

# OUR TOPIC OF INTEREST: MULTINATIONAL CORPORATIONS

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Lecture 1  
Multinational Corporations: Theory and Practice  
Winter term 2023/24

Strategic Leadership and Global Management  
Prof. Dr Dodo zu Knyphausen-Aufseß

**Note:** The content of this file is released exclusively to support teaching in the context of the module "Multinational Corporations and Corporate Control" in the winter semester 2023/24.







# GLOBALIZATION

- ...is a movement towards a more integrated world
- ...refers to the growing economic dependence among countries, industries and enterprises

## Increasing cross-border movement of

- Goods and services
- Capital
- Information and knowledge
- People

**Note:** Although “global” is often used as an umbrella term, it is not necessarily the same as “international”, “multinational” or “transnational” (see lecture 2)

# GLOBALIZATION IS NOT A NEW PHENOMENON: THE CASE OF SIEMENS



Founded as  
"Telegraphen-  
Bauanstalt von  
Siemens &  
Halske" in Berlin

Construction of a  
telegraph network  
in Russia started;  
in 1855 a  
subsidiary is  
founded in St.  
Petersburg

A Siemens branch is  
developing in  
England with  
production and  
laying of submarine  
telecommunication  
cables

Werner von Siemens  
discovered the  
electrodynamic principle,  
which allows the efficient  
production and distribution  
of large quantities of electric  
energy

Establishment  
of the first  
Indo-European  
telegraph line

Laying of  
the first  
transatlantic  
cable

Siemens employed  
82.000 people  
worldwide, a  
quarter of these  
were employed  
abroad

1847

1853-1855

1858

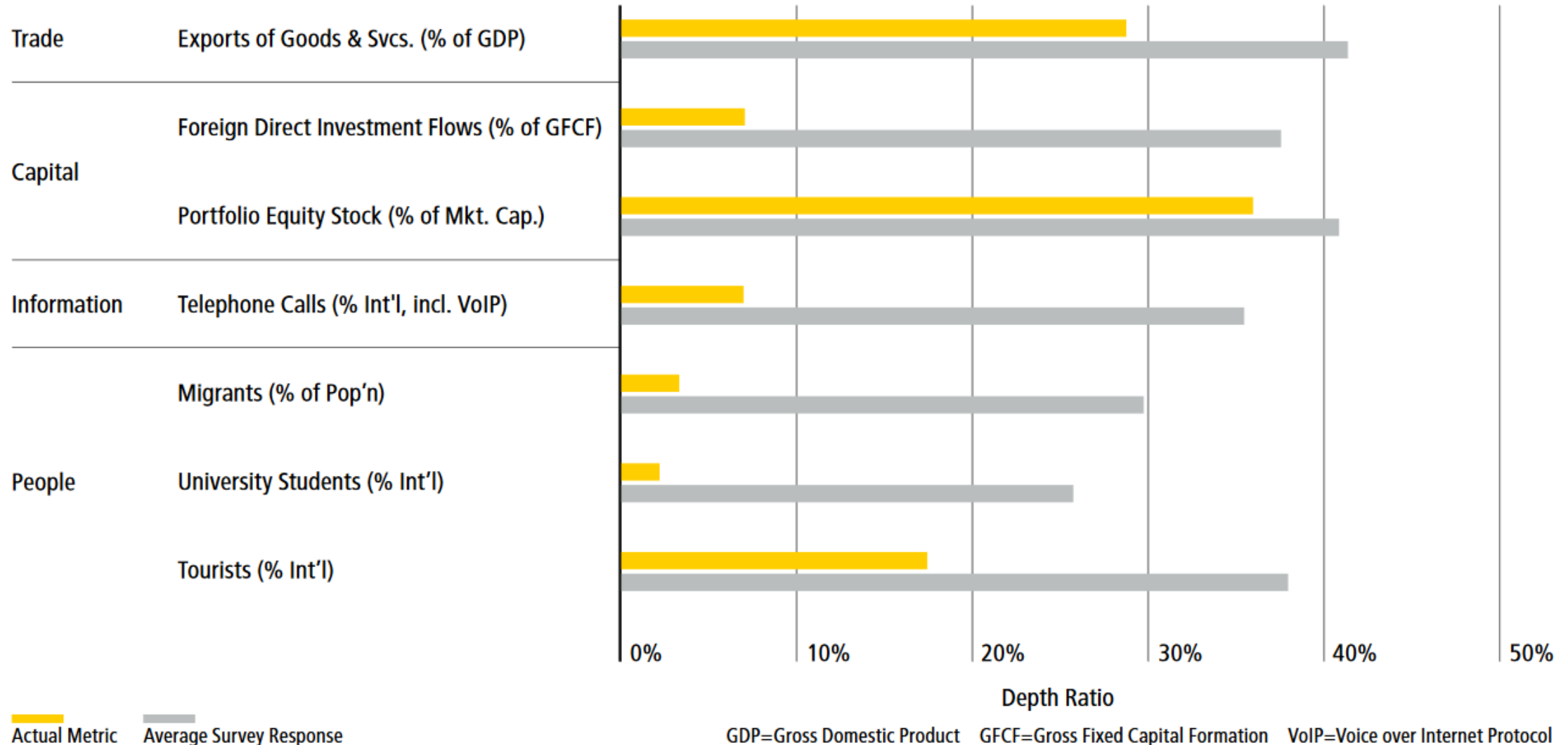
1866

1870

1874/75

1914

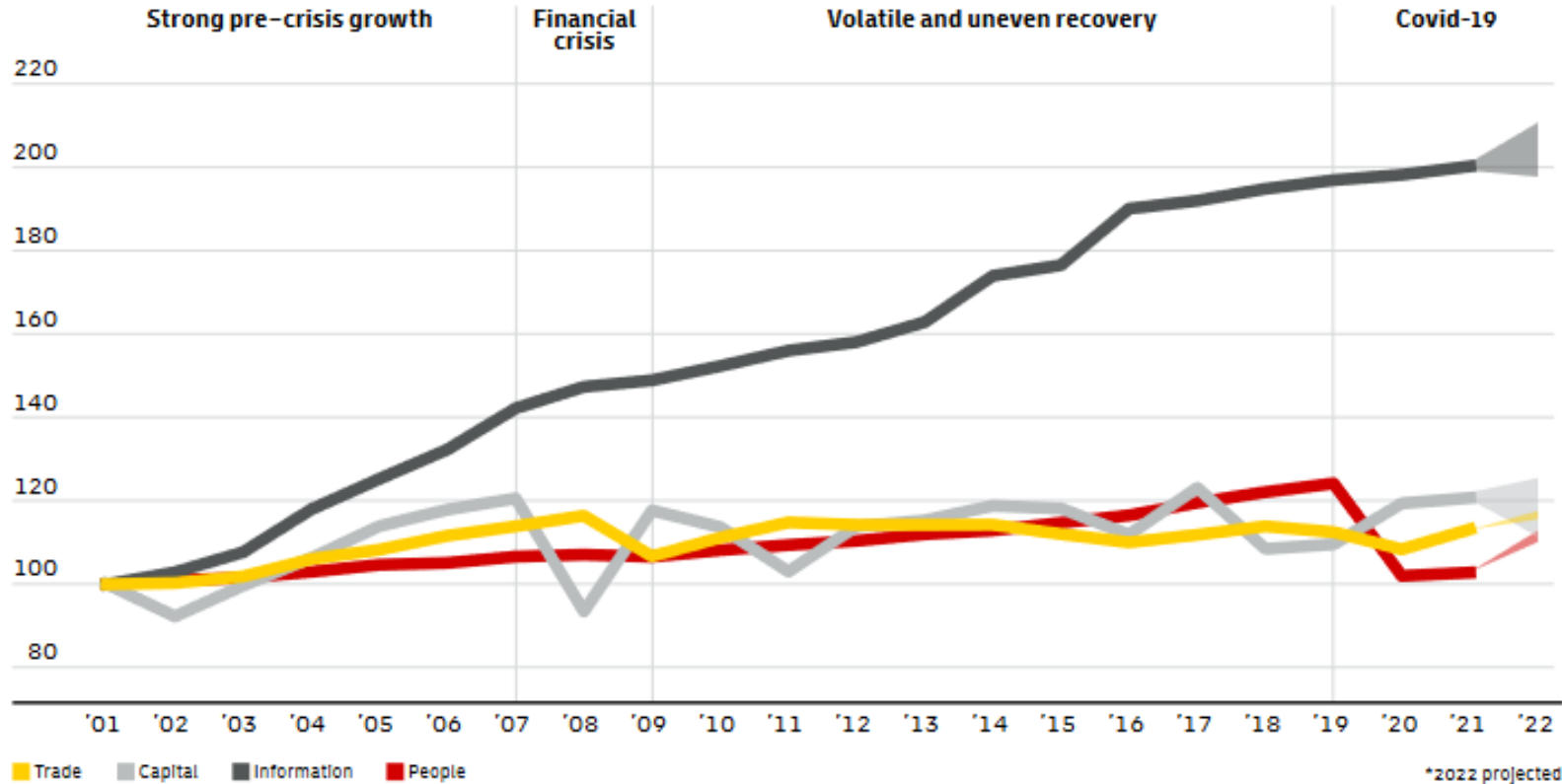
# HOW GLOBALIZED IS THE WORLD, REALLY? INDICATIVE EVIDENCE



Source: Altman, S. A./ Ghemawat, P./Bastian, P. (2018), DHL Global Connectedness Index 2018. The State of Globalization in a Fragile World, p. 12 (online available)



# “OVER THE YEARS, GLOBALIZATION HAS INCREASED, DESPITE FEARS OF DECOUPLING.” TRUE?



## WORLD'S MOST GLOBALLY CONNECTED COUNTRIES

1. Netherlands
2. Singapore
3. Belgium
4. Switzerland
5. Ireland
6. United Arab Emirates
7. United Kingdom
8. Sweden
9. Germany
10. Denmark

1

After a modest decline in 2020, the DHL Global Connectedness Index rebounded to above pre-pandemic levels in 2021, and currently available data point to another increase in 2022. International flows have proven remarkably resilient through recent crises, strongly rebutting the notion that globalization has gone into reverse.

2

There is evidence of decoupling between the United States and China across most types of international flows. This decoupling has not—or at least not yet—led to a broader fragmentation of international activity between rival blocs.

Source: Altman, S. A./ Bastian, P. (2018), DHL Global Connectedness Index 2022.  
An in-depth report on the state of globalization.  
<https://www.dhl.com/content/dam/dhl/global/delivered/documents/pdf/dhl-global-connectedness-index-2022-complete-report.pdf>

# DRIVERS ...

## ... OF GLOBALIZATION

- **Technology:** lowers cost of communication and transportation
- **Political decisions:** Agreement of states to increase interdependence/Institutional structure to facilitate cooperation  
or  
Coercion of states by a global hegemon, leading to the elimination of barriers to trade and investment (?)
- **Demography:** Economic integration of BRIC countries doubles the global labor force potential

## ... AND OF DE-GLOBALIZATION/DECOUPLING

**Changing interests** leading to states' opting out of their prior agreements/Ineffective institutions out of synch with states' interests

or

**Hegemonic decline** leading to loss of sufficient coercive power (?)

Sources: Witt, M. A. (2019), De-globalization: Theories, predictions, and opportunities for international business research. *Journal of International Business Studies* 50: 1053-1077. Table on the right-hand side taken from Witt, M. A., Lewin, A. Y., Li, P. P., & Gaur, A. (2023), Decoupling of international business: Evidence, drivers, impact, and implications for IB research. *Journal of World Business* 58.

**“[T]he Russian invasion of Ukraine has put an end to the globalization we have experienced over the last three decades.”**

Larry Fink, Chairman and CEO BlackRock, Letter to the Shareholders, March 2022

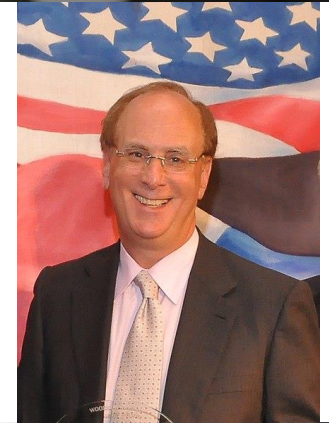
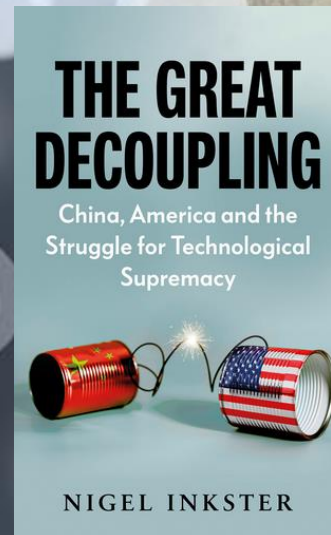


Image: Wilson Center, CC BY-SA 3.0  
<<https://creativecommons.org/licenses/by-sa/3.0/>>, via Wikimedia Commons



Factors driving decoupling.

Dimensions	Forces	Connection with decoupling
Politics	Cold War II	Great power rivalry between China and the United States for global supremacy inducing both states to pursue decoupling
	Ukraine War	China's alliance with Russia deepening antagonism with the United States
Economics	Falling Growth	Loss of market attractiveness
	Labor Costs	Loss of competitiveness as production site
	Governance	Loss of attractiveness as place of business
	Uncertainty	
Technology	Pandemic	China's zero-Covid policy leading to repeated lockdowns and severe supply chain and staffing restrictions
	Response	
	Digitalization	Ability to re-integrate operations previously outsourced to reduce complexity; enhancement of state control in China
	Additive Manufacturing Platforms	Ability to produce small, customized batches locally Ability to flexibly farm out manufacturing and service jobs for local production



# Volkswagen and China: the risks of relying on authoritarian states

This article from the Financial Times is accessible at:  
[https://www.reddit.com/r/FT\\_comments/comments/tfa3fd/volkswagen\\_and\\_china\\_the\\_risks\\_of\\_relying\\_on/](https://www.reddit.com/r/FT_comments/comments/tfa3fd/volkswagen_and_china_the_risks_of_relying_on/)

March 17, 2022 in Companies AA



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It took just one week after Vladimir Putin ordered an invasion of Ukraine for Volkswagen, BMW and Mercedes-Benz to suspend production and sales in Russia. Germany's carmaking trio, which usually avoid commenting on international politics, each issued carefully worded criticisms of the war.

How Volkswagen fares in the Chinese car market

Car sales/deliveries (mn) and Volkswagen's estimated market share (%) in China and Hong Kong, combined



FINANCIAL TIMES

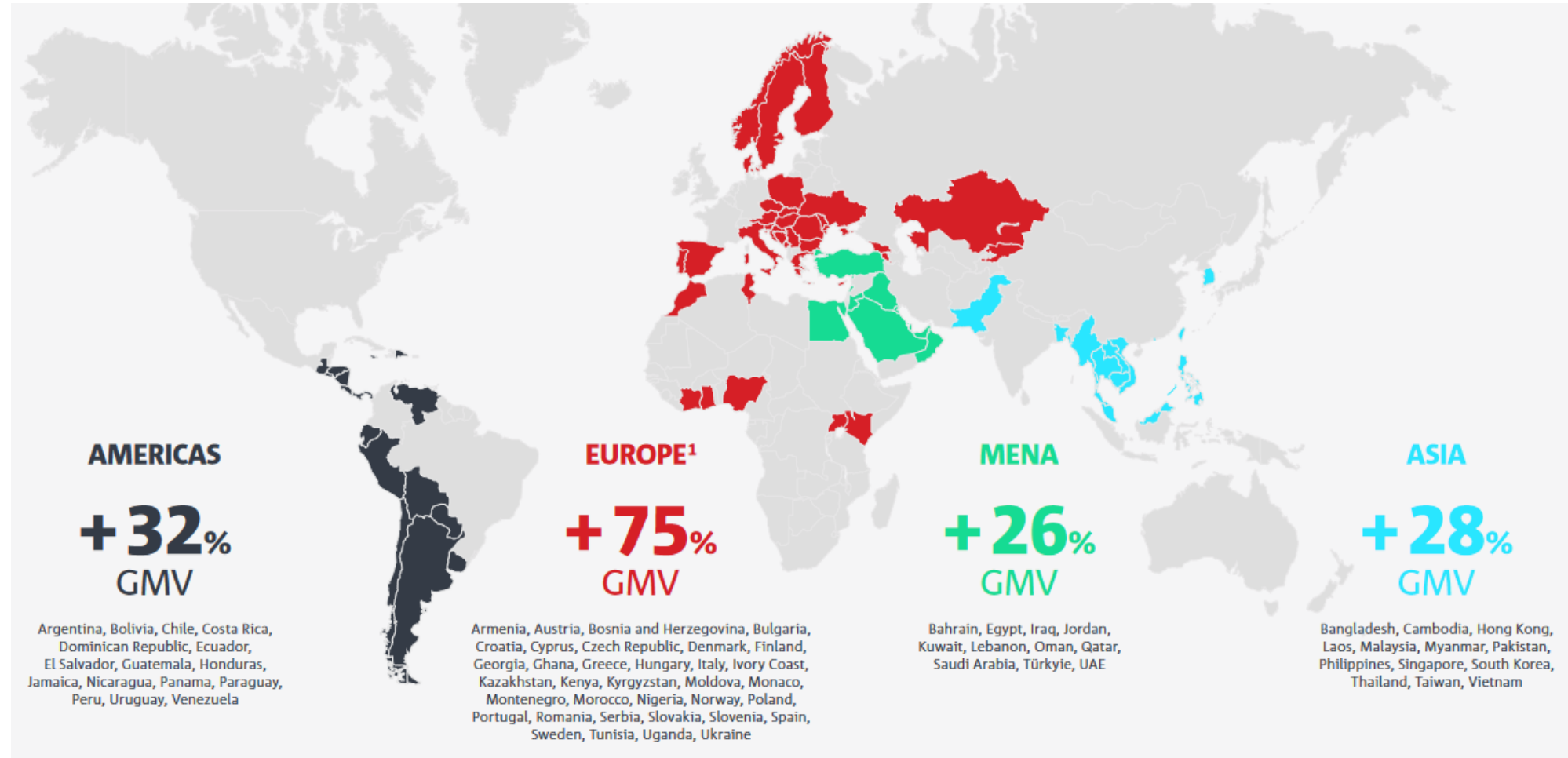
Source: International Organization of Motor Vehicle Manufacturers; Knoema; company; FT calculations \*Figure excludes Hong Kong \*\*Based on deliveries as a share of total sales

- 02 IEA calls for driving restrictions and air travel curbs to reduce oil demand
- 03 Russia's war will remake the world



# AN MNC'S INTERNATIONALIZATION PROFILE CAN BE CONFUSING ...

## THE CASE OF DELIVERY HERO



Source: Annual Report, 2022

PRESS RELEASE MAY 12, 2021

# Delivery Hero to launch operations in Berlin and expand across Germany later this year

- Delivery Hero will bring its mission to deliver anything locally to the streets of Berlin, soft-launching this summer before expanding to other cities in Germany by the end of the year
- Delivery Hero is planning to beta-test the service in June to gradually scale up, launching officially on August 10th
- Under its foodpanda brand, the Delivery Hero Group will start by entering the German capital with its full platform offering, having the ambition to deliver food and quick commerce items as fast as 7 minutes – all in one single app
- Hiring for foodpanda Germany has started, giving top talent the opportunity to join a startup within the Delivery Hero scaleup

2021-12-22 08:04:05

**Delivery Hero scales down foodpanda Germany to a Berlin-based innovation hub and announces the planned divestiture of foodpanda Japan**

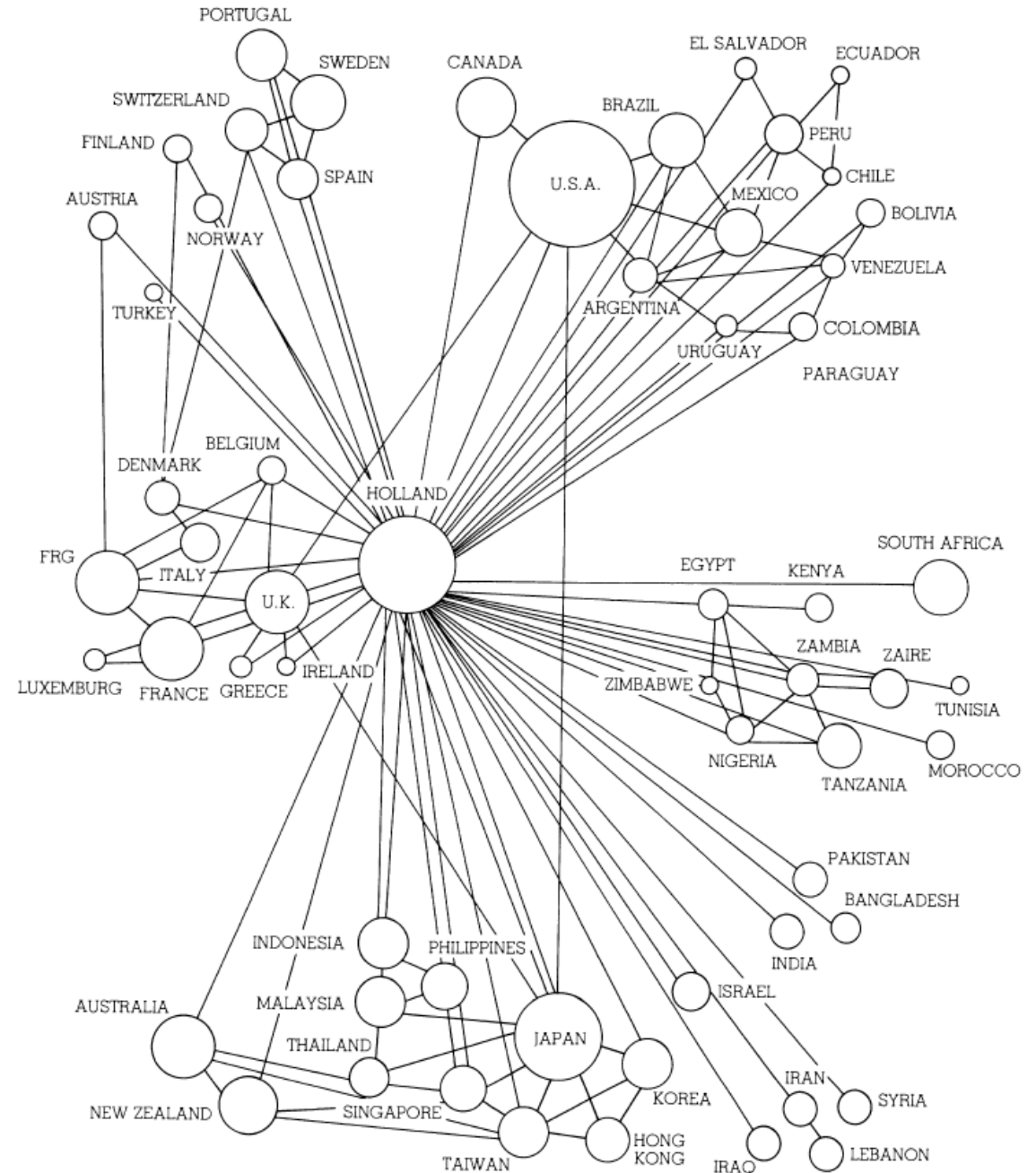
Source: <https://www.deliveryhero.com/newsroom/delivery-hero-to-launch-operations-in-berlin/>

# ... AND THE INTERNAL STRUCTURE CAN BE VERY COMPLEX

## Organizational units and some of the interlinkages within N. V. Philips

- **Operating units in 60 countries** as diverse as the United States, France, Japan, South Korea, Nigeria, Uruguay, and Bangladesh.
- **Unit size:** Some of these units are large, fully integrated companies developing, manufacturing, and marketing a diverse range of products. Others are small, single-function operations responsible for only R&D, or manufacturing for only one or a few businesses.
- **Unit employees:** 5,000 or more employees and might be among the largest companies in their host countries. Whereas, some units might employ 50 or fewer people.
- **Unit lifetime:** Some units more than 50 years. A few began their lives less than 10 years ago.

Source: Ghoshal, S. & Bartlett, C. A. (1990). The Multinational Corporation as an Interorganizational Network. *Academy of Management Review* 15 (4), pp. 603-625 (p. 605)

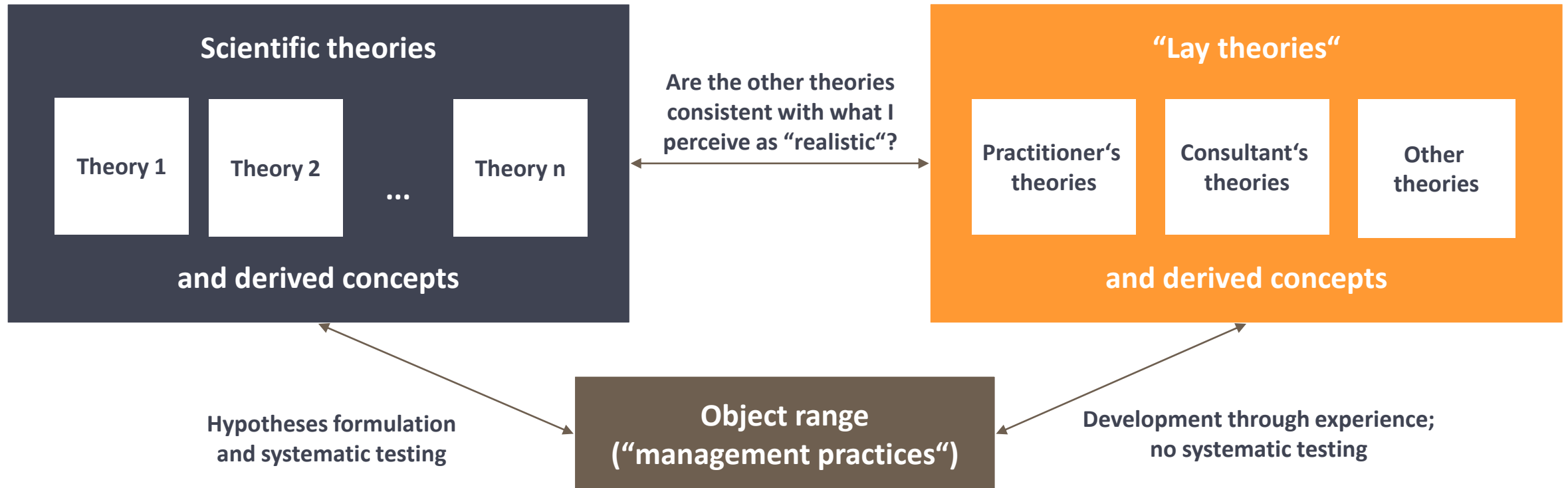




## KEY QUESTIONS OF INTEREST

- Why do multinational firms exist?
- What are the boundaries of the MNC?
- Which markets are selected, how do MNCs enter foreign markets, and how successful are the foreign activities? And under what circumstances do firms de-internationalize?
- How are multinational firms governed, and how do their value networks look like?
- What is the role of culture? Does “cultural distance” matter?
- What impact will the digital revolution have on MNCs?
- What roles do MNCs play, what roles can they play in a (de-)globalized world?
- Must all these questions be answered differently for companies with a different country origin? Is there a case for a “global” theory of the MNC?

# A NOTE ON THEORIES



**"In theory there is no difference between theory and practice. In practice there is."**

Yogi Berra 1999, Strategy & Business 16 (3), p. 76

# SOME FLAWS

- Empirical tests often lead to conflicting results – due to different samples and different statistical methods
- Theoretical relationships between independent and dependent variables often underspecified
- Measurement issues
- Replication of empirical studies often not possible
- Theories are more than an aggregation of hypotheses – even if empirical testing leads to the falsification of a hypothesis, this rarely leads to the falsification of the theory; -> Theories versus “paradigms”
- Processes cannot be analyzed by using the same instruments that have to be used for analyzing contents
- Can social systems be analyzed quasi-scientifically?
- Are theories valid universally or conditional on culture?



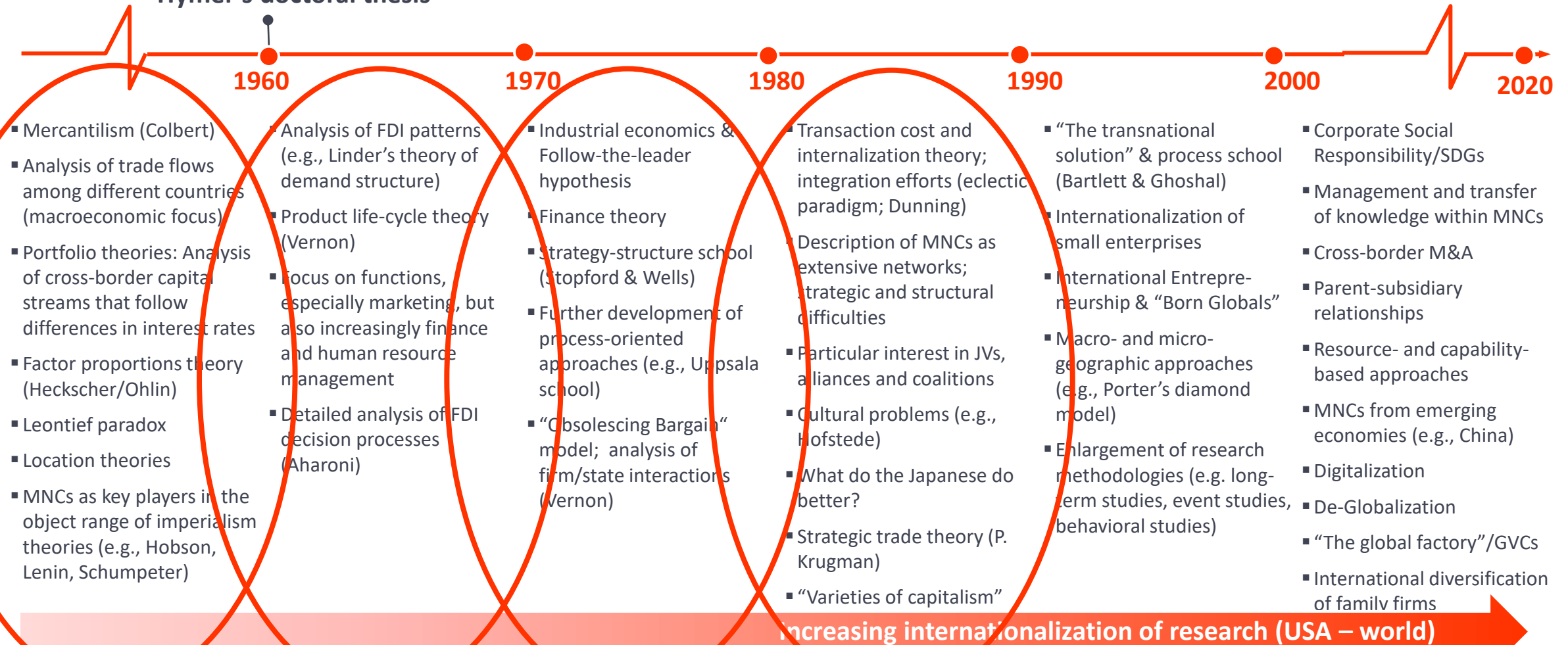
**All these points of criticism can be transferred to International Management.**

**However, the question is:  
Are there alternatives and how do they look like?**



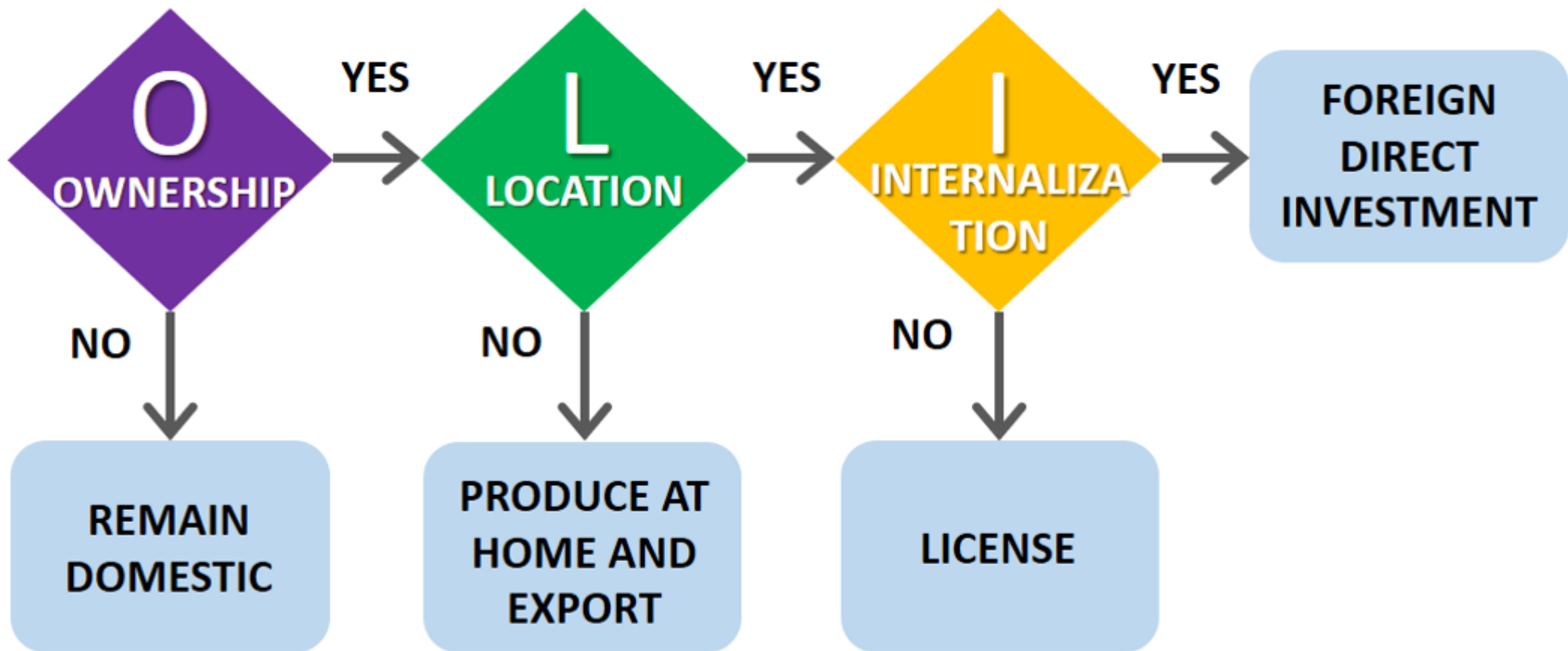
# EVOLUTION OF INTERNATIONAL BUSINESS/MNC THEORIES

Hymer's doctoral thesis



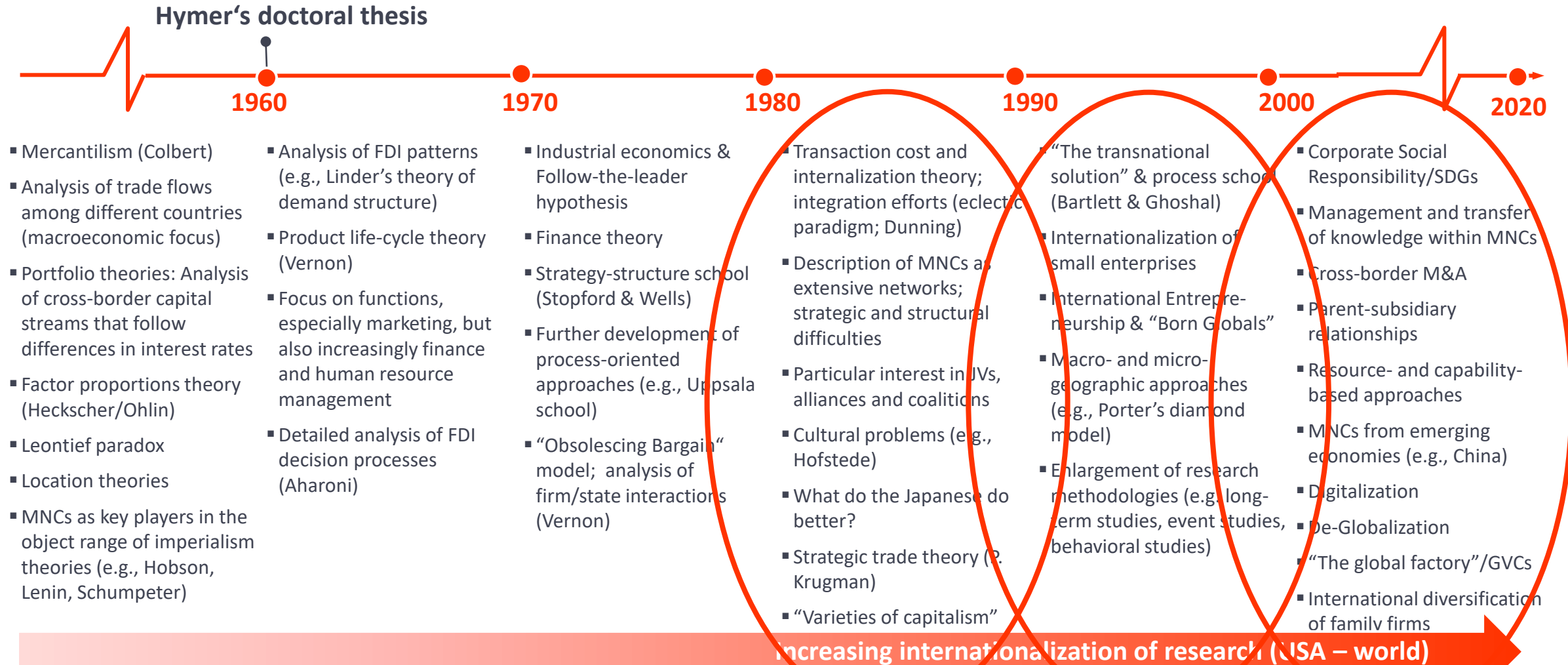
**Major journals (founding years):** Management International Review (1960), Journal of World Business (1965), Journal of International Business Studies (1970); International Business Review (1992), Multinational Business Review (1992), Journal of International Management (1994), Global Strategy Journal (2010)

# JOHN DUNNING'S ECLECTIC PARAGIGM



Source: [https://ebrary.net/21274/management/dunnings\\_paradigm](https://ebrary.net/21274/management/dunnings_paradigm)

# EVOLUTION OF INTERNATIONAL BUSINESS/MNC THEORIES



**Major journals (founding years):** Management International Review (1960), Journal of World Business (1965), Journal of International Business Studies (1970); International Business Review (1992), Multinational Business Review (1992), Journal of International Management (1994), Global Strategy Journal (2010)



## FOOD FOR THOUGHT (1)

- “Too theoretical?” Why? And if not, what benefits would you expect from assessing MNC through a theoretical lens?
- How do we “test” theories?
- “Why do MNCs exist? What are their boundaries?” Relate these questions to the transaction cost theory of the firm!
- What basic insights regarding MNCs would you expect from (1) trade theories, (2) finance theory, (3) industrial organization theory, (4) agency theory, and (5) economic geography?
- Examples for “multinational”/“global” firms? Please justify!



## FOOD FOR THOUGHT (2)

- How can states/governments influence export/import and FDI flows?
- MNC engagement in Africa (Asia, e.g. China)—for better or worse?
- De-Globalization—for better or worse?

