

# Transnational corporation motives



**ASSIGN  
BUSTER**

1. Discuss the basis of the three different views of the motivation of transnational corporation (TNCs) below.

The view that TNCs aim to maximise shareholder value is a reflection of the economic model of the firm. This model sees all corporations, including TNCs, as production – distribution units whose sole goal is to provide maximum value to their owners. As such, under this model TNCs will always pursue maximum shareholder value according to the duty that they have to their owners to maximise the return on investment (Coase, 1937). In contrast, agency theory holds that as the owners appoint managers to act as their agents, the interests of these managers will often override those of the owners. This is particularly relevant for major multinational corporations, who are likely to have a number of disparate owners who are unable to exercise effective control over the managers and the company as a whole. As such, the top managers' goals can override those of the owners as the top managers are directing the TNC's activity (Letto-Gillies, 2001). However, in a major TNC the top managers themselves are often unable to effectively exercise control over the entire organisation, and have to devolve responsibility to divisional and unit managers. In this case, it is the techno-structure itself, defined as the number of managerial and control levels in the TNC, that determines the overall direction of the TNC, with limited influence from top managers and owners. The techno structure defines these interests depending on how many levels of management there are, hence defining how well the owners and top managers can maintain any control.

**2. Why do firms seek to expand their productive activity overseas, instead of simply exporting overseas? Compare the contributions of ANY TWO of the following to this question. S. Hymer, R. Vernon and J. Dunning.**

One of the main reasons that firms look to expand their production activity overseas, instead of simply exporting overseas, is to keep control of their production. The process of exporting results in a loss of control of production, as local agents have to be responsible for distribution and retail, and these agents may make decisions to suit their own ends. In addition, control will be reduced by the fact that the exporting firm can only export their surplus production, and may not be able to increase capacity to the point where they can fully satisfy the overseas market, thus reducing their ability to use capacity to suppress any competition (Hymer, 1960). In contrast, according to the eclectic paradigm devised by Dunning (1988), expanding production overseas is the only way that firms can take advantage of locational advantages such as cheap labour and raw materials. As such, under the eclectic paradigm, the expansion of production overseas will be driven by the need to maximise production efficiency, rather than the need to maintain control over foreign sales.

**3(b) Explain the functions of the headquarters of a large transnational corporation (TNC) and explain the variety in way TNCs organise both their research and development and production facilities internationally.**

The headquarters of a large TNC serves two main functions. The first is to coordinate and monitor the activities of the different aspects of the techno structure of the TNC, and hence ensure that they are all pursuing the interests of the owners and directors, and not the interests of the techno structure itself. The second is to provide centralised functions such as human

resources and payroll to help maximise the efficiency of these supporting back office functions and ensure that costs are kept low (Ietto-Gillies, 2001).

In terms of the organisation of research and development and production facilities, TNCs have a number of choices in this regard. Firstly, they can choose to locate them in the nations with the lowest labour cost and most favourable investment regimes, such as China and South East Asia. This provides significant cost advantages, but can create increased transport times and requires the loss of some control. Another option is to locate them in the most productive and advanced nations. This is more suitable for products such as pharmaceuticals, which require significant skills and economic development in order to develop and manufacture successfully, and also command a higher premium. Finally, TNCs can choose to outsource some or all of their R&D and production to specialists, which can dramatically reduce costs and risks, but at the cost of losing some control (Ietto-Gillies, 2001).

**4. Consider the major changes, since the 1970s, in the relationships transnational corporations (TNCs) have to ANY THREE or the following; to other firms, to their individual customers, to their workers, to the communities they operate in, to national governments and to supranational organisations such as the World Trade Organisation.**

Since the 1970s, the development of the European Union as a supranational organisation has changed the operations of TNCs operating in any countries in the EU. With the EU now being viewed as a unified market, and the European Commission acting as an overall regulator, the actions of TNCs are now largely influenced by EU policy, rather than by the policies of individual member states. This can be seen in the case of Microsoft, which was fined by

the EU for anti-trust practices rather than by any member state.

With regards to the relationships with individual customers, the most marked change has been in a shift away from selling to customers, and towards marketing to them. Previously, organisations concentrate on manufacturing goods and then selling them to customers by convincing the customers that they wanted them. However, in recent years as the range of companies and products has increased the paradigm has shifted towards using marketing to identify problems and needs, and then demonstrate to consumers how a specific product or service solves their problems or addresses their needs. This is a more individual approach to consumers than in previous years (Ietto-Gillies, 2001).

Finally, the relationships between TNCs and their workers have become much more complicated. Firstly, increasing levels of labour legislation have given the workers more power to switch jobs without penalty and with minimal notice, whilst employers are less able to reduce their workforce in times of crisis. This has in turn led to TNCs focusing more on using contracts for peripheral activities such as marketing, whilst only maintaining a small core of full time employees for the most critical activities such as research (CIPD, 2008).

**(b) Discuss the argument that the socio-cultural and political consequences of trans-national corporation (TNC) activity globally are harmful both to rich and poor nations alike.**

The main focus of this argument is that the activities of TNCs are aimed at providing benefits to their owners and managers, not to the nations in which they operate. As such, TNCs always look to move their manufacturing and other operations to the country that is most beneficial to them. This implies

harm to rich nations, who will see a fall in available jobs due to the price of labour, hence an increase in unemployment which reflects badly on government and society. For poor nations, this means that much of their economic growth is focused on being attractive to TNCs, which places downward pressure on labour rights and reduces the ability of governments to shape policy. This leads to a rise in the number of sweatshops and other labour intensive manufacturing operations in poorer nations. Whilst these may pay more than traditional jobs such as subsistence agriculture, they also often require longer working hours and in harsher conditions. The manufacturing also creates environmental damage thus harming the population as a whole (Frynas and Pegg, 2003).

**6. In his (1973) *Economics and the Public Purpose*, J. K. Galbraith argued that large corporations transcend the nation state to create an international planning community (p. 180). Discuss the relevance of Galbraith's view of the power of trans-national corporations to replace the market both nationally in today's world.**

In the modern world it can be argued that TNCs have largely evolved and developed to transcend national markets. This can most clearly be seen in the case of major information and media companies that are now able to serve the entire world from a single offering, such as Apple's 'iTunes' music downloading service. However, factors such as these are arguably due more to developments in communications and transport efficiency, with any company of any size able to use the internet to market and sell products around the world and arrange for international shipping over the phone. Indeed, if anything the large size of large corporations has made them more vulnerable to the interventions of nation states, as the corporations are as dependent on the richer nation states for access to their markets as the

nation states are on the corporations for access to goods and services. As such, the only area in which the nation state can be said to have transcended nation states is amongst the poor nation states who are reliant on TNCs for much of their economic growth and employment (Frynas and Pegg, 2003).

**7. Answer both part to this question:**

**(a) What is ‘ Civil Regulation’ and how is it supposed to discipline transnational corporation (TNCs)**

Civil regulation is the process by which nongovernmental organisations, NGOs, exercise some power over TNCs through setting codes of conduct for businesses and holding them to these codes across the world. The theory behind civil regulation is that governments can only have a limited impact on TNCs, as they are wary of antagonising them and hence losing the benefits of TNC operations. NGOs are not subject to the same concerns, and hence are able to set codes of conduct for TNCs around labour relations, pricing and other factors. Whilst the TNCs do not have to follow these codes, the NGOs often have a significant impact on consumer attitudes, and hence can rally consumers to boycott TNCs who flaunt accepted guidelines (Sethi, 2003).

**(b) Examine the problem TNCs face in responding to Civil Regulation and the main strategies TNCs have adopted to cope.**

The main problem that TNCs face in responding to civil regulation is that businesses and NGOs tend to have diametrically opposing views. NGOs are strongly focused on social welfare and, if TNCs followed all of their recommendations, they would tend to make only marginal profits, hence losing investment and causing owners to replace the managers. TNCs have

adapted to cope with this problem by cooperating and negotiating with NGOs to produce guidelines that allow for the achievement of a reasonable profit whilst adhering to some guidelines. In addition, TNCs have begun forming and sponsoring NGOs of their own, who act to challenge some of the claims around the negative impacts of the TNCs, and help to minimise the impact of any consumer backlash (Sethi, 2003).

**8. In his 'The Civil Corporation' (2001), S. Zadek argued that corporate responsibility' or corporate citizenship' required a move away from Civil Regulation' of trans-national corporations. Explain and assess Zadek's argument.**

The main thrust of Zadek's (2001) argument is that civil regulation requires NGOs to effectively regulate TNCs, whilst corporate responsibility requires TNCs to regulate themselves. As such, as long as civil regulation is prevalent, TNCs will tend to defer to its rules, and placate their customers by achieving the minimum possible compliance with accepted civil regulations. This actively discourages businesses from taking further innovative steps to become more responsible, as they can effectively claim that they comply with all applicable civil regulations and hence need do no more. This argument has merit, as in the absence of formal civil regulation; businesses could effectively compete for customers by competing to become more responsible. However, the argument assumes that consumers will take the time to compare and judge the responsibility of different businesses, which may well not be the case. In addition, without clear guidelines and regulations to judge businesses by, it may be difficult to objectively measure the social responsibility of a business, allowing TNCs to market themselves as socially responsible even if they are not.



**9. Consider the following quotation from D. Korten (2001 : pp. 19-20)**

The client believed global corporations might offer an answer to the problem of poverty and human conflict. The client has since concluded, however, that the systemic forces nurturing the growth and dominance of global corporations are the heart of the current dilemma. The client now believes that to avoid collective catastrophe we must radically transform the underlying system of business to restore power to the small and local.

Drawing on the arguments of R. Douthwaite (1996) and C. Hines (2000) consider how local changes in behaviour and global changes to the rules of finance, production and trade might help restore power to the small and local.

Douthwaite (1996) argues that one of the main changes in behaviour required to restore power to the small and local is the shift towards localised production and distribution networks, particularly for food. This is based on the argument that global food production networks focus on producing high priced food for richer nations, hence putting pressure on agricultural resources and damaging them, reducing food security and food democracy. A shift to local production and consumption would keep wealth within local economies as they would be producing and buying food amongst the community, hence keeping power local.

In terms of rule changes, Hines (2000) argues that taxes are needed on energy and resource use, as well as on pollution. In order to achieve this, citizens will need to demand that the trade system is changed to reduce the impact of the World Trade Organisation, and instead focus on creating localised trade. This will reduce the power of TNCs, thus allowing a shift in

regulation and global rules to support small and local operations and promote social and environmental priorities ahead of global trade and economic growth.

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