Topic Page: multinational corporation

Definition: **Multinational Corporation** from *The SAGE Glossary of the Social and Behavioral Sciences*

A corporation that has offices, buildings, property, and/or resources in at least one country other than its originating country. Multinational corporations that have several facilities in several countries will usually have budgets that are much higher than those of many small countries. Some people view multinational corporations negatively because they believe that they have political influence in some governments and take advantage of developing nations, along with increasing the rate of job losses in their home countries. These corporations are often the result of deregulation and globalization.

See also

Corporation, Deregulation (political science), Globalization (political science)

Summary Article: **Multinational Corporation**
From *Encyclopedia of Business in Today's World*

Multinational, international, global, or transnational corporations are those that operate in more than one country—not simply exporting goods from one country to another, but offering services in multiple countries or operating production facilities in more than one country. Because the demands of their businesses require them to operate under different conditions within different borders—abiding by local laws and serving different customer bases—their profits and productivity are affected by international matters to a greater degree than those of single-nation companies. Combined with their generally greater wealth, this has tended to involve them in international politics and to make them objects of suspicion. In popular speech, "the corporations" generally implies "the multinational corporations," and especially those that export cultural products from the United States or the West to the rest of the world, or those that control great amounts of natural resources, like the oil companies. These are the companies that have a greater than average impact on world affairs.

The British East India Company is widely considered the first multinational corporation, but it was the advances of the Industrial Revolution—particularly in manufacture and transportation—that paved the way for the modern multinational, just as the internet and the information revolution have led to new forms of multinational operation through online ordering, business process outsourcing, and off-shoring.

Postwar Multinational Corporations

Throughout the 20th century, Americans made great strides in foreign direct investment (FDI), and World War II had a good deal to do with so many of the prominent multinational corporations having American origins. Americans had already made significant progress in reaping overseas profits from domestic innovations, like the Hollywood movies that were shown all over the world. Foreign audiences happily tolerated subtitles or dubbed-in voices in exchange for the much better production values of big-budget Hollywood movies compared to most of the local fare, which is one reason the biggest successes exported from Hollywood were those that made those bigger budgets most obvious: the action movies, thrillers, science fiction movies, and so on. At the same time, the American movie industry specialized from a very early period in the creation and promotion of movie stars, figures whose fame soon outpaced the fame of any one movie.

Other American cultural icons were exported in great numbers as well; having pioneered national

advertising in the United States, Coca-Cola began selling its product to the world. Depending on the arrangement (which varied and developed over time), syrup could be manufactured in the United States and shipped elsewhere to be diluted and bottled, or the formula for the syrup could be given to Coca-Cola-owned bottling companies around the world. After World War II, when most of Europe was occupied with recovery, FDI by Americans skyrocketed, accounting for 75 percent of new FDI from the end of the war until 1960. American FDI did not diminish at that point—far from it, it has continued to grow at great rates—but non-American corporations began to engage in it more and more often, such that by the 21st century it had become a worldwide phenomenon.

FDI is the establishing and funding of a commercial enterprise in one country by the citizen of another country, or a corporation from another country—such as an American shoe factory opened in Asia, a Japanese car factory opened in Mexico, or a Swedish furniture store opened in Detroit. This is the mechanism by which all multinational corporations come into being; the transnational or global descriptor has come into use to imply a way of doing business that transcends national concerns, as opposed to taking an American or Japanese way of doing business and conducting it across the globe. In practice, though, companies are still headquartered in one country or another, and still originate from one culture or another. However, this is arguably analogous to the state-nation relationship in the United States: while a given bank may be chartered in Alabama, or a publisher may be headquartered in New York, its concerns and interests outside of that state clearly outweigh the concerns within that state, and there is likely nothing distinctively Alabaman about a bank with 1,200 branches sprinkled throughout 30 states.

Operating in multiple countries does not mean operating equally in those countries, or divided resources and profits equally among them. From the 1960s on—right after the peak of American dominance of FDI, as the rest of the world started to catch up—labor unions and concerned activists complained that American corporations were using overseas opportunities to move formerly American jobs into countries where wages and other labor costs (benefits, pensions, payroll taxes) were cheaper. In particular, companies were doing this while continuing to rely primarily on American customers, and customers from other wealthy nations, for their income— thus taking American money in, banking greater profits from it, and redistributing their labor costs to other countries. While this began as a labor concern—because companies were not just opening new factories overseas and retaining their existing American factories, they were closing American workplaces and replacing them with cheaper ones elsewhere—it quickly became a national concern, representing a potential drain on American capital and the prospect of the American consumer funding foreign labor with little domestic benefit.

Multinational Corporations Today

Those objections led to the Foreign Trade and Investment Act of 1972, the Burke-Hartke bill, brought before Congress by Representative Burke and Senator Hartke. Protectionist in design, the bill called for greater regulation of the international flow of capital, restricting FDI and creating a Foreign Trade and Investment Commission that would have enforced import quotas by country and category. The bill came right on the heels of the demise of the Bretton Woods monetary policy system, and the same administration that abandoned Bretton Woods—President Nixon's—opposed Burke-Hartke, which came very close to passing. The bill's defeat encouraged multinational activity, even as its near miss encouraged protectionist interests in both political parties. The subsequent 1974 Trade Act preserved some of the import-limiting goals of Burke-Hartke, but little of its sympathy with American workers. It loosened the criteria necessary to petition the International Trade Commission to restrict imports of a good by requiring that the industry in question show that imports are "a substantial cause" of financial

troubles that industry faces in the United States. While this protected American companies from foreign ones, nothing was done to protect Americans from the foreign involvements of American multinationals.

Ironically, the automobile industry was at the forefront of both concerns—for every thousand auto-workers complaining that their jobs were in jeopardy because their employer could open a foreign plant with cheap labor, there was an auto executive complaining that Japanese automakers were destroying American industry. The 1980s were the first, and to date only, decade in which more capital was spent on foreigners' FDI on American shores than American companies spent on overseas FDI. Much of this was because of Japanese companies, finally thriving after rebuilding their approach to business and industry in the postwar years, buying out American businesses and opening American factories. For much of the decade, Americans were consumed as much by the economic threat of Japan as the communist-military threat of the Soviet Union. Once associated with cheap, poorly made goods, Japanese industry was now synonymous with efficiency. Images of Japanese workers and executives starting the day with calisthenics, figures comparing the performance of American schoolchildren unfavorably to that of their Japanese counterparts, and cryptoracist descriptions of Japanese rivals as sneaky and ninja-like filled the news, even as American automakers continued to close factories in Michigan in order to move operations to Mexico.

Off-Shoring and Outsourcing

While the original reason to operate in multiple countries was to do business in all of them, over the course of the 20th century the approach developed of exporting labor and other activities in order to maximize profits and efficiency. This quickly became a highly specialized and detailed process. Off-shoring refers specifically to shifting part of a company's operations from one country to another. While this originally was most likely to involve factory labor, where the differences in labor costs would vary considerably from country to country, it applies also to multinational corporations that shift their corporate headquarters (or center of operations for a particular division) from one country to another. While this is still in a sense a shift of labor, it is significantly different from the factory example: executives do not find themselves laid off with new executives hired in the new country, though support, secretarial, and custodial staff very likely will. But because of the high probability of a corporation owning the building in which it is headquartered, moving to a new headquarters likely means using the old building for a new corporate office, retaining the employment of those nonexecutives.

Production off-shoring is sometimes euphemistically called physical restructuring, and involves setting up manufacturing facilities in a country with cheap labor. Many developing countries are destinations for production off-shoring. The job of designing and marketing the product typically remains in the company's home country; once the process of building the product is perfected, it is off-shored, where labor can be had cheaply and needs minimal training. Services off-shoring requires more skilled labor, and is a more recent development. Because India and parts of southeast Asia have a large English-speaking population and low labor costs, they are the destination for most services off-shoring, in which information technology, engineering, customer service, and other tasks are performed by a foreign subsidiary.

Services off-shoring is often used synonymously with business process outsourcing, but outsourcing is different from off-shoring in that it involves hiring a foreign company to do a task, rather than purchasing or building a foreign company for that task. The difference to American labor is not a large

one, but outsourcing is available to many more companieseven single-nation ones—than off-shoring is, because a single company can perform outsourced tasks for many client companies. Business process outsourcing (BPO), pioneered in India in the 1990s, involves contracting an outside company to perform customer-service or back office (finance and accounting, or human resources) business processes. This includes customer service and technical support call centers that redirect calls to representatives in India rather than to employees of the company, as well as a wide variety of tasks that do not involve contact with the public and that the public therefore remains largely unaware of. The internet has enabled much of this, allowing sensitive data to be safely communicated instantly to other parts of the world.

BPO has even led to legal process outsourcing and knowledge process outsourcing, BPO subfields in which BPO centers provide legal services or expert knowledge.

International Marketing Research

A number of marketing research companies cater to the special concerns of corporations operating multinationally. Zogby International and SIS International are two of the oldest, both founded in 1984 in New York. Zogby International was founded by political pollster John Zogby, an unsuccessful Democratic candidate for mayor of Utica. Zogby International is still best known for its political polls, and regularly makes headlines as a result of its polling coverage of American presidential campaigns. Zogby International operates in a number of other countries, often as the most reliable or prestigious polling firm, and correctly called major elections in Mexico and Israel, among other places. Like other marketing companies, Zogby is regularly engaged by corporations to manage focus groups and conduct polls to inform decision making such as price-setting, the demographic slant of advertising campaigns, gauging demand of potential products and services or existing products and services in new markets, and so forth. Zogby tends to rely heavily on phone and online polls, which suits some clients better than others.

SIS International was originally founded by Ruth Stanat to provide monthly market research reports to companies expanding into global markets. Beginning in 1990, the company began operating internationally, and has reorganized itself into three divisions: SIS Intelligence Answering, offering on-demand intelligence services to corporations; SIS International Custom Research, the flagship division, specializing in market entry and market feasibility research to help prepare new enterprises; and SIS Global Research Media, which produces books and other research products, as well as offering custom tracking services. Like Zogby, SIS also offers political polling, but has never been as well-known for it, nor does it make up as significant a portion of its business.

Other major international marketing research firms include Visionagain, a London-based company with American and Indian branches, specializing in the telecommunications and pharmaceutical industries; and SKOPOS Market Insight, founded by psychologists in London, with offices throughout Europe.

Market research of some form is exceptionally important when a company is looking to do business in a new market, whether that means introducing a new line of products or offering their products in a new geographical area. Market research can help find the right angle to attract new customers and establish a brand identity, such as when South Korean auto manufacturer Daewoo expanded into Western countries. It can suggest areas of flexibility and adaptation, such as the plethora of options offered by American food companies throughout Asia: the teriyaki Whoppers, cucumber-flavored Pepsi, and mayonnaise-flavored Doritos in Japan; McDonalds' vegetarian burgers in India, where beef

and pork are not served; and Coca-Cola's acquisition of local soft drink brands Limca and Thums-Up in India, in order to avoid direct competition with those well-established products.

International Impact

Multinational corporations often use their resources to attempt to influence change in the world. For instance, Asian countries do not always have—or are not able to enforce—intellectual property law to the same degree as in the West. There is a thriving business in pirated copies of movies and music, with little done about it. Western corporations over the last decade have been trying hard to encourage Asian governments and businesses to crack down on such piracy. Similarly, multinational corporations have pursued international agreements to respect patents and copyright, so that pharmaceutical companies that develop a medicine do not face competition from companies headquartered in countries where the developer's patent is not upheld, and where the medicine could thus be manufactured legally and cheaply by companies that, in the eyes of the developer, do not own it. Other product patents and intellectual property laws protect the interests of apparel companies, software and technology companies, and so on.

Multinational corporations regularly lobby, even in countries where they own no businesses, for favorable industry and environmental regulations and a favorable (or hostile-to-competitors) tariff structure, always seeking to shape the economic environment to their interests. Of course, to an extent lobbying is much like advertising: for every dollar Pepsi spends, Coke spends a dollar to cancel it out, and in the end both stay in the game just to keep the playing field level. In many cases, lobbying works the same way: with tariffs, the importing companies and exporting companies lobby to opposite ends; with regulations, there is quite often a lobbying group that wants the opposite of what the corporation seeks, whether because of labor interests, environmental protection, consumer protection, and so on. For every corporation that markets itself as a producer of enviromen-tally friendly products in order to attract green dollars, there is another corporation that spent years fighting environmental legislation because of the costs or other consequences—often the very same corporation. Even companies within the same industry can lobby for opposite ends: if Coca-Cola and Pepsi both use vanilla in their formulation but Coca-Cola uses three times as much, it is arguably in Pepsi's interest to see an increased tariff on vanilla beans. This becomes even more true if Pepsi's vanilla beans come from a plantation they own, or if they are pondering a move to vanillin, a vanilla substitute.

Lobbying is not an available tactic in all countries, and sometimes is not effective. In smaller or less developed countries, market withdrawal is sometimes used as a threat: if the country will not adjust its laws or regulations to suit the business, or if it insists on changing them to make them less conducive to the business, then the business will cease operating there. This is most effective when the loss of the corporation's business represents something more than just the loss of jobs—though movie studios have been able to use market withdrawal and tax competition to find the most amenable places to film (leading to Toronto and Vancouver serving as many television shows' New York, for example).

See also

Antiglobalization Movement, Antitrust Laws, Bretton Woods Accord, British East India Company, City, The, Corporate Diplomacy, Corporate Governance, Corporate Social Responsibility, Dutch East India Company, Economies of Scale, Economies of Scope, Entry Mode, Foreign Direct Investment, Horizontal and Vertical, Globalization, Home Country, Host Country, Internationalization, Joint Venture, Micro-Multinational, Multinational Competitive Disadvantages, Wall Street

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