

A View of a Multinational's Value

Founder of a multinational looks at today's world and future, and offers view of role for large corporations

BY THOMAS P. COLLIER*

Professor Raymond Vernon of Harvard University has stated a view of multinational corporations (MNCs) which one may find to be cogent. "It is not the chosen instrument in an international conspiracy for grinding the faces of the poor; neither is it mankind's salvation in a parlous world of hostile national states. It is one more human institution, at the same time fallible and useful, whose benefits can be increased and drawbacks reduced by appropriate policies."

It is my opinion after 30 years of traveling, living in, and working with developing (and some developed) countries that they are ambivalent about private foreign investment. They want it for the benefit it brings but they are uneasy about it. In particular they are apprehensive about the multinational company. Truly, it can be said it is a forceful and important instrument for international investment. The MNCs have substantial financial, technological and marketing power usually combined with a global business plan and outlook that can be beneficial to the host country.

As a former corporate executive and now as a consultant to more than 50 MNCs and international companies, it is my observation that many of the most successful developing countries have recognized and used the advantages of foreign private investment. Saudi Arabia, Brazil, Mexico, Ireland and earlier, Canada and Australia, are examples of countries where the MNC has had a beneficial influence on their economic and technological growth.

In general, the results of foreign investment have been more rapid modernization of the developed and developing countries. Certainly the MNCs have strengthened the private sector. My many years as an international business traveler have convinced me that the developing countries would be well served by offering a secure climate for appropriate foreign investment. However, the choice is theirs! They must make the decision of whether foreign investment, foreign technology and foreigners on their soil are good or bad for their country.

My experience as the former founder, president and chief executive officer of Motorola Overseas Corporation tells me that there are significant benefits to be derived from the multinational enterprise. If the host governments in the countries seeking *additional*

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employment, investments, technology and exports agree with this statement, then it is important that their governments deal on an open and fair basis with the legitimate concerns of the MNCs.

Obligations

The United Nations and other bodies are suggesting multinational guidelines for their conduct and operations. May I suggest that these guidelines should include not only the obligations of the multinational, but also of the host governments as well. The multinational enterprise should be treated equitably and in accordance with international law. It is my belief that these guidelines should apply equally to the host country's domestic and international enterprises and to private and public firms wherever appropriate.

In my view, the guidelines should stress the obligation of all parties to carry through on undertakings freely entered upon. Again, it must be emphasized that they should be balanced even when the control of government changes under due process of law. (France's recent election of a socialist government is a case in point.)

It would be my recommendation to the developing countries that they too must accept the legal, financial, and moral obligations as members of the international system. Clearly, they should follow in concert as their own economies grow and expand with new found natural resources. Moreover they should treat the foreign company within their borders on an open and evenhanded basis—even when there is a substantial change in government politics.

HOW DID THE MNCs COME INTO BEING?

Generally, the large MNCs of today did it without much formal planning. Motorola began as a modest exporter. When a good export market became threatened by tariffs, quotas, currency, economic problems or competitive disadvantages the company set up local joint-venture manufacturing. Over the years Motorola gained confidence in the success of joint-venture operations. In due course Motorola could justify the expense to set up its own overseas offices and direct selling activities.

As the MNC's share of the market(s) increased, the parent company formed wholly-owned subsidiaries which became profit centers. Many of these subsidiaries have their own financing, product development, research, etc., and have in fact become a microcosm of the parent company. This is not only true of Motorola but also of Bendix, Borg-Warner and many other international companies enroute to becoming a MNC.

As the parent company emerged into a multinational corporation, there followed naturally the transferring of personnel, products, money, ideas and the like, to maximize the efficiency and profitability of the corporation. It may be said that the true MNC considers their home market just another market and on the same level as that of any other comparable overseas area.

MNC CONTRIBUTES SIGNIFICANTLY TO THE HOST COUNTRY

The MNC makes a vital contribution overseas which is not limited to, but includes:

1. Bringing in advanced technology.
2. Bringing in advanced management and labor relations techniques.
3. Creating new exports and adding to the balance of trade of the host country.
4. Creating new jobs and employment opportunities.
5. Creating new opportunities for *local* senior management and financial, marketing, production, technical, supervisory personnel, etc.
6. Creating additional revenues to the host and local governments in terms of tax payments, duties, and the utilization of roads, airports, docks, rail transport and utilities, all of which bring substantial financial benefits to the host country.

Permit me, please, to make some personal observations based on my experience at Motorola and General Electric. The host country has serious and long-term obligations to the MNC. For example, I believe there should be:

1. A requirement for evenhanded treatment of the foreign MNC as with any local enterprise—private or government owned.
2. A requirement for keeping government pledges for freedom to transfer profits, personnel, products, etc., as agreed to on the initial establishment of the enterprise in that country. These pledges must be considered inviolate even when the political power changes to a labor or socialist government.
3. Freedom from harassment by local politicians as regards expropriation or the requirement to sell substantial interest of the MNC's operations to local residents and/or to the government or agency thereof.
4. A genuine effort be made to eliminate the practice of bribes or other unusual payments to expedite movement of people, products, etc., in and out of the host country.

American, European and eventually Japanese MNCs will reduce capital expenditures and/or expansion in the developing countries that are expressing strong nationalistic tendencies, anti-foreign sentiments, and terrorist activities; i.e. Iraq, Libya, Syria and other African, Asian and Latin American countries. This means reduced exports, foreign exchange, tax revenues, technology transfer and new employment for many of the developing countries which need it the most.

MNCs worldwide are critically reviewing plans for

expansion in certain European countries that are experiencing government intervention, labor unrest, union demands, and reduced productivity, coupled with currency and political instability. Moreover, the proposal or the idea of having workers represented by their unions sitting on the overseas Board of Directors is generally unacceptable by most American corporations. This idea designed to influence the planning, financing and long-range operations of the MNC's overseas entity is basically not realistic in the U.S. private sector. MNCs and other international companies will be hesitant and clearly concerned about investing or expanding in those countries which are experimenting in the sharing of management responsibilities and decisions with unions who are represented on the Board of Directors.

No doubt the Americans will lose business to those foreign competitors whose government or whose Board of Directors believe the host country's customs, practices and beliefs are their own business. Foreign competitors frequently go along with the local tradition and customs without punitive legislation from their governments. "When in Rome, do as the Romans do," seems to be an overseas motto that gets the orders that are being denied to legitimate business pursuits of American companies.

ONE WORLD, ONE MARKET

Proper organization for corporate success—indeed for corporate survival—in the world as it is shaping up must start with a business philosophy geared to the realities of our times. Top management must forsake (if it has not already done so) the idea that the U.S. out-produces and out-consumes the rest of the world combined.

Today, the free world outside the U.S. produces and consumes more steel, electricity, radios, TVs, ships, automobiles and many other products than does the U.S. The phenomenal growth rate recorded in Japan has caused a great deal of soul-searching in the U.S.! Emphasis on quality and productivity, combined with a government-industry working relationship is making Japan a world leader in many industries that were formerly dominated by the U.S.A.

Alert U.S. managements who have already achieved substantial offshore sales *are now setting their sights on a long-term volume of business outside the U.S. at least equal to their domestic volume.* What is more, they look forward to higher profit ratios on their foreign business than is generally obtainable inside the U.S. *This means that companies which fail to plan for a rapidly increasing foreign component in their total corporate profit picture will almost inevitably become second or third or even fourth-rate enterprises!*

Now, for a report on my experience. In achieving global profit goals, no company can rely on exports alone. This does not mean that exports will cease to rise substantially in the years ahead (1980 U.S. exports were \$220 billion f.a.s.) They have and undoubtedly will—through increased sales of traditional (a) technological exports (electronics, computers, aerospace, etc.), in which western specialization continues to have an edge; (b) commodity exports, and (c)

products whose design has strong appeal to foreign buyers. For the majority of MNCs, full exploitation of international markets means (a) investment, (b) controlled sales/distribution organizations, and (c) production abroad in addition to exports. Wholly-owned and joint-venture offshore manufacturing plants must be included in the MNCs planning. Contract manufacturing arrangements and licensed production in countries where labor is cheap, plentiful, stable and skilled will be used by many companies to meet their global profit goals. I predict more and more companies will manufacture in the countries or very near the areas that have needed or abundant natural resources.

A number of political and economic factors reinforce the requirement that U.S. firms take their skills and capital abroad to build world profits. Economic integration in Europe means that producers within that area enjoy a big advantage over U.S. exporters. The countries of the European Economic Community have slashed tariffs among themselves to zero. When "associate" members become full-fledged members there will emerge an enlarged political and economic influence of significant importance. The OPEC countries and even the COMECON members of Eastern Europe are providing new challenges and market opportunities to American and non-American businessmen.

Fool's Paradise

Europeans and the Japanese are using modern management, marketing and automated production techniques that were formerly the U.S.A.'s leading competitive edge and thrust. American and foreign franchisers and licensors have and are creating new markets for their products in Japan and Europe. Therefore, those U.S. manufacturers that rely primarily on exports to Europe, Japan and other developed countries to build sizable (and long-term) foreign sales/profits are living in a fool's paradise!

These imperatives of markets and competition in the eighties mean that many medium to large U.S. firms should treat the world as though it were a single "domestic" market of which the U.S. is but one, admittedly important, segment. Purchasing, financing, production, research, sales and distribution will be organized in the most economical and profitable manner with as little as possible regard for national boundaries.

Decisions as to allocation of corporate resources will be made, not on the basis of what is good for one product line or for one function (export vs licensing vs joint venturing vs own foreign production); or for one area of the company (e.g. a U.S. operation(s) vs its sister overseas company(s)), but on what will best advance the total, global interests of the corporation. This will presage the development/advancement of the internationally oriented company into a true multinational corporation. At least this is my observation in looking back at my experiences at Motorola over the 20-plus years since I launched Motorola into the area of offshore manufacturing and marketing.

The battle for corporate supremacy is going to be fought out in a marketplace that may, in time, encompass the entire free world as a single market. Many U.S. firms will organize in a way that will permit them

to become, as rapidly as possible, truly "world," multinational or transnational corporations.

The growing hostile attitude toward the expanded activities of foreign corporations abroad suggests greater foreign governmental involvement. Multinational corporations have become a highly important factor in the world economy. It may be pointed out that American multinationals account for the bulk of U.S. direct investment abroad. Further, the gross sales of many individual multinationals exceed the gross national product of many countries. Several years ago, the annual sales of Exxon, for example, were greater than the GNP's of such countries as Switzerland, South Africa, Denmark and Austria.

Increasing Attack

Recently, MNCs have come under increasing attack. Some members of congress, union leaders and others are charging that MNCs "export American jobs." Others say that recent disclosures of payments abroad demonstrate that the MNC is a corruptive force in the world; still others say that MNCs are just too big. The answer, these people argue, is to have our government step in and "regulate" or even dismantle the multinational!

I have seen no sound evidence that can substantiate the claim that U.S. investment abroad results in the export of jobs. It may sound "politically attractive" to claim that U.S. corporations are exporting 150,000 jobs annually by investing abroad, but there is no economic evidence for such a claim. One billion dollars of U.S. exports creates 50,000 jobs. I therefore calculate that these MNCs and international companies have added or retained some one million U.S. jobs. In fact, it is estimated that 25% of all U.S. merchandise exports are shipped from the U.S. to American subsidiaries overseas!

It is easy enough to look at an overseas production facility and to say that the workers employed there could have been employed in their home country. The firm that set up a production plant overseas probably faced the choice of manufacturing in the foreign market or losing it to his competitors for economic reasons. Imagine the balance of trade deficit that the U.S. would have if the exports to the U.S. overseas facilities were not taking place! This or any other nation could not afford a 25% cut in their merchandise exports!

Bribery

Recent disclosures in the press of payments by some MNCs to foreign officials have led some segments of our society to condemn most of the business community as corrupt and to call for immediate punitive legislation. I think we would all agree that bribery should be condemned as ethically abhorrent and subversive to the functioning of a free-enterprise system. Further, I think we would all agree that the matter of bribes paid to foreign officials by U.S. corporations needs a complete review. However, our government's position should be to proceed with caution and fully understand the problem before rushing to enact arbitrary legislation. The SEC and the IRS have investigations under-

way; the Justice Department has extensive antitrust powers; and the Treasury Department has proposed an international agreement covering this subject. Further, a number of MNCs have undertaken their own internal reviews and are adopting codes of business practices. These are important developments and I believe that the vast majority of business is conducted ethically and honestly. We should not allow the conduct of the few to cloud the behavior of the many. Let us approach this problem sensibly and see to it that legislation is passed only if it is addressed to the problem. It is heartening to see that the Reagan Administration is holding public meetings with all sectors on this troublesome issue.

The interests of all countries are well served by maintaining an international environment in which people, capital and goods can flow freely across national boundaries. Moreover, the private company is well equipped to recognize worldwide investment opportunities that can also contribute to a national economic growth and development. Most nations have adequate safeguards to protect their national interests whenever they believe that the MNC is becoming a dominant force and do not hesitate to use them.

Multinational corporations may be seen as beneficial to both home and host countries. Why? They can mobilize on an unprecedented scale and channel critically-needed capital, technology, and management know-how to increase production and growth in the countries where they locate. Labor and government should not be so quick to condemn the multinational corporations but rather recognize the economic benefits that flow from the private sector.

68

DANGER CLOUDS ON THE HORIZON?

On October 3, 1980, the European Common Market made a far-reaching proposal that caused shivers to run down the backs of the MNCs. The *Wall Street Journal* reported:

BRUSSELS—The Common Market's executive commission proposed a code of corporate conduct to make big companies more responsive to their workers.

The directive, if approved by member governments, would require companies to make regular reports to employees on corporate decisions affecting their livelihood.

The proposal would also apply to multinational corporations with headquarters outside the Common Market. The companies would have to make one of their Common Market subsidiaries responsible for providing information to company workers in the nine Common Market countries . . .

. . . Although the directive would apply to all companies, it is primarily directed at multinational concerns which have been criticized by labor groups for unrestrained business methods that often go against worker interests.

Presumably, the commission's proposal is designed to make MNCs more responsible to their workers. It would appear that the EEC is following the path of the developing countries in attempting to mandate the MNCs corporate conduct! In my view most of the American MNCs will not be quick or even agreeable to embrace such a mandate. Here is another instance of a proposal that will cause MNCs to defer new factories or to expand existing overseas factories (and thus eliminate new employment opportunities). It is ironic that these proposed measures are being considered at a time when the EEC and many other nations are experiencing dangerously high unemployment and underemployment.

INVESTMENT ABROAD MAY BE IMPERATIVE

Curiously, for many companies overseas production/marketing facilities is a "must" to maintain and improve market share built up by exports. This "forced investment" has been and will continue to be the basis for the change of the international or exporting company into a multinational corporation. However, many of these companies will be reluctant to establish new factories when they hear of EEC's far-reaching proposal. These companies must raise the question before their own boards of directors—what will the EEC next propose?

To sum up, we have tried to give a number of facts and personal experiences, such as those bearing on the MNC. But what is really important is a clear perception of the temper of our times. We must recognize the dominant forces that seem certain to prevail in the years ahead. The first of these is the ascending role of science, technology, economics, and international politics and pressures, not to mention governmental legislation and interference.

These forces mean change—more rapid and far-reaching than ever before. Accordingly, every facet of business management must have an eye to the future and prepare his company for the global challenges and opportunities.

Many years ago, the French philosopher Gaston Berger put it, "The precondition for success in this revolutionary age is to analyze in depth; to take the long view and broad view; to take chances; and to think of man."

Finally, I will end with a quote from a recent issue of *Newsweek*. In my view here is a statement that managers of business around the world may wish to contemplate: "The business of nations affects business among them. An act of social change can send ripples around the globe. The men and women whose world is international, require and demand the focus of an international perspective."