Motors	161 315.0
2	Daimler Chrysler	154 615.0
3	Ford Motor	144 416.0
4	Wal-Mart Stores	139 208.0
5	Mitsui	109 372.9
6	Itochu	108 749.1
7	Mitsubishi	107 184.4
8	Exxon	100 697.0
9	General Electric	100 469.0
10	Toyota Motor	99 740.1
11	Royal Dutch/Shell Group	93 692.0
12	Marubeni	93 568.6
13	Sumitomo	89 020.7
14	Intl. Business Machines	81 667.0
15	AXA	78 729.3
16	Citigroup	76 431.0
17	Volkswagen	76 306.6
18	Nippon Telegraph and Telephone	76 118.7
19	BP Amoco	68 304.0
20	Nissho Iwai	67 741.7
21	Nippon Life Insurance	66 299.6
22	Siemens	66 037.8
23	Allianz	64 874.7
24	Hitachi	62 409.9
25	US Postal Service	60 072.0
26	Matsushita Electric Industrial	59 771.4
27	Philip Morris	57 813.0
28	Ing Group	56 468.7
29	Boeing	56 154.0
30	AT&T	53 588.0
31	Sony	53 156.7
32	Metro	52 126.4

33	Nissan Motor	51 477.7
34	Fiat	50 998.9
35	Bank of America Corp.	50 777.0
36	Nestlé	49 504.1
37	Credit Suisse	49 143.3
38	Honda Motor	48 747.7
39	Assicurazioni Generali	48 478.1
40	Mobil	47 678.0
41	Hewlett-Packard	47 061.0
42	Deutsche Bank	45 165.0
43	Unilever	44 908.0
44	State Farm Insurance Cos.	44 620.9
45	Dai-ichi Mutual Life Insurance	44 485.6
46	Veba Group	43 407.5
47	Hsbc Holdings	43 338.3
48	Fortis	43 200.0
49	Toshiba	41 470.9
50	Renault	41 353.3

Table 1. Fortune top 50 multinational corporations by revenues (US$ billion).

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Biographical Sketch

Jeffrey Harrod is an academic, writer, and consultant living in the Netherlands. He has a law degree from University of London, UK, specializing in international law, an MA in international relations from Lehigh University, US, and a Ph.D. in political science from the Graduate Institute of International Studies, University of Geneva, Switzerland. He has taught international political economy at the University of West Indies, University of London, the University of Southern California, the Institute of Social Studies, The Hague, Netherlands and the University of Amsterdam. Apart from articles and chapters in books he is author of *Trade Union Foreign Policy* (Macmillan, l972), *Power, Production and the Unprotected Worker*, (Columbia University Press, l987), *Labour and Third World Debt* (ICEF, Brussels 1992) and has edited with N. Schrijver *The UN Under Attack* (Gower, 1988) and with S. Frenkel *Industrialisation and Labor Relations: Contemporary Research in Seven Countries* (Cornell University Press, 1995). He served three years at a UN-associated research institute and seven years as permanent publication and research consultant for an international trade union. His current research interests are in global social policy, critical realism, and changing structures of global governance and the power of multinational corporations. He is professor emeritus from the Institute of Social Studies in the Hague and is currently teaching at the University of Amsterdam at the International School for Humanities and Social Sciences.