

# MULTINATIONAL CORPORATIONS – GLOBAL CORPORATIONS: WILL THEY BE THE SAME IN FUTURE?

Robert Uberman

for the Prof. Lara Jelenc's Class

20<sup>th</sup> of April, 2015

Robert Uberman for the Prof. Lara Jelenc's Class Apr, 20th, 2015



# „GLOBAL“ VS „NATIONAL“ MNCS

- „Big MNCs, despite all modern trends, maintain **a strong national identity** independently from their ownership form and governance”

*Maciej Olex-Szczytowski, partner in Ernst & Young, Rzeczpospolita, 15th of May 2008 , pp B11*

- Jeffrey Immelt, General Electric: „**We’re an American company** but in order to be successful **we’ve got to win in every corner of the world**”, *FT, August 16, 2007, page 7*

- „Italy needs a big state company or a big multinational” along the lines of Germany’s Siemens to serve as an anchor for commercial and investors dialogue between China and Italy - undisclosed Chinese high rank officials told Giulio Tremonti, the Italian Economy Minister *„Italy plans state investment fund to repel invaders”, The Wall Street Journal, April 4, 2011, p. 4.*

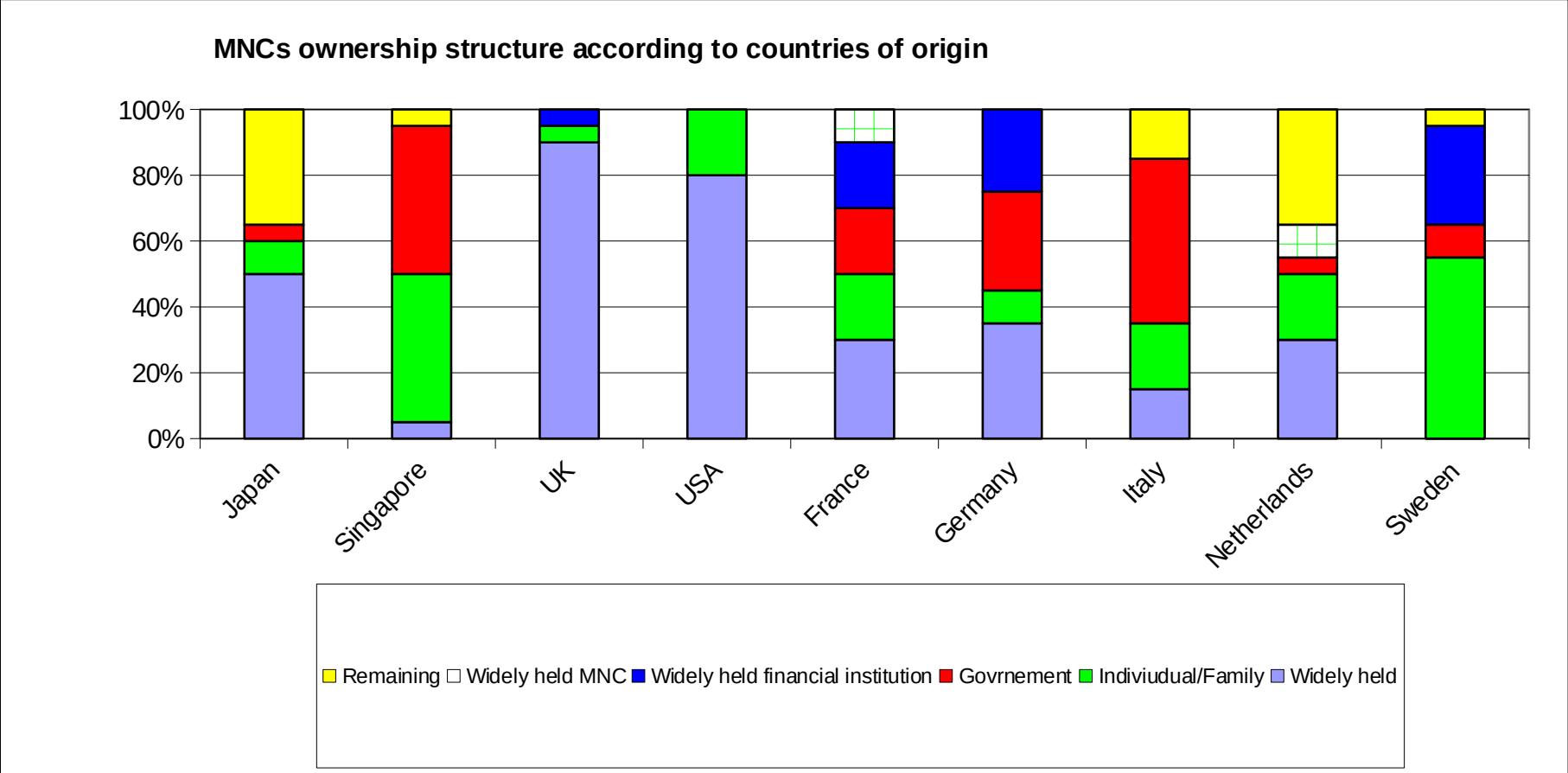


# CLASSICAL MNCS

- Originating from Western Europe, North America and Japan
- Focus on these markets which share some common characteristics: developed technical and legal infrastructure, efficient states, organized labour, capital base.
- Ownership structure and culture as the foremost differentiators.



# OWNERSHIP STRUCTURE IN VARIOUS COUNTRIES



Source: Aves, ..., „Who Owns the Largest Firms Around the World?“, International Research Journal of Finance and Economics, Issue 21 (2008)



# EVOLUTION OF OWNERSHIP STRUCTURES OF AMERICAN MNCS

- American system of transparent financial markets and „shareholders' democracy“ has been strongly enrooted in the US history, it was created by:
- Reluctance towards any form of a forced centralisation (eg. restricting banking activities to one state , Glass-Steagall act banning ownership of corporate shares by banks, therefore effectively separating „commercial“ and „investment“ banks)
- Long years of peace and prosperity allowing for capital accumulation by families (the last war fought on the US soil ended in 1865)
- Financial strength of the US corporations
- *Ron Chernow, „The Death of the Banker“, str. 71 and subs.*

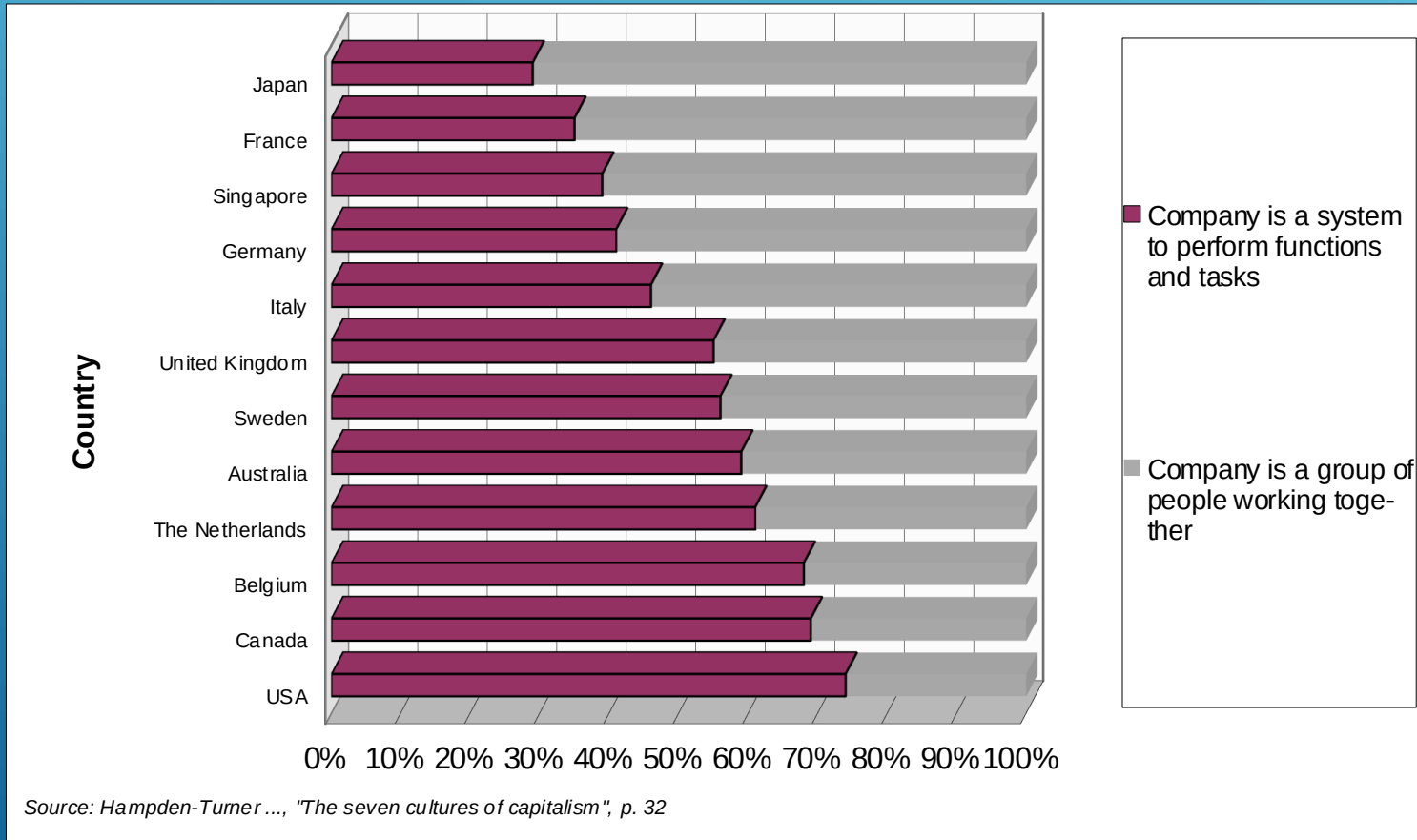


# VARIOUS MODELS OF CULTURAL DIMENSIONS OF MNCS

- Trompenaars and Hampden-Turner's: "7 Cultures of Capitalism" published in 1993 (the subsequent part of the lecture is based on this work) and restated in 1997 in a book: "Riding the Waves of Culture"
- Hofstede's 5 Cultural Dimensions
- Hall's 3 Cultural Dimensions



# VARIOUS NATIONAL BUSINESS CULTURES - TWO WAYS OF DESCRIBING A COMPANY (MNC)



# AMERICAN VISION OF A CORPORATION

- P. Drucker commented on the Alfred P. Sloan's book, (Sloan had served for many years as GM CEO and was considered to be a founder of it's strength):
  - to be probably the most inhuman memoir ever written.
  - ***to be exactly as intended , showing GM as a perfect mechanism to create profit ,***
  - *neglecting even existence of such perspectives like power game, life at work, relations to society"*

(Peter F. Drucker, „Concept of the Corporation, John Day, New York, 1972, str. 305)



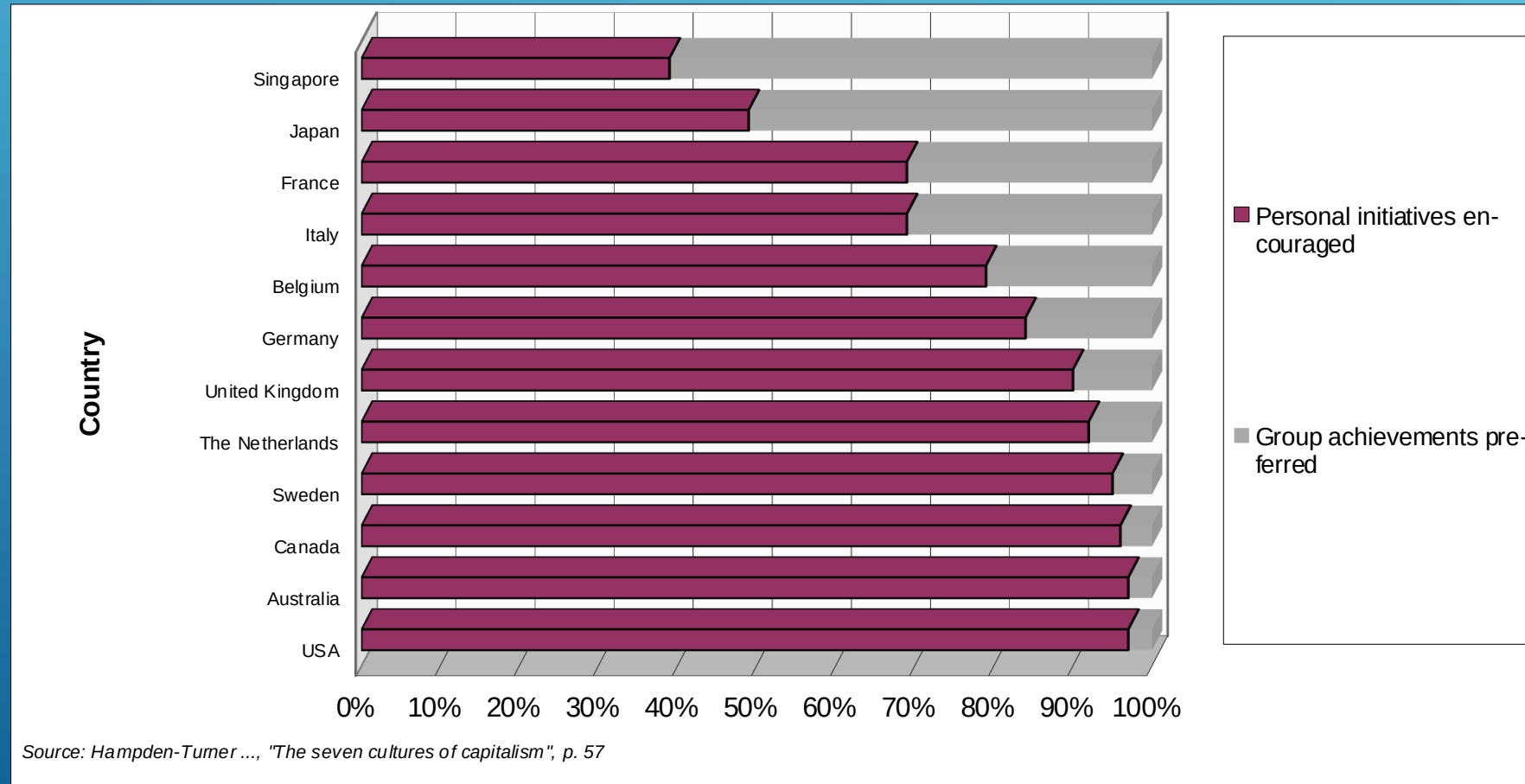


# VARIOUS NATIONAL BUSINESS CULTURES – ANALYTICAL VS HOLISTIC APPROACH

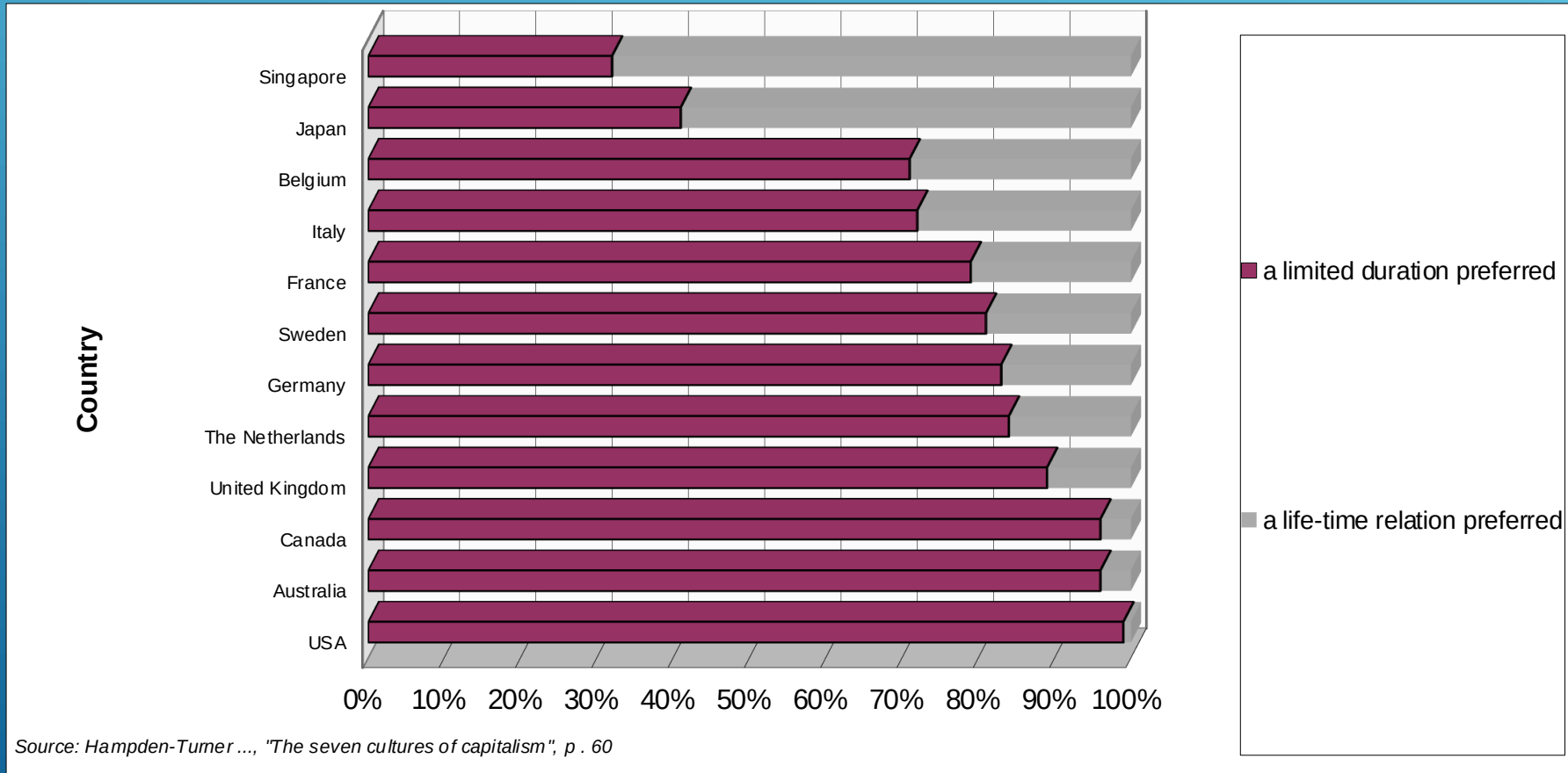
- Value creation in a MNC is built on a wide range of elements, which shall be analysed in depth (USA)
  - counter staff observation list in McDonalds
- Value creation is based on relation building both within a MNC and with it's stakeholders (Japan)
  - employee initiative box



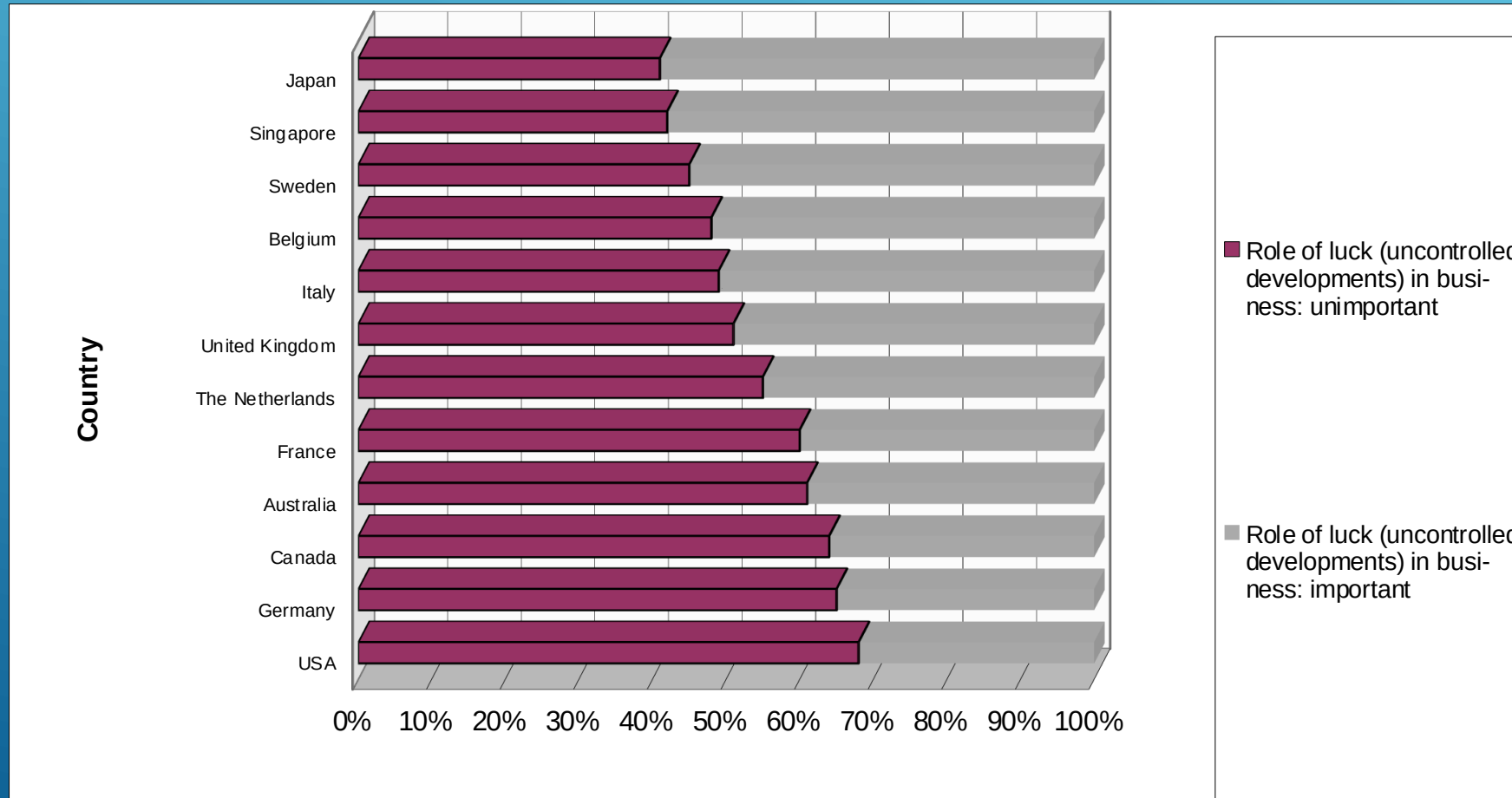
# VARIOUS NATIONAL BUSINESS CULTURES – ROLE OF AN INDIVIDUAL



# VARIOUS NATIONAL BUSINESS CULTURES – DURATION OF A RELATIONSHIP BETWEEN AN EMPLOYEE AND HIS ORGANISATION



# VARIOUS NATIONAL BUSINESS CULTURES – CONTRIBUTION OF A LUCK TO AN OVERALL SUCCESS



# US SHAREHOLDING - DESCENT OF INDIVIDUAL/FAMILY OWNERS AND ASCENT OF INVESTMENT FUNDS

**Family- and founder-controlled companies in the S&P 500\***

Company	Control	Market cap (\$m)
Wal-Mart	Family control 40% of stock	200,340
Google	Founder	172,283
Comcast	Family (son of founder)	86,017
News Corporation	Founder	69,121
Carnival	Founder	39,934
Nike	Founder	29,625
Viacom	Founder	28,985
Loews	Family	27,437
Simon Property	Family	21,083
Weyerhaeuser	Family	17,737
Broadcom	Founder	17,534
Ford Motor	Family	16,658
Wm. Wrigley Jr.	Family	15,592
Hershey	Family trust	11,554
Polo Ralph Lauren	Founder voting control (85%)	10,369
IAC/InterActiveCorp	Founder	9,499
Estée Lauder	Family (son of founder)	9,102
Brown-Forman	Family has control	8,917
Tyson Foods	Family (son of founder)	8,467
Molson Coors Brewing	Family trust	8,321
EW Scripps	Family trust	7,682
Lennar	Family (son of founder)	5,680
Molex	Family (grandson of founder)	5,609
Affiliated Computer Services	Founder	5,595
Constellation Brands	Family (son of founder)	4,988
Dow Jones	Family	4,772
Federated Investors	Founder/family control all voting	4,122
New York Times	Family trust	3,434
Dillard's	Family**	2,942
	Founder/family total	853,397
	S&P 500 total	14,285,593
	Family/founder as a % of total market cap of S&P 500 index	5.97

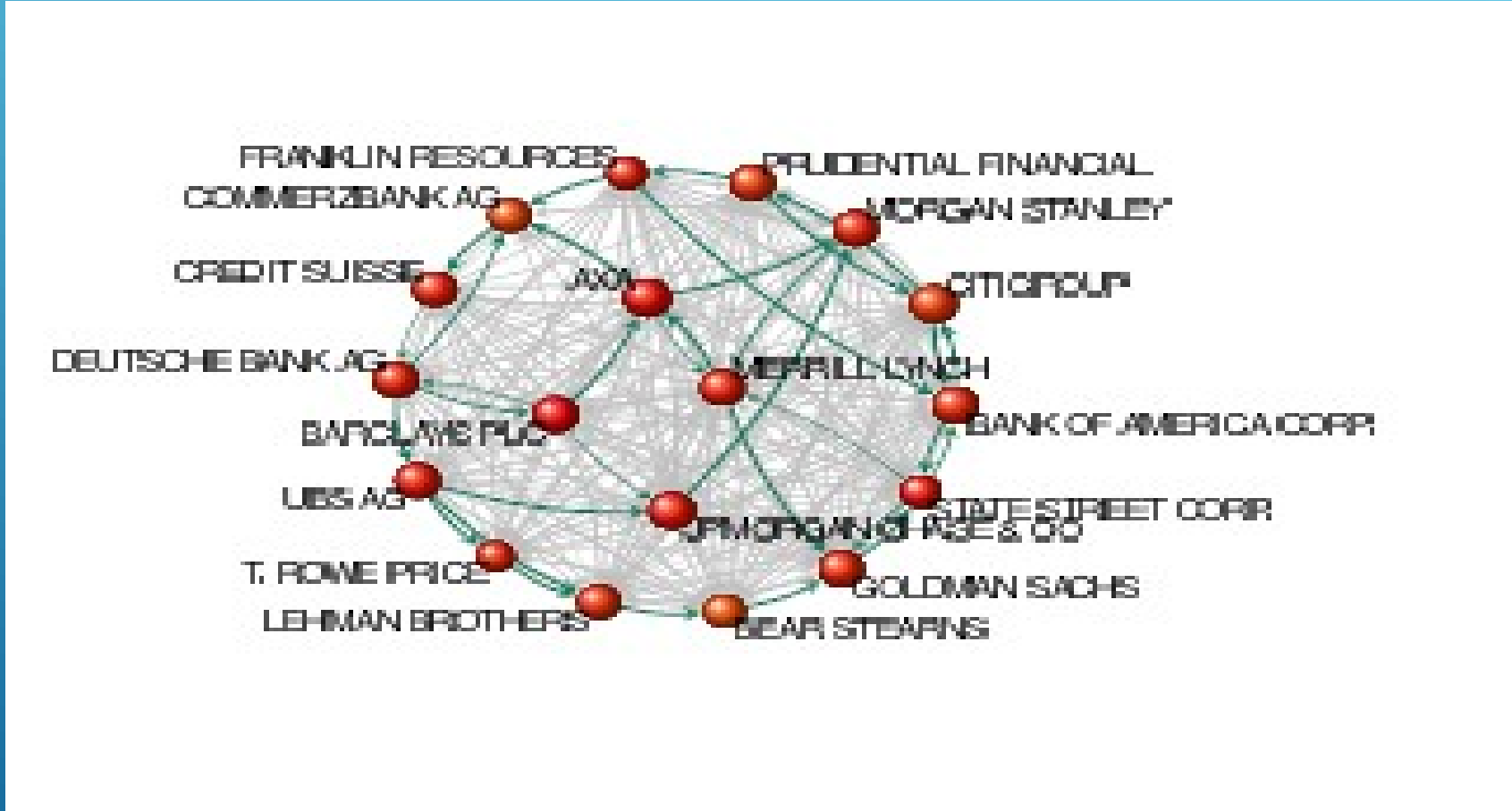
\* Where the family/founder is the single largest shareholder  
 \*\* As of 2004 family owned 99% of Class B shares, elects 2/3 of directors

Source: Reuters Fundamentals

Source: FT,  
July, 23, 2007



# EVOLUTION OF OWNERSHIP STRUCTURES – DEVELOPMENT OF NETWORKS



*Vitali, ..., „The network of global corporate control”, str. 4*



# EVOLUTION OF OWNERSHIP STRUCTURES – GROWING CONCENTRATION IN INTERMEDIATES

Rank	Economic actor name	Country	NACE code	Network position	Cumul. network control (TM, %)
1	BARCLAYS PLC	GB	6512	SCC	4.05
2	CAPITAL GROUP COMPANIES INC, THE	US	6713	IN	6.66
3	FMR CORP	US	6713	IN	8.94
4	AXA	FR	6712	SCC	11.21
5	STATE STREET CORPORATION	US	6713	SCC	13.02
6	JPMORGAN CHASE & CO.	US	6512	SCC	14.55
7	LEGAL & GENERAL GROUP PLC	GB	6603	SCC	16.02
8	VANGUARD GROUP, INC., THE	US	7415	IN	17.25
9	UBS AG	CH	6512	SCC	18.46
10	MERRILL LYNCH & CO., INC.	US	6712	SCC	19.45
11	WELLINGTON MANAGEMENT CO. L.L.P.	US	6713	IN	20.33
12	DEUTSCHE BANK AG	DE	6512	SCC	21.17
13	FRANKLIN RESOURCES, INC.	US	6512	SCC	21.99
14	CREDIT SUISSE GROUP	CH	6512	SCC	22.81
15	WALTON ENTERPRISES LLC	US	2923	T&T	23.56
16	BANK OF NEW YORK MELLON CORP.	US	6512	IN	24.28
17	NATIXIS	FR	6512	SCC	24.98
18	GOLDMAN SACHS GROUP, INC., THE	US	6712	SCC	25.64
19	T. ROWE PRICE GROUP, INC.	US	6713	SCC	26.29
20	LEGG MASON, INC.	US	6712	SCC	26.92
21	MORGAN STANLEY	US	6712	SCC	27.56
22	MITSUBISHI UFJ FINANCIAL GROUP, INC.	JP	6512	SCC	28.16
23	NORTHERN TRUST CORPORATION	US	6512	SCC	28.72
24	SOCIÉTÉ GÉNÉRALE	FR	6512	SCC	29.26
25	BANK OF AMERICA CORPORATION	US	6512	SCC	29.79
26	LLOYDS TSB GROUP PLC	GB	6512	SCC	30.30
27	INVESCO PLC	GB	6523	SCC	30.82
28	ALLIANZ SE	DE	7415	SCC	31.32
29	TIAA	US	6601	IN	32.24
30	OLD MUTUAL PUBLIC LIMITED COMPANY	GB	6601	SCC	32.69
31	AVIVA PLC	GB	6601	SCC	33.14
32	SCHRODERS PLC	GB	6712	SCC	33.57
33	DODGE & COX	US	7415	IN	34.00
34	LEHMAN BROTHERS HOLDINGS, INC.	US	6712	SCC	34.43
35	SUN LIFE FINANCIAL, INC.	CA	6601	SCC	34.82
36	STANDARD LIFE PLC	GB	6601	SCC	35.2
37	CNCE	FR	6512	SCC	35.57
38	NOMURA HOLDINGS, INC.	JP	6512	SCC	35.92
39	THE DEPOSITORY TRUST COMPANY	US	6512	IN	36.28
40	MASSACHUSETTS MUTUAL LIFE INSUR.	US	6601	IN	36.63
41	ING GROEP N.V.	NL	6603	SCC	36.96
42	BRANDES INVESTMENT PARTNERS, L.P.	US	6713	IN	37.29
43	UNICREDITO ITALIANO SPA	IT	6512	SCC	37.61
44	DEPOSIT INSURANCE CORPORATION OF JP	JP	6511	IN	37.93
45	VERENIGING AEGON	NL	6512	IN	38.25
46	BNP PARIBAS	FR	6512	SCC	38.56
47	AFFILIATED MANAGERS GROUP, INC.	US	6713	SCC	38.88
48	RESONA HOLDINGS, INC.	JP	6512	SCC	39.18
49	CAPITAL GROUP INTERNATIONAL, INC.	US	7414	IN	39.48
50	CHINA PETROCHEMICAL GROUP CO.	CN	6511	T&T	39.78

Vitali, ...,  
„The network of  
global corporate  
control”, str. 4



# MNCS EVOLUTION IN THE OLD TRIAD

- Capitalism without capitalists:
  - declining role of active investors (present almost exclusively in the US)
  - growth of various intermediates and sophisticated as much as unclear ownership structures
- Concentration of power within MNCs at the MB level
- Increasing but more complicated role of governments





# MULTINATIONAL CORPORATIONS – MNCS FROM THE OLD AND THE NEW WORLD

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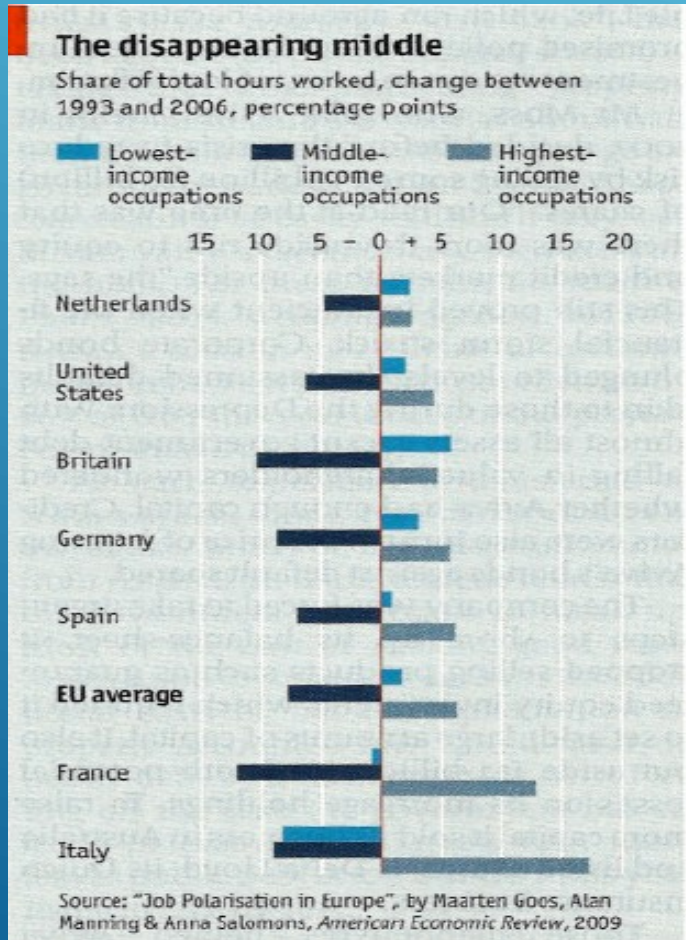


# CHANGES IN THE GLOBAL BALANCE OF POWER

- Fall of communism
- Increasing role of „emerging countries“
  - Asian „tigers“
  - BRIC countries
  - especially of China
- De-industrialisation of the „Triad“ countries
- European integration (EU, Schengen) and shift of power on this continent
- Changing role of states



# FUTURE OF MNCS – DISAPPEARING MIDDLE CLASS IN “OLD COUNTRIES”



„The Mighty Middle”, *The Economist*, 20 Oct., 2012, page 57.

„Economics Focus. Automatic Reaction”, *The Economist*, 11 Sept., 2010, page 70.



# FUTURE OF MNCS – DEINDUSTRIALISATION OF THE TRIAD COUNTRIES

## ▣ Services vs. industry:

- ▣ diminishing industry contribution to the GDP (data for 2006): Germany and Japan < 20%, France 17%, USA and Great Britain 14%,
- ▣ focus on highly specialised high value added activities,
- ▣ lack of skilled employees (immigration, also from Central Europe, is only a temporary medicine)

*Willman J. McNamara W., „An uplifting experience. How British industry is once more finding ways to make profit”, FT, 7 Sept., 2007, page 9.*

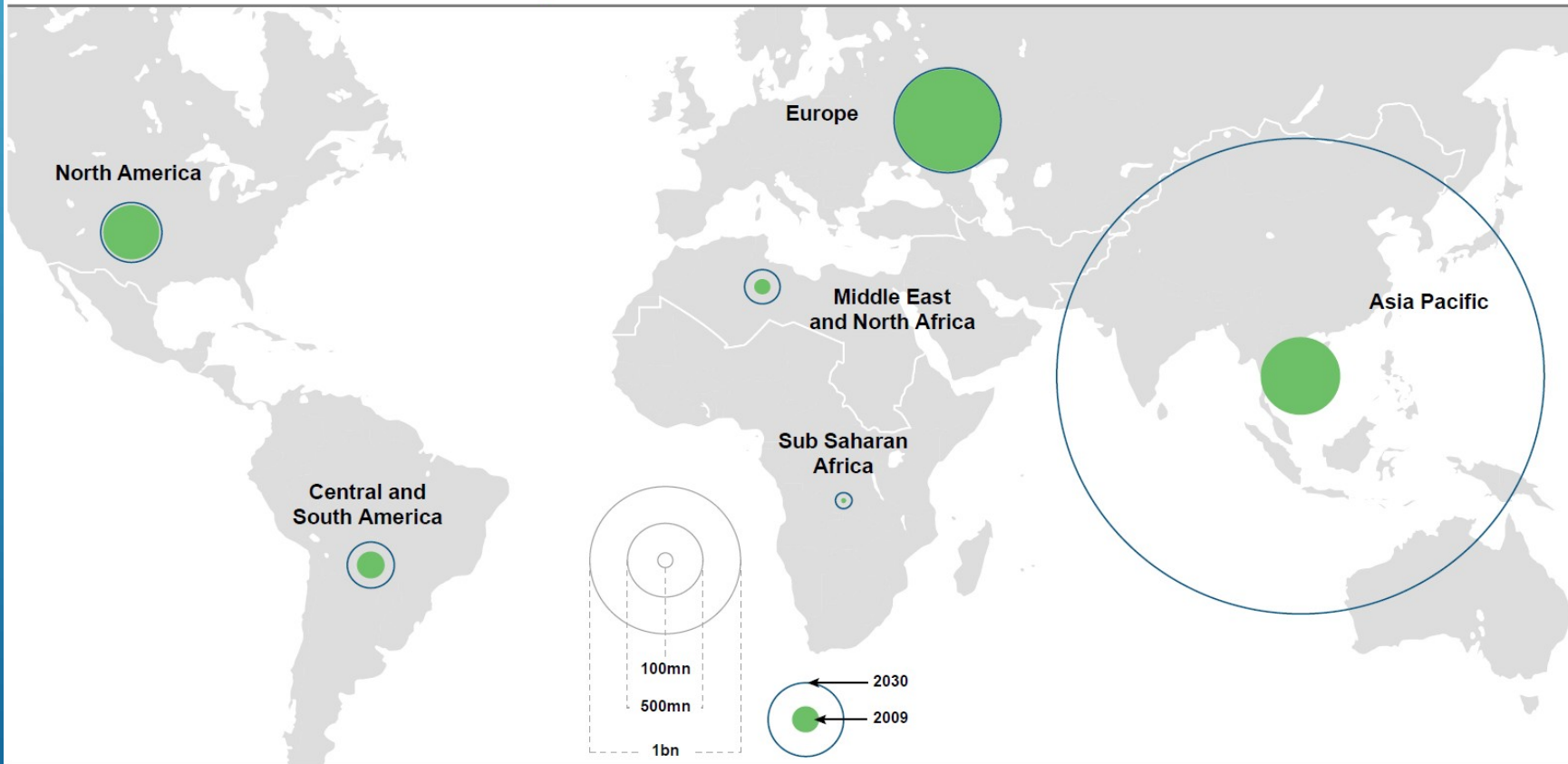
## ▣ Two possibilities of MNCs' response:

- ▣ „emigration” to „emerging” countries (vide: Halliburton)
- ▣ change of a business model towards more advanced activities(vide: IBM)



# FUTURE OF MNCS – MIDDLE CLASS OF „EMERGING” COUNTRIES

Chart 9: Global middle class in 2009 and prediction for 2030



Sources: OECD, Standard Chartered Research



# FUTURE OF MNCS – MIDDLE CLASS OF INDIA

- Private consumption in India grew (2001-2005) three to five times faster than GDP
- „MNCs shall not choose between investing in China and India – they should engage themselves in both”

*„What executives are asking about India”, Adil S. Zainulbhai, McKinsey Quarterly, 2005 Special Edition*



# MIDDLE CLASS OF THE TRIAD AND BRIC GROUPS ARE STRONGLY DIFFERENT

- BRIC middle class are poorer what open a space for lifting a product range up: KFC, Pizza Hut as good restaurants, hence some changes needed (fe. use of returnable packaging)
- Social differences are deeper encouraging further segmentation
- Several „individual” products are shared (mobile phones with several address books)
- Traditional distribution channels reach only selected areas/segments
- Proliferation of piracy and frauds

*„Easier said than done”, A special report on innovation in emerging markets, The Economist, April 17th., 2010, pp 7-8.*



# FUTURE OF “EMERGING COUNTRIES” MIDDLE CLASS IS NOT CLEAR AT ALL

- Middle class shall not be defined only by income census but also applying another measures like level of education, profession, wealth.
- Middle classes of emerging market struggle especially with meeting the wealth requirement which shapes behavior as sharply as current income.
- So called basic factors of growth in emerging markets are nearly exhausted (such transfer of activities, especially manufacturing which happened in the period 1990-2010 cannot be either continued nor repeated).
- *„The middle class revolution”, Francis Fukuyama, Wall Street Journal, July 5 – 7, 2013.*





# FUTURE OF MNCs – KEY FACTORS JUDGED BY TOP MANAGERS

**Table 4: China's transformation reveals itself through key competitiveness drivers**

Country level ratings for key drivers of competitiveness

Selected Country/Manufacturing Competitiveness Drivers	Germany	U.S.	Japan	China	Brazil	India
Talent-driven innovation	9.47	8.94	8.14	5.89	4.28	5.82
Economic trade, financial and tax system	7.12	6.83	6.19	5.87	4.84	4.01
Cost of labor and materials	3.29	3.97	2.59	10.00	6.70	9.41
Supplier network	8.96	8.64	8.03	8.25	4.95	4.82
Legal and regulatory system	9.06	8.46	7.93	3.09	3.80	2.75
Physical infrastructure	9.82	9.15	9.07	6.47	4.23	1.78
Energy cost and policies	4.81	6.03	4.21	7.16	5.88	5.31
Local market attractiveness	7.26	7.60	5.72	8.16	6.28	5.90
Healthcare system	9.28	7.07	8.56	2.18	3.33	1.00
Government investments in manufacturing and innovation	7.57	6.34	6.80	8.42	4.93	5.09

Most competitive Least competitive

Scores on a 10 point scale, where 1 being "Least competitive" and 10 being "Most competitive" — adjusted for country, size, and industry

Source: Deloitte Touche Tohmatsu Limited and U.S. Council on Competitiveness, 2013 Global Manufacturing Competitiveness Index

*Deloitte and Touche. Global Manufacturing Competitiveness Index, Table 4.*



# FUTURE OF MNCs – KEY FACTORS JUDGED BY TOP MANAGERS

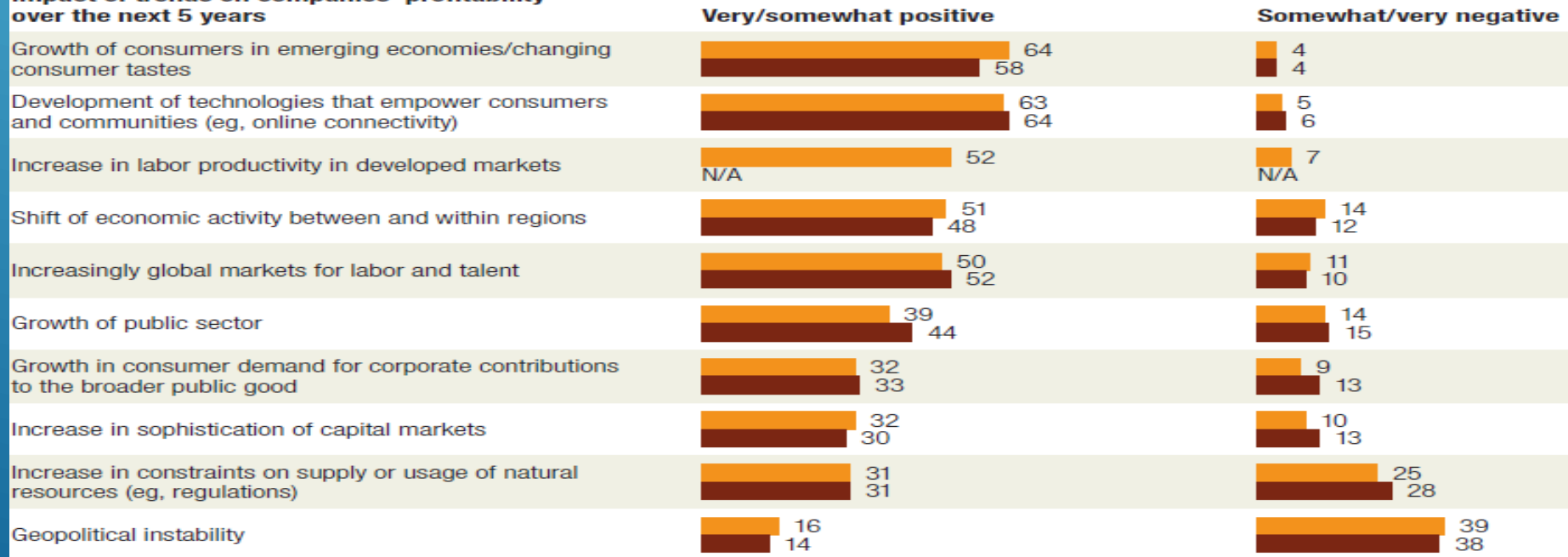
Exhibit 1

## How global trends affect profits

% of respondents<sup>1</sup>

### Impact of trends on companies' profitability over the next 5 years

■ Apr 2010, n = 1,416  
■ Mar 2009, n = 1,088



Dye Renee , Stephenson Elisabeth: „Five Forces Reshaping the Global Economy”, McKinsey Global Survey Results, 2010, page 2.

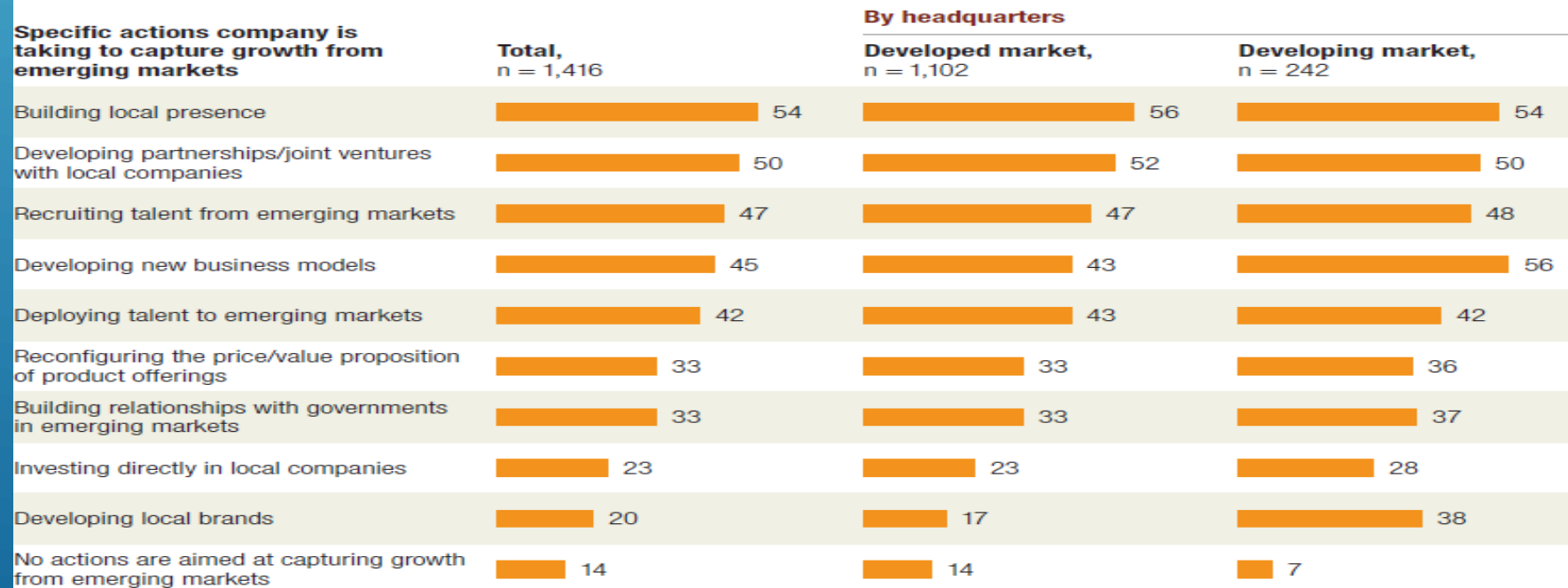


# MNCs FORM OLD COUNTRIES ARE NOT AS EXPANSIVE AS IT MIGHT BE PERCEIVED IN NEW COUNTRIES

Exhibit 2

## Growth in emerging markets

% of respondents<sup>1</sup>



Dye Renee , Stephenson Elisabeth: „Five Forces Reshaping the Global Economy”, McKinsey Global Survey Results, 2010, page 3.



# FUTURE OF “OLD” MNCS – IBM CASE

- Disposal of PCs’ and notebooks’ business to Lenovo
- Focus on technology leadership aimed at:
  - Automation (via software) of all eligible activities, what has brought IBM to the second post in global ranking of programming companies (only to Microsoft):
    - IBM employs around 500 experts with a sole task to perform a constant review of business processes in order to expand their automation and eliminate valueless activities
  - Offering services in area of problem solving solutions instead of pre-defined products, what somehow corresponds to IBM roots – it’s first business was to run calculations as a service.

*Waters, R. „Big blueprint for IBM services”, FT, 3 March., 2009, page 12.*



# FUTURE OF MNCS – GENERAL ELECTRIC CASE

- The model that GE and other industrial manufacturers have followed for decades - developing high-end products at home and adapting them for other markets around the world - won't suffice as growths slows in rich nations.
- To tap opportunities in emerging markets and pioneer value segments in wealthy countries, companies must learn reverse innovation: developing products in countries like China and India and then distributing them globally.
- While multinationals need both approaches, there are deep conflicts between the two. But those conflicts can be overcome.
- If GE doesn't master reverse innovation, the emerging giants could destroy the company.

*Immelt, Jeffrey R., Govindarajan Vijay, Trimble Chris. „How GE is Disrupting Itself”, Harvard Business Review, October, 2009, page 58.*

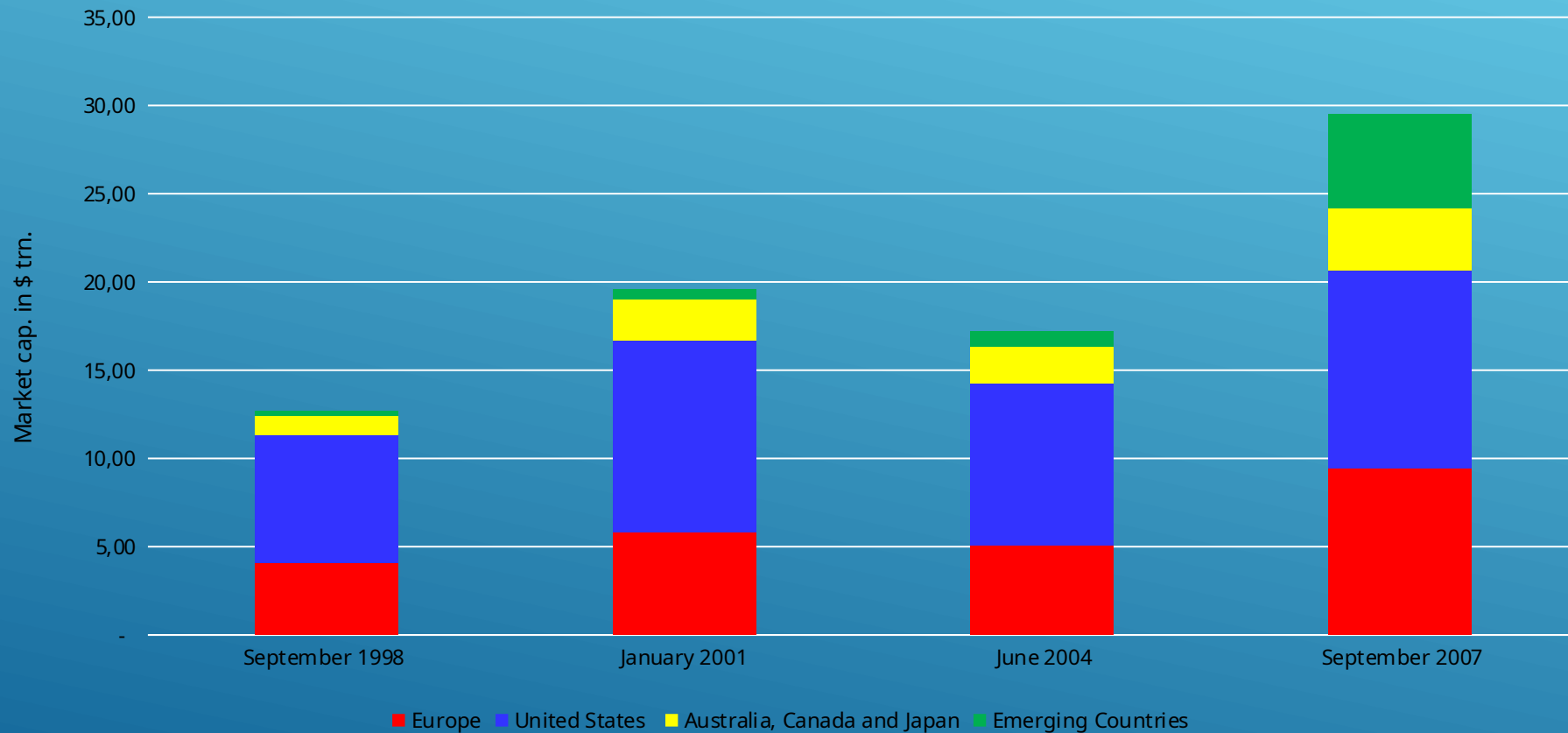


# ONLY US IS CAPABLE TO CARRY A CONSTANT RENEWAL OF IT'S MNCS BASE

- In Europe 78 % biggest MNCs were founded before the WW I, while only 2 % after 1975.
- In Japan only 2 were created after 1975 ( Yahoo! Japan including) – on the other hand Sumitomo traces back its origins to 1640.
- In the US 33 % MNCs were born after WW II, including 14 % after 1975. They were created either in high tech sectors as well as in services.
- Amongst top tier US companies we have a clear balance between “old” companies: Exxon, Chevron, General Electric, IBM, Procter and Gamble and the “new wave”: Apple, Microsoft, Google and Amazon.



# RESULTING SHIFTS IN THE GLOBAL 500 STRUCTURE

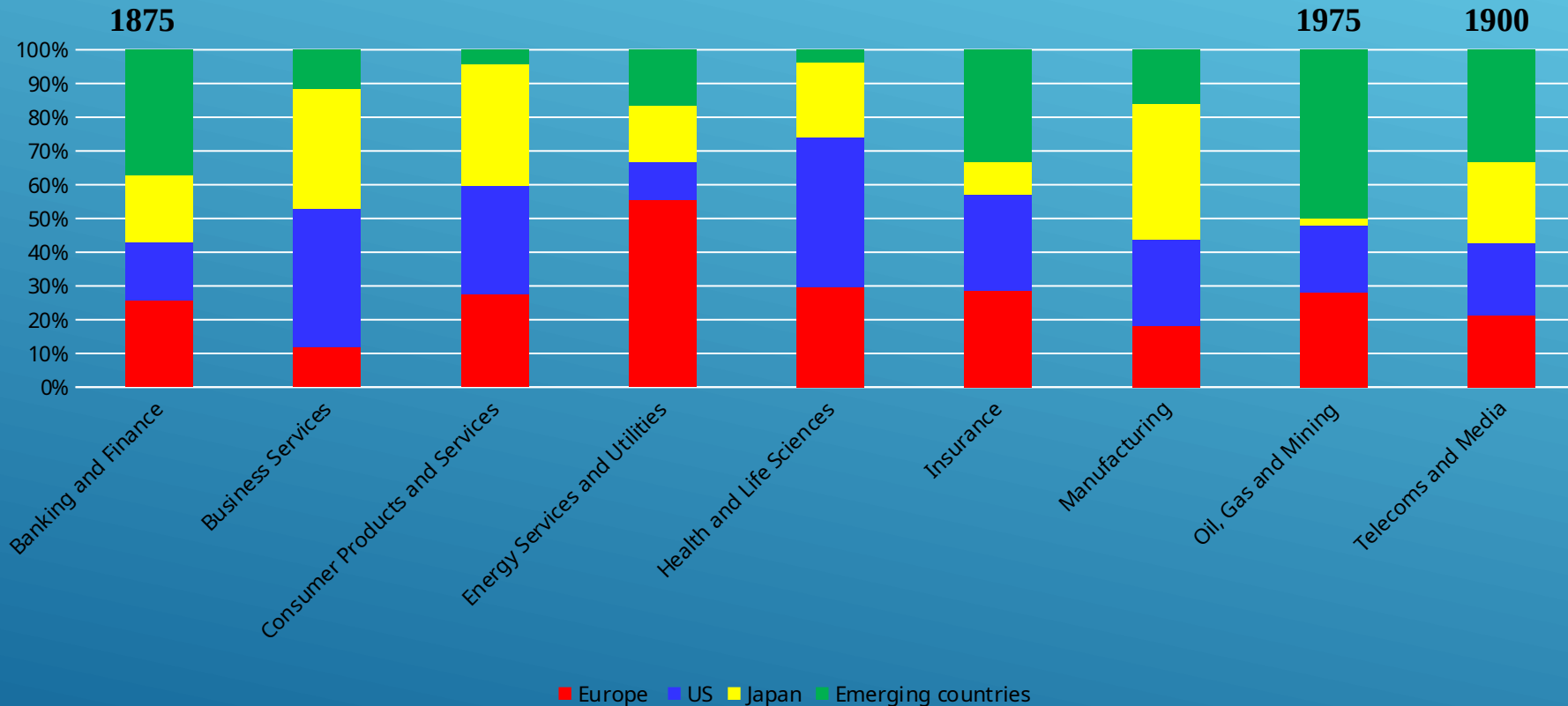


Source: *The demographics of global corporate champions*, Bruegel Working Paper, No. 2008/03.



# DIFFERENT SECTORIAL STRUCTURES OF MNCS COMING FROM EMERGING MARKETS

*Dates above pillars show the last year of similar share for old countries*

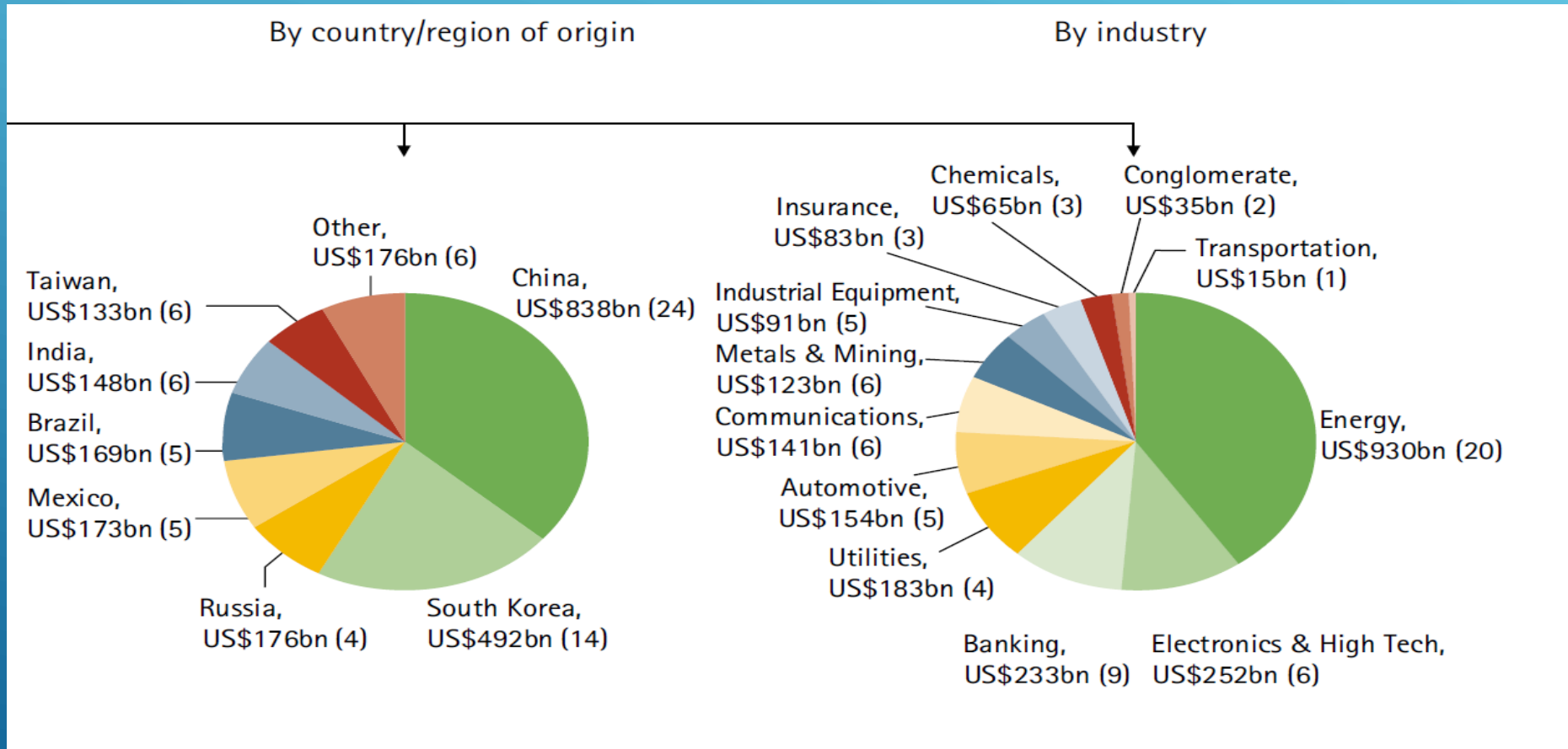


Source: *The demographics of global corporate champions, Bruegel Working Paper, No. 2008/03.*





# EMERGING MARKETS MNCs: OVERALL VIEW (BASED ON FORTUNE 500 GLOBAL)



Source: Multi Polar World 2. Rise of the Emerging Market Multinational. Accenture, 2008. Figure 2.1



# FUTURE OF “NEW” MNCS – LENOVO CASE (1)

- Founded in 1984, as Legend Holdings in a guard house in China, incorporated in Hong Kong in 1988.
- Name changed to Lenovo in 2004 and, in 2005, acquired the former Personal Computer Division of IBM, the company that invented the PC industry in 1981.
- Today, Lenovo is a US\$30 billion personal technology company and the world’s second-largest PC vendor with more than 30,000 employees in more than 60 countries serving customers in more than 160 countries.
- A global Fortune 500 company has have headquarters in Beijing, China and Morrisville, North Carolina, U.S.
- Major research centers are located in: Yokohama, Japan; Beijing, Shanghai and Shenzhen, China; and Morrisville,
- Various manufacturing activities are dispersed around the world but key centers are located in USA, Mexico, India, China and Brazil.



# FUTURE OF “NEW” MNCS – LENOVO CASE (2)

- Even if Lenovo is truly a global player the fundamental role of fast growing Chinese market fueling it’s expansion cannot be underestimated.
- Even if Lenovo claims compete with quality and research one has to bear in mind that total of it’s 30 000 employees got in the year 2012/1013 the total remuneration of 2,35 bln USD (over 70,000 USD per head) as compared to well over 100,000 USD per head in IBM
- Even if Lenovo claims to operate over 60 labs and to own over 1000 patents the real breakthrough came from:
  - purchasing PC business from IBM in 2005;
  - purchasing server’s x86 business from IBM I 2014.
- Role of Chinese diaspora:
  - Yang Younging says: “I work form the United Sates. My company’s CEO is an American based in Singapore. Other top executives are based around the globe. A meeting of Lenovo’s senior manager’s looks like UN General Assembly”.
  - However out of 9 top executives 5 were Chinese with various passports and 4 American and European.

Source: Multi Polar World 2. Rise of the Emerging Market Multinational. Accenture, 2008, p. 25



# FUTURE OF “NEW” MNCS – PETRONAS CASE (1)

- A fully state owned national oil company of Malaysia, founded in 1974
- It has since grown from merely being the manager and regulator of Malaysia’s upstream sector into a fully integrated oil and gas corporation, ranked among the FORTUNE Global 500® largest corporations in the world.:
  - One of the global leaders of LPG technology
  - One of the top 5 oil companies delivering Group III base oils (for synthetic motor oils)
- Offering services in area of problem solving solutions instead of pre-defined products, what somehow corresponds to IBM roots – it’s first business was to run calculations as a service.



# FUTURE OF “NEW” MNCS – PETRONAS CASE (2)

- Owing it's success to upholding a balance between being a state-owned entity and a full-fledged commercial organization.
- Embarking on a strategic globalisation program in the early 1990s to:
  - augment Malaysia's crude oil and gas reserves,
  - add value to our core business,
  - **provide exciting new challenges for our young employees.**
- Entering a five-year deal with Daimler-Benz which makes PETRONAS the title partner to the Mercedes GP team, resulting in the name 'Mercedes GP PETRONAS Formula One' race.



# "OLD" VS "NEW" MNCS – CONCLUSIONS

- There is no universal recipe for a successful MNC wherever it comes from.
- In long term only unique competences count.
- Such competences can be acquired only via:
  - continues taking on challenges;
  - pooling and expanding own resources;
  - creating/assigning to networks, even with competitors.
- State ownership might be both a source of strength and/or weakness, depending primary on the government (political elite)

