Managing the Transnational Corporation
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Course Introduction and Overview

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1 Course Objective and Learning Outcomes

Welcome to the course Managing the Transnational Corporation. We hope that you find the course stimulating and useful. At the end of the course, you should be able to demonstrate

- an understanding of TNCs as distinct social, cultural, technological, economic and strategic entities relevant to the emerging global economy
- an understanding of the nature of international production, and an ability to debate the main theoretical approaches that explain why firms have become transnational
- an ability to evaluate the various organisational alternatives that exist for transnational corporations and assess their effect on coordination and control, the potential for innovation, international human resource practices, and culture
- an in-depth knowledge of a range of relevant case studies and an understanding of their implications for both theory and practice
- why processes of control and coordination vary across TNCs, and especially in response to new opportunities and challenges, and the leverage abilities of TNCs in relation to nation states, suppliers and labour
- A critical understanding of the extent to which ‘culture’ is a distinguishing feature of TNCs generally, and when comparing nationally and regionally headquartered TNCs to each other.

2 The Course Structure

The course consists of eight units, each of which comprises a set of readings, questions and exercises.

Unit 1 The Nature of the Transnational Corp. – An Overview

1.1 Why is it Different to Manage a TNC?
1.2 What is a Transnational Corp. (TNC)?
1.3 What is in a Name? Transnational or Multinational?
1.4 Review of Theories of Transnational Production
1.5 Case Study
1.6 Historical Roots, Recent Trends and the Largest TNCs
1.7 Unit Summary

Unit 2 Major Issues Facing TNCs

2.1 Introduction
2.2 Organisational Architectures in TNCs – Strategy and Structure
2.3 Control Mechanisms and Incentives
2.4 Exploiting International Leverage Situations
2.5 Unit Summary
Unit 3 Differentiation and Integration
3.1 Introduction
3.2 Differentiation and Integration
3.3 Conclusion
Guide to Answers for Terence Jackson, ‘The Strategic Organization’

Unit 4 Coordination and Control
4.1 Key Features of TNCs
4.2 Interpreting TNCs as Systems
4.3 Controlling
4.4 Staffing as Controlling
4.5 Illusions of Control – Examples from the Non-profit Sector
4.6 Coordination
4.7 Outsourcing
4.8 Assessing the Ethical Performance of TNCs – a Case Study from Nigeria
4.9 Unit Summary

Unit 5 Innovation
5.1 Defining Innovation
5.2 Managing Innovation
5.3 Case Study: 3M
5.4 Innovation and Diversity
5.5 Virtual Project Teams
5.6 Innovation – Risk and Opportunity
5.7 Unit Summary

Unit 6 HRM in International Joint Ventures
6.1 Introduction
6.2 Joint Ventures and National Culture
6.3 Organisational Culture and IJVs
6.4 HRM in Joint Ventures
6.5 Unit Summary

Unit 7 Global HRM
7.1 The HRM Paradigm
7.2 Distinguishing Between HRM and Personnel Management
7.3 Junzi – the Confucian Gentleman
7.4 Psychological Contracts in East Asia
7.5 International HRM
7.6 Global HRM
7.7 Unit Summary
Unit 8  Cultures

8.1 How Do Cultures Evolve?
8.2 Socialisation and Cultural Identity
8.3 South Asia as a Context for Managing in TNCs
8.4 National Cultures
8.5 The Cultures of TNCs
8.6 The Re-emergence of Indian TNCs
8.7 Summary

3  The Course Authors

Dr Phil Tomlinson is an Associate Professor in Business Economics in the School of Management at the University of Bath. His research interests focus upon economic governance, transnational corporations, globalisation and regional development and industrial policy, where he has published extensively in some of the world’s leading journals. In addition, his research has been received by UK government departments and policy-makers, policy think tanks, such as NESTA and The Work Foundation, the UK Trades Union Congress (TUC) and various Industry Trade Associations and the wider business community. He has also taught short courses and run workshops at other universities both within and outside the UK, including the University of Deusto in Spain and, for CeFiMS, at Hong Kong Space University.

He has worked closely with CeFiMS and SOAS for over ten years, teaching and writing materials for modules including Decentralisation and Local Governance, The Japanese Financial System, Microeconomic Principles and Policy and Privatisation and Public Private Partnerships.

Dr Keith Jackson is a tutor at SOAS, University of London, where he has worked in various management and academic roles since 1993. He also works freelance as a consultant in international HRM and management education, with ongoing teaching and consultancy assignments in China, France, Germany, Japan, Switzerland and Turkey. He is an honorary visiting fellow at the Cass Business School (London) and an editor for the journals Asia Pacific Business Review and South Asian Journal of Global Business Research. His PhD was on ‘the management of trust’.

This course also draws on material from the Course, International Human Resources, written by Dr Richard Common. Dr Common was a UK Civil Servant before becoming a researcher at the London Business School and then the London School of Economics. He has lectured in public sector management at a number of Universities in the UK, and at the City University of Hong Kong. He joined the Business School at the University of Hull in 2001, and then in 2007 moved to Manchester Business School as Senior Research Fellow. Dr Common has a Master’s degree from the London School of Economics and gained his Doctorate from the University of York. He has published extensively on public sector management reform, including (in 2001) Public Management and Policy Transfer in Southeast Asia (Aldershot: Ashgate).
An Overview of the Course

This course is about exploring the management of transnational corporations (TNCs). In doing so, the course considers the transnational as a distinct social, cultural and strategic entity. This is important since TNCs have a global focus which involves engaging with actors from (often) very different cultural backgrounds, and yet these corporations inherently seek to retain (and sometimes impose) their own distinct corporate identities and determine their own strategic orientation. This apparent contradiction can often create tensions, particularly with regard to negotiating with nation states and sub-national authorities over new investments, subsidies and determining tax liabilities or with trade unions over wages, working conditions and/or human resource practices. On the other hand, engaging with diverse actors and cultures may unlock new opportunities for TNCs, particularly if they can successfully exploit the variety of capabilities across their foreign affiliates. If these capabilities can be successfully harnessed within the TNC’s strategic goals, then this might enhance the TNCs prospects for growth and development.

This course explores these issues through a variety of perspectives from different strands of literature. This allows us to capture the essence of the transnational corporation, but at the same time appreciate the differences in the nature of management practice across the globe. For instance, there are often noted (and sometimes subtle) differences in the management styles and strategies of Western and Asian TNCs. Such differences can raise tensions, particularly in the case of international joint ventures. A salient issue is the extent to which management practices have converged towards a global norm.

The course begins within an overview of the various definitions and theories of the transnational corporation, drawing largely upon material from the international business literature (Unit 1). This provides the basis for an understanding of the nature of international production and the external environment that TNCs operate within, and the extent to which global markets shape their strategy and behaviour. In Unit 2, we explore the strategic focus of TNCs in further detail by considering their organisational architectures and their relationships with affiliates. In doing so, we also consider some of the control mechanisms (and incentives) TNCs employ to ensure compliance across their global activities. We also explore the leverage advantages that TNCs have in negotiations with nation states, suppliers and workers.

Units 3 and 4 explore some of these tensions in more detail. In Unit 3, we critically analyse the tensions arising (within the TNC) from the desire to differentiate global operations by creating different units (with different objectives, routines, cultures etc.), as against the TNC’s need to integrate global operations around a common strategy. We specifically explore this in the context of Human Resource Management and in doing so, we examine how TNCs seek resolve these tensions. Unit 4 then considers how and why processes of management control and co-ordination differ across TNCs. In this, we consider how management decisions designed to emphasise control and/or coordination might be seen in terms of being varying forms or
emphasis of strategic response and TNCs and their managers adapt to changes in the global business environment.

In the second part of the course, there is a particular emphasis upon the impact of different cultures upon the management of TNCs. For instance, in Unit 5 we consider the impact of ‘diversity’ across the TNC, focusing specifically upon the TNC’s innovation strategy. The unit explores the challenges faced by managers as they manage diversity and innovation in globally displaced (virtual or multicultural) project teams. In Unit 6, we consider international joint ventures with a focus upon the impact of both national and organisational cultures upon HRM practices. This issue is also considered in Unit 7, where the question is raised as to whether TNCs are able to pursue a global HRM strategy to achieve global competitiveness. Finally, Unit 8 considers the extent to which the TNC is a distinct, social and cultural entity; in this regard we ask whether culture is a factor that serves to distinguish managing in TNCs.

5 Study Materials

This study guide is your main learning resource for the course as it directs your study through eight study units. Each unit has recommended reading either from the course textbook or from supplementary readings which are included in the Course Reader. The course also comprises a range of case studies.

Textbook

You will be provided with one textbook for this course:


This is a very comprehensive and useful textbook covering a range of theoretical perspectives about the emergence of transnational corporations and some of the issues that arise from their relationships with other actors in the global economy. The book also provides a contemporary picture of the importance of transnationals in today’s global economy. The textbook coverage has been complemented and supplemented by articles and extracts from other texts, and these are reprinted in the Course Reader.

Course Reader

You are provided with a range of academic journal articles, extracts from supplementary text books and other reports or material. These comprise the Course Reader, which forms an essential part of this course.

6 Studying the Course

To guide you as you consider the theoretical issues and conflicts arising from transnational production, the course will use a range of examples and case studies. These will illustrate the theoretical principles and assist you to
understand and apply financial reporting in the international context. There are also many review questions and exercises incorporated into the course to facilitate your learning.

At certain points we will ask you to reflect on various aspects of the policy process where you work. It will be valuable for you and your fellow students to share these reflections on the VLE. These short notes setting out the issue and the approach will enrich your and your fellow students’ experience of the course.

Please feel free to raise queries with your tutor and with your fellow students, if there are issues that are not clear to you. Do this as soon as you find a problem, because waiting will hold you up as you work through the course.

The course is structured around eight units, which should be studied on a weekly basis. It is expected that studying each unit, including the recommended readings and activities, will take between 15 and 20 hours. However, these timings may vary according to your familiarity with the subject matter and your own study experience. You will receive feedback through comments on your assignments and there is a specimen examination paper to help you prepare for the final examination.

We hope that you will find the course instructive, useful and occasionally challenging.

7 Assessment

Your performance on each course is assessed through two written assignments and one examination. The assignments are written after Week 4 and Week 8 of the course session and the examination is written at a local examination centre in October.

The assignment questions contain fairly detailed guidance about what is required. All assignment answers are limited to 2,500 words and are marked using marking guidelines. When you receive your grade it is accompanied by comments on your paper, including advice about how you might improve, and any clarifications about matters you may not have understood. These comments are designed to help you master the subject and to improve your skills as you progress through your programme.

The written examinations are ‘unseen’ (you will only see the paper in the exam centre) and written by hand, over a three hour period. We advise that you practice writing exams in these conditions as part of your examination preparation, as it is not something you would normally do.

You are not allowed to take in books or notes to the exam room. This means that you need to revise thoroughly in preparation for each exam. This is especially important if you have completed the course in the early part of the year, or in a previous year.
Preparing for Assignments and Exams

There is good advice on preparing for assignments and exams and writing them in Sections 8.2 and 8.3 of *Studying at a Distance* by Talbot. We recommend that you follow this advice.

The examinations you will sit are designed to evaluate your knowledge and skills in the subjects you have studied: they are not designed to trick you. If you have studied the course thoroughly, you will pass the exam.

Understanding assessment questions

Examination and assignment questions are set to test your knowledge of the course, and your analytic skills. Sometimes a question will contain more than one part, each part testing a different aspect of your skills and knowledge. You need to spot the key words to know what is being asked of you. Here we categorise the types of things that are asked for in assignments and exams, and the words used. All the examples are from CeFiMS examination papers and assignment questions.

Definitions

Some questions mainly require you to show that you have learned some concepts, by setting out their precise meaning. Such questions are likely to be preliminary and be supplemented by more analytical questions. Generally ‘Pass marks’ are awarded if the answer only contains definitions. They will contain words such as:

- Describe
- Define
- Examine
- Distinguish between
- Compare
- Contrast
- Write notes on
- Outline
- What is meant by
- List

Reasoning

Other questions are designed to test your reasoning, by explaining cause and effect. Convincing explanations generally carry additional marks to basic definitions. They will include words such as:

- Interpret
- Explain
- What conditions influence
- What are the consequences of
- What are the implications of

Judgment

Others ask you to make a judgment, perhaps of a policy or of a course of action. They will include words like:

- Evaluate
- Critically examine
Assess
Do you agree that
To what extent does

Calculation
Sometimes, you are asked to make a calculation, using a specified technique, where the question begins:
- Use indifference curve analysis to
- Using any economic model you know
- Calculate the standard deviation
- Test whether

It is most likely that questions that ask you to make a calculation will also ask for an application of the result, or an interpretation.

Advice
Other questions ask you to provide advice in a particular situation. This applies to law questions and to policy papers where advice is asked in relation to a policy problem. Your advice should be based on relevant law, principles, evidence of what actions are likely to be effective.
- Advise
- Provide advice on
- Explain how you would advise

Critique
In many cases the question will include the word ‘critically’. This means that you are expected to look at the question from at least two points of view, offering a critique of each view and your judgment. You are expected to be critical of what you have read.

The questions may begin
- Critically analyse
- Critically consider
- Critically assess
- Critically discuss the argument that

Examine by argument
Questions that begin with ‘discuss’ are similar – they ask you to examine by argument, to debate and give reasons for and against a variety of options, for example
- Discuss the advantages and disadvantages of
- Discuss this statement
- Discuss the view that
- Discuss the arguments and debates concerning

The grading scheme
Details of the general definitions of what is expected in order to obtain a particular grade are shown below. Remember: examiners will take account of the fact that examination conditions are less conducive to polished work than the conditions in which you write your assignments. These criteria are used in grading all assignments and examinations. Note that as the
criteria of each grade rises, it accumulates the elements of the grade below. Assignments awarded better marks will therefore have become comprehensive in both their depth of core skills and advanced skills.

**70% and above: Distinction As for the (60-69%) below plus:**
- shows clear evidence of wide and relevant reading and an engagement with the conceptual issues
- develops a sophisticated and intelligent argument
- shows a rigorous use and a sophisticated understanding of relevant source materials, balancing appropriately between factual detail and key theoretical issues. Materials are evaluated directly and their assumptions and arguments challenged and/or appraised
- shows original thinking and a willingness to take risks

**60-69%: Merit As for the (50-59%) below plus:**
- shows strong evidence of critical insight and critical thinking
- shows a detailed understanding of the major factual and/or theoretical issues and directly engages with the relevant literature on the topic
- develops a focussed and clear argument and articulates clearly and convincingly a sustained train of logical thought
- shows clear evidence of planning and appropriate choice of sources and methodology

**50-59%: Pass below Merit (50% = pass mark)**
- shows a reasonable understanding of the major factual and/or theoretical issues involved
- shows evidence of planning and selection from appropriate sources,
- demonstrates some knowledge of the literature
- the text shows, in places, examples of a clear train of thought or argument
- the text is introduced and concludes appropriately

**45-49%: Marginal Failure**
- shows some awareness and understanding of the factual or theoretical issues, but with little development
- misunderstandings are evident
- shows some evidence of planning, although irrelevant/unrelated material or arguments are included

**0-44%: Clear Failure**
- fails to answer the question or to develop an argument that relates to the question set
- does not engage with the relevant literature or demonstrate a knowledge of the key issues
- contains clear conceptual or factual errors or misunderstandings

[approved by Faculty Learning and Teaching Committee November 2006]
Specimen exam papers

Your final examination will be very similar to the Specimen Exam Paper that is printed at the end of this booklet. It will have the same structure and style and the range of question will be comparable.

CeFiMS does not provide past papers or model answers to papers. Our courses are continuously updated and past papers will not be a reliable guide to current and future examinations. The specimen exam paper is designed to be relevant to reflect the exam that will be set on the current edition of the course.

Further information

The VLE will have documentation and information on each year’s examination registration and administration process. If you still have questions, both academics and administrators are available to answer queries.

The Regulations are also available at www.cefims.ac.uk/regulations.shtml, setting out the rules by which exams are governed.
This is a specimen examination paper designed to show you the type of examination you will have at the end of this course. The number of questions and the structure of the examination will be the same, but the wording and requirements of each question will be different.

You are required to answer at least ONE question from Section A and at least ONE question from Section B. The third answer can come from either Section A or Section B.

You are required to answer THREE questions in total

The examiners give equal weight to each question; therefore, you are advised to distribute your time approximately equally between three questions.

You should, where possible, illustrate your answers with references and/or practical examples from the course and from your own experience.
Answer at least ONE question from Section A and at least ONE question from Section B. The third answer can come from either Section A or Section B. You must answer THREE questions in total.

Section A

(Answer at least ONE question from this section)

1. Compare and contrast the approaches of Stephen Hymer and John Dunning in explaining the growth of transnational corporations.

2. Carefully explain how transnational firms can exploit international leverage situations. Is there any evidence that they do so?

3. Why do transnational firms often find it difficult to achieve an optimal balance between the differentiation and integration of their global activities? Are the two objectives incompatible?

4. Outline the concept of STEEPLE analysis and critically discuss its use as an evaluative tool for strategic decision-making within transnational corporations.

Section B

(Answer at least ONE question from this section)

5. How might transnational corporations successfully manage and enhance their own global innovative activities?

6. Carefully consider the implications of national cultures for transnational firms. Can cultural differences be successfully managed?

7. To what extent have transnational corporations adopted global Human Resource Management (HRM) practices? Do employees have a ‘global mindset’?

8. Drawing upon specific examples, critically explore how tensions might arise in international joint ventures. How can such tensions be resolved?

[END OF EXAMINATION]
Managing the Transnational Corporation

Unit 1  The Nature of the Transnational Corp. – An Overview

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Unit Content

The aim of this unit is to introduce the Transnational Corporation (TNC). We begin by reaching a broad definition of the TNC – to capture the span of its global activities – and we also provide you with some information on the various terms and acronyms that have been used to describe such firms. You will then consider the nature of international production, as we outline the main theoretical approaches to explain why firms have become transnational. In doing so, we consider the nature of the external environment that TNCs face. This will shape their strategic thinking and behaviour and is an issue that we will return to in later units. Using these theoretical tools, you will then consider a case study of a Chinese electronics firm, Haier, which has recently gone ‘transnational’. Finally, you will briefly consider the historical roots of TNCs and examine some recent trends and data on some of the largest TNCs in the world today.

Learning Outcomes

When you have completed your study of this unit and its readings, you will be able to

- outline and define the origins and activities of the TNC
- explain the nature of international production and review the various theories developed to explain the rise of TNCs
- discuss the historical roots and subsequent development of transnational Corporations.

Readings for Unit 1

Textbook


Reader


1.1 Why is it Different to Manage a TNC?

Managing a TNC is a very different challenge than the management of a firm with solely domestic operations, which will become more apparent as you progress throughout the course. However, we might briefly note that while a domestic firm undertakes production in their largely familiar home market (which may also involve exporting to other countries), the TNC operates in many different geographical and cultural environments.

For instance, each national environment in which the TNC operates will have its own cultural identity (and in many cases, language), tastes and other intrinsic characteristics primarily relating to the legal structure and polity. To be successful on a global scale, the TNC will need to carefully adapt to each one, while being mindful of its overall global strategy. Generally, strategic decisions governing the TNC’s strategic direction will be made in the Corporation’s headquarters (usually based in its home country). Such decisions will be implemented across the TNC by (appointed) managers in foreign affiliates. However, operational decisions affecting the management of individual affiliates on a daily basis – such as those relating to managing local human resources and production, or even the nature of short-term competitive strategies in specific foreign markets – will generally be made at the level of the affiliate.

A related issue is that TNCs will often encounter both very different indigenous competitors and in many cases familiar (global) rivals in the various international markets they operate in. Dealing with different competitive environments may require very different managerial strategies and responses. For instance, the coffee chain Costa not only faces competition from local coffee shops but also from other major global retailers such as Starbucks and Nero in the various foreign markets it operates in. Throughout North America, Europe and Asia, a global automobile manufacturer such as Toyota will face competition not only from other Japanese car assemblers (e.g. Nissan and Honda) but also from other major players such as Ford and General Motors, who will also have facilities in these supra-regional locations. As Stephen Hymer (1976) observed, such familiarity may lead TNCs to recognise their global interdependence and the global oligopolistic nature of their industry. Thus, while some TNC strategies may be tailored to respond to competitive threats at the local level, these are likely to be part of the TNC’s more generic global strategy. We will consider similar issues in the next section (see Box 1).

1.2 What is a Transnational Corp. (TNC)?

What is a Transnational Corp. (TNC)? What are the main characteristics that TNCs share, and in what ways do they differ in outlook and behaviour? Moreover, why should you be interested in the differences between the various types of TNC? The answers to these questions should unravel as you progress through this unit. However, first it might be useful to define a TNC, which – as you will see – is not easy.
Indeed, across the literature, there are a number of definitions of the transnational corporations which reflect their role in the global economy. Perhaps, the most widely accepted position is that a TNC refers to a corporation registered in more than one country and/or has production operations in more than one country. In order to engage in these activities, TNCs establish affiliates (or subsidiaries) and/or acquire a controlling interest (via merger or acquisition of foreign firms) in facilities outside their home country. This is often referred to as Foreign Direct Investment (FDI) and provides TNCs with direct ownership and control of international production operations.

While this summarises the generic view, the emphasis on FDI is sometimes problematic since it can underestimate the extent to which many large corporations engage in international production. For instance, many corporations—particularly, for instance, in the global textile industry—also engage in international sub-contracting activities; this is an important point which we will also consider later. Thus their global span of activities (the TNC’s boundaries) will be wider than those merely defined by the corporation’s legal ownership of (foreign) assets. Indeed, for many companies, global outsourcing is the predominant form of their international operations. This is an important consideration since, as you will note throughout this course, TNCS can exercise considerable control over their international operations without actually owning them. For instance, a large apparel transnational, such as Nike, can exercise considerable leverage in contract negotiations over its international network of (much smaller) suppliers—which, in Nike’s case, are predominantly located throughout Asia—since non-compliance by the latter, can lead to Nike sourcing from elsewhere (see, Unit 2 on divide and rule).

The emphasis on control—rather than the ownership of assets—as a means by which to identify the full extent of TNC activity was first identified (and later extended) by Cowling and Sugden (1987, 1998). Of course, the concept of control can be difficult to formulate. In this respect, these authors followed the American sociologist, Maurice Zeitlin (1974), who considered control as the capacity to determine broad policies or the strategic direction of the corporations. For Cowling and Sugden, corporate strategic decisions are typically concentrated at the hierarchical apex of (large) organisations and they generally relate to the nature (and geography) of production, investment and employment. Such strategic decisions will not only determine the TNC’s strategic orientation, but they will also have an impact on wider stakeholders operating under the auspices of the TNC, in particular (international) suppliers, labour and governments. Thus, control is a broader recognition of TNC activity than the ownership of assets. We will consider these issues, relating to TNCs, in further detail in Unit 2.

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1 Many definitions of the TNC reflect the vagaries of specific academic disciplines, particularly within the social sciences and international business. See Section 1.3, for instance, on the distinction between TNC and MNE and the interchangeable use of such terms in common parlance. For further details see also Pitelis and Sugden’s (2000) edited volume, which offers differing views on the nature of the transnational firm.
Given these observations, a recent and more encompassing definition of the TNC is therefore provided by the economic geographer, Peter Dicken (2011: 102):

A transnational Corp. is a firm that has the power to coordinate and control operations in more than one country, even if it does not own them.

1.3 What is in a Name? Transnational or Multinational?

As you read the literature you may come across various other terms and acronyms to describe a firm with direct production facilities – and ownership of assets – overseas. In particular, the terms generally used are ‘multinational Corp.’ (MNC), ‘multinational enterprise’ (MNE), ‘international company/enterprise/firm’ (IC/IE/IF) and finally, ‘transnational Corp.’ (TNC). These terms are often used interchangeably, with the inference that they mean the same thing. However, this is not entirely accurate, and to understand the use of such terms it is useful to explore their evolution.

The terms themselves evolved to describe and capture the evolving characteristics of firms with international operations. In the early literature of the 1960s, the adjective ‘international Corp.’ was predominantly used to describe firms with overseas operations; the intention was to distinguish between solely domestic firms and those with an international division. Within this international division, functional expertise remained with domestically-orientated staff and control tended to be highly centralised, with decisions tending to have a heavy national bias. In general, home country nationals filled key positions in overseas affiliates.

During the 1970s, the term ‘multinational Corp.’ (MNC) became popular to reflect a changing pattern of international production. By then, international corporate activity had become relatively more complex, differentiated and, arguably, more decentralised, with multi-product companies and product groups for home and foreign operations (i.e. divisions). The structure was largely multi-divisional, offering less scope for decisions that were *nationally biased*; rather there appeared more opportunity for foreign affiliates to be managed by local (foreign) managers and even accommodate local equity participation and other forms of cross-border co-operation (such as international sub-contracting and minority affiliation). Thus the term ‘multinational Corp./enterprise’ was utilised to portray a view of such firms as sharing a common strategy and a pool of resources across their international affiliates. The implicit implication was that, while the degree of local autonomy afforded to affiliates differed across MNCs, the typical MNC was truly international and its corporate body was an aggregated reflection of its very different international affiliates.

Finally, the term ‘transnational Corp.’ (TNC) has become more widely used in recent years, particularly by the United Nations, which has officially adopted

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2 As an aside, the terms ‘Corp.’ and ‘company’ reflect different North American and British preferences to describe a firm. Since both these terms can have legal connotations – for instance, in defining ownership (and equity stakes) – the term ‘enterprise’ is sometimes used by authors in analyses to avoid legality issues, where it is not relevant.
the terminology. In partial reference to the earlier definition of ‘international Corp.’, it was felt that ‘transnational’ is a more accurate reflection of international production as it captures the notion of a firm operating from its home base across national boundaries (as opposed to the view that affiliates are set up and operated independently and autonomously). Essentially, the adverb ‘trans’ (as in transnational) captures the ability of TNCs to transfer their organisational structure, technology and product ranges across countries. The term thus better reflects the ability of TNCs to manage, control and develop strategies across and above national frontiers, which clearly distinguishes them from other actors in the global economy. It is for this reason that we utilise the term ‘transnational’ to describe such Corporations in this course.

1.3.1 Foreign direct investment (FDI) and international production

Foreign Direct Investment (FDI) can occur via two mechanisms. The first is when a TNC invests and sets up a new overseas affiliate in a particular country – this is referred to as greenfield investment. The second is when a TNC engages in an international acquisition or a merger with a foreign company (FDI by M&A). The former is often favoured by host governments as it promises to provide new investment and employment for the economy, whereas the FDI by M&A is essentially an employment-acquiring exercise by the TNC. Indeed, in some cases, the latter mode of FDI can actually reduce employment and capital investment in the host country, if the acquiring TNC engages in asset stripping.

Official data on FDI – published by national data agencies – does not always distinguish between greenfield and FDI by M&A. Such data is often held by private research companies. However, the annual UNCTAD World Investment Report provides estimates of each type of FDI, at the global level. In recent years, greenfield FDI has tended to exceed that by M&A, although this has not always been the case, and in 2012 the gap was closing. You can access the full report at http://unctad.org/en/PublicationsLibrary/wir2012_embargoed_en.pdf

Reading

For further details of FDI statistics and (related) definitions, turn to your textbook by Ietto-Gillies, and study Chapter 1 (including its Appendix, pp.25-28). This first chapter also gives an overview of the growth of TNCs and the extent of their global reach. (If you have studied that course, you may also wish to review the discussion on the UNCTAD data in Unit 1 of International Management.)

Your notes should clarify the data, and cover the points raised in the sections above.

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3 This has occurred on numerous occasions. For instance, in the 1990s, Renault’s purchase of a controlling interest in Nissan and General Motor’s increased equity participation in Isuzu led to automobile plant closures and significant redundancies in Japan. More recently, Kraft’s takeover of the UK confectionary firm, Cadbury, has led to redundancies and capital divestment in the UK.
1.4 Review of Theories of Transnational Production

In this section, we briefly review some of the reasons why firms become TNCs. As you may recall if you have studied the course International Management, there are a number of competing theories of international production. According to John Cantwell (2000), these can be divided into three levels of analysis:

- **macroeconomic** – examining broad national and international trends
- **mesoeconomic** – considering the interaction between transnationals at an industry level
- **microeconomic** – looking at the international growth of individual firms.

We now consider the main theoretical approaches.

### 1.4.1 Trade theories of FDI (macroeconomic)

The early theoretical approaches tended to be macro-economic, relying heavily upon neoclassical trade theory, the balance-of-payments and exchange-rate effects to explain international investment flows. An example of this is the Heckscher-Ohlin-Samuelson (HOS) framework, which is a model of factor endowments assuming perfect capital mobility and which is covered in greater detail in the course International Management. The simple argument was that in advanced capitalist economies, capital was abundant but labour was relatively scarce, which would drive up wage costs. In such economies, firms would encounter high wages and diminishing returns to their capital investments.

In contrast, in less developed countries capital was scarce, and labour was relatively abundant and less expensive. Thus the model predicted capital flowing from countries where the internal rate of return is low (due to capital abundance), to those where it is high (due to capital scarcity) – i.e. to developing countries. For a long time, this trade-based model was employed to explain FDI flows – the notion being that FDI flows would be greatest between countries where proportional factor endowments are most dissimilar. This observation seemed applicable in the late 1930s, when two-thirds of the world’s FDI stock was located in developing countries. However, since the 1970s, over 75% of the world’s FDI stock has been located in the developed world. This was, partially, a consequence of an increasing proportion of FDI taking the form of international mergers and acquisitions (see Section 1.3.1) and the increasing oligopolistic nature of international production (see below). Thus trade models are no longer considered relevant in explaining the nature of modern international business.

### 1.4.2 Hymer (mesoeconomic)

The first ‘modern’ theory of transnational Corporations and international production was put forward by Stephen Hymer (1960), whose PhD thesis (at the Massachusetts Institute of Technology) explored the motivations for large FDI projects by US transnationals. Unlike the earlier trade models, where

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4 Hymer’s thesis was published posthumously in 1976.
transnationals were essentially treated as passive agents with capital flows responding to changes in factor endowments, Hymer saw TNCs as active agents that shaped international markets to suit their own strategic interests in the global economy. Indeed, he viewed global markets as being dominated by international oligopolists.

**Reading**

Please turn to Chapter 4 of Ietto-Gillies’ textbook, p.51-58, which briefly outlines Hymer’s theoretical approach.

Your notes should outline Hymer’s ideas and enable you to answer the following question.

- According to Hymer, why do firms become TNCs?

From your reading, you will have noted Hymer argued that there are inherent costs and risks associated with international production. In order to overcome these costs, TNCs require a specific advantage to successfully penetrate a foreign market. This specific advantage may be technological or organisational, and gives the TNC a degree of market power to compete with international rivals. However, while this is a necessary condition for international production, it is not a sufficient condition since firms can service foreign markets via exports or licensing arrangements rather than go transnational.

The second determinant is the removal of conflicts in foreign markets. Ietto-Gillies (2012) identifies competitive pressures from rivals as a potential conflict; international production overcomes this by promoting and sustaining collusion. However, in addition, conflicts might arise over licensing agreements, particularly where there is a risk of the TNC’s proprietary knowledge being diffused into the public domain, or of disagreements arising in international subcontracting arrangements. FDI potentially overcomes these conflicts by providing the TNC with a greater degree of direct control over their international operations.

Hymer is probably the most important contributor to the theory of international production, largely because he redefined the way in which we should view FDI and TNCs. His work subsequently influenced many other scholars, foreseeing many of the arguments of the internalisation approach, for example, and also the work of John Dunning (see below). There have also been many adaptations to his approach (see Box 1.1). However, his views were often regarded as controversial, and he largely took an unsympathetic view of TNCs and their role in the global economy.

**Reading**

For a biographical account of Hymer’s life and critique of his work, I would like you to now read the article by Christos Pitelis (2002) in your Course Reader.

Your notes should cover the points raised in the preceding sections.
In a similar vein to Hymer, Frederick Knickerbocker (1973) also analysed the global oligopolistic behaviour of US TNCs. Again the study formed a PhD thesis, but this time drew upon data from the Harvard Multinational Enterprise Study of US firms and their global activities (conducted between 1966 and 1971 at the Harvard Business School).

Knickerbocker sees the mutual interdependent nature of oligopolistic markets being played out on the global stage. In particular, he sees TNCs imitating the behaviour of their domestic rivals, particularly with regard to international investment decisions. Knickerbocker’s mapping of the overseas investment decisions of US TNCs demonstrated a ‘bunching effect’, with US TNCs – in the same industry - largely locating in the same (global) geographical space in similar time periods. In considering these strategic investments, he distinguishes between ‘aggressive’ investments – the establishment of the first subsidiary in a given industry and given country and ‘defensive’ investments, the establishment of subsequent subsidiaries (by rival TNCs) on completion of the first.

In essence, the TNCs become involved in a game of action and counter-reaction; Tomlinson (2005) has labelled this ‘strategic contingency’. This pattern of international investments allows the TNCs to engage in what Graham (1975) calls an ‘exchange of threats’ – for example, if Ford’s market share is threatened by General Motors in one geographical market, then they can threaten to retaliate in an adjacent market. This mutual interdependence sustains international collusion, since TNCs know that aggressive moves in one market may risk defensive moves by rival TNCs in other markets, thus raising the risk of mutually damaging competition.

Moreover, this in itself is a precursor for FDI. Knickerbocker’s study has been replicated by others, most notably Dunning (1994) who uncovered a similar pattern for Japanese machinery TNCs in Europe and, more recently, Tomlinson (2005), who finds a similar pattern in relation to the evolution of the global Japanese automobile industry. This latter paper summarises the previous literature in this area, and is a reading for this unit.

Readings
Please study the Tomlinson article now, and then Chapter 7 of your textbook by Ietto-Gillies, which examines the work of Robert Aliber.

Your notes on these readings should compare the ideas of these authors with those of Hymer and Knickerbocker.

Internalisation School (microeconomic)
A more sympathetic account of the TNC is provided by Buckley and Casson (1976), who became associated with the ‘Reading School’ of international business. These authors proposed the internalisation approach, which draws upon transaction-cost economics earlier developed by Ronald Coase (1937) and Oliver Williamson (1975). For Buckley and Casson, firms can service foreign markets via three mechanisms – exports, licensing/subcontracting and/or FDI. The first two mechanisms are essentially via the market.


So called, because prominent international business scholars such as Peter Buckley, Mark Casson, Alan Rugman and John Dunning were based at the University of Reading, UK.
However, transaction costs arise in using the market mechanism (in a Hymerian world, these transaction costs would be identified as ‘conflicts’). For instance, exports often involve liaising with foreign sales agents and customs, while they also incur transport costs and import taxes. These can reduce the final realised value of the product to the firm (the so-called ‘iceberg’ effect)\. In addition by relying upon exports, firms are not always in close proximity to their overseas customers, which may be costly in terms of developing and tailoring the product for the foreign market in terms of future market opportunities.

Similarly, by licensing technology or using international subcontractors, there are the risks relating to proprietary knowledge and opportunistic behaviour that Hymer identified. If the long-term costs of the market mechanism exceed those associated with international production, Buckley and Casson argue that TNCs will internalise these (international) transaction costs through FDI. In this way, they see TNCs as therefore being an efficient response to the high costs of the market mechanism.

Reading

For a fuller overview of the internalisation approach, please now turn to Chapter 8 of Ietto-Gillies’ textbook.

Your notes should clarify the bases of this approach.

1.4.4 John Dunning’s OLI paradigm

Dunning (1977, 1980) provides a synthesis of previous approaches with his so-called ‘eclectic theory’, otherwise known as the ‘Ownership, Locational and Internalisation (OLI) Paradigm’. In this approach, he attempts to analyse why, where and when/how firms decide upon international production, through ownership, locational and internalisation advantages.

The ownership advantage is similar to Hymer’s specific advantage – indeed, Dunning is in debt to Hymer for this insight – and relates to a firm’s inherent competitive advantage(s) that are required to undertake successful FDI. These may relate to superior technology/knowledge or organisational forms or access to cheaper inputs, or even international experience. Locational advantages relate to specific countries, indicating the attractiveness for inward FDI. These can include (but are not limited to) low labour costs, good infrastructure, access to technological expertise, market access and political stability.

Finally, internalisation advantages relate to where the costs of using market mechanisms to service foreign markets exceed those associated with international production (the Buckley and Casson argument). In essence, Dunning (1980) argues that to produce overseas, firms must

i) possess significant ownership advantages

ii) have a strong case for internalising production vis-a-vis using the market mechanism, and

6 The iceberg effect – as an iceberg floats away from a glacier, it begins to melt and decrease in size. Similarly, the value of exported goods reduces due to transaction costs.
iii) choose a location for FDI that offers significant attractions.

In later work, Dunning (2006) notes that government policies and the conduct of foreign affiliates, as well as localised economic and social needs and formal and informal institutions, also affect the locational advantages of TNCs.

Finally, Dunning (2000) distinguishes between four types of FDI, which provides some clearer motives for international production. The typology comprises:

- **Resource seeking** – access to natural resources or specific technologies or knowledge, such as FDI by Chinese TNCs in Africa for copper and oil
- **Market seeking** (market potential) – such as FDI by Western TNCs in India and China, as these markets grow in terms of income per capita and population
- **Efficiency seeking** (to exploit lower cost bases) – FDI by Western and Japanese TNCs in South East Asia (and China) to benefit from lower labour costs
- **Asset seeking** (to acquire a foreign firm) – such as the purchase of the UK automobile company, MG Rover, by the Chinese TNC, Nanjing Automobile, in 2005.

These types of FDI are not mutually exclusive; indeed, many TNCs engage in more than one type of foreign investment simultaneously.

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**Reading**


Your notes should detail Dunning’s ideas, as outlined in this section.

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### 1.4.5 Other theories of international production

We have briefly covered the main theories of international production. From previous courses that you have studied, you will be aware that there are a number of other, alternative, theories of international production. For a full review of these approaches you might like to look through your textbook by Ietto-Gillies (2012) Chapters 2–15, though you will read some of this as you progress through the course.

### 1.5 Case Study

This section is based on a case study, of the Chinese firm Haier, which is intended to illustrate the theoretical issues raised in this unit so far. As you read through the case, you’ll notice that to access international markets, Haier initially operated under the umbrella of foreign companies but as it grew it acquired its own unique, competitive advantages, both domestically and internationally. However, operating as an international subcontractor imposed restrictions on Haier, so eventually – with rising confidence and independence – the company felt able to go transnational. It is an interesting story of a small Chinese company emerging to compete with global rivals in a relatively small space of time.
Please turn again to your Reader and study the report on the international progress of the Chinese company, Haier.

In thinking about Haier, make sure your notes enable you to answer these questions.

- How do the theories of international production considered above relate to the company’s emergence as a TNC?
- In particular, can you identify Haier’s specific or ownership advantages that enable it to now compete on the global stage?
- Why do you think Haier eventually moved away from operating under foreign firms/brand names to access overseas markets, to set up their own production operations?
- What internalisation advantages are Haier likely to have gained from doing so?
- And finally, why was the US such an attractive location for Haier’s main offshore investments in South Carolina?

1.6 Historical Roots, Recent Trends and the Largest TNCs

Transnational production actually goes back centuries – indeed, existing before the existence of many nation states! The earliest recognisable TNCs typically arose through colonies and the imperialist ambitions of Western Europe, notably the UK and the Netherlands, with prominent examples being the British East India Company, the Royal African Company and the Hudson Bay Company. With the advent of industrial capitalism in the eighteenth and nineteenth centuries, there was a rising demand and search for additional resources – such as minerals, petroleum, and foodstuffs – as well as pressure to protect or increase markets. This encouraged firms to go transnational to exploit such resources and markets. Initially, these firms were predominantly British, investing throughout the British Empire, but later the US and other European TNCs would emerge to global prominence.

Indeed, the twentieth century saw the dominance of US TNCs, initially led by the large automobile manufacturers, Ford and General Motors. Since the early 1970s, the US’s global position – though still home to the largest TNCs – was challenged, first by European TNCs, and later by Japanese TNCs. Indeed, the growth in Japan’s TNCs was quite extraordinary, given that the Japanese government had previously imposed strict restrictions on FDI (inward and outward) until 1971. In recent years, we have witnessed the emergence of TNCs from developing countries – first from South Korea, then India and China. This is changing the shape of international production.

The growth of TNC production is illustrated by the fact that in 1900 there were a handful of TNCs in the global economy. By the late 1960s there were approximately 7500 transnational companies worldwide but by 2010 there were estimated to be a staggering 103,786 TNCs, with over one million affiliates (UNCTAD, 2011).

Given the influence of TNCs and the span of their activity is much wider than their tentacles (i.e. their owned assets), UNCTAD (1993) has not surprisingly labelled them as the ‘central actors’ in the global economy. In 2000, UNCTAD...
also observed that ‘production under the governance of TNCs was growing faster than any other economic aggregate’.

The world’s top 100 non-financial TNCs, ranked by foreign assets, 2008 (in millions of dollars and number of employees)

<table>
<thead>
<tr>
<th>Rank</th>
<th>Corporation</th>
<th>Home country</th>
<th>Industry</th>
<th>Assets (in millions of dollars)</th>
<th>Sales (in billions of dollars)</th>
<th>Employment (in thousands)</th>
<th>TNIb (% of Total Foreign Assets)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>General Electric</td>
<td>USA</td>
<td>Electrical &amp; electronic equipment</td>
<td>401,290</td>
<td>182,515</td>
<td>171,000</td>
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<tr>
<td>2</td>
<td>Royal Dutch/Shell Group</td>
<td>UK</td>
<td>Petroleum exp./ret./distr.</td>
<td>272,324</td>
<td>261,939</td>
<td>458,861</td>
<td>102,000</td>
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<tr>
<td>3</td>
<td>Vodafone Group Plc</td>
<td>UK</td>
<td>Telecommunications</td>
<td>201,570</td>
<td>60,197</td>
<td>68,747</td>
<td>88.6</td>
</tr>
<tr>
<td>4</td>
<td>BP PLC</td>
<td>UK</td>
<td>Petroleum exp./ret./distr.</td>
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<td>87,474</td>
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<tr>
<td>5</td>
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<td>Motor vehicles</td>
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<td>129,724</td>
<td>121,775</td>
<td>52.9</td>
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<tr>
<td>6</td>
<td>ExxonMobil Corp.</td>
<td>USA</td>
<td>Petroleum exp./ret./distr.</td>
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<td>177,726</td>
<td>99,858</td>
<td>74.5</td>
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<tr>
<td>7</td>
<td>Total SA</td>
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<td>Utilities (Electricity, gas and water)</td>
<td>141,168</td>
<td>126,925</td>
<td>57,134</td>
<td>55.8</td>
</tr>
<tr>
<td>8</td>
<td>61 On</td>
<td>Germany</td>
<td>Utilities (Electricity, gas and water)</td>
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<tr>
<td>9</td>
<td>Electricite De France</td>
<td>France</td>
<td>Motor vehicles</td>
<td>123,677</td>
<td>126,007</td>
<td>166,308</td>
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<td>Luxembourg</td>
<td>Iron and steel products</td>
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<td>112,725</td>
<td>157,775</td>
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<td>Volkswagen Group</td>
<td>Germany</td>
<td>Motor vehicles</td>
<td>95,018</td>
<td>97,201</td>
<td>96,034</td>
<td>50.7</td>
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<td>Motor vehicles</td>
<td>89,204</td>
<td>80,861</td>
<td>91,581</td>
<td>72.2</td>
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<td>Motor vehicles</td>
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<td>108,348</td>
<td>105,263</td>
<td>51.0</td>
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<td>Food, beverages and tobacco</td>
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<td>30</td>
<td>Grupo Ferrovial</td>
<td>Spain</td>
<td>Construction &amp; real estate</td>
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<td>64,309</td>
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<td>103,630</td>
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<td>57 Saint-Fitaventures</td>
<td>France</td>
<td>Pharmaceuticals</td>
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<td>69,990</td>
<td>96,215</td>
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<td>33</td>
<td>Nokia</td>
<td>Finland</td>
<td>Electrical &amp; electronic equipment</td>
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<td>125,829</td>
<td>50.0</td>
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<td>34</td>
<td>Lufthansa Group</td>
<td>Germany</td>
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<td>65,520</td>
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<td>81,000</td>
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<td>Diversified</td>
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<td>Switzerland</td>
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<td>85,974</td>
<td>115,977</td>
<td>60.6</td>
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(Continued next page.)
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<tr>
<th>Ranking</th>
<th>Company</th>
<th>Country</th>
<th>Industry</th>
<th>Assets</th>
<th>Sales</th>
<th>Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>General Motors</td>
<td>USA</td>
<td>Motor vehicles</td>
<td>60,324</td>
<td>91,978</td>
<td>48,739</td>
</tr>
<tr>
<td>2</td>
<td>Johnson &amp; Johnson</td>
<td>USA</td>
<td>Pharmaceuticals</td>
<td>59,123</td>
<td>88,910</td>
<td>33,597</td>
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<tr>
<td>3</td>
<td>Diageo Plc</td>
<td>UK</td>
<td>Non-metalic mineral</td>
<td>45,258</td>
<td>65,015</td>
<td>48,739</td>
</tr>
<tr>
<td>4</td>
<td>Hitachi Ltd</td>
<td>Japan</td>
<td>Other consumer services</td>
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</tbody>
</table>

Source: UNCTAD/Erasmus University database.

a All data are based on the companies' annual reports unless otherwise stated.

b TNI, the Transnationality Index, is calculated as the average of the following three ratios: foreign assets to total assets, foreign sales to total sales and foreign employment to total employment.

c Industry classification for companies follows the United States Standard Industrial Classification as used by the United States Securities and Exchange Commission (SEC).

d In a number of cases foreign employment data were calculated by applying the share of foreign employment in total employment of the previous year to total employment of 2008.
Review Question

Look at the data in the Table above on the World’s top ranked TNCs for 2008, which has been published by UNCTAD.

- What do you see? Are the TNCs listed, names/brands that you might expect?
- Are there any famous names/brands that are not included? And does this surprise you?
- Is the data an accurate representation of the largest TNCs in the global economy today?

You may have noticed that some large TNCs, such as Nike, are not on the list. As we noted earlier, Nike engage their global operations largely through international subcontracting arrangements. The Table itself is a measure of TNCs based upon the ownership of assets, and as such it ignores the wider span of control that TNCs can exercise through global outsourcing. For Nike, any transaction costs associated with outsourcing are outweighed by the flexibility of being able to switch their international suppliers relatively quickly and in so doing, lower their labour costs. We will return to this issue – known as ‘divide and rule’ – in Unit 2. Thus the data in the UNCTAD Table, while undoubtedly providing some useful insights, should be treated with caution in measuring or interpreting the extent of TNC activity and their global activities.

1.7 Unit Summary

In this unit we have considered some of the definitions, concepts and theoretical approaches associated with Transnational Corporations (TNCs). First, we defined the TNC in broad terms, to capture not only its ownership of foreign assets and the extent to which it engages in FDI, but also to include wider production operations that are also under its control. This reflects the choice of the term ‘TNC’, as differentiated from other acronyms used to describe such Corporations. We then reviewed some of the main theoretical approaches to explain why firms become TNCs. You then considered the particular case of Haier, and explored the emergence of this Chinese company in the context of these approaches. Finally, we briefly noted the historical roots of TNCs and considered some recent trends, identifying some of the world’s largest transnational Corporations operating today.

References and Websites


