



1968

Multinational Business Enterprises A New Category of International Organizations

-- / --

[Introduction](#)

[Definition of "Multinational"](#)

[Possible criteria](#)

[Sources of information and problems in establishing a list](#)

[Analysis of sources](#)

[Comment on survey](#)

[Comment on list](#)

[Conclusion](#)

[References](#)

Report originally published in *Yearbook of International Organizations*, 12th ed, 1968-69, pp. 1189-1214, with the detailed report, including the survey data on which this article is based. The report included a list of 600 multinational business enterprises. [Tables separate](#). [Version française abrégée]. Report also published in *International Associations*, 1968, 1, pp. 1-11, without tables [[PDF version](#)]

Introduction

The editors of the *Yearbook of International Organizations* have, in previous editions, restricted their attention to non-profit international organizations, whether governmental or non-governmental.

Nearly all intergovernmental organizations are non-profit but the few exceptions have been included in previous editions of the Yearbook to ensure that all intergovernmental organizations were listed. These include such bodies as Eurochemic and Eurofima.

There are many non-governmental organizations which, although they do not have profit as the main aim, nevertheless operate in order to facilitate profit maximization by their members. Most of these are in the commercial section of the Yearbook classified list.

The distinction between governmental and non-governmental organizations as defined by the Economic and Social Council of the United Nations, does not differentiate between profit and non-profit international non-governmental organizations. In practice however the non-governmental organizations accepted into consultative status with the United Nations have all been non-profit organizations.

Since the 1966-1967 edition of the Yearbook and particularly during the first six months of 1968, there has been considerable interest in 'multinational' or 'transnational' business enterprises and corporations. Articles dealing with the characteristics and business policies of world enterprises have however been appearing in the Harvard Business Review and other American publications since the beginning of the 1950s. Studies of the definition and classification of international organizations have stressed the need to include as a separate category the largely ignored group of international profit-making organizations. These would then constitute a third major group of organizations on the international scene, together with international governmental and non-governmental, non-profit organizations.

It must be pointed out that the decision to add profit-making organizations to the list of international organizations in this Yearbook implied a fundamental assumption which has in fact been borne out by research in the United States on organizations in general, namely that corporations and corporate structures bear many if not most of the characteristics of any or all other kinds of organizations. In addition it has been argued that as corporations recognize the effects of their policies on the well-being of society, which is important for their survival, their decisions are governed less by straight-forward profit maximization and more by objectives which combine long-term profits with improvement in the general social welfare. This approximates the decision-making problem experienced in government agencies.

Apart from a few isolated studies on the classification of international organizations in general, the main interest in this 'new' category

has come from the field of international economics and business administration. This interest has been stimulated by the estimate that within the next decade 75 % of the world's productive capacity will be controlled by a small group of 300 multinational corporations. This has led to the suggestion that these organizations can become an instrument of great utility for the general progress of human welfare - a progress founded on the profit motive as the basis of a free market economy.

The International Chamber of Commerce has recently created a ' Special Committee on the Transnational Corporation ' of which the first meeting was held on March 16th, 1968. The purpose of the Committee is to undertake a study in depth of the increasing influence of the multinational corporation and to establish recommendations for governments and business circles. It is hoped in this way to aid the multinational corporation, of whatever country of origin, to fulfil its role in the economic development of countries in which it is active. The Committee will formulate its conclusions on the basis of a report by American economist, Dr Sidney Rolfe.

A comprehensive study of the importance of the multinational corporation has been in progress at the Harvard Graduate School of Business for some years under Prof Raymond Vernon. The study is specifically concerned with manufacturing organizations listed in ' The 500 Largest U.S. Industrial Corporations ' (' Fortune ', 1934 and 1965) with manufacturing subsidiaries in 6 foreign countries.

The published studies have not yet produced criteria which could be used to evaluate any business enterprise in order to establish a list of multinational corporations. Criteria have been discussed but only isolated examples of organizations fulfilling them have been cited. There has been a tendency to restrict attention to very large multi- national manufacturing organizations because of their considerable economic importance. Little attention has been given to economically less important profit organizations which might in fact be more ' international ', whether they are industrial, commercial or service enterprises. There are, for example, international accounting, engineering, advertising and employment firms.

The UAI after consultation with the International Chamber of Commerce, has undertaken to explore another aspect of this question. The UAI is primarily interested in making available as soon as possible details on all multinational corporations as international bodies, in the same way as is done for intergovernmental and international non-profit non-governmental organizations. In order to do this, criteria of ' multinationality ' have to be developed which are sufficiently general to be applied to all types and sizes of profit corporation. As an aid to the general debate on this ' new ' category of organizations and to test a few available criteria, it was decided to include in 12th edition of the Yearbook a preliminary list of possible candidates for consideration as multinational corporations.

Definition of "Multinational"

There is a graduation from organizations undertaking international trade to international business enterprises. A summary of the methods by which a national manufacturing organization could operate internationally illustrates the problem of definition. A company can, according to Roy Blough :

- solicit purchases by foreign buyers in one or more countries and ship to them in wholesale lots, leaving the further distribution of the goods to them;
- market and distribute the goods to their final users in the foreign country. In which case it may make arrangements with local distributors or establish a distribution network of its own;
- establish a factory in the country in which it is selling or plans to sell and produce for sale in third countries and also in the home country;
- contact with foreign producers to purchase from them goods which the company distributes whether in the country of production, third countries, or the home country;
- sell its patents, technical know-how, and/or trademarks to a company in a foreign country or license their use for a term of years in exchange for periodic royalty payments;
- undertake to supply management, at a fee, for a foreign manufacturing enterprise which it does not own or in which it has only a minority interest;
- combine any of the above methods, depending on the market with which it deals.

These operational differences are complicated by the forms which the relationship between the parent and the daughter companies can take under differing national legislations with different degrees of financial commitment on the part of the parent company. Examples are :

- Branch office : a foreign local office of the parent company having no independent or corporate status.
- Subsidiary: a foreign firm established under national law of the country, whose capital stock is 50 % or more controlled by the parent company.
- Joint company : a foreign firm in which the parent company financial interest and foreign financial interest are equally divided.
- Affiliate : a foreign firm in which the capital interest of the participating parent company is less than 50 %.
- Sub-subsidiary: a subsidiary or affiliate not established directly by the parent company (or sub-affiliate) but by another subsidiary or affiliate of the latter. This situation can be further complicated since the subsidiary can itself be in the home country or in a foreign country.

These definitions are not universally accepted. In the remainder of this note, affiliate will be used as a general term to describe all daughter and associated companies. The definition of a multinational corporation is made more difficult since there is no international corporate law. The parent and foreign daughter companies are established on equal footing in terms of their respective national legislation. From an international legal point of view a multinational corporation is merely an agglomeration of corporate entities loosely linked by a network of non-resident shareholdings, of which the majority happens to be in hands of the parent company. A multinational corporation is not a legal entity. This is also true of the other group of international organizations not established by intergovernmental agreement, namely non-profit non-governmental organizations.

Efforts have been made within the European Economic Community since 1960 to establish a legal basis for a European corporation. This is considered essential to permit an integration of economic strength to meet American competition. It has been suggested that the existence of European corporations would lead to the standardization of corporate legislation and become the instrument of effective long-term economic integration.

In the course of the lengthy discussions on a European corporation a number of criteria have been suggested. It has been proposed that only the larger corporations in the Common Market with a 'European outlook' should be allowed to take on this new form. A counter proposal suggests that no barrier should be raised to corporations wishing to take on the new form. Another suggestion is that a minimum capital should be fixed [possibly \$250,000 - 500,000]. To avoid these somewhat arbitrary distinctions, a further proposal attempted to define a European corporation as one with any of the following characteristics: branches in at least one country other than the parent country; financial interests in corporations in at least one country other than the parent country; financial control of at least one corporation in a country other than the parent country; quotation of shares of the corporation on stock exchanges of at least two countries.

Another set of criteria has been proposed by Jacques Maisonrouge, President of the IBM World Trade Corporation, namely: basic policies of the corporation must be applied to all its subsidiaries in order to create a world-wide image; the company must operate in a great number of countries at different stages of economic development; several of the subsidiaries must be complete industrial organizations (i.e. their activities must include research and development, manufacturing, sales and service); the subsidiaries must preferably be managed by nationals so that men of various nationalities can be trained for top jobs particularly at headquarters; stocks of the company should be quoted on the exchanges of the countries in which the company is active so that the capital is in effect multinational; the company must be a good citizen in every country in which it operates.

A more indirect approach has been made by Professor J Houssiaux of the Université de Nancy. He attempted to develop criteria to describe a national corporation and from this deduced criteria for a 'plurinational' corporation. The criteria are: capital spread throughout the world through the intermediary of a variety of financial markets; ability to function in any region of the globe under the direction of a team of executives of a number of nationalities, within an organization conceived independently of the management techniques of a particular economy; activities oriented in terms of the world breakdown of the factors of production, whilst taking into account the long term evolution of this breakdown, as compared with the anticipated evolution of income and demand throughout the world.

Professor Houssiaux notes three conditions as essential for the establishment and development of such enterprises. These are: unity of management policy and organization as a guide to the major decisions governing the growth of the enterprise (including: consolidated balance sheet for the entire group; reinvestment of profits from individual subsidiaries based on needs of corporation as a whole; continual modifications and extensions to group structure; organization of transfers and collective services on a global basis within the group); global conception of development and trade relations; and an environment with institutions based on internationalism.

Attention so far has been concentrated on the better known types of profit corporation which are owned by private shareholders. There is however a large group of mixed government-private corporations, cooperatives, 'associations', 'societies', and other organizations which may not use terms in their titles which have any connection with profit-making operations, although this represents a principal aim.

The fundamental question which must be answered in order to establish criteria is which groups are to be considered as members of any such organization. Studies to date have generally assumed that an organization is multinational because it operates in a number of countries, i.e. the subsidiaries are treated as a type of member. To be consistent with the other forms of organization listed in this Yearbook, the logical requirement is that the stockholders should be considered as members. These are the persons who vote according to the rules of the organization to elect the directors, etc.. in nearly the same fashion as do the members of other international organizations. Logically it is therefore the nationality of these members which qualifies the organization as an international one.

Possible criteria

For the purpose of preparing a definitive list of these organizations as been done for the other two types of international organization, the Union of International Associations considers that a detailed analysis of possible multi-national corporations should consider the use of all the following characteristics which measure different aspects of the concept of internationality.

It may be impracticable to obtain information systematically on some of the items. It will almost certainly be necessary to consider a number of criteria together in any final definition to cover the many different types of profit organization. Possible criteria include:

1. Shareholding in parent company: Ideally the shareholding should be balanced such that, for example, nationals of no country have control of more shares than nationals of two other countries combined. This ignores all the realities of the respective financial importance of different countries. A balance of voting strength has not been used as an absolute criterion in evaluating non-profit organizations for this reason. In many cases this depends on the financial contribution as in profit organizations. An additional difficulty is the impossibility of obtaining systematic data on the nationality of the shareholder. There is also the difficulty of indirect shareholdings via holding companies and investment clubs. This criterion may however be useful in certain simple cases.

2. National stock exchanges on which the shares are quoted: A minimum could be specified for the number of foreign stock exchanges on which the shares are quoted. This is a crude approximation to the international shareholding balance. The disadvantage of this criterion is that it might exclude some corporations partially or wholly owned by governments particularly those of socialist persuasion. This criterion might however be useful in evaluating those corporations which expect to be quoted on a stock exchange.

3. Composition of Board of Directors: The national origin or current citizenship of members of the Board may be of great importance

to the decision-making process of an international corporation, and to the acceptability of its affiliates in host countries. In the case of non-profit organizations, the nationalities of members of the governing body are used as a guide to the significance of the stated geographical spread of membership. In the absence of precise information on the nationalities of shareholders, those of members of the Board (who are the elected representatives of the shareholders) could be considered as a first approximation. An arbitrary acceptable ratio of headquarters country voting directors to foreign country directors could be defined.

4 Composition of executive staff within companies controlled by the parent company: A multinational management has been suggested as one characteristic. An ideal balance of nationalities is unrealistic but it would be possible to define some minimum acceptable ratio of headquarters country staff, to foreign staff. The criterion could be used to exclude excessively ethnocentric organizations. It has the advantage that the information would not be considered confidential.

5. Balance of factories or installations (excluding sales offices and licensed producers): A multinational manufacturing enterprise should have its installations in a number of countries. Minimum criteria could be based on the total number of countries in which the company has installations, or, more stringently, on the ratio of headquarters country installations to foreign country installations. This criterion is clearly not suited to an evaluation of a trading or service company, or a highly diversified company.

6. Balance of sales offices (excluding representatives on commission): A trading or service company could be evaluated on the basis of the total number of countries in which the company has offices, or, more stringently, on the ratio of headquarters country offices to foreign-country offices.

7. Continental or regional head offices: A possible convenient indication of multinationality is the existence of regional head offices. These can be considered as evidence of a decentralization of decision-making out of the headquarters-country. This criterion may be less applicable to smaller corporations.

8. Languages: A possible convenient indication of multinationality is the acceptance of a number of working languages both in dealing with customers and for internal communication between the principal head office and the regional or foreign national offices.

9. Income ratio for whole group controlled by the parent company: The ratio of income earned in the headquarters country to that earned in all other countries can be considered as one measure of the relative interest of the directors in home and foreign operations. The disadvantage of this criterion is that the information may be considered confidential. Income is often difficult to define consistently.

10. Tangible assets ratio for whole group controlled by the parent company: The ratio of tangible assets in the headquarters country to those in all other countries can be considered as one measure of the relative interest of the directors in home and foreign operations. The disadvantage of this criterion is that information may be considered confidential. The definition of tangible assets will vary.

11. Relationship between parent group and foreign affiliates: The degree of independence in decision-making accorded to foreign affiliates by the parent company can be considered as a measure of the diminution of the influence of one national viewpoint in the conduct of the affairs of the company. This is an important concept but the effects are difficult to measure and are easily confused with a unified management policy.

12. Tax status: The tax position of the parent company and subsidiaries could be used as a criterion. Tax treaties and tax laws as applied to corporations doing international business are so very complex that this would seem to be unworkable. The information is also likely to be highly confidential. This may however become an important criterion in the future when special international legislation is created to deal with multinational corporations.

13. Relationships with non-governmental, non-profit organizations: A possible measure of 'other-directedness' on the part of the corporation is membership of trade associations or any other such body for the exchange of technical or commercial information (e.g. European Industrial Space Study Group, Inter-American Council of Commerce and Production, International Association of Food Distribution, International Copper Research Association, International Superphosphate Manufacturers' Association, This criterion may become important since such organizations will have to make provision for multinational corporation membership as distinct from that of individual national companies).

14. Relationships with intergovernmental organizations: Another possible measure of 'other-directedness' on the part of the corporation is any form of consultative relationship with intergovernmental organizations (e.g. with the International Telecommunications Union, or as a partnership with the International Finance Corporation in joint ventures stimulated by the World Bank, or as membership of the General Committee of the FAO/Industry Cooperative Program or the FAO Fertilizer Industry Advisory Committee, etc.). The greater the effort made to produce a stringent definition of internationality, the more complex measurement becomes and the fewer the number of organizations which will fulfil the resultant criteria. Existing organizations must be assumed to lie on a scale between extreme protective nationalism and a form of ideal internationalism.

The position of some organizations on this scale may be governed more by the requirements of the business with which they are concerned than with any desire to be nationalistic or internationalistic. The desirable multinational corporation characteristic of centralized control and decentralized decision-making may not be suitable in a particular trade or industry.

Sources of information and problems in establishing a list

The most serious difficulty in establishing any list of multinational corporations is the lack of published information on corporations throughout the world which covers the items mentioned in the possible criteria above. Very few directories give an indication in detail of the number of countries in which a parent company has affiliates and the extent to which these affiliates are in fact controlled by the parent. The relationship between parent, subsidiary, branch and sub-subsidiary is normally very difficult to follow through. A final difficulty is the rapid change in the situation from month to month as subsidiaries are sold or parent companies merge or are taken over by other companies,

It would have been possible to attempt to send questionnaires to a wide selection of companies but the results obtained would have required a considerable amount of analysis to permit comparison. The percentage of answers would not have provided the basis for a complete selection.

The alternative chosen was to analyse information already available in published form to provide a preliminary list of possible multinational corporations which could be used as the basis for a more critical list in a subsequent edition of the Yearbook. The directory which proved suitable to this program was ' Who Owns Whom '. This lists approximately 120,000 affiliate companies throughout the world whose 16,000 parents have their headquarters in the major European countries and the USA. It also indicates whether the affiliate is wholly owned or controlled (i.e. a " subsidiary ") or represents only a non-controlling-financial interest (i.e. an ' associate '). The other types of parent-daughter relationship are covered by these two terms which are defined in detail below. The main advantage of using this directory was that it included all categories of business enterprises, not just manufacturing enterprises as do the majority of directories of this type.

The choice of the first source was based on the assumption that a multinational corporation must, in terms of each national legislation, form at least one subsidiary in each foreign country in which it operates directly. By checking the location of subsidiaries a direct count of the number of countries should be obtained.

The main disadvantage of this directory is that it did not cover all the major industrialized countries. No information was available in comparable form on Canadian and Japanese parent companies and their affiliates. In addition the information on the U.S. parent companies was restricted to details on their European affiliates. Since the U.S. parent companies are considered to be the major group of potential multinational corporations, a second source of information was required.

The only suitable directory which could be located that was not restricted to one type of enterprise was the ' Directory of American Firms Operating in Foreign Countries '. This listed the countries in which 4,000 American parent companies had approximately 14,000 affiliates. The disadvantage of this directory was that only the 1966 edition was available. It was possible to update the information on European affiliates by making use of the first directory, which was available in a 1968 edition. In addition this directory did not make any comparable distinction between subsidiaries, associates and branches.

Analysis of sources

No information is available on the acceptable number of countries to qualify for ' multinationality '. It would have been possible to select some minimum figure and merely prepare a list of those companies which exceeded this. Two is the logical minimum, but the criteria for the other organizations in this Yearbook is three. The study at Harvard University is based on six.

Due to the limitation on space available for this preliminary list in the Yearbook a compromise solution was chosen. It was decided to analyse all the companies listed in the two directories to determine exactly how many there with affiliates in 1,2, 3... etc. countries. On the basis of the analysis the minimum figure could then be chosen so that the maximum number of companies could be listed in the Yearbook. This minimum figure was developed from the results of the analysis shown in Table 1. [Tables [separate](#)]

Table 1 Number of countries (excepting the country of the parent company) in which parent companies have affiliates (i.e. subsidiaries and associates). This table shows for the major European countries and the U.S.A. how many, for example. German parent companies have affiliates in 9 foreign countries (13 from the table).

Table 2 Number of parent companies for each major industrialized country having affiliates (i.e. subsidiaries and associates) in a given foreign country. Whilst preparing Table 1 it was convenient to prepare Table 2. This shows for each of the major European countries and the U.S.A. how many, for example, Swedish parent companies, have affiliates in Brazil (21 from the table).

Table 3 Preliminary list of possible multinational business enterprises. Using the data in Table 1 the minimum number of countries was fixed arbitrarily at 10. This gave a preliminary list of 600 enterprises which is **printed** as Table 3.

The parent corporations listed have been arbitrarily split into groups having affiliates in 10-12, 13-15, 16-20, 21- 25, 26-30, 31-40, and 41 plus countries. Within each group the corporations have been placed in alphabetical order within headquarters country to facilitate consultation.

This list should contain a high proportion of corporations which will fall into the category of multinational once general criteria have been defined. The list arbitrarily excludes (due to the minimum of 10) many corporations which might be considered as multinational, but the data in Table 1 gives some indication of the number of these. The list includes a number of corporations which might be excluded from a future list. These are the cases where :

- a very large corporation has a relatively minor proportion of its affiliates in other countries, but because of the size of the corporation the number of these affiliates is equivalent to or greater than that of a smaller organization with interests more equally balanced between countries.
- the affiliates in foreign countries are not owned or controlled (i.e. they are not ' subsidiaries ') but primarily associates in which the corporation has a non-controlling interest. Using the information in the directory ' Who Owns Whom ', it was possible to analyse each European company included in Table 3 in greater detail in order to establish a scale on the basis of which cases falling into these groups could perhaps be specified. Four columns of figures follow the name of each parent corporation as an aid to any future definition of ' multinational '. Only two columns could be completed for American companies.

The meaning of the columns is as follows :

- Column ' a ' r Number of foreign countries in which the parent company has affiliates (i.e. subsidiaries plus associates). This figure formed the basis for the analysis in Table 1.

- Column ' b ' : Percentage of the total number of affiliate companies (i.e. subsidiaries plus associates) of the parent company which are in foreign countries. No distinction was made between subsidiaries, sub-subsidiaries and sub-sub-subsidiaries, etc.
- Column ' c ' : Percentage of the total number of foreign affiliate companies (i.e. subsidiaries plus associates) which are owned or controlled subsidiaries, as opposed to associates. Dormant companies were treated as associates. Since no data was available to distinguish between U.S. parent company subsidiaries and associates an attempt was made to approximate the policy of the company in this respect. Information on the percentage of subsidiaries amongst European affiliates only is given in brackets.
- Column ' d ' : An index of ' internationality ' combining the information in the previous column to facilitate comparison between companies. The index is derived as follows : $(\text{col. ' a '}) \times (\text{col. ' b '}) \times (\text{col. ' c '}) / 1000 = \text{index of ' internationality '}$. This gives an index for each parent company in the range 0 - 17000 if all possible countries and territories are taken into account. In practice the majority of companies fall into the range 20 - 150. The upper end of the range includes the companies which have been cited as examples of multinational corporations. The lower end of the range includes the companies which are more likely to be excluded from any future list of multinational corporations.

Comment on Initial Criteria and Sources

The criteria used to distinguish between possible candidates have largely been dictated by published information available. They represent different attempts to isolate the quality of ' internationality '. The results of this survey have been expressed in a manner which does not preclude a more or less stringent definition of multinationality. None of the criteria listed in Table 3 is wholly satisfactory :

- number of countries. Even in the limiting case where a company has no foreign affiliates, it can be of considerable international economic importance by operating through intermediate trading and import-export companies. All that can be said is that the probability of a parent company being ' international minded ' is higher if it has operating affiliates in a number of foreign countries.
- percentage of foreign affiliates. This criteria does not distinguish between large monolithic companies with relatively few financially significant subsidiaries and companies with a considerable number of subsidiaries of much less financial importance. In a particular country or industry it may be convenient to adopt one or other structure, it has been assumed that the number of foreign affiliates corresponds approximately to the geographical division of financial interests. It has also been assumed, following on from this, that the higher the percentage of foreign affiliates, the lower the probability that the company will be primarily interested in its affairs within the country of its headquarters. This criterion is therefore a crude approximation to a determination of the position of a company on the line between purely national (ethnocentric) and completely international (geocentric).
- percentage of foreign affiliates controlled. It has been suggested that multinational corporations should only include those cases where the parent company has a controlling interest in affiliates. This distinguishes such corporations from those which in the extreme merely have a minority interest. It could also be argued that a corporation with a vast network of minority interest was less centralized and therefore more international.

It was not possible to check the two directories used so that it had to be assumed that together they represented a fairly complete and accurate coverage of the **parent** companies in the European countries and the USA. A certain amount of inconsistency over the definitions of subsidiary and associate is to be expected. The definitions used by the editors of ' Who Owns Whom ' are

' A subsidiary is defined as a company more than 50 per cent of the share capital of which is owned by another company which in the directory is therefore defined as a parent company. A company is classified as an associate when it is so described by itself or where it has announced that it has acquired a substantial interest in another company or where published information is available that it owns not less than 10 per cent of the share capital of the other company. Members of industrial consortia are listed as associates. Any company of which another company is the associate as already defined is regarded as being in association with that other company '.

The definitions used by the editors of ' Directory of American Firms Operating in Foreign Countries ' are :

' This Directory includes only those firms in which American firms or individuals have a substantial direct capital investment in the form of stock, as the sole owner, or as a partner in the enterprise '. ' Branches ' and ' subsidiaries ' are included but not distinguished or defined.

Comment on survey

From Table 1 there are 2991 parent companies in 14 European countries and the U.S.A. with affiliates in one foreign country only, and 7045 with affiliates in one or more. Of these parent companies, U.S.A. parents constitute respectively 37 % and 40 %. There are 595 parent companies with affiliates in 10 or more foreign countries and 166 with affiliates in 20 or more. Of these parent companies, U.S.A. parents constitute respectively 45 % and 52%. It is interesting to note that the number of the intergovernmental and international non-profit organizations listed in this Yearbook as having headquarters in the Table 1 countries is 50% of the total of parent companies with headquarters in the same countries [comparing companies in at least three countries on the assumption that these can be considered equivalent to the minimum membership criterion of the other organizations).

The 7,046 parent companies have affiliates in 26,393 countries, i.e. each company has affiliates in an average of 3.75 countries. (2.48 in the case of European companies only). The European parent companies included in the Table constitute approximately 40 % of those surveyed. The remaining parent companies only have affiliates in their own countries.

From Table 2 the distribution of the links of the parent companies with foreign countries is 53 % Europe, 11 % Africa, 25 % America,

9% Asia and 5% Australia. A separate study of foreign enterprises in Japan gives some indication of the validity of the figures in this Table. This study estimated that 'almost 800' foreign enterprises had been set up in Japan by 1966. Table 2 gives a corresponding figure of 465. The difference is probably due to implantations from countries other than those for which information was available, and also to the inevitable difficulty of obtaining information and ensuring that it was kept up to date. (One difficulty in the survey which affects the results is the differences in the definition of a country, e.g. Portuguese parent companies do not consider Angola as a separate country, whereas companies operating from other countries would treat Portugal and Angola as separate countries. No attempt was made to allow for this.)

Comment on list

The list published in Table 3 can be considered as a selection of cases on which criteria may be tested. It does not however include any of the mixed category of profit organizations mentioned earlier in this note.

All the examples of multinational corporations previously cited in published articles appear to have been included. They tend to lie in the higher groups and have a high index of 'internationality'. The list includes 70% of the 180 corporations mentioned in an unpublished list of American corporations which are in the 'Fortune' list but which have a minimum of 6 foreign manufacturing subsidiaries. This is being used as a basis for research at Harvard University by Professor Raymond Vernon. The organizations included from this 'manufacturer' list represent 48% of the U.S. organizations included in Table 3.

As stated earlier the list does not include business enterprises from a number of important countries including Canada, Japan and the Eastern European countries. Nor was it possible to obtain information on the parent companies registered in the tax havens.

From Table 1 however, the number of parent companies correlates quite strongly with the figure for export trade. The countries for which data on parent companies was available, with the exception of Spain, Portugal and Luxembourg, all had an export figure of at least \$1.7 thousand million dollars. The only other countries with comparable exports are Canada (10.6), Japan (10.4), Australia (3.4), Venezuela (2.7), South Africa (1.9), and Brazil (1.7), together with some Eastern European countries. Of these countries only Canada and Japan are probably hosts to many parent companies which should be included in the list.

The list itself contains a number of unexpected cases due to the sources used and the method employed in the short time available. Examples are Pan American Airways (USA) in the 40 plus group and the travel agents Agence Havas (France) in the 10-12 group which are included because of the number of offices in foreign countries. The index for Agence Havas is however only 8 which makes it one of the least 'international' in the list according to the criteria employed. Unfortunately the sources used did not provide sufficient comparable information on Pan American.

The lack of adequate distinction between branches and subsidiaries or associates in the source on U.S. corporations makes it difficult to compare details on European and American organizations in the tables. Due to the inclusion of more information on branches in the American source the figures for American organizations are all scaled upwards. Some indication of the extent of this upward scaling can be obtained by comparing the figures for Belgium (461 U.S. organizations) with those from a detailed American Embassy list published in December 1967 of U.S. organizations in that country. The list also included some representatives and information offices of American companies and had a total of 657 U.S. organizations mentioned. Of these 21% were indicated as branches or other entities directly dependent on the American parent. This gives approximately 525 affiliates in comparison with the Table 2 figure of 461.

Information on European organizations has however all been obtained from the same source. The position of the Compagnie Nationale Air France (France) in the list in the 10-12 group, is probably more indicative of the status of national airlines as multinational companies. The index in this case was zero, since all foreign affiliates were listed as associates.

The question raised by such organizations, which depend on an international network of sales bureaus, is whether and to what extent they can be considered as multinational. It is at this point that data on the nationality breakdown of the Board of Directors would prove useful. But, even if the directors are all nationals of the headquarters country, such organizations should perhaps be considered as a special type of multinational corporation. A study of types of multinational corporation which has received a great deal of publicity is that of Professor Howard Perlmutter (Institut pour l'étude des méthodes de direction de l'entreprise, Lausanne). He distinguishes the following groups of corporations in what he considers to be an evolutionary chain (although every corporation is considered to have a combination of all the characteristics):

- **Ethnocentric corporation** : senior management suspicious of foreigners and unfamiliar business methods; head-quarters maintains responsibility for all main decisions; priority is given to nationals from the headquarters country in filling important posts in foreign subsidiaries; parent company considered to be superior and have a monopoly of know-how. In practice this type of organization arouses the suspicion of local governments and can lead to nationalistic attacks.
- **Polycentric corporations** : recognition that local situations are different from one another and from the parent country; subsidiaries operated by the nationals of each country; parent company relies on financial controls rather than command structure to achieve a profit; company becomes a confederation of loosely connected subsidiaries, many of which have access to all financial and research data; parent company remains in the hands of nationals of the headquarters country who occupy all important posts.
- **Geocentric corporations** : posts filled without regard to nationality; policies formulated without regard to national preferences; subsidiary directors participate in the formulation of general policies; headquarters location considered to be an accident of history to be changed according to the convenience of tax laws.

It might be possible to establish arbitrarily sets of quantitative criteria which would group corporations into three such groups, or preferably more in order to split up the higher proportion of organizations at the ethnocentric end of the range. In this way degrees of multinationality could be recognized which would permit satisfactory classification of the sales bureau type of organization. Such a scale

could possibly be developed by using the index technique with more ratio criteria, since low index values indicate organizations which are more likely to be ethnocentric as defined above.

The ratio of headquarters country directors to foreign directors does appear to represent the most easily obtainable and least confidential additional criterion. It is the closest approximation to the nationalities of the shareholders and may in fact be preferable since it gives a real picture of the ethnocentrism of the Board and decision making. Information on the shareholders would only give a theoretical picture of the operation of the organization on the assumption that the Board decisions reflected the day-to-day opinions of shareholders. In addition it is normally by its Board or management that a corporation is judged, rather than by its shareholders.

In examining suitable criteria in the future, provision will have to be made for the consortium arrangement and the bi-national joint venture which is becoming important and widespread. Another type of structure which may not fall within any of the criteria yet suggested is that of a large corporation which controls a complex network of bi-national operations. A further problem is created by individuals, families, and national corporations which create and completely control multinational corporations as a means of conducting their international operations. There is also the highly charged question of the distinction, or the necessity for a distinction, between multinational corporations, multinational groups (which have been broadly defined as a collection of enterprises between which any form of link may exist which is sufficiently strong and durable to permit a common economic policy), and international cartels (which have been defined as voluntary agreements among independent enterprises in closely related industries in two or more countries with the purpose of exerting a monopolistic control of the market).

Conclusions

The main question raised by this preliminary study is how restrictive a definition of multinational corporations is required and whether it would be preferable to define criteria to separate groups of corporations of different degrees of internationality in order to cover all cases. It may prove to be the case that many small new corporations with subsidiaries in only a few countries are less ethnocentric and more international than many of the large corporations.

It might be useful to distinguish between long-established corporations with international interests in many countries (mainly trading companies), large national corporations developing international interests, and smaller corporations recently created as international companies by national corporations from a limited number of countries (usually two to four).

It would be an advantage to make any future criteria consistent with those employed to detect international non-profit organizations. The additional complexity of the more highly developed profit corporations may make it useful to reassess non-profit organization criteria in order to distinguish between the more and the less international in a similar manner.

The multinational corporation will become an increasingly important concept over the next few years as mergers and takeovers establish international economic empires. The corporations themselves will have to make great efforts, as some have already done, to become truly international in order to avoid nationalization, discriminatory tariffs or accusations of economic colonialism. They are faced with increasingly complex tax problems and the burden of double taxation, due to the lack of any international legal status or provisions for international non-governmental organizations (whether profit or non-profit).

One solution is the creation of special national legislation in each country to deal with multinational corporations which make their headquarters there. At present only the tax havens such as the Bahamas, Bermuda and Lichtenstein provide an adequate place where a large multinational corporation can establish its central activity. In the case of international non-profit organizations, Belgium is the only country with special legislation. An example may however be set by Peru where legislation has just been proposed to deal specifically with the tax problems of multinational corporations and their employees.

Another suggestion that has been made is that it is in the interest of national tax authorities and of such corporations that they should pay a single tax to a specially constituted international authority on the basis of their consolidated financial statements. This would avoid the necessity for the current highly complex network of bilateral conventions on double taxation. In view of the significance attached to these corporations as tools for the rational economic development of the world, such a body might alleviate another current problem by providing a source of development funds. The tax funds could be channelled through the United Nations to the countries in greatest need.

The role of the large multinational corporation in aiding the less developed countries has been frequently stressed. This is an important reason for listing these bodies in this Yearbook. Some of the specific functions that they can (but will not necessarily) perform which could contribute to general economic development are, according to Roy Blough : to make sound and profitable investments in developing countries which for less broadly based companies would be too risky; to make use of a world-wide store of technological, managerial, and other knowledge and skills that are likely to be better adapted to the needs of the less developed countries than is the knowledge of business firms that have access only to home-country technology; to create jobs and stimulate the desire for education in the developing countries; to make use of their international communications system to help countries achieve the benefits of cooperation; and to provide developing countries with contacts with foreign markets without which their export trade and industries cannot be rapidly developed. It is to be hoped that listing these organizations in this Yearbook will contribute to a greater understanding of the role that they will play in developing world society together with the intergovernmental and international non-profit nongovernmental organizations.

References

- J. L. Angel (Comp.) Directory of American firms operating in foreign countries. New York, World Trade Academy Press, 1966 (6th edition).
- R. Blough. International business : environment and adaptation. McGraw-Hill, 1966.

Centre de recherche et d'information socio-politiques. Répertoire permanent des groupes financiers et industriels. Bruxelles, le Centre, 1967, looseleaf.

Congrès international pour la création d'une société commerciale de type européen (Paris, 1960). Compte rendu des travaux. 'Revue du Marché Commun', vol 3, 1960, supplément No 27.

J. Houssiaux. La grande entreprise plurinationale. In: Bloch-Lainé, F. and Perroux, F. (eds). L'entreprise et l'économie du XX^e siècle. Presses Universitaires de France, 1967, pp. 291-328.

M. Huys. Vers la société européenne. Bruxelles, Fédération des industries belges, 1968 (Extrait de la revue *Industrie*. décembre 1967).

D. P. Kircher. Now the transnational enterprise. "Harvard Business Review", March-April 1964.

League of Nations. International cartels; a League of Nations memorandum. New York, United Nations, 1947, 53p.

D. Lilienthal. The multinational corporation. In: Anschen, M and Bach, G.L. (Eds.) Management and corporations, 1985. New York, McGraw-Hill, 1960.

J. G. Maisonrouge. Text of a talk in October 1966. (Also in: *Information Internationales*, 904, April 1968).

H. V. Perlmutter. Some architectural problems of the multinational firm. *Quarterly Journal of AISEC International*, vol 3, No 3, August 1967. Peru. Republic of Tax law concerning multinational corporations. Supreme Decree of Peru, No 284-68-HC, 19 August 1968.

J. M. Rivier. L'imposition des entreprises Internationales; étude des accords suisses de double imposition et du projet de convention de l'OCDE. Paris, Librairie générale de droit et de jurisprudence, 1964.

S. Rolfe. Updating Adam Smith. *Interplay*. vol 2, No 4, November 1938. pp. 15-19. (Full report published by International Chamber of Commerce, June 1939.)

A. Rosenberg. International interaction and the taxonomy of international organizations. *International Associations*, 1967, No 11. pp. 721-730 (together with an unpublished communication commenting on the criteria mentioned in this note)

O. W. Roskill (Comp.). Who Owns Whom (Continental edition); a directory of parent, associate and subsidiary companies. 1967-68. Roskill and Co

O. W. Roskill (Comp.). Who Owns Whom (U.K. edition); a directory of parent, associate and subsidiary companies. 1968. Roskill & Co (Reports) Ltd, 1968.

P. Saunders. Société anonyme européenne; projet d'un statut d'une société anonyme européenne; textes. Bruxelles, Communauté économique européenne, 1956, (Also published by the Community in: Collection études, Série concurrence, No 6, Bruxelles 1967).

R. Vernon. Multinational enterprise and national sovereignty. *Harvard Business Review*. March- April 1967 (together with an unpublished list of U.S. corporations, in the 'Fortune' list. with manufacturing subsidiaries in six or more countries).



This work is licensed under a [Creative Commons Attribution-NonCommercial 4.0 International License](https://creativecommons.org/licenses/by-nc/4.0/).

For further updates on this site, [subscribe here](#)