

Key Agent of the Market

Multinational Enterprise (MNE)
& its Characteristics

What is an MNE?

Is MNE = MNC = Global Companies = International =
TNC?

General Characteristics

Key Features

Philosophy

Contextual Opportunities & Financial Threats

MULTINATIONAL CORPORATION

Enterprise that own or control value-added activities
in two or more countries

French economist – Maurice Bye (1958)

Transnational Corporation

Internationalization of oil industry–integration of different stages of oil production

Edith Penrose

In the light of Theory of Growth of Firms rather than a theory of foreign investment. Case of General Motors manufacturing subsidiary in Australia

Organizational Characteristics

Organizational Characteristics	Multinational	Global	International	Transnational
Configuration of assets & capabilities	Decentralized & nationally self-sufficient	Centralized & globally scaled	Sources of core competencies centralized, others decentralized	Dispersed, interdependent, & specialized
Role of overseas operations	Sensing & exploiting local opportunities	Implementing parent company strategies	Adapting & leveraging parent company competencies	Differentiated contributions by national units to integrated worldwide operations
Development & diffusion of knowledge	Knowledge developed & retained within each unit	Knowledge developed & retained at the center	Knowledge developed at the center & transferred to overseas units	Knowledge developed jointly and shared worldwide

Source: Barlett & Ghosal

Let's look at a Case

**LAFARGE: A concrete
multinational**

<http://www.lafarge.com/cgi-bin/lafcom/jsp/home.do?lang=en>

Characteristics of MNEs

1880s: Multinational enterprises

Highly industrialized economies of Western Europe and North America

Main characteristics of these enterprises

- ∅ Diverse business operation
- ∅ Mixture of large and small firms
- ∅ Both Managerial and Family firms (*but later type predominated*)

- Ø The MNEs employ a variety of equity and non-equity modes of investments
 - Ø Natural resources were the primary sector of exploitation like mining, oil exploration and trade in natural products like sugar, banana and rubber
 - Ø Multinational trading companies, banks and utilities grew with time as the main service providers to the pioneers of international business during this time.
- Affiliated firms are linked by ties of common ownership
 - A common pool of resources and

And,

- **A strategic vision that guides all the affiliates**

ITC Ltd v/s BAT

Where do the companies focus?

ITC Ltd

<http://www.itcportal.com/>

BAT

http://www.bat.com/oneweb/sites/uk_3mnfen.nsf/vwPagesWebLi ve/C36DBD7910B585F680256BF40003316E?opendocument&SID=5164 D95474D0A5B362329EA0E572CA70&DTC=20040907

Siemens

<http://www.siemens.com/index.jsp>

Where does the company focus?

http://www.siemens.com/Daten/siecom/HQ/CC/Internet/Corporate Press/WORKAREA/ccp_cc4/templatedata/English/file/binary/siemens- document_1198253.pdf

Contextual Opportunities & Threats - MNEs

Multiple sources of external authority

- Ø Number of geographic locations
- Ø Variance in country environments
- Ø Lack of superstructure to mediate threats or opportunities that arise at the intersection of the variance in country environment

Multiple denomination of value

- Ø Translation exposure (valuation and setting up of past transaction)
- Ø Transaction exposure (problem of hedging)
- Ø Economic exposure (impact of unanticipated changes in real exchange rate)

(Refer to Sundaram & Black)

Strategic Philosophy of MNEs

MNEs make decisions that are best for the organization, even if it means transferring funds or jobs to other countries

MNEs are considered as **stateless corporations**

Examples:

Ø **IBM** has transferred 120 executives and the headquarters of its \$ 10 billion a year communications business to **Europe** in order to capitalize on the expected growth in Europe.

Ø Layoffs in Japanese companies: **Nissan, Sony**

Ø In Japan, **Xerox** has over 12,000 employees, **Texas Instrument** has over 5000 employees, **Hewlett-Packard** has 3,000 employees

- Ø In US (1990), about **640 U.S plants** that were either wholly or partially owned by the **Japanese**, employing about 160,000 workers
- Ø By 2000 A.D., **800,000 American** were employed by the **Japanese** firms
- Ø Project involve people from a **host of nations**
- Ø **Toyota fired 4000 employees in 2008** – Haken Mura, Tokyo
- Ø Large companies in Japan lobbied for **temporary workers' policy** (Rodo Haken sha, 1991) and the **LDP lost elections after 50 years**

Mazda's Sports car MX-5 Miata

Design	- California
Prototype	- England
Assembly	- Michigan & Mexico
Advanced electronic components invented	- New Jersey
Fabricated	- Japan
Finance	- Tokyo & New York

Different Forms of MNEs

Historical Developments

MULTINATIONAL CORPORATION

Trading Firms - Facilitators to Multinational Companies

Control of Joint-stock companies registered in India and working in tea, coal & jute industries, 1911

Name of Managing Agents or Secretary	No. of joint-stock companies controlled in			
	Tea	Coal	Jute	Total
Andrew Yule & Co.	10	11	6	27
Begg. Dunlop & Co.	10	-	2	12
Bird & Co.	-	11	8	19
Shaw Wallace & Co.	2	11	-	13
Williamson, Magor & Co.	10	5	-	15
George, Henderson & Co.	2	-	-	2
Planter's Stores & Agency	1	-	-	1
Kilburn & Co.	6	2	-	8
Octavius Steel & Co.	10	2	-	12

Contd.....

Name of Managing Agents or Secretary	No. of joint-stock companies controlled in			
	Tea	Coal	Jute	Total
Gillanders, Arbuthnot & Co.	1	-	1	2
Kettlewell, Bullen & Co.	1	-	1	2
J. Mackillican & Co.	2	-	-	2
C. A. Stewart	4	-	-	4
Duncan Bros.	12	-	-	12
Davenport & Co.	8	-	-	8
Hoare, Miller & Co.	1	3	-	4
Jardine, Skinner & Co.	2	2	2	6
McLeod & Co.	3	5	2	10
Barry & Co.	3	-	1	4
Macneill & Co.	-	5	-	5
H. V. Low & Co.	-	4	-	4

Contd.....

Name of Managing Agents or Secretary	No. of joint-stock companies controlled in			
	Tea	Coal	Jute	Total
F. W. Heilgers & Co.	-	7	2	9
Stanley, Oaks & Co.	-	1	-	1
Apcar & Co.	-	-	1	1
Anderson Wright & Co.	-	2	1	3
Ernsthausen Ltd.	-	1	2	3
Balmer Lawrie & Co.	-	4	-	4
Martin & Co.	-	3	-	3
Lyall, Marshall & Co.	-	1	-	1
N. C. Sircar & Sons	-	7	-	7
Total	88	87	29	204

Source: Private Investment in India, 1900-1939, A.K. Bagchi, Cambridge University Press, 1972, Pg.177

<u>Global 500 Rank</u>	<u>Company</u>	<u>Revenues (\$ millions)</u>
1	Wal-Mart Stores	219,812.0
2	Exxon Mobil	191,581.0
3	General Motors	177,260.0
4	BP	174,218.0
5	Ford Motor	162,412.0
6	Enron	138,718.0
7	Daimler Chrysler	136,897.3
8	Royal Dutch/Shell Group	135,211.0

9	General Electric	125,913.0
10	Toyota Motor	120,814.4
11	Citigroup	112,022.0
12	Mitsubishi	105,813.9
13	Mitsui	101,205.6
14	Chevron Texaco	99,699.0
15	Total Fina Elf	94,311.9
16	Nippon Telegraph & Telephone	93,424.8
17	Itochu	91,176.6
18	Allianz	85,929.2
19	Intl. Business Machines	85,866.0
20	ING Group	82,999.1

<http://www.fortune.com/fortune/global500>

<http://www.fortune.com/fortune/global500/fulllist/0,24394,1,00.html>

<http://www.itcilo.it/english/actrav/telearn/global/ilo/multinat/multinat.htm>