AN ASSESSMENT OF THE CHARACTERISTICS OF A MULTINATIONAL COMPANY

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Abstract
There are few modern economic institutions that have been the focus of more attention than the Multinational Companies or Enterprises (MNCs or MNEs). An analysis of Multinational business is therefore clouded by controversy, variety of interpretation as to what constitute a true MNC, and other related issues like the host nation, home country, affiliates etc. Of significance is an analysis of the characteristics or features of a true MNC. A MNC thus has a variety of characteristics ranging from size, ownership, structure, importance in world trade, dominance of the industrial world, divestment policies, method of entry, industry distribution, diversification strategies, formalization to financing of affiliates. Exhibiting variety and complex characteristics, MNCs stand out as a phenomenon unlike those of any other business enterprise. This distinctiveness requires careful consideration and analysis.

Introduction
The study of international business management, according to Rugman (1995:4) is heavily focused on the activities of large multinational companies or enterprises (MNCs or MNEs). MNC's account for the majority of world's investment and trade. Today, multinationalism is no longer the exclusive domain of one particular country or enterprise. The international market place has passed the point where any single MNC or nation would expect to dominate the world market. But the hallmarks of MNC's are the increasing political, social, and economic interdependence of nation-states and innovation in technology and corporate structures. Moving a product or service into the international market requires entering into a new arena - an environment in which the basic political, cultural, legal, and monetary assumptions will be different. These political, social, and economic implications of MNC's are rapidly increasing especially as these companies, in the words of O'Connor (1983:20) have entered an "era of new globalism". In entering international market therefore, MNC's exhibit a variety of characteristics so as to operate effectively, efficiently and strategically.

The objective of this paper is to assess the characteristics of MNC's that
make them different from other forms of business. The paper is divided into four
parts. Part one is the introduction, part two deals with conceptual issues. The
characteristics of MNC's are treated in part three part four outlines the relevance of
the characteristics of MNC's to LDC's, while the last part is the conclusion.

Conceptual Issues

Multinational Enterprises, corporations or companies have been variously
defined by various authorities. Some stress the structural and behavioural character-
istics while others are biased toward the performance characteristics. Hodge-
too and Luthans (1997:4) see the MNC “as firm having operations in more than one
country, international sales and a nationality mix of managers and owners”. Broo-
et al (1976 19) for instance, defined a multinational company as any firm, which
performs its main operations, either manufacturing or the provision of services, in
at least two countries”. This emphasizes the geographical spread of the organiza-
tion implying therefore, that it is only when an enterprise confronts its problems of
production and distribution within foreign nations that it becomes a true multi-
national. Robock et al (1977:7) on the other hand, defined a multinational firm as “one
that allocates company resources without regard to national frontiers but is na-
tionally based in terms of ownership and top management”. In this regard, a
multinational is viewed as a cluster of corporations controlled by one headquarters
but the operations of which are spread over many countries.

Perhaps an all embracing definition of a multinational is that offered by Platak,
(1989:150-153) who sees it as “an enterprise that has an interlocking network of
subsidiaries in several countries, whose executive view the whole world as its
theatre of operation, and who therefore, obtain and allocate financial, material,
technical and managerial resources in a manner conducive to the achievement of
total enterprise objective”. This definition embraces the structural, behavioural,
and performance characteristics of a multinational. It also has the added virtue of
enabling one to appraise a multinational firm in comparison with the local divisions
of any corporate body, which examples abound to every nation.

A number of other definitions in the study of MNE are set out below:

a) Home Nation: This is the country, which has acted as the base for the
expansion and initial development of the MNE. It may no longer be the
either the largest sales office or area or the locus of the majority of share-
holders. It will normally remain the base from which ultimate control is
exercised.

b) Host Nation: Is one of the countries in which the MNE operation is
respective of the relative size of that operation.

c) Parent Company: Is the company, which operate out of the home nation

d) Subsidiaries (or Affiliates): These are “branches” located in host coun-
ctries. Note: in domestic business the word “branches” is used but in
The following are the characteristics of a time MNCs

Size

The UN Economic and Social Council (1978) took a critical look at the size of MNCs. While it would be wrong to suggest that large firm size is a prerequisite for multi-nationality, nevertheless the truly multi-national firms are enormous corporations. Closely linked with this characteristic is the oligopolistic nature of MNEs and their operation in industries dominated by advanced technology, product differentiation and extensive advertising. If size were the only criterion, many multinationals would rival nation states as economic entities. The sales of Exxon and General Motors for example, are greater than the gross national products of countries such as Austria, Denmark, New Zealand, Greece, etc. Undoubtedly such companies have the potential to influence world affairs and the course of events in individual host countries in very significant ways. The involvement of ITT in Chile, the Lockheed bribery scandal and the activities of the international oil companies—the so-called “seven sisters”—all bear witness to the relationship between size and power.

Ownership

Turning especially to the ownership of MNEs, the United States accounted for just under half of the total stock in 1992. (See appendix 2) When the UK, West Germany, Japan and Switzerland are included, almost four-fifths of the direct investment stock is accounted for. It is certainly true that multi-nationality is, and will continue to be, dominated by the rich, industrialized countries. On the other hand, in recent years companies establish affiliates in the smaller and poorer states. Firms in Brazil, Mexico, India, Hong Kong, the Philippines and elsewhere now have significant direct investments abroad. In addition, ownership is becoming more diffuse as a result of the entry of socialist countries into the multinational arena. By means of intergovernmental agreements with the developed countries, the former USSR and Eastern European states have created a framework for economic cooperation in the fields of technology, science and industry.

Growth

According to the Commission of the European Communities (1976), the remarkable growth of the multinational firm can be dated quite precisely to the post-1945 period, facilitated by a technological revolution, which has encompassed transportation, communications, data processing and management techniques. From the end of the Second World War until the mid-1960s, foreign investment was expanding more rapidly than the rate of GNP growth of national economies, for US multinationals, continental Europe and the UK have been the major host countries. The geographical diversity of the investment is, however, indicated by the fact that South America, Canada, and the Far East (after 1960) have also been
significant recipients. The United Kingdom has continued to be an important source country with former colonial links explaining the concentration of investment in Africa, Asia, and the Pacific and conversely the low volume of investment in South America.

**Locational Spread**

Looking at the size and growth of multinational firms from different source countries, it will be noted that some corporations have very widespread network of affiliates. Diversity of MNEs places them in a position of considerable flexibility because of the wide range of options, which exist in decision areas such as sourcing, pricing, etc. And the more multinational a company is, the better it is able to take advantage of changes in the economic environment internationally. Today most MNEs are striving to have affiliates in more than 10 countries of the world.

**Host Country Distribution of Foreign Direct Investment**

A breakdown of FDI shows that dominance of the USA, UK, Germany, and Japan as sources of direct investment, and apart from Japan where special factors apply, these same countries are also important recipients of direct investment. Canada together with the USA, UK, and Germany were hosts to 41 percent of the total stock of direct investment from the developed countries. This proportion has, furthermore, increased from a figure of 38 percent in 1967, indicating that direct investment is tending to become a two-way interchange between the developed countries themselves.

**Divestment**

(Di)investments forced Divestment, according to MenDehall (1945,455) is one of the major political risk MNCs faced. Previous comments have hinted at ways in which host countries may force changes in their relationships with MNEs through, for example, nationalization, unwelcome regulation, or expropriation. But the MNEs for their part may respond by divestment (alternatively termed disinvestments) involving withdrawal from particular locations through the sale or liquidation of their assets. From the perspective of the host nation the concerns over divestment policies do not merely relate to divestment as a counter strategy of bargaining weapon. Rather the principal fear is that since MNEs are attempting to maximize or optimize on a global scale, they may be prone to take extreme action on discovering that particular ventures, locations or investments are showing inadequate returns. Divestment is clearly a politically sensitive issue both within MNEs and in host nations. But forced divestment is legal under international law provided it is accompanied by prompt and equitable compensation.

**Methods of entry and Ownership Patterns**

These two issues are pertinent to the debate over the impact of MNEs in host nations and to the changing forms of MNE involvement abroad. From the viewpoint of recipient states, the belief is that in general the establishment of Greenfield
Characteristics of Multinational Companies

 ventures is preferable to entry through acquisition. Grass-roots entry at least increases the number of firms in the industry and may thereby increase competition. Hostility to entry via merger/take-over activity has been just as apparent in developed as in developing host states, because of the additional fear that MNEs may use acquisitions as a means of gaining access to host country technology. Though direct investment appears more profitable, most MNEs because of uncertainty in the environment prefer, as MenDehally (1995:235-239) puts it to enter the international Market through either joint venture, licensing, exporting, franchising, contracts, and turn key operations.

Industry Distribution

The early development of foreign direct investment was concentrated in the extractive and public utility fields, invariably in less developed economies. The period since 1945 has, however, seen the emergence of MNE activity, which is typically concerned with manufacturing. Extractive industries, including petroleum and mining and smelting, followed and services came last.

Diversification Strategies and Specialization

Instead of categorizing MNE investment by industry sector, an alternative approach is to focus on the type of expansion strategy employed. Thus, most MNEs have their origins in horizontal, vertical, or conglomerate expansion strategies. Horizontal expansion for an MNE involves the manufacture of the same basic products in different countries. According to Hodgetts and Luthans (1997:260) specialization involves assigning of individuals to specific, well-defined tasks either through (a) vertical expansion or (b) conglomerate expansion recast to link as (a) and (b).

a) Vertical Expansion: Vertical Expansion takes place where a corporation locates different stages in the production or making process in various countries; oil companies engaged in extraction, refining, retailing, etc in different countries are an obvious example.

b) Conglomerate Expansion: Conglomerate Expansion takes place where a company manufactures internationally a tense and diversified range of products. The giant US conglomerate corporation ITT is involved in electronics, telecommunications, pharmaceuticals, cosmetics, insurance, food, lighting fixtures, sanitary fittings, hotels, etc. A number of Japanese companies Toyota, Honda, Sony, Sharp, and Mitsubishi and other large trading corporations may expand vertically or horizontally.

Penetration of MNEs in Host Country Industries

Given the industry concentration of foreign direct investment and its concentration in a relatively small number of host countries, it would be expected that the penetration of multinational firms within the key industrial sectors in recipients states would frequently be very high. By these measures, the countries concerned are fairly dependent on external decision-making, which raises potential problems for government domestic policies. Some of the industries that MNEs penetrates
Formalization

Hodgetts and Luthans. (1997:258) looked at formalization as the use of defined structures and systems in decision making, communication, and controlling. The level of formalization differs from one country to the other. MNC's in some countries make greater use of formalization than others. For example, workers in Korean MNC's perceive more positive work environments when expectations for their jobs are set forth more strictly and formally. The U.S. MNC's do not respond very favourably to formalization. It must be noted that the MNE control of industry in the countries concerned is such as to provide the firms with considerable economic and non-economic power. Since the structure of product markets in which MNEs operate is oligopolistic, then conduct which results in high prices, above-normal returns high barriers to entry and so on might typically be expected. As a result, host country performance could be adversely affected.

Financing of MNE Affiliate Operations

In concluding this examination of the characteristics of multinational corporations, attention needs to be paid to one further feature of such firms, that is their ability to tap a wide variety of alternative sources of funds to finance their foreign operations. The affiliates of multinational corporations may obtain funds from the following sources:

i) The parent firm's home country: Here the finance may come from the parent itself either in the form of equity or loans. Alternatively the subsidiary may obtain funds from other sources in the home country. For example, a US affiliate abroad may borrow directly from United Financial Intermediaries or sell securities on the American capital market.

ii) Undistributed Profits and Depreciation Provisions: Once the affiliate becomes established and begins to earn profits, expansion may be remitted to the parent company, but any undistributed profits are available for ploughing back into the business. Again depreciation provisions are a further source of internal finance.

iii) The Host Country or Third Countries: A wide range of other sources exists within the host country itself and in third countries. In the host country, the affiliate may be able to raise equity capital, borrow from banks and other financial institutions and sell securities. Equally, the subsidiary may raise finance in the capital markets of third countries or in the Euro Currency markets, and it may be able to borrow from other affiliates of the parent located in these third countries. While all these alternatives exist in theory, realistically there will be a number of constraints on the flexibility of the MNE affiliate.
The Relevance of the Characteristics of MNCs to LDCs

As stated earlier, a MNC exhibits a variety of characteristics that make it a unique organization. Acting jointly or separately, these characteristics are capable of affecting less developed countries positively or negatively. On the positive side it is argued that the MNC is essentially beneficial to the host (less developed) country in the following areas:

a) Provision of the much needed technology for modernization
b) Provision of capital for growth and development
c) Provision of expertise and skills as well as training for local workers
d) Provision of access to foreign markets
e) Positive contribution to balance of trade
f) Provision of employment for LDCs nationals at various levels
g) Provision of foreign exchange through investment and export earnings
h) Contribution to tax revenues and
d) Development of local entrepreneurs.

LDCs, on their part, view the MNCs in a negative way. They argue that the MNC uses it characteristics negatively on LDCs in the following aspects:

a) Increase dependence on foreigners.
b) Decrease sovereignty and loss of economic, social, and political control.
c) Increased exploitation by using up nonrenewable resources and repatriation of profits with no investment.
d) Provision of inappropriate technology
e) Displacement of local firms due to their inability to compete effectively with the MNCs
f) Outflows of foreign exchange due to payments for imported machinery and parts and repatriation of profits.
g) Exploitation of local labour. In this regard, Ayashiglo and Altachi (2002:18) are of the view that MNCs pay “relatively lower wages and lower taxes than local firms” while obtaining high profits.

The implication of the above is that while LDCs want the potential contributions derived from the MNC through a variety of its characteristics for example improved trade balances, increased employment, more foreign exchange, access to foreign markets, provision of high technology, etc., the LDCs are “afraid” of the potential negative consequences such as loss of sovereignty, technological dependence, exploitation and foreign control of key economic sectors. As a result of these potential negative consequences, most LDCs have designed policies to attract and confine MNCs. These policies come in form of incentives and restrictions. According to Mendenhall, et al (1995:43) some of the typical government investment incentives to and restrictions on MNCs are as set below.

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<th>LDC Incentives to MNCs</th>
<th>LDC Restrictions on MNCs</th>
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<td>a) Tax Holidays</td>
<td>a) Local Ownership</td>
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<td>b) Exemption from duties</td>
<td>b) Local content</td>
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Conclusion

In conclusion, it is clear that the multinational enterprise is a phenomenon unlike that of any other business enterprise. Many of the characteristics of the MNE are common to other forms of business organization, but no other institution exhibits the complete range of characteristics, and to such an extent, as the multinational firm.

References


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