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## Working Paper

# What is new about global corporations? Interpreting statistical data on corporate internationalization

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## discussion paper

FS I 00 - 102

What is new about “global” corporations?  
Interpreting statistical data on corporate  
internationalization

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Michael Wortmann

### **What is new about “global” corporations?**

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## **Abstract**

In the debate on globalization it is often argued that multinational corporations (MNCs) have gained increasing power due to their growth and due to new global or transnational structures and strategies. This paper presents empirical evidence – especially from various national statistics ignored in the debate so far – that contradicts these assumptions and allow a deeper understanding of the development of the structures of MNCs. These data indicate that foreign direct investment (FDI) is not a good indicator for the real growth of MNCs. Rising prices of cross-border M&A transactions lead to high growth-rates of FDI while the real growth of MNCs has developed quite steadily over many decades. In manufacturing only affiliates in the periphery of MNCs' home regions show an accelerated expansion (partly due to the opening-up of Eastern Europe and China). Over-all, the development of MNCs does not show significant new characteristics in the 1990s, neither in quantitative nor in qualitative terms. Despite the continuous tendency to globalize managerial coordination, truly integrated global configurations have not emerged. Network-like manufacturing structures – and thus also the mobility of production – are still confined regionally. The final section tries to develop an explanation for the fact that MNCs are assigned this important new role in the globalization debate.

## **Zusammenfassung**

In der Globalisierungsdebatte wird häufig behauptet, dass multinationale Unternehmen aufgrund ihres Wachstums und aufgrund neuer globaler oder transnationaler Strukturen und Strategien zunehmende Macht gewonnen hätten. Dieses Papier präsentiert empirische Daten – insbesondere von verschiedenen nationalen Statistiken, die bisher in der Debatte ignoriert worden sind und die ein besseres Verständnis der Entwicklung der Strukturen der multinationalen Konzerne erlauben. Die Daten zeigen, dass Direktinvestitionen kein guter Indikator für das Wachstum multinationaler Konzerne sind. Gestiegene Preise bei grenzüberschreitenden Mergers + Acquisitions führen zu hohen Wachstumsraten bei den Direktinvestitionen, während das reale Wachstum der multinationalen Konzerne sich seit vielen Dekaden recht kontinuierlich entwickelt. In der verarbeitenden Industrie zeigen nur die Auslandsgesellschaften in der Peripherie der jeweiligen Heimatregion der multinationalen Unternehmen ein beschleunigtes Wachstum (teilweise auch aufgrund der Öffnung Chinas und Osteuropas). Insgesamt zeigt die Entwicklung der multinationalen Konzerne in den 90er Jahren keine grundlegend neuen Eigenschaften – weder in quantitativer noch in qualitativer Hinsicht. Trotz einer langfristigen Tendenz zur Globalisierung der Koordinationsstrukturen, d.h. des Managements, haben sich wirklich globale Konfigurationsstrukturen noch nicht herausgebildet: Netzwerkartige Fertigungsverbände – und damit auch die Mobilität der Produktion – sind noch regional begrenzt. Der abschließende Teil dieses Papiers versucht eine Erklärung dafür zu entwickeln, dass den multinationalen Konzernen in der Globalisierungsdebatte eine bedeutende und neuartige Rolle zugeschrieben wird.



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## Introduction<sup>1</sup>

Within the discussion on globalization, multinational corporations (MNCs) as new – or rather re-discovered – actors play an important role. Their ability to coordinate and act across borders and especially to relocate production from one country to another or at least to credibly threaten such a relocation gives them additional power vis-à-vis national and local actors like governments, trade unions or works councils. It is often being assumed that this power of the MNCs has increased considerably during the last years, which has – together with similar developments in the areas of trade and finance – fundamentally changed the conditions for national economic and social policy as well as for the policies of trade unions and workers' representatives (e.g. Beck 1996, Dunning 1993, Ruggie 1998, Scharpf 2000, Streeck 1998).<sup>2</sup>

The assumption of an increased power of MNCs is usually based on two indicators: On the one hand the quantitative growth of foreign direct investment (FDI) and on the other hand on a qualitative change of MNCs' strategies and structures - often characterized as networks, which are assumed to increase their cross-border mobility.

Some authors have questioned the idea of powerful global MNCs. Hu (1992) has described MNCs as "national firms with international operations". Hirst/Thompson (1996) have shown that before World War I FDI had reached a similar level as today and that still today MNCs' operations are highly concentrated in their respective home regions.

In this paper new evidence will be given, drawing primarily on statistical data which is rarely used in the debate. It will show that the recent increase in FDI is not an indicator for a similar increase in the internationalization of MNCs' operations (section 0). Using employment data from various statistics, it can be shown that the international growth of MNCs has not accelerated recently (section 0). Section 0 will

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<sup>1</sup> This paper is based on research conducted within a project on "Globalization and International Mobility of German Manufacturing Companies" financed by the DFG. Other participants in this project are Ulrich Bochum, Christoph Dörrenbächer and Klaus Peter Kisker.

<sup>2</sup> Besides this perspective concentrating on a power shift between MNCs and national or local actors, there is in the social sciences a second perspective on the relationship between MNCs and national or local actors. This second perspective concentrates on MNCs as agents of a cross-border transfer of organizational or production models – or parts thereof leading to hybridization (cf. Wortmann / Dörrenbächer 2000).



present data on the configuration of MNCs, showing that there is almost no inter-regional integration of their manufacturing operations, which indicates that their potential to relocate production is not global but rather intra-regional. Section 0 will deal with the development of MNCs managerial coordination structures where global divisions have become more and more dominant since the end of the 1960s. The final section tries to develop an explanation for the fact that in the globalization debate MNCs are assigned this important new role even though their structures and strategies have not changed fundamentally.

## **Explaining the growth of foreign direct investment**

Indeed, annual foreign direct investment (FDI) flows have grown tremendously over the last years, as can be seen in figure 1. Sometimes, FDI flows are compared with domestic gross fixed capital formation, and in many countries FDI accounts for a large and increasing share of domestic investment (cf. UNCTAD 1997; OECD 1999). This comparison is misleading.

FDI flows are cross-border financial capital transfers relating to a) the expansion or b) the acquisition of affiliated companies. They include

- a) capital transfers from parent or other related companies to foreign affiliates, be it equity capital or loans,<sup>3</sup>
- b) capital transfers to unrelated companies or shareholders paid in order to buy new affiliated companies.

In both cases FDI is quite different from real investment in fixed capital.

Ad a) Transfers to affiliated companies are booked in the affiliates' balance sheets as liabilities and might be used for real investment but also as liquidity. In addition, real investments might not only be financed through capital from parent and other affiliated companies but also through capital raised on the market. Finally gross fixed capital formation is to a large extent financed through depreciation, while FDI refers to a change in the net position.

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<sup>3</sup> Differences between national statistics exist concerning the inclusion of reinvested earnings, several variants of indirect holdings as well as of short-term loans. Short-term loans have been excluded, for example in German FDI statistics until 1996. Since these play an important role in the transfers of foreign MNCs into Germany, inward FDI has continuously been underestimated in comparison to outward FDI (cf. Deutsche Bundesbank 1997; Jost 1999), and thus inappropriate statistical definitions have considerably helped to support the argument of a lacking competitiveness of "Standort Deutschland".

Ad b) Transfers to unrelated companies or share holders aiming at the acquisition of new affiliates are not connected with any fixed capital formation.<sup>4</sup> And the value of the fixed capital acquired is usually much lower than the price paid for the acquisition, since the value of the acquired company also includes variable capital and so-called good-will – with rising importance during the last years, as we will see below.

For these reasons, FDI should not be compared with gross fixed capital formation. FDI is not a good indicator to measure corporate internationalization. But, before we turn to a more appropriate measurement of international corporate growth using employment data, we will first give an explanation for the steep rise in FDI during the last years.

Besides data on FDI, UNCTAD has - since 1988 - also published data on international mergers and acquisitions (M&A) which have been taken from a database produced by the consultancy firm KPMG. Table 1a shows that an increasing share of FDI flows is due to cross-border M&A. The difference between total FDI and cross-border M&A has remained relatively unchanged over the years.<sup>5</sup> Thus FDI directed towards an internal expansion of the international activities of MNCs has in the long run not increased considerably.<sup>6</sup>

The rising value of M&A could be the result of an increasing number or an increasing size of companies being acquired or merged with. But it could also simply be the result of rising prices paid for the companies acquired. Stock indices can be taken as a proxy for rising prices paid for companies. Table 1b shows that the Dow Jones and the DAX indices have developed in parallel to cross-border M&A trans-

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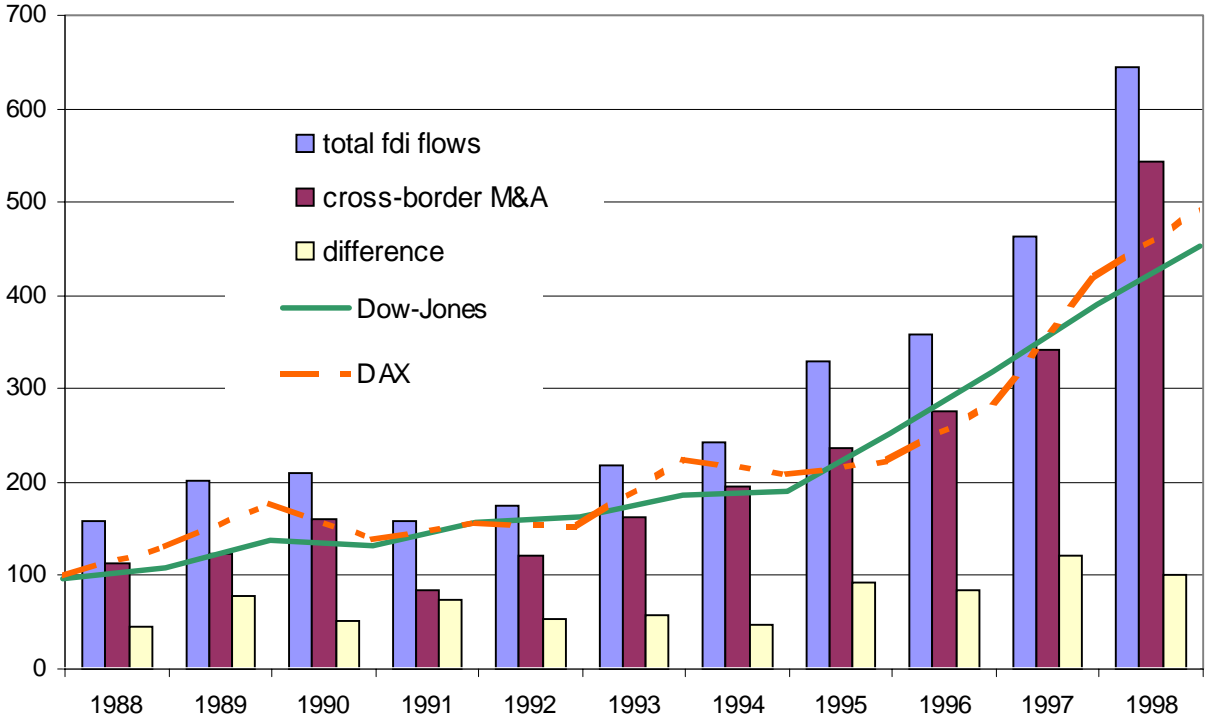
<sup>4</sup> If acquisitions are financed through an exchange of shares, they do not include any cross-border transfer of capital, while in balance of payment statistics the FDI flows are often balanced by portfolio investment flows.

<sup>5</sup> UNCTAD makes its own comparison between total FDI flows and cross-border M&A. But for reasons not explained only uses data for M&A transactions leading to majority ownership, while FDI data also include transfers related to minority ownerships. It should be noted that the methodology for collecting FDI and M&A data are based on different statistical definitions. Thus the difference between the two should only be seen as a rough estimate (cf. UNCTAD 1999: 113, footnotes 14 and 15).

<sup>6</sup> Data from the Harvard Multinationals Research Project (Vaupel / Curham 1974) support the idea that there is a long-term trend of external growth gaining relative to internal growth. Wortmann / Dörrenbächer (1997) have shown that today the growth of total employment of German MNCs' foreign manufacturing affiliates in other industrialized countries can be in total explained by external growth through M&A. These findings also have an impact on theories of FDI and of MNCs which have traditionally concentrated on explaining internal growth (cf. Wortmann 1999; 2000b).

actions. Thus, in real terms, the internationalization of the MNCs might not have grown faster than during the decades before.<sup>7</sup>

Figure 1: Annual FDI flows and cross-border M&A (bn. US\$); indices of Dow Jones Industrial Average and DAX (end of 1987 = 100)



Sources: UNCTAD, KPMG; Dow Jones, Deutsche Börse; own calculations FAST e.V.

Within the context of the discussion on globalization, it is important to emphasize that external growth is not connected with any relocation of production. It is only in the processes of restructuring, which follow many M&As in order to realize synergy effects that production could be shifted across borders (cf. Wortmann 2000a).

<sup>7</sup> FDI stock in 1998 was at around 4,100 bn US\$. FDI flows dedicated to internal growth are estimated at around 100 bn US\$, and thus would account for about 2.5%. A capital growth rate of this size does not allow a real operative expansion.

## The growth of multinational corporations

In this section, employment data will be used to draw a more reliable picture of MNCs' internationalization. Employment data have many advantages over financial data like FDI: they are not influenced by stock prices, inflation, exchange rates and other fluctuations of the financial sphere. Their main disadvantage is that they are only available selectively. Problems like how to count part-time employees do not have a big impact on over-all results – especially in the manufacturing sector. Certainly there are differences in labor productivity between sectors and countries, but these differences have remained relatively stable over time.<sup>8</sup> The following section concentrates on manufacturing – first because there are more data available and second because in this sector international mobility and potentials for relocation can be expected to be most important.<sup>9</sup>

Data on West European MNCs (table 1) indicate<sup>10</sup> that the growth of their foreign employment has not accelerated over time. Within Europe above-average growth took place in the second half of the 1980s, which can probably be explained by the advance of the Single Market. Only in Eastern Europe was there a strong increase in the 1990s. Both European regions together account for roughly half of total foreign employment. North America and Asia have shown well above average growth rates throughout the whole period where data are available, while Latin America – an important host region for MNCs in earlier decades – stagnated.

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<sup>8</sup> Direct comparisons between countries and regions on the basis of employment data thus remain difficult. But here we are only interested in developments within the different regions. Above-average productivity increases can often be observed following take-overs of East European companies.

<sup>9</sup> The products of manufacturing industry generally are tradable, while those of the service industry – with some exceptions – mostly are not, and thus have to be produced in the location where they are consumed.

<sup>10</sup> Unfortunately, employment data for U.K. and French MNCs are not available.

Table 1: Foreign employment in the manufacturing industry of European MNCs (1000)

	'76	'80	'86	'90	'96
<b>Germany</b>	<b>922</b>	<b>1222<sup>#</sup></b>	<b>1276</b>	<b>1647</b>	<b>1968</b>
Western Europe	468	509	552	744	779
Eastern Europe	0	0	3	17	270
North America	58	174 <sup>#</sup>	191	277	346
Latin America	252	343	330	359	251
Asia	87	128	117	154	235
<b>Switzerland</b>	.	.	<b>579</b>	<b>779</b>	<b>871*</b>
Western Europe	.	.	341	444	421*
Eastern Europe	.	.	0	6	31*
North America	.	.	84	145	174*
Latin America	.	.	88	80	91*
Asia	.	.	30	54	86*
<b>Sweden</b>	.	.	.	<b>524</b>	<b>477</b>
Western Europe	.	.	.	326	272
Eastern Europe	.	.	.	0	25
North America	.	.	.	96	89
Latin America	.	.	.	52	36
Asia	.	.	.	36	39
<b>Italy</b>	.	.	<b>239</b>	<b>430</b>	<b>596</b>
Western Europe	.	.	87	207	250
Eastern Europe	.	.	2	7	98
North America	.	.	22	49	49
Latin America	.	.	74	96	102
r.o.w.	.	.	52	71	98

Remarks: data on Germany and Italy include manufacturing affiliates; data on Switzerland and Sweden include all affiliates of manufacturing MNCs<sup>#</sup> corrected for the portfolio-like participation of Flick in Grace Chemical\* 1994 and changed method, Asia excluding Japan

Sources: Deutsche Bundesbank; Banque Nationale Suisse; Statistics Sweden; CNEL (R&P); own calculations

Foreign employment of U.S. MNCs (table 2) – which traditionally dominated the world of MNCs – had reached a first peak in the 1970s, and then declined in most regions of the world with the exception of Mexico and Asia. In the 1990s, foreign employment

increased slightly again, with the highest growth rates again in Mexico and Asian developing countries.<sup>11</sup>

Table 2: Foreign manufacturing employment of U.S. MNCs (1000)

	'66	'77	'82	'89	'96
<b>majority owned subsidiaries</b>	<b>2615</b>	<b>3773</b>	<b>3358</b>	<b>3247</b>	<b>3666</b>
Western Europe	1334	1951	1628	1509	1592
Eastern Europe	0	0	0	0	91
Canada	545	562	455	455	364
Mexico	102	171	229	290	424
other Latin America	311	539	496	455	416
Japan	40	40	48	75	87
other Asia	102	278	288	306	516
<b>minority owned affiliates</b>	.	<b>1082</b>	<b>1075</b>	<b>944</b>	<b>812</b>

Source: DoC/BEA; own calculations

For Japanese MNCs (table3) data suggest a strong increase of foreign employment in the 1990s. This might partly be the result of defects in earlier statistics (cf. Ramstetter 1996). But data also show the high concentration of employment in Asian countries.<sup>12</sup> Despite high growth rates in Europe and North America, the absolute relevance of Japanese MNCs in these regions – and especially in Europe – is still small.<sup>13</sup>

<sup>11</sup> Table 2 also gives separate data for minority owned subsidiaries. Their importance has decreased over time. This is interesting, because it contradicts the hypothesis that new forms of internationalization – like alliances and joint ventures – have become more and more important in today's „globalized“ economy.

<sup>12</sup> China had the highest growth rate: Employment in manufacturing at Japanese MNCs grew from 41.000 (1993) to 206.000 (1996).

<sup>13</sup> The high importance given to Japanese investment in public as well as scientific debates is probably due to the higher inclination of Japanese MNCs for green-field investments – among them several spectacular cases (transplants) in the automobile industry, which is in the center of scientific and public attention.

Table 3: Foreign manufacturing employment of Japanese MNCs (1000)

	'81	'87	'90	'93	'96
<b>world</b>	<b>626</b>	<b>726</b>	<b>922</b>	<b>1118</b>	<b>1775</b>
Europe	.	66	88	146	197
North America	.	121	282	257	357
Latin America	.	109	99	84	96
Asia	.	391	417	595	1089

Source: MITI

Finally, table 4 shows data of employment at foreign owned affiliates in different host countries. Over all, in the larger European countries foreign employment did not change much since the 1970s. This is especially true for Germany and France.<sup>14</sup> The only significant increase was that of European MNCs in the UK, where they had for a long time been relatively underrepresented. In the U.S. employment at foreign MNCs – most of it at European MNCs – has grown strongly in the 1970s and 1980s, when the U.S. had lost its economic hegemony. In the first half of the 1990s this growth has stopped.

Table 4: Employment at foreign MNCs' manufacturing affiliates in various countries (1000)

	'76	'80	'86	'90	'96
<b>in Germany</b>	<b>1268</b>	<b>1240</b>	<b>1071</b>	<b>1242</b>	<b>1066</b>
<b>in France</b>	<b>838*</b>	<b>812</b>	<b>721</b>	<b>766</b>	<b>839**</b>
from Europe	504*	495	431	452	544**
<b>in Italy</b>	.	.	<b>469</b>	<b>521</b>	<b>527</b>
from Europe	.	.	261	349	355
<b>in the UK</b>		<b>736<sup>x</sup></b>	<b>621</b>	<b>775</b>	<b>815</b>
from Europe		178 <sup>x</sup>	144	236	323
<b>in the US</b>		<b>1103</b>	<b>1543<sup>oo</sup></b>	<b>2221</b>	<b>2214</b>
from Europe		862	1034 <sup>oo</sup>	1458	1411

Remarks: \* 1975, \*\* 1997, <sup>x</sup> 1983, <sup>+</sup> 1997, <sup>o</sup> 1974, <sup>oo</sup> 1987; French data refer to the beginning of the year indicated; Italian data refer to the beginning of the following year; all other data refer to the end of the year

Sources: Deutsche Bundesbank; Stisi and Sessi; CSO and ONS; CNEL (Ricerche & Progetti); DoC/BEA; own calculations

<sup>14</sup> For an interpretation of the development in Germany cf. Wortmann / Dörrenbächer (1997).

The quantitative developments described so far can be summarized as follows: Europe had been an important host region for MNCs for a long time, especially for those from other European countries and from the U.S., and no acceleration of MNCs' growth has occurred here recently. Strong growth of foreign MNCs in the U.S. in the 1970s and 1980s has even slowed down in the 1990s. An acceleration of MNCs' employment can be observed in Asia – most of it by Japanese MNCs. In addition, U.S. MNCs have increased their employment in Mexico, and European MNCs have expanded in Eastern Europe. Obviously, MNCs have further expanded in neighboring developing areas within their home region. Over all, there is no dramatic new development in the growth of MNCs – especially not on the inter-regional or global level.

## **Configuration of multinational corporations**

We now turn to the question of whether there has been a qualitative change in the structures or strategies of MNCs. In analyzing MNCs' structures one can distinguish between the configuration, i.e. the geographical distribution and orientation of value adding activities, and the coordination, i.e. the managerial structure.<sup>15</sup> We start with the configuration of MNCs' manufacturing operations.

The indicator quoted here most frequently is intra-company trade, which according to UNCTAD accounts for one third of international trade.<sup>16</sup> From this fact often two conclusions are drawn: first, MNCs are powerful because they control world trade; second, MNCs have a globally integrated network structure, which gives them global flexibility. But this is somewhat misleading – for two reasons: First, a large share of intra-company trade goes to sales companies which simply distribute the products of their parent companies in local markets.<sup>17</sup> It is not plausible that sales affiliates abroad give MNCs much additional “control” over world trade or power over national actors.<sup>18</sup> Second, international trade is highly regionally concentrated, and thus a considerable share of intra-firm exports does not necessarily indicate a high global integration when over-all inter-regional exports are low.

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<sup>15</sup> On the concepts of configuration and coordination cf. Porter (1996).

<sup>16</sup> UNCTAD has extrapolated this proportion from data on exports of U.S. MNCs and imports of foreign owned affiliates in the U.S.

<sup>17</sup> About two thirds of U.S. intra-firm imports (1996) and about one third of U.S. intra-firm exports (1997) go to trading affiliates.

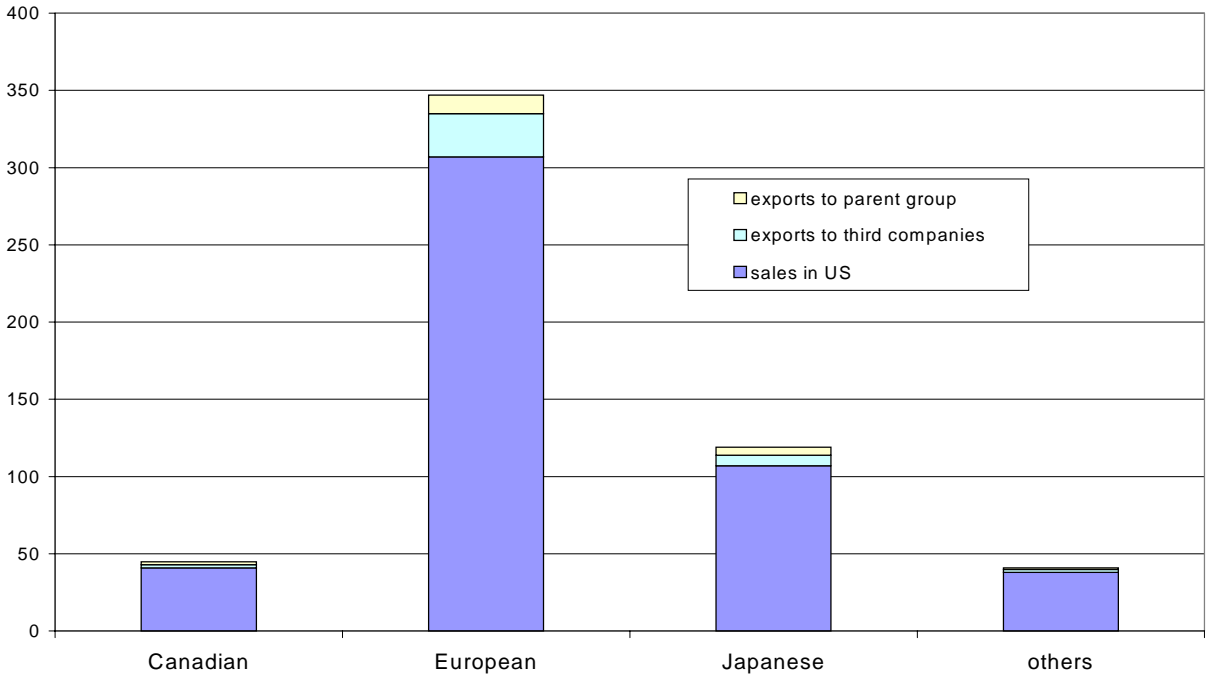
<sup>18</sup> Even possibilities for tax avoidance through transfer pricing are very limited using sales affiliates.



In the following we will therefore look not at intra-firm trade but at the geographical sales structure of MNCs' foreign manufacturing affiliates. This is also a better – even though not unproblematic – indicator for the cross-border mobility of production. Only in a configuration where MNCs' foreign affiliates not only supply local markets but are also in a position to export to other markets – and especially to the MNCs' home markets – can production be shifted back and forth from one country to another.<sup>19</sup>

Statistical data on the geographical sales structure of MNCs' foreign affiliates are available from the U.S. (outward and inward), from Japan (outward) and from France (inward). Figure 2 shows that the subsidiaries of MNCs from various countries in the U.S. sell the vast majority – almost 90% – of their total production in the U.S., they export only little more than 10%. They are obviously not integrated into global manufacturing structures. This indicates that a globally oriented relocation of production to the U.S. by non-U.S. MNCs might only happen as an exception.

Figure 2: Sales structure of foreign-owned subsidiaries in the US in 1996 by home country of MNCs and destination of sales (bn. US\$)

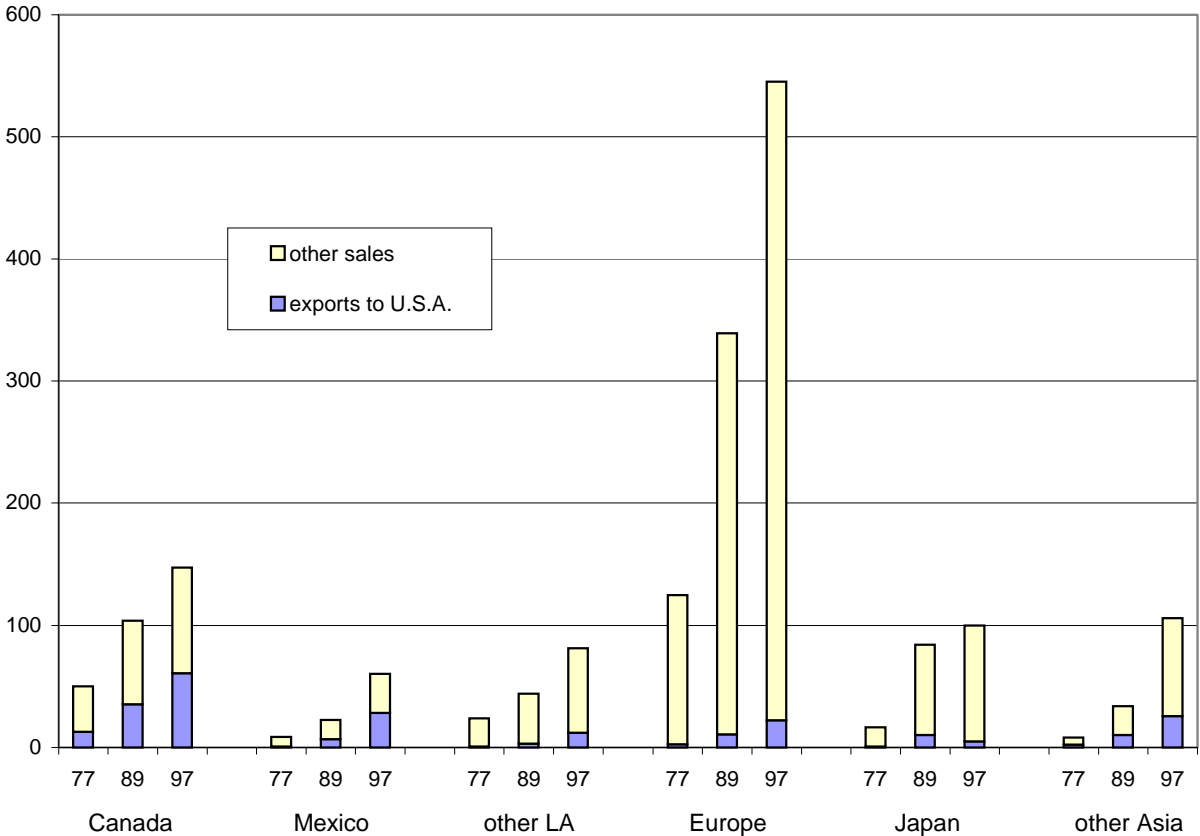


Source: DoC / BEA; own calculations

<sup>19</sup> It should, however, be kept in mind that many of the foreign exporting affiliates are companies that were acquired and had been exporting already before their acquisition. Most international relocations of production probably occur within restructuring measures designed to integrate acquired companies (cf. Wortmann 2000a).

Figure 3 shows data on the development of the geographical sales structure of foreign affiliates of U.S. MNCs. Affiliates in Canada and Mexico have increased the share of their exports to the U.S. in total sales continuously from 25% (1977) to 42% (1997) and from 9% to 47%. U.S. MNCs' affiliates in Asia also export a considerable share of their production to the U.S. But in the 1990s, this share decreased to 24% in 1997, while it had increased from 27% in 1977 to 32% in 1989. Affiliates in Europe and Japan export only very little to the U.S. (4% and 5% in 1997).<sup>20</sup> This shows that integrated global configurations still are an exception, if they exist at all. In contrast, regional integration – now within NAFTA – is growing continuously.

Figure 3: Development of the sales structure of foreign affiliates of U.S. MNCs by host country of affiliate and destination of sales in 1977, 1989 and 1997 (bn. US\$)

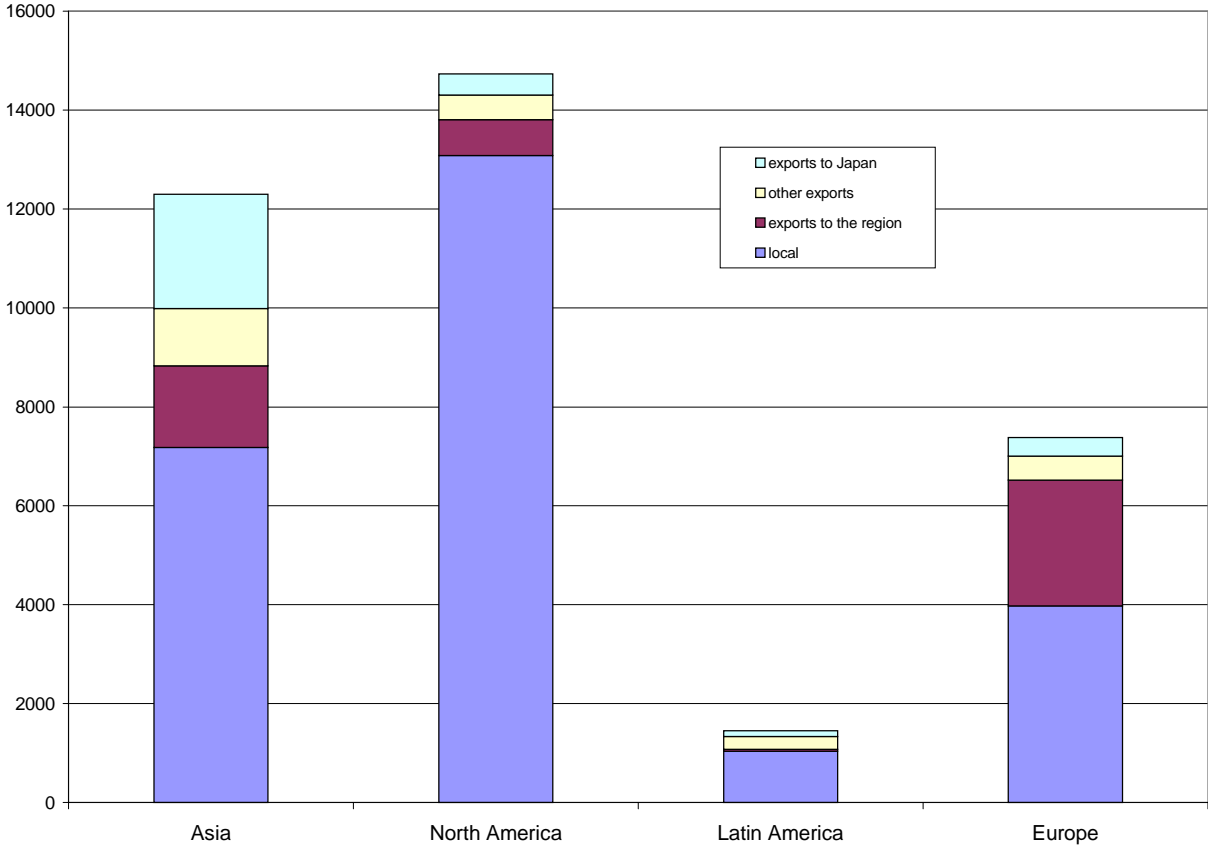


Source: DoC/BEA; own calculations

<sup>20</sup> In 1977 U.S. MNCs' affiliates in Europe had sold only 2% to the U.S. The recent decrease of Japanese affiliates' sales to U.S. is caused by the fact that some U.S. MNCs have sold their minority shares in export intensive Japanese companies, like Chrysler in Mitsubishi.

There are also detailed data available on the geographical sales structure of Japanese MNCs' foreign manufacturing affiliates (cf. Figure 4). Affiliates in North and Latin America sell most of their production on their local markets. Affiliates in Europe export a considerable share to third European countries. Only affiliates in the home region of Japanese MNCs export a significant share of their production to the Japanese market.

Figure 4: Sales structure of foreign affiliates of Japanese MNCs by host country of affiliate and destination of sales in fiscal year 1996 (bn. Yen)



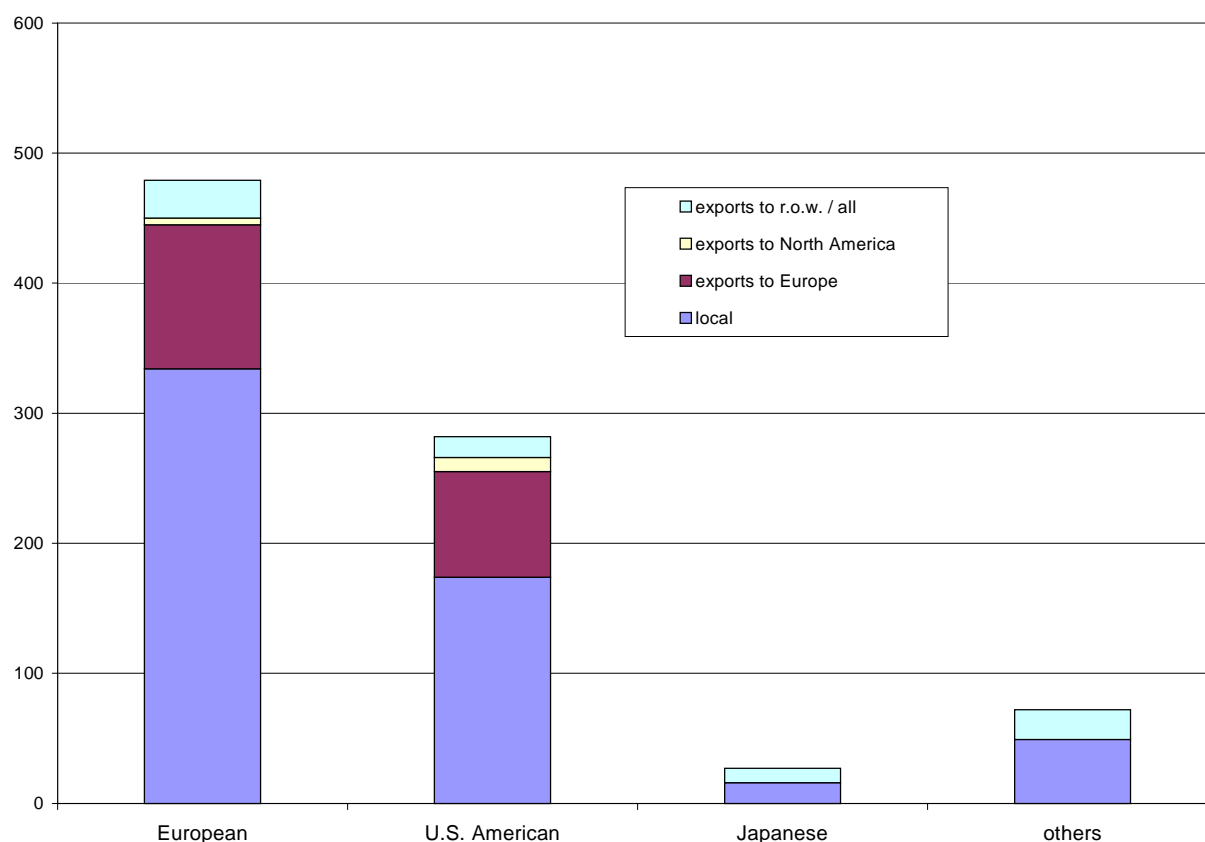
Source: MITI; own calculations<sup>21</sup>

Finally there are data available on foreign MNCs' affiliates in France. Over time, foreign MNCs' affiliates in France have continuously increased their export ratios

<sup>21</sup> Methodological note on Japanese statistics: Most tables in the tri-annual benchmark survey present absolute values from surveys for which information on representativity is never given. The data for total sales by host countries of affiliates are original data published by MITI, the geographical destination of the sales is calculated from another (smaller) sample.

from 22.8% in 1980 to 31.2% in 1990 and to 37.8% in 1996.<sup>22</sup> From what they export, the largest share goes to other European countries. In 1993, less than 10% of their total sales was being exported to countries outside of Europe (cf. Figure 5). These data show that there is a long lasting process of MNCs' affiliates becoming integrated into regional or continental, but not into global production structures.<sup>23</sup>

Figure 5: Sales structure of foreign-owned affiliates in France in 1993 by home country of MNCs and destination of sales (bn. FF)



Source: SESSI; own calculations<sup>24</sup>

<sup>22</sup> At the same time, national French owned manufacturing companies have increased their export ratio from 20.9% (1980) over 27.2% (1990) to 30.8% (1996). U.S. owned affiliates have a much higher export ratio (43.5% in 1996) than European owned affiliates (33.9%), indicating that U.S. MNCs are the prime movers in establishing integrated European configurations.

<sup>23</sup> The central importance of regional cross-border restructuring is also demonstrated by a study of the Belgian Bureau du Plan (Bernhard et al. 1994).

<sup>24</sup> The geographical distribution of total exports is extrapolated from a representative survey of SESSI conducted in 1993. These data are not available for Japanese and other MNCs.

The interpretation of the available statistical data highlights two main characteristics of the configurational development of MNCs: First, global integration is only of marginal importance, integrated production networks are regional or continental. Second, the regional integration is not a new process, it has developed continuously over the last decades.

## **Managerial coordination of multinational corporations**

After having analyzed the configuration of MNCs, we now briefly turn to their managerial coordination structures. The concept of “global” MNCs has a long tradition in Anglo-Saxon management literature. It is being used to describe companies that have installed global product divisions as the dominant management structure. In reaction to integrating world markets MNCs improve product-specific coordination across national borders – at the expense of country-specific coordination across product lines (cf. the seminal study by Stopford / Wells 1972). Many of the large U.S. MNCs had adopted a management structure dominated by global divisions in the late 1960s, and the first German MNCs followed at about 1970. More and more MNCs have turned to global product divisions later on,<sup>25</sup> while many others still today do not have global product divisions.<sup>26</sup> But obviously there is a lasting tendency for MNCs to improve cross-border coordination at the expense of cross-product coordination.<sup>27</sup> And several MNCs have further strengthened the global orientation by introducing globally oriented structures within divisions, like global product responsibilities or global functions.

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<sup>25</sup> ABB is a typical example. After the merger of BBC and Asea, ABB's managerial structure was dominated by the national lumps of Asea in Sweden, BBC in Germany and – of some minor importance – BBC in Switzerland. These strong national units then were jettonized into a large number of smaller and relatively independent units. This structure often has been described as a network, which was supposed to be the managerial structure of the future. But in the late 1990s, ABB strengthened its global product divisions becoming the main managerial structure, improving the product-specific coordinating between former BBC and Asea units across borders – including centrally managed cross-border restructuring processes.

<sup>26</sup> Many examples for the development of MNCs' management structures are given in Humes (1993).

<sup>27</sup> The trade-off between regional and product-specific coordination is a permanent topic of international management literature. Bartlett / Ghoshal (1989) too conceive globalization in this tradition. For a new type of world-wide integrated network-like company structures they use the term transnational. But the data presented in this article suggest that MNCs turning to a “transnational solution” hardly exist.

In many cases, the loosening of cross-product coordination has finally led to the independence of whole product divisions, which then could be sold. On the other hand MNCs have often acquired foreign companies with the intention to strengthen their core business, i.e. existing product divisions, and to realize additional cross-border synergy effects. These synergy effects can be realized in many ways, e.g. through a joint use of research and development or of sourcing capacities. They do not necessarily imply a global integration and reorganization of production, which would involve worldwide relocations of production – this is usually limited to the regional scale.<sup>28</sup>

If one understands globalization in this way – as a tendency of integrating world markets – one also has a good explanation for the rising tendency of MNCs to grow externally through M&A instead of growing internally through the expansion of their own capacities. Globalization on the one hand provides an increasing potential of synergy effects which can be realized through managerial cross-border coordination of formerly independent firms, while on the other hand in global and open markets additional capacities to serve foreign markets can be created at existing plants, thus improving economies of scale. Again, this is not a new development, but has been a tendency for many decades.

## Conclusions

In this paper we have shown that FDI is not a good indicator for the real growth of MNCs' international operations. A large and growing share of FDI is related to cross-border M&A. Rising prices of M&A transactions lead to high growth-rates of FDI while the real growth of MNCs has developed quite steadily over many decades. This interpretation was confirmed by an analysis of the development of MNCs' foreign manufacturing operations based on employment data from various national statistics. Only affiliates in the periphery of MNCs' home regions show an accelerated expansion (partially due to the opening-up of Eastern Europe and China). Over-all, the development of MNCs does not show significant new characteristics in the 1990s, either in quantitative or in qualitative terms.

Using data on the regional sales structure of MNCs' manufacturing subsidiaries, it could be shown that internationally integrated configurations have only developed on the regional scale, while truly integrated global configurations have not emerged.<sup>29</sup>

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<sup>28</sup> Thus it is not surprising that many MNCs still have regional coordination structures.

<sup>29</sup> This interpretation of the statistical data is also confirmed by a series of company case studies conducted within the above mentioned research project (cf. footnote 1).

Thus the ability of MNCs to shift production back and forth across borders is also limited regionally.

The fact that corporate mobility is primarily a regional phenomenon does not make its potential impacts significantly different from those usually expected from globalization: MNCs can use the threat to relocate production in concession bargaining with workers' representatives, playing off different sites against each other. Still it is interesting that this phenomenon is discussed under the heading of "globalization" despite being rather regional – i.e. in the case of German MNCs basically being European.<sup>30</sup>

The empirical analysis has also shown that regionally integrated configurations have developed continuously over the last decades<sup>31</sup> – just as MNCs' internationalization in general did not speed up significantly in recent years and the introduction of global managerial coordination structures developed since the late 1960s. It is not possible to identify a qualitative or quantitative break in the development of MNCs toward increasingly international, globally oriented and basically regionally integrated companies.

Thus the question arises: why is "globalization" of MNCs perceived as something new? In order to answer this question it is necessary to once more return to the changes in the modes of growth of MNCs. The decline in importance of internal and the increase of external growth (with subsequent restructuring) have presumably two causes: One is globalization (in the sense of the Anglo-Saxon management theory) and the other is the slowdown of the world-wide economic growth.

Globalization in the sense of a continuing integration of international product markets has permitted the companies to realize cross-border synergy effects. This can explain the tendency toward international mergers and acquisitions, which are all the more successful the greater the potential for the synergy effects, which can be obtained by international restructuring measures. On the other hand, the establishment of new production capacities abroad loses importance since foreign markets can increasingly be supplied through exports from existing plants.

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<sup>30</sup> This also has implications for the geographical scope of institutions trying to deal with the problem. European Works Councils (EWCs) were set up in order to counter concession bargaining through an international coordination of employees interests. They are in most cases – at least in terms of their geographical reach – well fit to deal with "globalization". Though Eastern Europe (and Switzerland) should be formally included.

<sup>31</sup> Relocation to developing countries had started in the 1960s and has already been discussed as a "new international division of labor" in the 1970s (Fröbel et al. 1977), even though its effects have been exaggerated.

A quite decisive second reason for the decline in internal growth abroad of MNCs is the slowdown of worldwide economic growth. During periods of slow economic growth, companies seldom create new capacities – either at home or abroad. On the other hand, the probability increases that mergers and acquisitions will take place with the goal of adjusting capacities.

Before the background of a changed macro-economic situation, the character of the structural transformations of MNCs and particularly the effects for employees have also changed. Until far into the 1970s, jobs which were created abroad were mostly additional ones. And there, where production had been relocated, there were usually substitute jobs at disposal domestically at the same company<sup>32</sup> or in the same region. Therefore, the shift of production abroad was not experienced in general as a problem by the employees and their representatives – i.e., works councils and trade unions – and thus also by society as a whole.<sup>33</sup>

Now faced with weak economic development and long-term high unemployment, this perspective has changed dramatically. The relocation of production is becoming a direct threat to the employees.<sup>34</sup> Only in this situation do the threats to shift jobs become an effective instrument of management in concession bargaining with employees and works councils.

The rapidly growing attention, which the international activities of MNCs have gained in the debate on “globalization”, does not seem to be caused by a new quality of internationalization such as a dramatic increase of the mobility of production, but rather by a transformed socioeconomic background.<sup>35</sup> Pointedly and somewhat exaggeratedly one can say: “Globalization” is not so much a cause of social and economic problems, but rather these problems are the causes for the fact that societies have begun to perceive “globalization” as a problem.

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<sup>32</sup> This perspective can be illustrated by a quote from the Siemens annual report from 1961/62 (p. 66): “The factories in Italy were expanded further; they contributed to the relief of the German factories.”

<sup>33</sup> In the second half of the 1970s, the shifting of production seemed to be a problem, concentrated in individual work-intensive industries such as the clothing industry or consumer electronics.

<sup>34</sup> According to an investigation of the Belgian Bureau du Plan at the start of the 1990s, the immediate cause for every fourth direct “collective redundancy” in Belgium was a relocation of production abroad, whereby restructuring, e.g. in order to achieve economies of scale, was a much more important motive for these relocations than wage differences. Most of the relocations went to European neighbor countries, many of them to Germany (Bernhard et al. 1994).

<sup>35</sup> On the connection between globalization, macro-economics and the strategies of politics, trade unions and works councils also cf. Wortmann (2000c).



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