

Managing the Transnational Corporation

Unit 1 The Nature of the TNC – An Overview

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Unit Overview

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

Learning outcomes

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

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



Reading for Unit 1

Ietto-Gillies G (2012) Chapters 1 ‘Evolution and concepts’; 4 ‘Hymer’s seminal work’; 7 ‘Currency areas and internationalization’; 8 ‘Internalization and the transnational Corp.’ and 9 ‘Dunning’s eclectic framework’. In: *Transnational Corporations and International Production – Concepts, Theories and Effects*. 2nd Edition. Cheltenham UK, Edward Elgar.

Pitelis CN (2002) ‘Stephen Hymer: life and the political economy of multinational corporate capital’. *Contributions to Political Economy*, 21, 9–26.

Tomlinson PR (2005) ‘The overseas entry patterns of Japanese automobile assemblers, 1960–2000: globalisation of manufacturing capacity and the role of strategic contingency’. *International Journal of Automotive and Technology Management*, 5 (3), 284–304.

Khanna T, K Palepu and P Andrews (2011) *Haier: Taking a Chinese Company Global in 2011*. Cambridge MA, Harvard Business School Publishing.

1.1 Why is it Different to Manage a TNC?

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

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

A related issue is that TNCs will often encounter both very different indigenous competitors and in many cases familiar (global) rivals in the various international markets they operate in. Dealing with different competitive environments may require very different managerial strategies and responses. For instance, the coffee chain Costa not only faces competition from local coffee shops but also from other major global retailers such as Starbucks and Nero in the various foreign markets it operates in. Throughout North America, Europe and Asia, a global automobile manufacturer such as Toyota will face competition not only from other Japanese car assemblers (*eg* Nissan and Honda) but also from other major players such as Ford and General Motors, who will also have facilities in these supra-regional locations. As Stephen Hymer (1976) observed, such familiarity may lead TNCs to recognise their global interdependence and the global oligopolistic nature of their industry. Thus, while some TNC strategies may be tailored to respond to competitive threats at the local level, these are likely to be part of the TNC's more generic global strategy. We will consider similar issues in the next section (see Box 1.1).

1.2 What is a Transnational Corp. (TNC)?

What is a Transnational Corp. (TNC)? What are the main characteristics that TNCs share, and in what ways do they differ in outlook and behaviour? Moreover, why should you be interested in the differences between the various types of TNC? The answers to these questions should unravel as

you progress through this unit. However, first it might be useful to define a TNC, which – as you will see – is not easy.

Indeed, across the literature, there are a number of definitions of the transnational Corporations which reflect their role in the global economy¹. Perhaps, the most widely accepted position is that a TNC refers to a Corp. registered in more than one country and/or has production operations in more than one country. In order to engage in these activities, TNCs establish affiliates (or subsidiaries) and/or acquire a controlling interest (via merger or acquisition of foreign firms) in facilities outside their home country. This is often referred to as Foreign Direct Investment (FDI) and provides TNCs with direct ownership and control of international production operations.

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

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

¹ Many definitions of the TNC reflect the vagaries of specific academic disciplines, particularly within the social sciences and international business. See Section 1.3, for instance, on the distinction between TNC and MNE and the interchangeable use of such terms in common parlance. For further details see also Pitelis and Sugden's (2000) edited volume, which offers differing views on the nature of the transnational firm.

(international) suppliers, labour and governments. Thus, control is a broader recognition of TNC activity than the ownership of assets. We will consider these issues, relating to TNCs, in further detail in Unit 2.

Given these observations, a recent and more encompassing definition of the TNC is therefore provided by the economic geographer, Peter Dicken (2011):

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

Source: Dicken (2011) p. 102.

1.3 What is in a Name? Transnational or Multinational?

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

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

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

truly international and its corporate body was an aggregated reflection of its very different international affiliates².

Finally, the term ‘transnational Corp.’ (TNC) has become more widely used in recent years, particularly by the United Nations, which has officially adopted the terminology. In partial reference to the earlier definition of ‘international Corp.’, it was felt that ‘transnational’ is a more accurate reflection of international production as it captures the notion of a firm operating from its home base across national boundaries (as opposed to the view that affiliates are set up and operated independently and autonomously). Essentially, the adverb ‘trans’ (as in transnational) captures the ability of TNCs to transfer their organisational structure, technology and product ranges across countries. The term thus better reflects the ability of TNCs to manage, control and develop strategies across and above national frontiers, which clearly distinguishes them from other actors in the global economy. It is for this reason that we utilise the term ‘transnational’ to describe such Corporations in this module.

1.3.1 Foreign direct investment (FDI) and international production

Foreign Direct Investment (FDI) can occur via two mechanisms. The first is when a TNC invests and sets up a new overseas affiliate in a particular country – this is referred to as *greenfield investment*. The second is when a TNC engages in an international acquisition or a merger with a foreign company (FDI by M&A). The former is often favoured by host governments as it promises to provide new investment and employment for the economy, whereas the FDI by M&A is essentially an employment-acquiring exercise by the TNC. Indeed, in some cases, the latter mode of FDI can actually reduce employment and capital investment in the host country, if the acquiring TNC engages in asset stripping³.

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


² As an aside, the terms ‘Corp.’ and ‘company’ reflect different North American and British preferences to describe a firm. Since both these terms can have legal connotations – for instance, in defining ownership (and equity stakes) – the term ‘enterprise’ is sometimes used by authors in analyses to avoid legality issues, where it is not relevant.

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

**Reading 1.1**

For further details of FDI statistics and (related) definitions, turn to letto–Gillies (2012), and study Chapter 1 (including its Appendix, pp. 25–28). This first chapter also gives an overview of the growth of TNCs and the extent of their global reach. (If you have studied that module, you may also wish to review the discussion on the UNCTAD data in Unit 1 of *International Management*.)

letto-Gillies G (2012)
Chapter 1 'Evolution and
concepts'. *Transnational
Corporations and
International Production*.

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

1.4 Review of Theories of Transnational Production

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

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

We now consider the main theoretical approaches.

1.4.1 Trade theories of FDI (macroeconomic)

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

In contrast, in less developed countries capital was scarce, and labour was relatively abundant and less expensive. Thus, the model predicted capital flowing from countries where the internal rate of return is low (due to capital abundance), to those where it is high (due to capital scarcity) – *ie* to developing countries. For a long time, this trade-based model was employed to explain FDI flows – the notion being that FDI flows would be greatest between countries where proportional factor endowments are most dissimilar. This observation seemed applicable in the late 1930s, when two-thirds of the world's FDI stock was located in developing countries. However, since the 1970s, over 75% of the world's FDI stock has been located in the developed world. This was, partially, a consequence of an increasing proportion

of FDI taking the form of international mergers and acquisitions (see Section 1.3.1) and the increasing oligopolistic nature of international production (see below). Thus, trade models are no longer considered relevant in explaining the nature of modern international business.


1.4.2 Hymer (mesoeconomic)

The first ‘modern’ theory of transnational Corporations and international production was put forward by Stephen Hymer (1960), whose PhD thesis (at the Massachusetts Institute of Technology) explored the motivations for large FDI projects by US transnationals⁴. Unlike the earlier trade models, where transnationals were essentially treated as *passive* agents with capital flows responding to changes in factor endowments, Hymer saw TNCs as *active* agents that shaped international markets to suit their own strategic interests in the global economy. Indeed, he viewed global markets as being dominated by international oligopolists.



Reading 1.2

Please turn to Chapter 4 of Letto-Gillies (2012), p. 51–58, which briefly outlines Hymer’s theoretical approach.

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

- According to Hymer, why do firms become TNCs?

Letto-Gillies G (2012)
Chapter 4 ‘Hymer’s
seminal work’.
Transnational
Corporations and
International Production.

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

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

⁴ Hymer’s thesis was published posthumously in 1976.

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



Reading 1.3

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



Your notes should cover the points raised in the preceding sections.

Pitelis C (2002) 'Stephen Hymer: life and the political economy of multinational corporate capital'. *Contributions to Political Economy*.

Box 1.1 Oligopolistic Interdependence in the Global Economy

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

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

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

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



Reading 1.4 and 1.5

Please study the Tomlinson article now, and then Chapter 7 of Ietto-Gillies (2012), which examines the work of Robert Aliber.

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

Tomlinson (2005) 'The overseas entry patterns of Japanese automobile assemblers, 1960–2000: globalisation of manufacturing capacity and the role of strategic contingency'. *International Journal of Automotive and Technology Management*.

Ietto-Gillies G (2012) Chapter 7 'Currency areas and internationalization'. *Transnational Corporations and International Production*.

1.4.3 Internalisation School (microeconomic)

A more sympathetic account of the TNC is provided by Buckley and Casson (1976), who became associated with the 'Reading School' of international business⁵. These authors proposed the internalisation approach, which draws upon transaction-cost economics earlier developed by Ronald Coase (1937) and Oliver Williamson (1975). For Buckley and Casson, firms can service foreign markets via three mechanisms – exports, licensing/subcontracting and/or FDI. The first two mechanisms are essentially via the market.

However, transaction costs arise in using the market mechanism (in a Hymerian world, these transaction costs would be identified as 'conflicts'). For instance, exports often involve liaising with foreign sales agents and customs, while they also incur transport costs and import taxes. These can reduce the final realised value of the product to the firm (the so-called 'iceberg' effect)⁶. In addition, by relying upon exports, firms are not always in close proximity to their overseas customers, which may be costly in terms of developing and tailoring the product for the foreign market in terms of future market opportunities.

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



Reading 1.6

For a fuller overview of the internalisation approach, please now turn to Chapter 8 of Ietto-Gillies (2012).

Your notes should clarify the bases of this approach.

Ietto-Gillies G (2012) Chapter 8 'Internalization and the transnational Corporation'. *Transnational Corporations and International Production*.

⁵ So called, because prominent international business scholars such as Peter Buckley, Mark Casson, Alan Rugman and John Dunning were based at the University of Reading, UK.

⁶ The iceberg effect – as an iceberg floats away from a glacier, it begins to melt and decrease in size. Similarly, the value of exported goods reduces due to transaction costs.

1.4.4 John Dunning's OLI paradigm

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

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

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

1. possess significant ownership advantages
2. have a strong case for internalising production *vis-a-vis* using the market mechanism, and
3. choose a location for FDI that offers significant attractions.

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

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

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

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



Reading 1.7

For a fuller account of Dunning's contribution, turn to Ietto-Gillies (2012) Chapter 9.



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

Ietto-Gillies G (2012) Chapter 9 'Dunning's eclectic framework'. *Transnational Corporations and International Production*.

1.4.5 Other theories of international production

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

1.5 Case Study

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



Reading 1.8

Please study the report on the international progress of the Chinese company, Haier by Khanna *et al* (2011).



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

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

Khanna T, K Palepu and P Andrews (2011) 'Haier: Taking a Chinese company global in 2011'. A Harvard Business School study.

1.6 Historical Roots, Recent Trends and the Largest TNCs

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

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

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

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

Table 1.1 The world's top 100 non-financial TNCs, ranked by foreign assets, 2008 (in millions of dollars and number of employees)

Ranked by

Foreign assets TNI ^b	Corporation	Home economy	Industry ^c	Assets		Sales		Employment		TNI ^b (%)
				Foreign	Total	Foreign	Total	Foreign ^d	Total	
				1	75 General Electric	USA	Electrical & electronic equipment	401 290	797 769	
2	32 Royal Dutch/Shell Group	UK	Petroleum expl./ref./distr.	222 324	282 401	261 393	458 361	85 000	102 000	73
3	6 Vodafone Group Plc	UK	Telecommunications	201 570	218 955	60 197	69 250	68 747	79 097	88.6
4	20 BP PLC	UK	Petroleum expl./ref./distr.	188 969	228 238	283 876	365 700	76 100	92 000	81
5	74 Toyota Motor Corp.	Japan	Motor vehicles	169 569	296 249	129 724	203 955	121 755	320 808	52.9
6	42 ExxonMobil Corp.	USA	Petroleum expl./ref./distr.	161 245	228 052	321 964	459 579	50 337	79 900	67.9
7	27 Total SA	France	Petroleum expl./ref./distr.	141 442	164 662	177 726	234 574	59 858	96 959	74.5

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8	67 E.On	Germany	Utilities (Electricity, gas and water)	141 168	218 573	53 020	126 925	57 134	93 538	55.8
9	90 Electricite De France	France	Utilities (Electricity, gas and water)	133 698	278 759	43 914	94 044	51 385	160 913	42.2
10	10 ArcelorMittal	Luxembourg	Metal and metal products	127 127	133 088	112 689	124 936	239 455	315 867	87.2
11	53 Volkswagen Group	Germany	Motor vehicles	123 677	233 708	126 007	166 508	195 586	369 928	60.5
12	64 GDF Suez	France	Utilities (Electricity, gas and water)	119 374	232 718	68 992	99 377	95 018	196 592	56.4
13	8 Anheuser-Busch Inbev SA	Netherlands	Food, beverages and tobacco	106 247	113 170	18 699	23 558	108 425	119 874	87.9
14	59 Chevron Corp.	USA	Petroleum expl./ref./distr.	106 129	161 165	153 854	273 005	35 000	67 000	58.1
15	33 Siemens AG	Germany	Electrical & electronic equipment	104 488	135 102	84 322	116 089	295 000	427 000	73
16	71 Ford Motor Company	USA	Motor vehicles	102 588	222 977	85 901	146 277	124 000	213 000	54.3
17	62 Eni Group	Italy	Petroleum expl./ref./distr.	95 818	162 269	95 448	158 227	39 400	78 880	56.4
18	39 Telefonica SA	Spain	Telecommunications	95 446	139 034	54 124	84 778	197 096	251 775	70.3
19	79 Deutsche Telekom AG	Germany	Telecommunications	95 019	171 385	47 960	90 221	96 034	227 747	50.3
20	37 Honda Motor Co Ltd	Japan	Motor vehicles	89 204	120 478	80 861	99 458	111 581	181 876	72.2
21	70 Daimler AG	Germany	Motor vehicles	87 927	184 021	108 348	140 268	105 463	273 216	54.5
22	77 France Telecom	France	Telecommunications	81 378	132 630	36 465	78 256	83 795	186 049	51
23	88 Conocophillips	USA	Petroleum expl./ref./distr.	77 864	142 865	74 346	240 842	15 128	33 800	43.4
24	63 Iberdrola SA	Spain	Utilities (Elec/gas & water)	73 576	119 467	19 785	36 863	17 778	32 993	56.4
25	18 Hutchison Whampoa Limited	Hong Kong, China	Diversified	70 762	87 745	25 006	30 236	182 148	220 000	82
26	36 Eads NV	France	Aircraft	66 950	105 989	57 890	63 299	73 969	118 349	72.4
27	11 Nestlé SA	Switzerland	Food, beverages and tobacco	66 316	99 854	99 559	101 466	274 043	283 000	87.1
28	78 BMW AG	Germany	Motor vehicles	63 201	140 690	62 119	77 830	26 125	100 041	50.3
29	55 Procter & Gamble	USA	Diversified	62 942	134 833	47 949	79 029	99 019	135 000	60.2
30	97 Wal-Mart Stores	USA	Retail & Trade	62 514	163 429	98 645	401 244	648 905	2 100 000	31.2
31	21 Roche Group	Switzerland	Pharmaceuticals	60 927	71 532	42 114	42 590	45 510	80 080	80.3
32	96 Mitsubishi Corp.	Japan	Wholesale trade	59 160	111 295	6 634	61 063	18 027	60 095	31.3
33	48 Sony Corp.	Japan	Electrical & electronic equipment	57 116	122 462	58 185	76 795	107 900	171 300	61.8
34	56 Nissan Motor Co Ltd	Japan	Motor vehicles	57 080	104 379	60 693	83 819	81 249	160 422	59.2
35	40 Grupo Ferrovial	Spain	Construction & real estate	54 322	67 088	13 156	20 667	64 309	106 596	68.3
36	92 RWE Group	Germany	Utilities (Electricity, gas and water)	53 557	130 035	26 710	71 617	26 688	65 908	39.7
37	1 Xstrata PLC	UK	Mining & quarrying	52 227	55 314	25 215	27 952	37 883	39 940	93.2
38	50 IBM	USA	Electrical & electronic equipment	52 020	109 524	66 944	103 630	283 455	398 455	61.1
39	57 Sanofi-aventis	France	Pharmaceuticals	50 328	100 191	22 636	40 334	69 990	98 213	59.2
40	3 Nokia	Finland	Electrical & electronic equipment	50 006	55 090	73 662	74 192	101 559	125 829	90.3
41	16 Lafarge SA	France	Non-metallic mineral products	50 003	56 518	23 865	27 846	65 520	83 438	84.2
42	72 Pfizer Inc	USA	Pharmaceuticals	49 151	111 148	27 861	48 296	49 929	81 800	54.3
43	45 Mitsui & Co Ltd	Japan	Wholesale trade	48 653	85 262	23 299	54 991	37 810	39 864	64.8
44	58 Hewlett-Packard	USA	Electrical&electronic equip	48 258	113 331	81 432	118 364	209 708	321 000	58.9
45	85 Rio Tinto Plc	UK	Mining & quarrying	47 064	89 616	21 649	58 065	54 156	105 785	47
46	9 Anglo American	UK	Mining & quarrying	44 413	49 738	21 766	26 311	95 000	105 000	87.5
47	47 Veolia Environnement SA	France	Utilities (Electricity, gas and water)	43 990	68 373	31 723	52 971	220 106	336 013	63.2
48	100 CITIC Group	China	Diversified	43 750	238 725	5 427	22 230	18 305	90 650	21
49	35 Compagnie De Saint-Gobain SA	France	Non-metallic mineral products	43 597	60 397	45 834	64 082	153 614	209 175	72.4
50	41 Novartis	Switzerland	Pharmaceuticals	43 505	78 299	40 928	41 459	48 328	96 717	68.1
51	66 BASF AG	Germany	Chemicals	43 020	70 786	50 925	91 154	49 560	96 924	55.9
52	52 Fiat Spa	Italy	Motor vehicles	40 851	85 974	65 931	86 876	115 977	198 348	60.6
53	84 General Motors	USA	Motor vehicles	40 532	91 047	73 597	148 979	127 000	243 000	48.7
54	76 Johnson & Johnson	USA	Pharmaceuticals	40 324	84 912	31 438	63 747	69 700	118 700	51.8
55	19 Cemex S.A.	Mexico	Non-metalic mineral products	40 258	45 084	17 982	21 830	41 586	56 791	81.6
56	94 Statoil Asa	Norway	Petroleum expl./ref./distr.	37 977	82 645	28 328	116 318	11 495	29 496	36.4
57	17 Volvo AB	Sweden	Motor vehicles	37 582	47 472	43 946	46 407	73 190	101 380	82.3
58	14 Astrazeneca Plc	UK	Pharmaceuticals	36 973	46 784	29 691	31 601	54 183	65 000	85.4
59	80 Vivendi Universal	France	Telecommunications	35 879	78 867	13 789	37 150	30 135	44 243	50.2
60	61 BHP Billiton Group	Australia	Mining & quarrying	34 393	78 770	34 784	50 211	24 730	40 990	57.8
61	13 Liberty Global Inc	USA	Telecommunications	33 904	33 986	10 561	10 561	13 128	22 300	86.2
62	54 National Grid Transco	UK	Utilities (Electricity, gas and water)	33 680	63 761	17 373	26 379	17 429	27 886	60.4
63	23 BAE Systems Plc	UK	Aircraft	33 285	37 427	25 249	30 583	61 200	94 000	78.9
64	81 Repsol YPF SA	Spain	Petroleum expl./ref./distr.	32 720	68 795	43 970	84 477	18 403	36 302	50.1
65	24 Philips Electronics	Netherlands	Electrical & electronic equipment	32 675	45 986	37 122	38 603	83 946	121 398	78.8
66	4 Pernod Ricard SA	France	Food, beverages and tobacco	32 237	35 159	8 845	9 850	16 260	18 975	89.1
67	5 WPP Group Plc	UK	Business services	31 567	35 661	11 966	13 717	88 467	97 438	88.9
68	60 Thyssenkrupp AG	Germany	Metal and metal products	31 422	59 557	51 441	80 207	114 277	199 374	58.1
69	46 Vattenfall	Sweden	Electricity, gas and water	31 288	56 829	16 079	24 952	23 675	32 801	63.9
70	86 Deutsche Post AG	Germany	Transport and storage	30 765	365 990	55 170	79 699	283 699	451 515	46.8
71	38 Unilever	UK	Diversified	30 236	50 302	40 483	59 287	144 000	174 000	70.4
72	7 Linde AG	Germany	Chemicals	29 847	33 158	16 574	18 527	44 278	51 908	88.3
73	26 BG Group Plc	UK	Electricity, gas and water	29 832	36 437	18 239	23 053	3 639	5 395	76.1
74	43 Pinault-Printemps Redoute SA	France	Retail & Trade	29 362	37 617	18 056	29 555	55 169	88 025	67.3
75	34 TeliaSonera AB	Sweden	Telecommunications	29 067	33 688	10 265	15 707	19 885	30 037	72.6
76	73 Samsung Electronics Co.,Ltd.	Korea, Republic of	Electrical & electronic equipment	28 765	83 738	88 892	110 321	77 236	161 700	54.2
77	51 Metro AG	Germany	Retail & Trade	28 729	47 077	60 410	99 424	161 925	265 974	60.9
78	99 Petronas-Petroliam Nasional Bhd	Malaysia	Petroleum expl./ref./distr.	28 447	106 416	32 477	77 094	7 847	39 236	29.6
79	93 Hyundai Motor Company	Korea,(Rep.)	Motor vehicles	28 359	82 072	33 874	72 523	22 066	78 270	36.5
80	83 China Ocean Shipping (Group) Company	China	Transport and storage	28 066	36 253	18 041	27 431	4 581	69 648	49.9
81	65 Carrefour SA	France	Retail & Trade	28 056	72 487	71 688	127 238	363 311	495 287	56.1

82	22 CRH Plc	Ireland	Non-metallic mineral products	27 787	29 396	28 926	30 559	46 248	93 572	79.5
83	44 Holcim AG	Switzerland	Non-metallic mineral products	27 312	42 487	14 323	23 225	63 156	86 713	66.3
84	89 EDP Energias de Portugal SA	Portugal	Utilities (Electricity, gas and water)	27 104	49 699	7 679	20 328	4 543	12 245	43.1
85	49 Alcoa	USA	Metal and metal products	26 973	37 822	12 566	26 901	57 000	87 000	61.2
86	68 Glaxosmithkline Plc	UK	Pharmaceuticals	26 924	57 424	28 030	44 674	54 326	99 003	54.8
87	2 ABB Ltd.	Switzerland	Engineering services	26 875	33 181	33 166	34 912	113 900	119 600	90.4
88	12 Air Liquide	France	Chemical/Non-metallic mineral products	26 647	28 678	15 292	19 170	37 876	43 000	86.9
89	69 United Technologies	USA	Aircraft	26 451	56 469	30 729	58 681	145 015	223 100	54.7
90	91 Sumitomo Corp.	Japan	Wholesale trade	26 448	70 890	18 238	35 470	26 397	70 755	42
91	30 Lvmh Moët-Hennessy Louis Vuitton SA	France	Other consumer goods	26 377	43 949	21 549	25 154	57 350	77 087	73.4
92	87 Bayer AG	Germany	Pharmaceuticals	25 696	73 084	24 979	48 161	53 100	108 600	45.3
93	82 Kraft Foods Inc.	USA	Food, beverages and tobacco	25 638	63 078	20 765	42 201	59 000	98 000	50
94	28 SAB Miller	UK	Food, beverages and tobacco	25 139	31 619	12 585	18 703	52 362	68 635	74.4
95	29 Coca-Cola Company	USA	Food, beverages and tobacco	25 136	40 519	23 930	31 944	79 400	92 400	74.3
96	95 Marubeni Corp.	Japan	Wholesale trade	25 049	47 985	13 824	39 762	653	3 856	34.6
97	25 Schlumberger Ltd	USA	Other consumer services	24 821	31 991	20 483	27 163	67 502	87 000	76.9
98	98 Hitachi Ltd	Japan	Electrical & electronic equipment	24 282	95 858	32 956	99 350	127 277	361 796	31.2
99	31 Diageo Plc	UK	Food, beverages and tobacco	24 264	29 965	17 086	19 603	12 379	24 270	73
100	15 Teva Pharmaceutical Industries Limited	Israel	Pharmaceuticals	24 213	32 904	10 609	11 085	32 146	38 307	84.4

- a All data are based on the companies' annual reports unless otherwise stated.
- b TNI, the Transnationality Index, is calculated as the average of the following three ratios: foreign assets to total assets, foreign sales to total sales and foreign employment to total employment.
- c Industry classification for companies follows the United States Standard Industrial Classification as used by the United States Securities and Exchange Commission (SEC).
- d In a number of cases foreign employment data were calculated by applying the share of foreign employment in total employment of the previous year to total employment of 2008.

Source: UNCTAD/Erasmus University database.

Review Question 1.1

Look at the data in Table 1.1 above on the World's top ranked TNCs for 2008, which has been published by UNCTAD.

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

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

1.7 Conclusion

In this unit we have considered some of the definitions, concepts and theoretical approaches associated with Transnational Corporations (TNCs). First, we

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

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