The Future of the Multinational Company

Edited by:
Julian Birkinshaw
Sumantra Ghoshal
Constantinos Markides
John Stopford
George Yip

London Business School
The Future of the Multinational Company
The Future of the Multinational Company

Edited by:
Julian Birkinshaw
Sumantra Ghoshal
Constantinos Markides
John Stopford
George Yip

London Business School
## Contents

Introduction vii  
*Julian Birkinshaw, Sumantra Ghoshal, Costas Markides, John Stopford, George Yip*

### SECTION 1 RIVAL STATES, RIVAL FIRMS 1

<table>
<thead>
<tr>
<th>Chapter</th>
<th>Title</th>
<th>Authors</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>The (A)political Multinational: State–Firm Rivalry Revisited</td>
<td>Louis Turner</td>
</tr>
<tr>
<td>2</td>
<td>The Moral Response to Capitalism: Can We Learn from the Victorians?</td>
<td>John Dunning</td>
</tr>
<tr>
<td>3</td>
<td>The Multi-home-based Multinational: Combining Global Competitiveness and Local Innovativeness</td>
<td>Örjan Sölvell</td>
</tr>
<tr>
<td>4</td>
<td>Regional Multinationals: The Location-bound Drivers of Global Strategy</td>
<td>Alan Rugman and Alain Verbeke</td>
</tr>
</tbody>
</table>

### SECTION 2 MANAGING THE MULTINATIONAL ENTERPRISE 59

<table>
<thead>
<tr>
<th>Chapter</th>
<th>Title</th>
<th>Authors</th>
</tr>
</thead>
<tbody>
<tr>
<td>5</td>
<td>The Evolving Multinational: Strategy and Structure in Latin American Operations, 1990–2000</td>
<td>José de la Torre, José Paulo Esperança and Jon Martínez</td>
</tr>
<tr>
<td>6</td>
<td>Risk and the Dynamics of Globalization</td>
<td>Donald R. Lessard</td>
</tr>
<tr>
<td>7</td>
<td>The Global OEM: The Transformation of Asian Supplier Companies</td>
<td>Anthony Leung and George Yip</td>
</tr>
</tbody>
</table>
Chapter 8  Designing Multinational Organizations: Is it All Over Now?  
*Lawrence Franko*

Chapter 9  The Customer-focused Multinational: Revisiting the  
Stopford and Wells Model in an Era of Global Customers  
*Julian Birkinshaw and Siri Terjesen*

Chapter 10  Geography as a Design Variable  
*D. Eleanor Westney*

Chapter 11  Regional Organizations: Beware of the Pitfalls  
*Paul Verdin, Venkat Subramanian, Alice de Koning  
and Eline Van Poeck*

Chapter 12  The Metanational: The Next Step in the Evolution of the  
Multinational Enterprise  
*Yves Doz, José Santos and Peter Williamson*

**SECTION 3  REJUVENATING THE MATURE BUSINESS**

Chapter 13  The Critical Role of Sense-making in *Rejuvenating the Mature Business*  
*John Stopford and Charles Baden-Fuller*

Chapter 14  The Invisible Underpinnings of Corporate Rejuvenation:  
Purposeful Action Taking by Individuals  
*Sumantra Ghoshal and Heike Bruch*

Chapter 15  Rejuvenation Revisited: Identifying and Managing Strategy Decay and Innovation  
*Peter J. Williamson*

Chapter 16  Racing to be Second: Innovation through Imitation  
*Constantinos Markides*

Chapter 17  Who Needs Multinationals? Lessons from Open-source Software  
*Robert M. Grant, Andrea Lipparini, Gianni Lorenzoni  
and Elaine Romanelli*

**SECTION 4**

Chapter 18  Management Research: Reprise and Prologue  
*John Stopford*

References  
245

List of Contributors  
257

Index  
263
Introduction

This book has its origins in a *festschrift* for John Stopford – a celebration of his ideas and achievements as an academic – held at the London Business School (LBS) in June 2002. John was nearing his formal retirement from the LBS, though anyone who knows John is fully aware how little difference that will make to his work or to his intellectual curiosity. But this event, we realized, was an excellent opportunity to bring together a group of scholars with whom John had interacted over his 30-year career, both to honour his contribution to the fields of international business and strategy, and also to engage in a dialogue around the contemporary challenges facing multinational enterprises.

The conference brought together four generations of academics from around the world, from John’s classmates at Harvard Business School in the late 1960s through to the current crop of PhD students at the London Business School today. Over two glorious summer days, we discussed a wide-ranging set of issues from the moral imperatives of capitalism through to the logic of open-source software development. The common thread was essentially John’s academic career – the broad set of issues that occupied his attention as a researcher, writer, teacher and consultant, and in particular his three most influential books – *Managing the Multinational Enterprise* (co-authored with Lou Wells), *Rival States: Rival Firms* (with Susan Strange), and *Rejuvenating the Mature Business* (with Charles Baden-Fuller). We invited leading academics to prepare papers on each of these topic areas, and the papers were then brought together and edited to create this book. The net result is a collection of observations, new ideas and research findings from 19 of the most well-respected thinkers in the fields of strategy and international business.

Overview

There are four sections to the book. Each of the first three is focused around the theme of one of John Stopford’s major books, with between four and eight papers looking at different aspects of that theme. The final section consists of a retrospective
paper by John himself, pulling together some of the common threads from his 30 years of academic work.

**Section One: Rival States, Rival Firms**

The first section builds on John’s book with the late Susan Strange written in 1992. This book quickly became an important contribution to the field of International Political Economy, and more specifically to the debate surrounding the relationship between the nation state and the multinational enterprise (MNE). Stopford and Strange showed how global structural changes often compelled governments to seek the help and cooperation of managers of multinational enterprises. Growing interdependence meant that the rivalry among states and the rivalry among firms had become fiercer. The four chapters in this first section all relate to how continuing globalization is affecting the behaviour of firms, partly in how they relate to governments. Interestingly, the relatively low emphasis on the roles of governments reflects the continuing shift of relative power between states and firms in the 1990s. As firms have globalized more their dependence on national governments has become less.

Chapter 1 by Louis Turner (*The (A)political Multinational: State–Firm Rivalry Revisited*) deals the most directly with state–firm rivalry. He briefly surveys the shifting balance of power between the two, from the era of multinational ascendancy in the 1960s and 1970s, through the more balanced period of trade liberalization and (generally) harmonious relationships between firms and nation states, to the current backlash against multinationals in the form of the ‘anti-globalization’ movement. Turner develops a series of eight propositions. These suggest, in broad terms, that most firm–state relationships are now handled in a routinized manner, but there will continue to be a number of important and contentious issues to be resolved, particularly in terms of how firms interact with smaller and less-developed countries.

Chapter 2 by John Dunning (*The Moral Response to Capitalism: Can We Learn from the Victorians?*) deals with the broader issue of the moral basis of capitalism, something of relevance in justifying MNE activity with governments and their electorates. He surveys the moral bases of capitalism over the past two centuries, focusing on the Victorian era. He argues that there are second-order virtues from the operation of capitalism within the framework of the rule of law, such as honesty, trust, hard work, thrift, etc. In the 20th century domestic governments took on a much larger role for such virtues, and extended their role into the international sphere. Dunning advocates for today a soft form of global corporatism: co-operation as a covenant among governments, international organizations, non-governmental organizations (NGOs), and business, in terms of legislation, but also perhaps in terms of legislating morality for the higher virtues.

In Chapter 3, Örjan Sölvell examines *The Multi-home-based Multinational: Combining Global Competitiveness and Local Innovativeness*. He demonstrates how multinational companies no longer depend on their home countries for their

---

1 This discussion draws on comments made by Razeen Sally (London School of Economics) and Neil Hood (University of Strathclyde) during the Symposium in honour of John Stopford.
primary base. Indeed his theme is that many MNEs now have multiple bases from which they derive competitive and other advantages. MNEs need to locate different activities in different geographical ‘clusters’, the latter being cities or regions that are the centres of innovation for particular industries or parts of the value chain. Successful MNEs will operate in several of these clusters.

Chapter 4 is by Alan Rugman and Alain Verbeke, entitled *Regional Multinationals: The Location-bound Drivers of Global Strategy*. This chapter extends and greatly strengthens their long stream of work on how MNEs operate essentially regional (i.e. multi-country) strategies rather than national or global strategies. At the same time, they focus exclusively on the location of sales as the criterion for globality or regionality. But the competitive advantage of MNEs clearly depends on all the activities in their value chains. So while many MNEs may concentrate their sales within specific major regions such as North America, Europe or Asia, many also operate across regions for other activities such as sourcing and knowledge access and transfer.

Sölvell’s and Rugman and Verbeke’s chapters also start to show us that MNEs are moving away from dependence on their home bases and hence home governments. So a new evolution of the rivalry between states and firms may become that between rooted states and rootless firms.

**Section Two: Managing the Multinational Enterprise**

The second section of the book consists of eight papers, all concerned with the strategy and structure of the multinational company. These papers all trace their heritage back to the ‘Stopford and Wells’ model, which John Stopford proposed in his doctoral thesis, and was later published in *Managing the Multinational Enterprise* (the book essentially brought together Stopford’s work on strategy and structure with Wells’ work on joint ventures and host government relationships).

The Stopford and Wells model incorporated two important insights. First, it took the logic of environment–strategy–structure fit (Chandler, 1962) into the international domain, by showing how a firm’s choice of strategy and structure was predicated on an understanding of the drivers of globalization in its industry. Second, it provided detailed evidence regarding the evolutionary development of organization structure, from the international division to either the global product or area division, through to some form of global matrix (though, to be fair, Stopford placed a question mark after ‘global matrix’ because there was limited evidence of its emergence at that point).

The first three chapters in this section are concerned primarily with the link between strategy, structure and performance.

Chapter 5, by José de la Torre, José Paulo Esperança and Jon Martínez, is entitled *The Evolving Multinational: Strategy and Structure in Latin American Operations, 1990–2000*. It provides a new angle on an old question. The authors describe their recent empirical study of the structural changes in a sample of multinational firms.

---

2 This discussion draws on comments made by Michael Goold (Ashridge Strategic Management Centre) and Paul Verdin (Solvay Business School) during the Symposium in honour of John Stopford.
operating in Latin America between 1990 and 2000. They found, as expected, that firms were adopting significantly more integrated strategies at the end of the 1990s than at the beginning. They also found an interesting performance link, namely that those firms who most effectively matched their level of integration to the economic drivers were the highest performers. Those firms, in contrast, who adopted excessively or weakly integrated structures were relatively poor performers.

In Chapter 6, Don Lessard describes a fascinating study of the relationship between Risk and the Dynamics of Globalization. Lessard uses a longitudinal study of the electric power industry to show how an explicit understanding of the nature of risk, and how firms respond to it, helps to explain the level of globalization in the industry. The electric power industry, it turns out, is highly global in terms of the strategies of companies such as GE, Siemens, and Enron, yet there are few advantages to be gained through cost economies. Instead, the advantages of multinationality emerge from the ability to hedge, diversify, transfer knowledge, and access financial markets, all of which are risk-related factors.

Chapter 7 by Anthony Leung and George Yip is entitled The Global OEM: The Transformation of Asian Supplier Companies. This chapter looks at the global strategies of a new category of firms they call Global OEMs (original equipment manufacturers). These firms began as suppliers to large multinationals, but some are now sufficiently large and diverse that they qualify as significant multinationals in their own right. The key difference is that their products are not branded – they are typically sold under their customers’ brand names. Leung and Yip describe the key differences between the strategies of Global OEMs and traditional multinationals, in terms of their configuration of activities, market orientation and approach to foreign investment.

The second group of papers in Section 2 are focused predominantly on the evolution of organization structure in the multinational firm.

In Chapter 8, Larry Franko examines the impact of capital market pressures on the strategies and structures of large multinational firms (Designing Multinational Organizations: Is It All Over Now?). Franko worked alongside John Stopford in the Harvard Multinational Enterprise project during the 1970s, and he was also an early adherent of the idea that matrix structures would become the dominant way of supporting large multi-country, multi-business firms. But as he shows, the reality turned out rather different. Many of these firms became unduly complex, and under pressure from smaller and more flexible competitors many opted to break themselves up or refocus around a smaller number of businesses. The invisible hand of the market, in other words, won out over the visible hand of management, though as Franko observes this victory was not absolute.

Chapter 9 (The Customer-focused Multinational: Revisiting the Stopford and Wells Model in an Era of Global Customers) is by Julian Birkinshaw and Siri Terjesen. It also takes the complexity of the modern multinational as its starting point, and it acknowledges many of the restructuring and refocusing efforts that Franko describes. But the authors then move on to argue that the key structural challenge facing multinationals today is how they manage the interface with their global customers. They show how many multinationals are creating global account management and front-end/back-end structures to deal with the increasing demands from their customers, and they describe the challenges of making these structures work.
In Chapter 10, Eleanor Westney focuses on the role of *Geography as a Design Variable* in the multinational firm. The Stopford and Wells model identified the area (or country) structure as one of the primary structural forms of the multinational, but gradually its importance diminished, and it was superseded by both global business structures and by a variety of process-based organizations. Westney argues why this shift in emphasis occurred, and then shows how the role of geography is beginning to make a comeback. These shifting patterns are described using a detailed analysis of ABB’s structural changes during the 1990s.

Chapter 11 by Paul Verdin, Venkat Subramanian, Alice de Koning and Eline Van Poeck is called *Regional Organizations: Beware of the Pitfalls*. Here, the authors evaluate the pros and cons of regional organization structures in multinational companies. Like Eleanor Westney in the previous chapter, they suggest that the shift towards global business unit structures has perhaps gone too far, and that many multinationals are now looking for ways of becoming more responsive to local needs, without losing the benefits of global scale. An attractive solution, they argue, is to create a regional organization structure. Such a structure provides a healthy balance between global and local imperatives, it helps to build critical mass in certain competency areas, and it often serves a ‘political’ purpose to build buy-in for change. However, the regional organization also has a number of potential pitfalls that need careful attention.

The final chapter of this section, Chapter 12, is by Yves Doz, Jose Santos and Peter Williamson, and is entitled *The Metanational: The Next Step in the Evolution of the Multinational Enterprise*. While it certainly addresses issues of strategy, structure and performance, it represents a significant departure from the previous chapters in one key sense. As the authors explain, a key assumption in the entire multinational management literature is that the firm has a home base, out of which firm-specific and country-specific advantages flow. Their model of the metanational, in contrast, avoids such a restrictive assumption, and shows how it is possible for a firm to seek out, meld and leverage knowledge on a worldwide basis. This chapter builds on their recent book, *From Global to Metanational*.

**Section Three: Rejuvenating the Mature Business**

The third section, *Rejuvenating the Mature Business*, builds on John Stopford's book with Charles Baden-Fuller. This book was a notable contribution to the literature on organization change, but it also broke new ground in its analysis of such issues as corporate entrepreneurship and renewal. In particular, the ‘crescendo’ model of rejuvenation proposed by Stopford and Baden-Fuller foreshadowed a great deal of the current thinking on how to effectively manage a large-scale change process.

The first two chapters in this section build explicitly on the ideas in Baden-Fuller and Stopford’s book, by offering alternative interpretations of the ultimate drivers of rejuvenation in the specific companies they studied. The next two papers focus on approaches to strategic innovation, as one possible model of rejuvenation. And the final paper takes a tangential approach to the challenge of rejuvenation in large firms by questioning whether such firms are needed in the first place.
It should be noted that while the firms discussed in these five chapters are all multinationals, the emphasis is no longer on the difficulties of managing the relationship with the host country or coordinating across multiple business units in multiple countries. Instead, the emphasis shifts towards the challenges of growth and rejuvenation in a fast-changing business environment; critical issues, to be sure, and in many ways complementary to those discussed in the previous sections.

In Chapter 13, John Stopford and Charles Baden-Fuller re-evaluate and extend the ideas in their 1994 book (The Critical Role of Sense-making in Rejuvenating the Mature Business). They first describe the 'crescendo' model of change at the core of the book, and then they focus in on the role of sense-making as a key driver of renewal. Their argument is that a process of collective sense-making among top managers helps to shape the initial framing of their situation, and also motivates the team's subsequent actions. While these themes were present in the original book, eight years of reflection makes it clear to the authors that they underplayed this vital link between strategic analysis and implementation.

In Chapter 14 (The Invisible Underpinnings of Corporate Rejuvenation: Purposeful Action Taking by Individuals), Sumantra Ghoshal and Heike Bruch begin at the same point as Stopford and Baden-Fuller: they look back at the four success stories in Rejuvenating the Mature Business and they ask themselves, what lay behind these transformations? Their answer is purposive individual action taking. Building on additional case-study data on the four companies in Stopford and Baden-Fuller’s book, as well as their own research on Lufthansa, they show how purposive action taking is the engine behind most successful transformations. They then move on to discuss the drivers of purposive action, and the practical steps managers can take to engage those drivers.

The next two chapters by Peter Williamson and Costas Markides are both about strategic innovation – how firms create new sources of competitive advantage for themselves, rather than relying on squeezing more out of a decaying or outdated business model. For them, strategic innovation is a powerful form of rejuvenation; it is by no means the only form, because rejuvenation can also be achieved by rethinking and turning around an existing business model, but it is certainly an important one in today’s fast-paced business environment.

Williamson’s approach to strategic innovation in Chapter 15 (Rejuvenation Revisited: Identifying and Managing Strategy Decay and Innovation) is to invest in real options – in a portfolio of ideas, experiments and ventures all directed towards potentially important capabilities and future customer needs. By actively managing the pipeline of options, and by recognizing when these options should be exercised (or killed), a company is likely to be far better placed to capture new sources of competitive advantage and avoid the worst perils of strategy decay.

Markides’ approach to strategic innovation in Chapter 16 (Racing to be Second: Innovation Through Imitation) is paradoxically to argue that large firms should not bother with coming up with strategic innovations. He shows how the inherent conflicts between strategic innovations and the firm’s established lines of business make such innovations unattractive and almost impossible to manage effectively. Instead, he argues, large firms should focus their attention on responding to the innovations that are bound sooner or later to invade their markets. He then goes
on to describe three different ways of responding: focus on the original game to make it more attractive, disrupt the disruptive innovation, and embrace the disruption but scale it up.

Chapter 17, the final paper in this section, is by Rob Grant, Andrea Lipparini, Gianni Lorenzoni, and Elaine Romanelli (Who Needs Multinationals? Lessons from Open-source Software). They tackle a rather different initial question: why should the firm be seen as an optimally efficient institution for producing and distributing goods and services across national borders compared with more decentralized modes of ownership and control? So rather than assume that large firms are needed, it may be more useful to examine other possible modes of coordination that do not suffer the typical ailments of inertia, strategy decay and bureaucracy that we find in most large firms.

Grant and his colleagues examine the curious case of Open Source Software (OSS) communities such as Linux that have begun to challenge industry leaders such as Microsoft and IBM, despite being made up of thousands of loosely networked individuals. They ultimately conclude, however, that coordination in OSS communities ‘occurs through the same kinds of structures and processes present in conventional business firms’. Whether such communities also end up becoming inertia-ridden and bureaucratic – and in need of rejuvenation – remains to be seen.

**Audience**

The primary audience for this book is executives working for or advising large multinational corporations. We have kept the tone informal, avoided academic referencing, and tried to focus on practical insights to managers or policymakers. At the same time, we hope to see a strong uptake among fellow academics and advanced students (MBA or PhD) who are looking for new ideas and themes in the worlds of strategy and international business. This book addresses the ‘state of the art’ in terms of policies and practices in multinational corporations, so it is important reading for any serious student of the field.

**Acknowledgements**

The number of authors on the book’s cover is a clear sign of the collaborative effort that was required for the whole project to take shape. We would like to acknowledge first of all the contributions from the 17 chapter authors, who made both the conference and the book possible. At the conference there were also valuable commentaries from Razeen Sally, Neil Hood, and Michael Goold, which unfortunately could not be included in this book for space reasons.

Second, there were many people working behind the scenes at the London Business School who put in long hours to help make the book a success. Special thanks to our PhD students – Susan Hill, Mats Lingblad, Susan Lynch, Michelle Rogan, Siri Terjesen, Peter van Overstraeten, Bala Vissa, and Tiemen Wang – for helping with the editing – and to Jo Lakey, Ann-Maree Bolton and Jon Ashton for excellent
administrative assistance. We also owe a big debt of gratitude to George Bickerstaffe for his help with creating a consistence style of writing throughout the book.

Finally, we would like to thank Diane Taylor, Susan Williams, Cedric Crocker, and Lorna Skinner at John Wiley, who provided much of the initial impetus behind the conference as well as financial support. They also skilfully maintained the pressure in the months following the conference to ensure that the book came out within 12 months of the original event – no mean feat if our prior experiences are anything to go by.

Julian Birkinshaw
Sumantra Ghoshal
Constantinos Markides
John Stopford
George Yip
Section 1

RIVAL STATES, RIVAL FIRMS
As a young academic in the mid-1960s I started my career researching the alleged evils of multinational companies. John Stopford first alerted me to the existence of Jean-Jacques Servan-Schreiber’s *Le Defi Americain*, the world best seller that triggered a *tsunami* of polemical attacks on that apparently new phenomenon, the multinational corporation (MNC).

We all wrote our books, good and bad but with resounding titles such as *Sovereignty at Bay*, *Silent Surrender*, *Invisible Empires*, and *The Sovereign State*. Then, gradually, through the 1970s, the heat left the debate. Partly this was because the Europeans started to realize that an American ‘challenge’ built round corporate basket cases such as Chrysler might be somewhat overstated. More importantly, the OPEC revolution of the 1970s led to a systematic ‘third world’ onslaught on all the old unequal bargains of the colonial era. As nationalizations in developing countries peaked in 1975, so it became much harder to argue that the multinationals ruled the world. If the ‘seven sisters’ (the oil giants) couldn’t look after themselves, why should we worry about other lesser MNCs?

To some European amusement, there was a brief flurry of polemics in the 1980s as aggrieved American authors attacked the Japanese for much the same list of crimes that Servan-Schreiber had aimed at US MNCs some 15 years earlier.

Then, for about a decade, the analysis of corporate power was left to the academics and it was during this period that Stopford wrote his book *Rival States, Rival Firms* with Susan Strange. This was an impressive piece of scholarship, focusing on MNC relations with a trio of developing countries – Malaysia, Brazil, and Kenya. Interesting as it was, I felt that they had chosen the wrong kinds of country, in that the most important developments within the MNC debate were taking place within the industrialized world not within relatively marginal developing economies.

Over the last decade, the polemicists have returned to the fray, primarily coming from an anti-globalization and/or developmental background. Some of them (*Silent Takeover*) take me back to my youth, though the splendidly titled *Jihad vs McWorld* show that there were some new issues in play. However, most of the issues raised are little different from those in the literature of the late 1960s. What is new is the
emphasis on ‘corporate social responsibility’, which has taken some of the themes identified earlier to a much higher level of sophistication.

However, despite the numbers published, I still have not come across one overarching book that comes close to providing a convincing, balanced overview of the power relations between companies and states. So here I will try to look at the broad range of issues that any such analysis might cover. Some of the issues are of interest to technocrats, others to the radical political scientist. Either way, a balanced view of state–firm relations has to cover both extremes. Since space is limited, I use a series of propositions to stimulate debate.

Underlying Forces

A comprehensive analysis has to range across:

- recent history, looking at trends;
- companies, both big and small;
- industries, be they commodities, manufacturing, or services;
- countries, big, small, industrialized, emerging, resource-rich, resource-poor;
- the different varieties of corporate involvement from out-and-out skullduggery to lobbying on technical regulatory issues;
- the technological infrastructure underpinning MNC activities.

In particular, a comprehensive review has to start with a sense of some of the underlying forces that have changed the state–company relationship over the recent decades. Four key forces can be identified as follows.

First, there has been the communications revolution, which has both increased the power of MNCs by making them more mobile but, simultaneously, decreased their influence by encouraging the rise of well-informed and organized countervailing international non-governmental organizations (INGOs).

Second, there has been the casting-off of dependent mind-sets within the developing world. The breakthrough of the oil states in the early 1970s was a key factor.

Third, there has been the steady march of democracy. This has both increased the legitimacy of regimes in host economies and the transparency within which companies now have to operate.

Finally, there has been the triumph of the market (the neoliberal, or Thatcher/Reagan revolutions). Particularly within the industrialized world, this has brought into power politicians who believe in competition, whatever its nationality.

**Proposition 1: The Era of High-profile MNC Skullduggery Did Exist but Came to an End in the 1970s**

It is important to accept that, historically, some companies felt that they had the right to select, overthrow, or corrupt national leaders. It did not happen on a huge scale. But companies such as United Fruit in Central America, the oil industry in Iran,
Union Miniere in the Congo, ITT in Chile, and arms companies (Lockheed and Northrop to the fore) all operated on the assumption that local governments could be treated as dispensable. To be fair, as you get closer to the evidence of what actually went on it becomes clear that these companies were often just one of a set of actors. However, the picture of amoral and ruthless executives caring little for democratic niceties is a fair one.

The era when such behaviour would go largely unchallenged came to an end in the early 1970s. First, the resolve of developing world leaders to bring MNCs under control was strengthened by the success of the OPEC powers in clawing back control over oil production. In addition, there was the global outrage, channelled through the United Nations, triggered by the allegations that ITT had been willing to interfere in the Chilean democratic process that ultimately led to the election of President Allende.

Quite simply, developing country governments, which had generally been timid about tackling the colonial-era excesses of MNCs, now realized that parent governments would no longer send in the marines, gunboats, or the CIA to defend their multinationals.

Second, in the post-Watergate era, US legislators produced the Foreign Corrupt Practices Act, which signalled that the overt bribery by American MNCs that had been exposed in the post-1970 period would no longer be tolerated.

Finally, the global storm of anti-ITT protests triggered by the disclosure of its anti-Allende activity ultimately led to its destruction as an independent company. This was an early sign that companies now had to live within an increasingly transparent world. After ITT, there were global protests against Union Carbide for its role in the Bhopal disaster and Exxon for the Exxon Valdez oil spill in Alaska. Initially, these protests were uncoordinated but by the 1990s the emergence of INGOs such as Greenpeace meant that corporate transgressions would be punished heavily in the court of world public opinion.

In short, there was both a significant toughening of the attitude of developing world governments and a realization by mainstream MNC managements that there were new limits to their political freedom.

**Proposition 2: This Does Not Mean That All Problems to Do with Corruption Have Gone Away**

Away from the Anglo-American business world, it becomes clear that the corporate corruption of politicians (sometimes vice versa) is far from being eradicated. Just as the Watergate affair of the early 1970s forced Washington politicians to tighten up political funding from corporations, so the end of the Cold War in the early 1990s allowed investigative judges and journalists to start unravelling the murky funding of anti-communist political parties, which had been tacitly ignored while communism seemed a real threat.

In countries such as Italy, Japan, Germany, and France high-level politicians fell (and were occasionally jailed) for raising funds from corporate (sometimes, as in Italy, from blatantly criminal) sources. In most cases, the politicians were dealing with
purely local companies. But there were cases such as ENI in France where corporate funds were being channelled with official support not only through former colonies but also to friendly neighbouring politicians such as Chancellor Kohl in Germany.

During the 1990s the spread of democracy into previously totalitarian states produced other cases of the exposure of the corrupt interplay between national companies and former political elites.

Russia threw up a different kind of problem. In its first post-communist decade, its politicians were effectively creating a democratic society from scratch. Inevitably, there were challenges to the new political structures from a variety of sources, which included the first wave of successful entrepreneurs (the ‘oligarchs’, which included individuals like Berezovsky) and powerful former state-owned enterprises such as Gazprom. This had monopoly control of the world’s largest supplies of natural gas, created at least one prime minister and was influential in Yeltsin’s re-election, refused to pay taxes, and generally behaved as a state within a state. At the time of writing, Gazprom is being brought under political control but no history of Russian politics during the 1990s will be complete without an analysis of the interplay between Gazprom, the oligarchs, and the emerging new Russian political elite.

Proposition 3: There Will Continue to Be Contentious Cases Where Companies Are Caught in the Middle of Disputes Not of Their Making

Today, there are a number of cases in which multinationals are involved in politically unpleasant or complicated parts of the world. One thinks of Shell and the hanging of Saro-Wiwa in Nigeria, Talisman Energy in the Sudan, Premier Oil in Burma, and the relationship of De Beers with the ‘blood diamonds’ that have fuelled civil wars in Central Africa.

At their worst, allegations are made that companies are actively giving support to unpleasant, murderous regimes and that there is blood on their profits.

Significantly, a high proportion of these cases involves resource-based companies. This is a reminder that there are still industries where companies do not have much choice about where they locate their investments. If significant oil reserves happen to be in territory fought over in a vicious civil war, then oil companies are faced with the kind of dilemma that Gulf Oil had during the war for Angolan independence during the 1970s. It will be tempted to do deals with local paramilitary forces on either side simply to protect its operations. Sometimes that means companies will end up giving succour (however tacit) to some less-than-savoury people.

The issue for any company is to know when it should walk away from a particular investment because the human rights implications are so appalling. The trouble is that there always seems to be smaller, more desperate, companies willing to step into any investment vacuum. The temptation therefore will always be for companies to stay put, particularly when the potential reserves are significant (as is the case for Colombia and Nigeria). However even-handed and ethically pure companies may try to be, there will inevitably be cases where world opinion finds it extremely hard to unravel the precise role that particular multinationals have (or should have) played.
Finally, in situations such as civil wars and coups, one should be aware of the sometimes critical importance of company airstrips (whose troops can use them?) and, even, private jets. Even quite small companies will have assets (in the military sense) that can be of significance to one or other side of a dispute. In an era of fragile or failed states, even quite a small company can provide assets that can significantly affect a particular political situation.

Proposition 4: Within the OECD World, the Treatment of MNCs Has Become Increasingly Routine. This Will Also Happen in the Developing World

The contemporary relationship between mainstream MNCs and their host economies is becoming pretty routine. Companies accept the legitimacy of the states within which they invest. They may not enjoy taxation but they accept that states do have the right to tax their operations. They accept that states provide a legal infrastructure within which companies must work and that states also provide educational and security systems.

In this sense, MNCs do not challenge the legitimacy of states and, in a narrow sense, claims that footloose multinationals are going to lead to some kind of stateless world are clearly over-blown.

On the other hand, when one looks at what policies states can practically use to control MNCs, then one sees there are serious constraints on their freedom of action. In fact, what the world has seen in the 40 or so years since *Le Defi Americain* has been an increasingly formal acceptance that MNCs should be given ‘national treatment’ – treated no differently from locally owned companies.

This shows most obviously in the steady decline in the perceived legitimacy of policies based on ‘national champions’ or devices like ‘screening institutions’ such as Canada’s FERA, which tried to ensure that foreign investments made a proper contribution to the host economy. In the 1960s and 1970s such policies were accepted as legitimate counters to the power of US companies. Today, they have lost that legitimacy.

Naturally, there are still areas of resistance to MNC investment. Mergers and acquisitions involving foreign companies are still a contentious area. Hostile bids by foreigners are still difficult in most countries bar the US and UK. Change is coming but it is slow. Germany, for example, is still extremely uneasy about Vodafone’s acquisition of Mannesmann. Japan has been impressed with Renault’s turnaround of Nissan but the relationship between the two companies is still more of an alliance than a formal acquisition.

Given those few examples, why has there been such a substantive change over recent decades? How much has been the result of corporate power? And how much the result of enlightened self-interest?

First, there was pressure from leading economies clearly interested in furthering the interests of their nationally based MNCs. The concept of national treatment was codified by the OECD in the late 1970s and has occasionally been used aggressively. The US, for example, pressured Canada not to designate its Arctic territories as a
preserve for the Canadian national oil champion. Similarly, the rapid increase in the number of bilateral investment treaties has meant that a steady stream of new host countries has also been forced to accept this concept.

On the other hand, the Thatcher–Reagan neoliberal revolution of the early 1980s meant that the two leading MNC parent economies were run by political leaders who genuinely believed that competition was good, wherever it came from. By the early 1990s, for example, the UK had, with minimal controversy, let foreigners take control of its consumer electronics, computing, automotive, and financial service industries – a massive retreat from the concept of national champions. This policy has continued. At the time of writing, the UK government is proposing to abolish most of the serious constraints on foreigners buying into the national media – a sector where most countries are still sensitive to foreign ownership.

So far, the MNCs have played a minor role in bringing about this change in political attitudes. Competition for incoming Japanese investment meant that relatively xenophobic countries such as France slowly became aware that they were failing to attract blue-chip Japanese investments, which were going across the Channel to the UK. Inevitably they started to compete with the British in terms of the generosity of their packages for inward investors. And what happened in France was happening elsewhere in the industrialized world. Outside of a few sensitive sectors (the media, aerospace, and telecoms) host governments started to encourage inward investment, and that meant competing with neighbouring countries since most investors had the option to locate a new plant in at least three countries.

However, we should not overstate the power shift towards MNCs that came from their ability to play off one country against another. Corporate taxation has been easing downwards but it has not collapsed.

At the same time, the relocation of established corporate activities is becoming a significant phenomenon that is starting to worry host governments. Within Europe, the relocation of manufacturing to Eastern Europe, with its low labour costs, and the equivalent relocation at a global level to China, is forcing host governments to step up campaigns to reinforce the competitiveness and flexibility of their economies. The Stopford–Strange world in which governments, increasingly concerned with stimulating economic growth, have to compete more ruthlessly for incoming FDI (foreign direct investment) is becoming more convincing.

At the same time, the industrial powers still have considerable coercive power. We are, for example, in the later stages of a concerted attack on the freedoms of tax havens (in itself, this attack is the culmination of a campaign against banking secrecy that started a couple of decades ago). Most of these havens are committed to tightening their regulatory regimes in return for being allowed continued freedom to interact with the world’s financial centres.

In turn this points to the ultimate power that the core industrialized powers have over new less-regulated competitors. The dominant capital and merchandise markets are still to be found within the US, Europe, and Japan, which means that new competitors, wanting access to such markets, have to play by their rules. Within the core economies there is competition for MNC investment but mechanisms are in place to avoid such competition becoming self-destructive.
Proposition 5: MNCs Are Increasingly Active in Setting Agendas

If mainstream multinational transactions have become increasingly routine, there are still areas of corporate activity that are of considerable diplomatic interest. In particular, leading MNCs are becoming increasingly active in helping set the global agenda in areas of key concern to them, particularly in trade diplomacy.

US MNCs and their industry lobbies have won the right to sit as advisers to US trade negotiators at WTO rounds. Going back into recent history, one can point to the way that American Express was active in getting financial services put onto the trade agenda. Hollywood was equally active in getting cultural goods into the debate, much to the chagrin of countries such as France, which feel that cultural goods should not be treated as just another commodity.

The culmination of this sector-specific lobbying was the WTO's initiatives in the field of financial services, telecommunications, and information technology. Under these, the bulk of world players (including countries like China) were dragooned into agreeing precise timetables for opening up these markets to foreign trade and investment. These are very significant initiatives given that they involve the countries responsible for at least 80% of the relevant global transactions. Of course, these are sectors in which US companies are particularly strong and therefore have an interest in seeing investment liberalized as quickly as possible. Sectors in which US companies are more on the defensive (steel, agriculture, autos, and even airlines) have not been targeted for such special treatment.

A second interesting area of corporate diplomacy surrounds the creation of global standards. Sometimes this simply involves companies manoeuvring against each other – Matsushita/JVC's victory over Sony and Philips in video-recorders and the Windows operating system for computers are good examples.

In other areas such as mobile communications, states and companies may work together. Europe, for example, won a stunning success in second-generation mobile communications with its GSM standard, which virtually became the world standard. It gave European companies such as Nokia and Ericsson some golden years in which to build very strong position in global markets (Nokia being the more successful of the two).

In contrast to the close collaboration between European industry and governments in such standard-setting, the US authorities stood back to let the market determine ultimate standards and, in an industry where the size of networks matters, paid the price as consumers held back, uncertain about which standard would win.

As far as GSM's third-generation successor is concerned, the diplomats are firmly back in the fray, trying to ensure that swing countries like Japan, South Korea, and China adopt the American or European-favoured standard. (To show its technological independence, China has developed its own standard.)

In other areas such as memory devices and the operating systems for mobile phones, companies throughout the lead economies are forming shifting alliances to produce the eventual winning standard. In the case of memory devices, there has been an extremely interesting split between the movie makers (paranoid about the
pirating of movies) and the computer makers, whose interest is to have memory devices that are as easy to use as is possible.

Sometimes, though, companies are faced with an international community determined to create new rules or regulations for their particular sector. With the rise of INGOs, companies find they sometimes lose control over the international agenda, as the chemical companies did over CFCs and as the energy-production and energy-consumption industries have done with the diplomacy around the Kyoto protocols.

On the CFC front, the chemical companies ultimately chose to work constructively with the new regime. On climate change some of the oil giants such as BP and Shell have similarly chosen a cooperative approach while others like Exxon have taken a hostile stance and are credited (though Exxon denies it was this important) with keeping the US out of the new climate-change regime.

It depends on how apocalyptic one's views on global warming are, but one could argue that the political consequences of Exxon's refusal to accept the general consensus on the scientific evidence could have consequences that will far outweigh the damage stemming from any previous decision by a leading MNC.

**Proposition 6: It Is Legitimate to Raise Questions About the Cultural Impact of MNCs**

Ted Levitt's arguments about cultural homogenization and the concept of 'Coca-Colonialization' seemed to make sense in a world where global brands were extending their reach, strengthened by internationalization and the emergence of global media empires such as AOL TimeWarner, News Corporation, and Walt Disney. US 'soft power' appeared to be increasing at a time when American 'hard power' seemed close to unstoppable.

In practice, the picture is much more complicated. For those who worry about an American-dominated century (and some do), one only has to look at the globalization of sport. Soccer – dominated by Europeans and Latin Americans – is by far the dominant world sport. US-dominated sports such as baseball, basketball, and American football have failed to find a global standing to rival even such sports as cricket and rugby union, which went international on the back of the British Empire. If media ownership were so important, US-dominated sports should be doing far better in the global market place.

To make sense of arguments about cultural dominance, one has to distinguish between two phenomena.

The first is the ability of Anglo-American companies, taking advantage of the English language and their ability to put global M&A strategies in place, to create global business empires in areas such as the media and branded goods. This seems to be an observable fact and the logic would seem to be that their success will lead to cultural homogenization.

Second, the technology that has broken down hierarchical corporate structures means that we have moved from a world of 'broadcasting' to one of 'narrowcasting' in which programming and brands are aimed at ever-narrower groups of consumers.
Somewhere along the line, Levitt’s model of cultural homogenization has become obsolete.

To illustrate, one only has to look at MTV and STAR Television (News Corporation’s satellite broadcasting operation in Asia). MTV started with a model of pushing English-language popular music round the globe. But wherever it has gone it has found indigenous reservoirs of pop, which has meant it has had to segment its channels and feature indigenous strands of popular music (J-pop, Hindi-pop, and so on).

Similarly, STAR was created by Hong Kong entrepreneur Richard Li as an English-language satellite channel targeted at Asia’s elite. Under Rupert Murdoch’s ownership, however, it has indigenized much of its output and is now producing separate programming for south Asia, north Asia, China, and so on.

However, even if one rejects the arguments that global business empires will lead to cultural convergence, one can make the more subtle point that they are still producing ideological convergence towards a consumption-oriented, market-based outlook on life. Broadcasters may not be using English as their chosen language but they are bringing formats (the sit-com, the annual pop music awards, the quiz shows) from the industrialized world. Whatever the language spoken, the underlying attitudes are consumerist and must reinforce wider shifts towards more market-oriented dispositions.

It is no accident that STAR TV began broadcasting into India in the early 1990s just as the country started to liberalize its economy. It is no coincidence that the Chinese authorities are letting STAR into China (with some controls) at the same time as the country is joining the World Trade Organization. The global media empires give implicit ideological support to market-oriented regimes.

One can in fact argue that Rupert Murdoch, having been a crucially important supporter of the Thatcher revolution in the UK, is now, through News Corporation’s satellite broadcasting activities in the world’s two largest countries, India and China, helping to lock the majority of the world into the market-oriented revolution that Thatcher was so important in launching in the early 1980s.

On a much narrower front, all companies tend to take their dominant managerial cultures with them as they go overseas. In the 1970s and 1980s, the leading examples were the Japanese companies that took the lean manufacturing and quality revolutions with them into Europe and North America. Today, it is Anglo-American investment banks, accounting companies, ratings agencies, and vulture funds that are exporting the Anglo-American business culture into the fledgling capitalist cultures of the former Soviet Union and the communitarian capitalist cultures of continental Europe and Asia.

In the countries of the former Soviet Union, accounting companies and consultancies have been heavily involved in creating the basic legal and regulatory structures needed as they move from command to market economies. The slow reorganizations favoured by communitarian economies are being challenged by the occasional hostile M&A (Vodafone for Mannesmann), the long pursuit of ‘zombie’ companies – still technically alive but on all objective measurements bankrupt (GM for Daewoo Motors) – successful foreign turnarounds of floundering companies (Renault of Nissan), and hard analysis that exposes the wishful thinking of bureaucrats and
executives who want to deny the depth of the problems they face (the ratings agencies and Japan).

**Proposition 7: Micro States and Failed States Will Continue to Have Some Problems**

At the extremes of the MNC community there are companies that have no real concept of enlightened corporate citizenship. As BCCI showed, legitimate companies can be captured by crooks. As surveys have shown, companies emerging into the international arena from ‘crony capitalist’ economies are prone to using bribery as a management tool.

This means that there will be inevitable cases of countries being ‘captured’ by ruthless managements. This may involve a company persuading a state to write its financial legislation in a way that gives the company almost total tax-free independence. It may involve regimes ignoring environmental degradation. At the extreme, it may involve regimes being so heavily bribed or intimidated that they will accept any kind of economic activity on their territory – be it legal or criminal.

**Proposition 8: On Balance, Large, Technologically Sophisticated Economies Should Have Little Problem in Keeping Multinationals under Control**

The picture that emerges from this analysis is that MNCs have considerable lobbying power that allows them to look after their interests on the world stage. Governments are finding it increasingly difficult to control them. The concept of national champions is close to extinction in the industrialized world, while the idea that governments can protect infant industries is coming under strong attack in the developing world. Footloose industries such as shipping, gambling, financial services, and film production have all developed strategies to minimize their tax obligations on a worldwide basis.

All of this suggests that the balance of power between company and state has swung irrevocably in favour of the former.

However, the picture is far more complex than that.

Basically, the relationship between company and state is like a poker game in which each player – state or firm – has cards whose strengths may well vary over time.

The bargaining power of a particular country will be affected by:

- its population (China has greater power than Fiji);
- its per-capita income (Belgium over Rwanda);
- its mineral resources (Saudi Arabia and Russia over Japan);
- its human resources (East Asia over Latin America on education);
- the competence and coherence of its political elite (East Asia over the average African state);
- its general level of competitiveness (Japan of the 1980s versus Japan of today).
Companies’ bargaining power can vary in similar ways in relation to:

- their size (General Motors over a one-person consultancy);
- their technological strengths (Microsoft and Intel over the cement industry—though technology can become obsolete);
- their footlooseness (a shipping company has more bargaining options than a mining or pipeline company; a company has more options when choosing an initial investment site than when the plant is established);
- the power of the parent government (an American over a Taiwanese company).

Viewed in this framework, the advanced industrial countries have rather more power than some pessimists would argue. For example, despite the apparent attractions of tax havens, the authorities in leading financial centres like New York and London have been able to maintain tough reporting requirements because most companies need access to the pools of capital such centres control. Similarly, most companies need access to the richest and most dynamic markets for tradable physical goods.

It is, though, still essential that national authorities consciously work together to counter their tendency to over-compete for new investment. In many areas, such collaboration is working well both within and between NAFTA and the EU. Europe has the problem of overly heavy subsidies under control. The concerted drive against tax havens is putting some kind of floor to the secrecy they can offer.

On the other hand, there are areas of competition between states that are not yet under control. There is, for example, as yet no consensus within the industrialized world about what an ideal level of taxation and social welfare provision should be. So, within a band with the US at one end and the Scandinavian welfare states at the other, companies do have some freedom to relocate within the industrialized world towards the most favorable tax regimes. This suggests that Rhineland capitalism will come under increasing pressure to move taxation rates towards Anglo-American levels.

So, for the mainstream industrial economies, we end with a picture in which companies are active lobbyists, focusing on their particular interests. They do not challenge the legitimacy of the nation state, but they will bargain toughly where they can and they will continually seek the most attractive investment climates on offer that still allow them effective access to markets, supplies of capital, and high-quality employees.

The technical sovereignty of the state is not at issue. However, the explicit and implicit bargaining power of corporations sets limits to the policies that governments can actually impose. Sovereignty is not precisely at bay, but it is being somewhat bruised around the edges.