Contracting within Multinational Firms

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1. Abstract

Contracts are found in almost every part of our lives. However, contracts extends from just our daily life. Contracts play a pivotal role in ensuring firms work. Firms employ two types of contracts, one inside the company, internal, and one outside the company, external.

The lab isolates costs and benefits of internal / external contracts using data coding revealing differences of instances between internal and external contracts. To do this, we used Google sheets' "filtration" technique (Figure 1).

Contracts can be used everywhere. In the scope of firms, contracts dictate the obligations firms need to act by. Contracts also dictate much of our daily lives, offering an agreement between parties, and understanding contracts can people evaluate our decisions better.

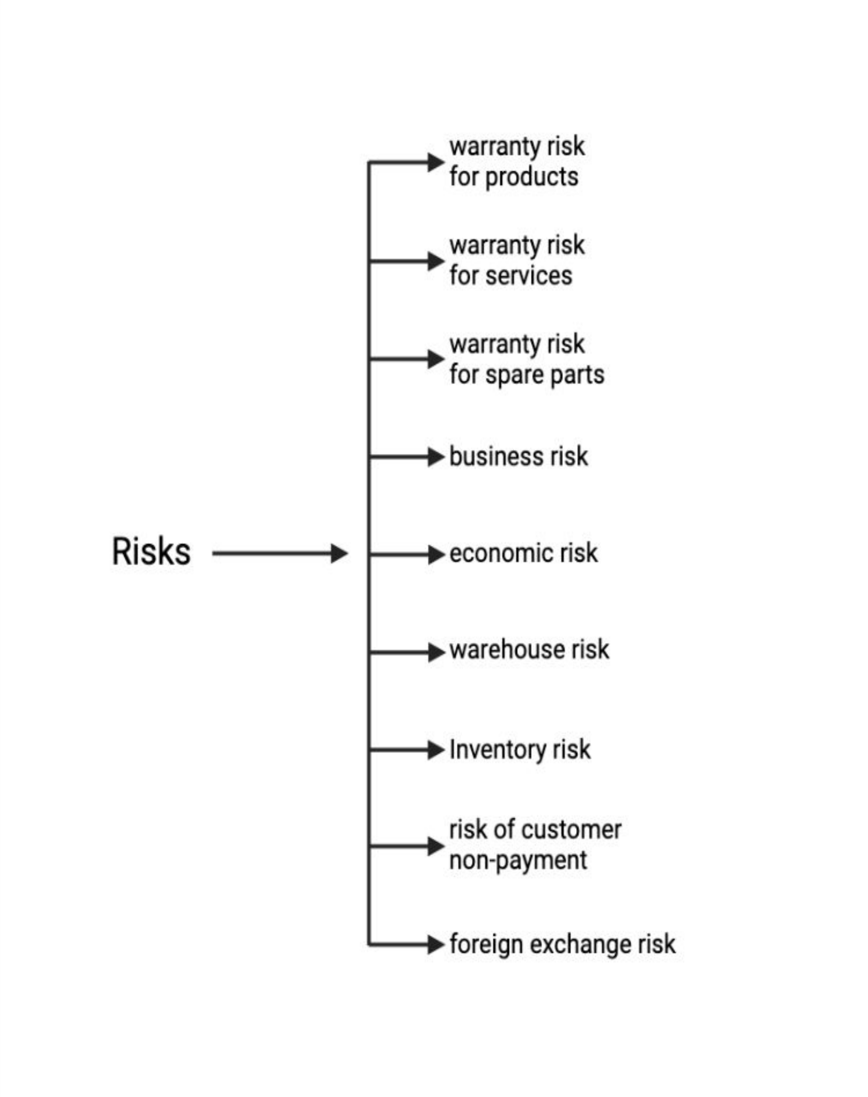

Figure 1.
This figure describes all of the different types of risks coded in the data collection

2. Introduction

In the professional world, contracts are a critical part of running businesses, managing international relations, and maintaining the economy. Firms employ contracts within the company (internally) and outside the company (externally) which is a field that is very new and unexplored. We expect there to be differences in the ability to shift risk assumption between internal and external contracts. Basis of this assumption comes from accountability for managers in different locations.

3. Methods

Initially, we started with a data set of redacted internal and external contracts.

In the process of data collection / entry, Google sheets allowed a critical approach in the form of filtration by value. This is a technique that isolates cells that contain a keyword or phrase in focus. A secondary filtration by value is further applied to isolate even more relevant keywords and phrases to highlight even more specific data that needs to be collected.

Once the data collection process is complete, STATA is used to run a descriptive analysis on the coded variables from the redacted contracts.

4. Conclusion

The analysis of internal and external contracts through data coding revealed differences in how firms manage risks / compliance with partners and internally. Our study found that external contracts contain more risk / compliance clauses compared to internal contracts (Figure 2). This suggests that firms tend to shift more risk / compliance to external s than internal units.

A possible explanation for this difference could be accountability. External contracts involve partnerships with entities located in different countries, which can make it difficult to ensure compliance with local laws and regulations. This lack of accountability may prompt firms to include more risk / compliance clauses in external contracts.

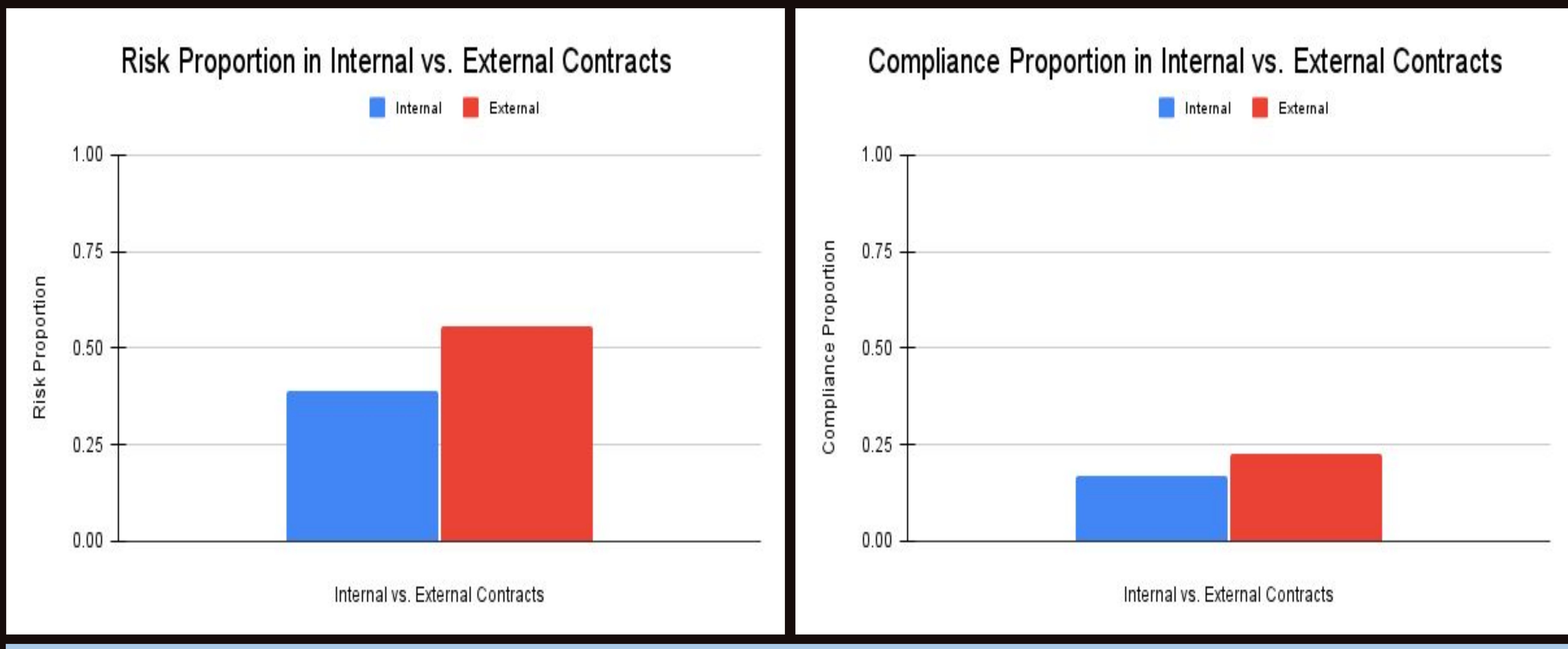

Figure 2.
This figure employs the data visualization aspect of Google sheets. Using the data structures and chart formulation tool, the figure represents the proportion of risk incidents (right) and compliance incidents (left) in internal contracts versus the proportion of risk incidents in external contracts. These two statistics are portrayed side by side in a bar chart.

5. Future

Future research could explore the differences between internal and external contracts in greater depth, looking at factors such as compliance, decision rights, contingencies, and more.

Furthermore, proper statistical analysis need to be run and interpreted on the statistics isolated in STATA and Google excel.

Speaker Notes

Abstract

Contracts are ubiquitous in modern society, playing a vital role in facilitating cooperative behavior among individuals and organizations alike. Particularly, in the context of firms, contracts serve as a cornerstone for efficient and effective governance, both within the organization and in its dealings with external parties. As such, understanding the intricacies of contractual arrangements and their implications is of utmost importance for scholars and practitioners alike.

The present study aims to shed light on the costs and benefits of internal and external contracts by conducting a comparative analysis of the risk and compliance data coded from a sample of such contracts. By isolating relevant statements and paragraphs using Google Sheets and logging the data for further analysis, we identify differences in how firms manage risks with exchange partners versus their own units.

Our findings suggest that the contractual governance mechanisms employed by firms are nuanced and multifaceted, with distinct considerations for both internal and external contracts. Moreover, the implications of these findings extend beyond the realm of business, as contracts are a ubiquitous aspect of modern life and understanding their role can help individuals make more informed decisions in their personal and professional lives.

Introduction/Background

Contracts play a pivotal role in the professional realm, serving as a crucial tool for businesses to manage international relationships, sustain economic stability, and govern internal operations. Given the nascent and underexplored nature of contractual engagements between organizations, it is expected that differences in risk allocation capabilities exist between internal and external contracts. This assumption stems from the diverse accountability standards that managers are subject to across distinct locations.

Methods

The current study involves the analysis of a collection of internal and external contracts with redacted party names for the purpose of protecting corporate anonymity. The data was gathered and entered utilizing Google Sheets, which provided a valuable filtration tool to isolate cells containing keywords and phrases of interest. A secondary filtration method was also employed to further refine the data by highlighting even more specific keywords and phrases.

The data collection process was instrumental in acquiring information regarding the costs and benefits of assumed risks and compliance clauses within the contracts. Google Sheets' filter function allowed for efficient identification and isolation of key statements and clauses, resulting in the collection of high-quality data. The collected data was subsequently merged into a larger dataset for further analysis.

To analyze the coded variables extracted from the redacted contracts, STATA was utilized to perform a descriptive analysis. Overall, the approach employed in this study allowed for a comprehensive understanding of the risks and compliance clauses within the contracts, which can inform future decision-making processes within the corporation.

Conclusion

The present study employed data coding to conduct an analysis of internal and external contracts, with a focus on the management of risks associated with exchange partners as compared to risks related to a firm's own units. Our findings reveal that external contracts feature a significantly higher number of risk clauses compared to their internal counterparts. This pattern of risk allocation suggests that firms tend to transfer a greater proportion of risk to their external partners in comparison to their internal units.

One possible explanation for this disparity is rooted in the issue of accountability. Given that external contracts frequently involve partnerships with entities situated in foreign jurisdictions, ensuring compliance with local laws and regulations can pose a significant challenge. The potential lack of accountability in such arrangements may induce firms to incorporate more risk clauses in their external contracts as a means of mitigating potential legal and financial liabilities.