



## Runaway Corporate Growth

The road to industry's future is paved with incentives to reach every corner of the globe as the rise of **multinational corporations (MNCs)** continues to shape the way we think about conducting business.

The appeal of drawing MNCs to countries hoping to stake their ground in the global economy is piquing the interests of developing nations across the globe. MNCs promise **increased tax revenue** and **employment**, and in areas plagued by poverty and joblessness, governments will increasingly provide incentives in the hope that economic prosperity can bring its people into the 21<sup>st</sup> century. MNCs are courted by governments pledging assistance, improved infrastructure, and lax environmental and labor standards.

Some experts argue that it has become a race to the bottom, where the country offering the best spoils and most lenient regulations can expect the most foreign direct investment (FDI). But others argue that MNCs are more often engaged in a **race to the top**, tying themselves to a high degree of standardization which doesn't realistically support operational leniency or unfairly low wages.

*"Contrary to popular belief, multinational corporations pay significantly higher wages than those paid by local firms. These jobs are among the most coveted in developing countries. The positive results are measurable and increase over time" (Geddes).*

MNCs, despite being criticized for taking advantage of lax environmental regulations in developing countries, may prove to be **protectors of the environment**.

*"Neo-liberal economists contend that MNCs are perhaps the most significant catalysts for sustainable development, because multinational corporations typically possess newer and cleaner technology and have better management practices which can be transferred to their subsidiaries in the developing world. Thus, rather than 'pollution havens,' MNCs create 'pollution halos' in developing countries through the export of modern technologies" (Abdul-Gafaru, p.2).*

### Three Approaches to **Managing** Multinational Corporations



**1. Horizontal Integration:** These MNCs manage production establishments located in different countries to produce the same or similar products. **Ex: McDonald's**

**2. Vertical Integration:** These MNCs manage production establishments in certain countries to produce products that serve as input to its production establishments in other countries. **Ex: Adidas or Nike**

**3. Diversified:** These MNCs manage production establishments located in different countries that are neither horizontally nor vertically integrated. **Ex: Best Western Hotels**



**RECENT NEWS:** "Through an expanded agreement with IBM inked in 2007, AT&T and IBM are now teaming up on providing networking and computer-based services and applications to multinational corporations on a platform that increasingly integrates the global networks of both vendors." **Read the full story [here](#).**



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**Will MNCs lead improved **sustainability** efforts and force governments to get on board with more stringent environmental legislation, or will they export their pollution in favor of higher profits?**

Closely intertwined with the governments of their host countries, MNCs are also gaining unprecedented **political capital**. The middle class is growing faster than it ever has in modern history, and while there are still many people in poverty around the world, MNCs give developing countries and their leaders hope that with investment dollars, their countries can get on the economic map. Because their presence is highly coveted, the clout MNCs have, as non-nation states, is beginning to rival that of established nation states.

*“In his book Captive State (2000), George Monbiot lists 43 individuals who, since the 1997 elections in the UK, have been appointed as ministers, heads, chairmen, and advisors to as many government departments and independent committees. In each case their previous corporate positions (mostly as directors, chairmen, or chief executives) and existing links to industry present a direct conflict of interest with their governmental roles” (Makwana).*

**What global ramifications exist when non-nation states find **greater leverage** than nation states? Can corporate moguls with interests in their respective industries be trusted in positions of **political power**?**

While MNCs can bring millions out of poverty in developing countries, the effect of huge corporations in more developed areas can be much different, **pushing out local community establishments** in favor of greater economies of scale.

*“The prevalence in recent years of huge corporations ... is creating a homogenization of culture throughout the world. These corporations have created huge economies of scale which result in a downward leveling of job numbers, wages, and employment standards. The most visible culprits are agri-business, giant fast-food chains, and retail outlets such as supermarkets. The goods supplied by these companies have quickly replaced local businesses who often supply the same goods with greater levels of nutrition and with negligible social and environmental consequences” (Makwana).*

**WATCH:** Preserving Integrity in Multinational Corporations



**From Fora.tv:** “Benjamin Heineman, Jr., former senior vice president of GE, C.K. Prahalad, management consultant and author, and Chuck Prince, retired CEO and chairman of Citigroup ... focus primarily on the rise of the multinational corporation and the difficulties of creating international business agreements on issues like human rights and environmental conservation.”



**RECENT NEWS:** “Due to the global financial crisis, many multinational corporations (MNC) are suffering from sharp contradiction, with some of the enterprises these MNCs established in China encountering certain challenges ... Quite a number of senior executives of the MNCs praised the Chinese government’s decisiveness in tackling the global financial crisis, saying that they have full confidence in the long-term development of the Chinese economy, and expressed their enthusiasm of further investments in China.” **Read the full story [here](#).**



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**What are the short- and long-term effects of losing local businesses? Why are they important to the global society? Should we scrap community establishments entirely in favor of standardization?**

Despite both positive and negative effects MNCs have on the world, the reality is that they are here to stay, and we can expect to see more **mega mergers** among the corporate elite as they work feverishly to protect their dominion from the emerging MNCs of tomorrow.

**What is the overall value of a mega merger? Can mergers serve their markets more effectively, or are they killing market competitiveness? How will continued mega mergers impact the way large-scale projects are marketed and contracted?**

Giant corporate conglomerates won't be the only actors on the global stage. Muscle and brawn are becoming less important in the grand scheme of globalization, and if corporations want to compete for a slice of the global pie, they may be better served to invest in **adaptability, technology, and speed.**

*“Many companies are living in the past when the future is rushing upon them at breathtaking pace. In that future, size is less relevant than speed, and muscle less important than liveness ... Management after management is still betting billions of shareholder wealth on the proposition that the battle goes to the biggest. In the real world, lumbering elephants are exposed by the aggression of speeding midjets. No matter how hard they try (witness IBM), the old-line companies, even those that have pioneered the new technology, cannot win the spirit championship – and that is increasingly the only race in town” (Heller).*

Rapid advancements in communication and transportation **technology** over the last 40 years have allowed virtually any company to expand from its country of origin to nearly any place on earth, increasing its ability to **compete** with the once-untouchable mega corporations.

*“[The rise of small multinational corporations] places unprecedented pressure on the mighty. The Internet and all its work affect them in two painful ways. First, cyberspace has brought global competitiveness within the reach of any entrepreneurial spirit, even with modest resources.*



**FACT:** In the 10 years that Wal-Mart moved to Iowa, in the USA, **7,326 local businesses** closed as a direct result. In the UK, the supermarket giant Tesco currently opens one new 'Tesco Express' each day.

### **FOOD FOR YOUR BRAIN:** Suggested Reading



**From Amazon.com:** Comments from the publisher, Beard Books: “Megamergers portrays the players, the strategies, the laws, and the consequences of the largest merger wave in the history of world business. In the 70s and 80s billion-dollar takeovers by giant oil, tobacco, automobile, steel, and financial firms rocked the business community. With keen analytic insight, Kenneth M. Davidson details the economic, personal, and sociological conditions that contributed to the favorable takeover environment and shows why laws did not forbid large takeovers and why they might in the future. He describes why they happen, how they are done, and what takeovers mean to government and business.”



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*Second, the same technology has become a decisive weapon for revolutionary companies, strong on people policies, low on hierarchy, fluid, flexible, and fleet. Often created by the entrepreneurial spirits mentioned above, these new competitors have decisive advantages over the mighty and muscle-bound” (Heller).*

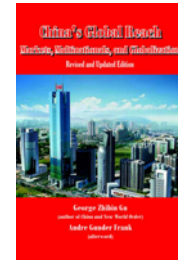
**As the world increasingly enters an era of openness, will globalization help or hinder old-fashioned multinational corporations? How will these mammoth companies interact with the more nimble, technology-based multinationals of the future?**

As you move forward with scenario planning in your professional life, consider extending the same consideration to your personal life, examining what is possible and exploring questions that have no clear answers. This exercise in futurity is about finding out how you factor into the big picture. It's about understanding where you've come from to effectively navigate where you're going. It's never about reaching an endpoint; rather, it's about adapting to the present, learning about the past, and guiding yourself into the future. They say **it's all about the journey**, and they're right.

### Sources:

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### **FOOD FOR YOUR BRAIN: Suggested Reading**



From **Amazon.com**: “China’s Global Reach: Markets, Multinationals, and Globalization – George Zhibin Gu is a journalist/consultant based in Guangdong, China. A native of Xian, he obtained education at Nanjing University in China and Vanderbilt University and the University of Michigan in the United States. He holds two MS degrees and a Ph.D. from the University of Michigan. For the past two decades, he has been an investment banker and business consultant with a focus on China. His work focuses on helping international businesses to invest in China and the Chinese companies to expand overseas ... He generally covers mergers and acquisitions, venture capital, business expansion, and restructuring.”

**This is the final commentary in the Futurity Series.**

I hope you've enjoyed reading them as much as I've enjoyed writing them. Thank you for the opportunity to think critically about my world and the world I will leave to my children and my children's children. These issues impact everyone, and it's not too late to enlighten our global consciousness.

**HAPPY PLANNING!**