NEAR EAST UNIVERSITY

FACULTY OF ECONOMICS AND ADMINISTRATIVE SCIENCES DEPARTMENT OF BUSINESS ADMINISTRATION

MULTINATIONAL ENTERPRISES ; THEIR PRODUCTIVITY AND EFFECTIVENESS

- MAN 400 -

GRADUATION PROJECT

Submitted by : M. Nuri DİREKÇİ / 20001295

LEFKOŞA / 2003

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ABSTRACT

A multinational enterprise is a firm that has productive capacity in a number of countries. The profit and income flows that they generate are part of the foreign capital flows moving between countries. As countries adopt more open outward oriented approaches to economic growth and development the role of multinational enterprises. As local markets throughout the world are being deregulated and liberalised foreign firms are looking to locate part of the production process in other countries where there are cost advantages. These might be cheaper sources of labour, raw materials and components or have preferential government regulation.

Multinational companies have very big share in the world market. In the worldwide 20 per cent of the population hold 86 per cent of gross global product, 82 per cent of the world exports market, 68 percent of direct foreign investment and 74 per cent of the phone lines.

My main aim is to show the structure of multinational enterprises and the strategies of MNE to reach the success and survive in the world market. In addition, I divided up my presentation into six parts, these are; Historical Background, General Policies of MNE, Financial Analysis, An Assessment Of Problems, Conclusion and Recommendations

INTRODUCTION

Today's globalise and highly competitive world markets needs to develop new trade areas and investments in that markets. So especially today Multinational enterprises are necessary for our world. **Multinational Enterprises** are headquartering in one country but have operations in other countries. Multinational companies, sometimes known as transnational corporations and they are a very important feature of the modern, globalise economy. A multinational company may be defined as one which operates in a number of countries and has production or service facilities outside its country of origin or we can describe it as a Multinational Enterprises is any business that has productive activities in two or more countries.

Operation managers use some functions to achieve their organizational objectives, these are Productivity and Effectiveness. We can explain these functions as following; **Productivity** is the relative measure of output per labour hour or machine hour often expressed as a ratio of output to input. The greater the productivity ratio, the more efficient the operating system. **Effectiveness** is a measure of how well an organization accomplishes its goals.

Sang M. Lee, Marc J. Schniederjans, Operations Management, (Houghton Mifflin Company, 1994) p: .18

I chose Multinational Enterprises, their productivity and effectiveness for my graduation project because Multinational Enterprises are very important in the world and the new "world order" is the ability for MNE's to do business in countries which were inaccessible a few years ago. MNE's have the possibility to operate in countries where external control of their

practices is difficult if not impossible (China, for example). When I started to prepare this project I got information from internet, different books and lecture notes.

The role of multinational enterprises in the world economy has increased steadily in the decades following the Second World War. The combined sales of the top 200 corporations exceed the combined income of 182 countries, all but the nine largest economies. More than 50 of the world's leading 100 economies are MNE's, not countries. The growing role of MNE's in the world economy has affected the behaviour of national and local governments. Sometimes it seems as if there is as much or more competition among governments for investment than there is among companies for market share. As they grow bigger and more powerful, MNE's become more important for their respective governments. They are seen as important contributors to their home economy and may become part of government foreign policy priorities.

After some researches I understood that there is enough information about that topic so I determined to study on it. I have prepared this project to overview the structure of MNE from different angles. And try to show what are their strategies to reach the success or productivity and what are their position in the world, how is their effectiveness to the world's globalisation market.

I can list the major topics in my project as following; Historical Background, General Policies of MNE, Financial Analysis, An Assessment of Problems and lastly Conclusion and Recommendations. In "historical background" there is some information about multinational enterprises such as; historical background of multinational enterprises and their expansion to the world market, productivity process and I tried to show how productivity can be maximize,

I. HISTORICAL BACKGROUND

1.1. Historical Background & Expansion of Multinational Enterprises

The history of multinational companies could be said to have begun with the founding of the British East India Company in 1600. Since the end of the Second World War there has been a rapid growth of such companies. In the last few years, international economic development has been marked by a rapid increase in the number and expansion of multinational companies (or associations, corporations). These companies possess, control, or administer production facilities in numerous countries. At present, multinational companies (MNC) account for more than 20% of global production and intra-company trade (i.e. trade between a parent company and its foreign branches) and represent more than 25% of global trade in industrial products. The majority of foreign direct investment is made by large MNCs. The method is that parent companies provide their foreign subsidiaries with management, technology, components, and marketing in exchange for part of the products and profits. The rationale behind the existence of multinational companies is the competitive advantage derived from a global network of production and distribution. This comparative advantage is in part a result of vertical and horizontal integration with foreign affiliates. Vertical integration enables MNCs to ensure the supply of foreign raw materials and semi-finished goods and to prevent (via intra-company trade relations, i.e. transfers) problems that often arise on foreign markets. They also have better distribution facilities and a larger network of services. Through the horizontal integration of foreign branches, an MNC can protect and make better use of its monopoly position, adapt its products to the local conditions and tastes, and ensure the quality of their products. The advantage of competitiveness is based on economies of scale in finance, research, development, and the acquisition of market information. The enormous production of MNCs creates conditions for the division of labour

and specialization of production to a greater extent than small national companies. Parts and components that do not require qualified labour may be produced in countries with low wages and then sent to another country for assembly. Apart from this, MNCs and their branches usually have better access to international capital markets than purely national companies, which makes it easier for MNCs to finance large projects. They may also concentrate research and development in a few advanced countries that have the best conditions for this purpose. Above all, foreign affiliates gather information from the entire world, making it possible for the parent company to have a better position than national companies, in terms of valuation, forecast, and the exploitation of changes in comparative costs, customer tastes, and in market conditions. (http://www.jusbiz.org)

Multinational enterprises play an important part in the economies of most countries and in international economic relations. And also we can say that globalisation is the increasing power of MNE's. MNE's have the power to disrupt collective bargaining agreements or bargaining structures. With the ever present threat of relocation to countries with low wages, low standards and a low degree of organisation, MNE's are in a strong position to put pressure on trade unions and their workers, as well as their governments, to accept whatever they are proposing. This is of increasing interest to governments as well as to employers and workers and their respective organizations. Through international direct investment and other means such enterprises can bring substantial benefits to home and host countries by contributing to the more efficient utilization of capital, technology and labour. Multinational enterprises can make to economic and social progress and to minimize and resolve the difficulties.

1.2. Productivity Process

I will try to show productivity with an instance. For example we can take the automobile sector and we can see formulate of productivity and we can understand that which operation is more productive for our company by this formulate.

Current plant productivity ratio = Output / Input =Number of automobiles/Hours of operation

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A new procedure in the production of automobiles can improve efficiency by saving 20 percent of the labour hours required to produce the automobiles. The new procedure is implemented to save the input of labour and the plant's new productivity ratio is

New plant productivity ratio = 100 / 80 = 1.25

The new productivity ratio reflects the increase in the productivity caused by decrease in required input for desired output. After using this new procedure for some time, however the operations manager observes that it causes defects in the automobiles. Because the organization is no longer accomplishing its objective of producing defect-free automobiles, it is no longer performing its job effectively. To correct the defects in the automobiles, the current 80 hours of operation must be increased to 120 hours. The productivity ratio is then revised to

Revised plant productivity ratio = 100 / 120 = .833

By producing defect – free automobiles, the organization is again effectively performing its job. Unfortunately, as the last ratio indicates, it is not performing its job as productively as it was before it changed the manufacturing procedures. Ideally, this automobile manufacturer should try to continue to be effective and at the same time improve efficiency, such as by decreasing labour input, to truly increase its productivity. Typically, an organization must improve quality to improve overall productivity because by doing so, cost of reworking and scrap caused by poor quality are reduced.

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The impact on an organization of increasing productivity is characterized by the concept of productivity cycling. The productivity cycle represent a logical sequence of events by which an organization can reap benefits because of an increase in productivity. The sequence of events can occur in any order but includes the following:

1. Improvements in productivity or flexibility (or both) are incurred by improved product quality, increased skills of human resources, improved work systems or procedures, or the introduction of new technology.

2. The improvements permit an organization to reduce its input relative to its output, which can reduce operating costs. Improved product or service quality, for example, can reduce rework and scrap costs; improved flexibility can reduce setup costs during changeovers for different products.

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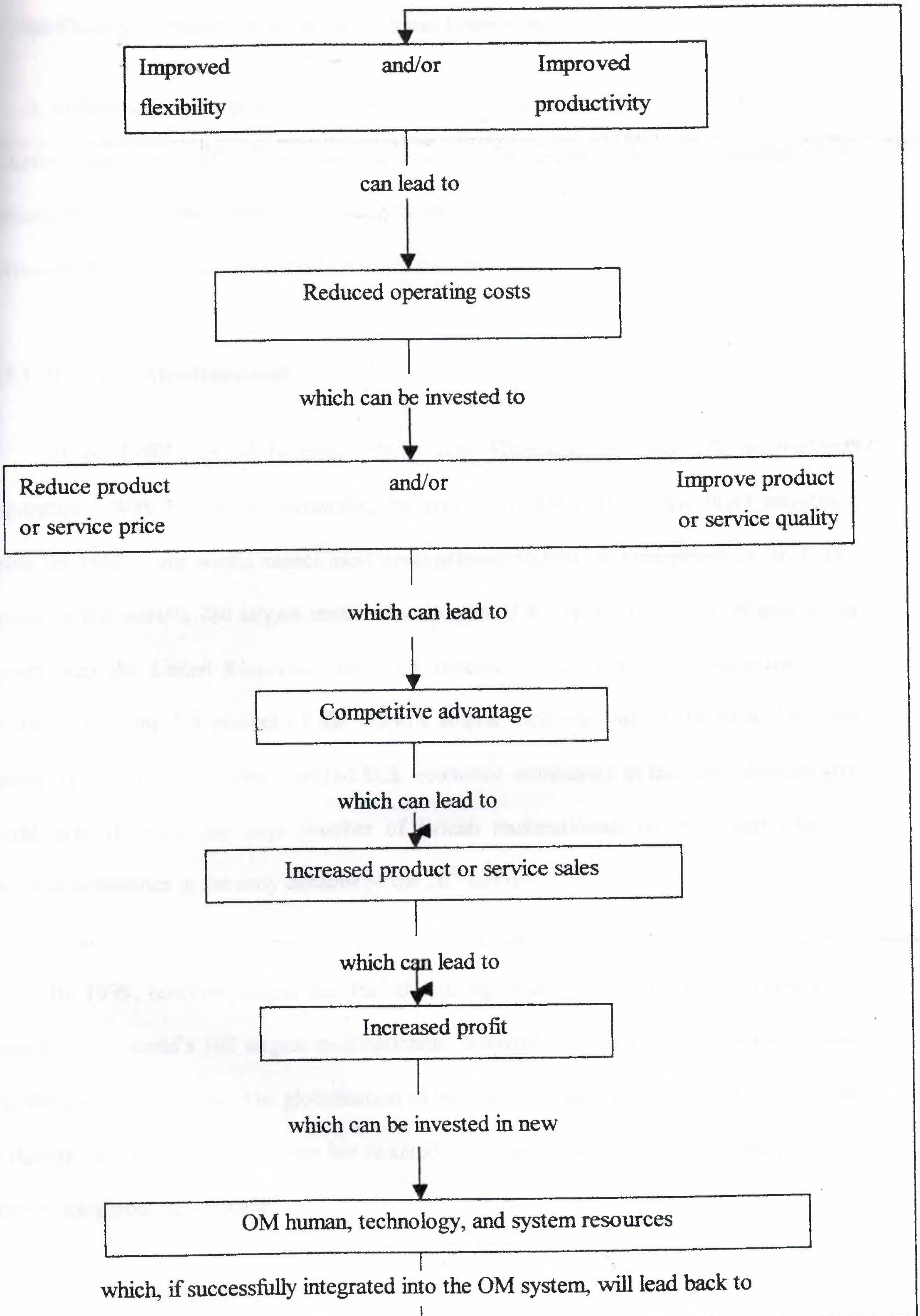

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1.3. The Changing Nature of the Multinational Enterprise

A multinational enterprise is any business that has productive activities in two or more countries. Since the 1960's, there have been two notable trends in the demographics of the multinational enterprises; firstly the rise of non-U.S. multinationals, particularly Japanese multinationals and secondly the growth of mini-multinationals.

1.3.1. Non-U.S. Multinationals

In the 1960's, global business activity was dominated by large U.S. multinational corporations. With U.S. firms accounting for about two-thirds of foreign direct investment during the 1960's, one would expect most multinationals to be U.S. enterprises. In 1973, 48.5 percent of the world's 260 largest multinationals were U.S. firms. The second largest source country was the United Kingdom, with 18.8 percent of the largest multinationals. Japan accounted for only 3.5 percent of the world's largest multinationals at the time. The large number of U.S. multinationals reflected U.S. economic dominance in the three decades after World War II, while the large number of British multinationals reflected that country's industrial dominance in the early decades of the 20th century.

By 1999, however, things had had shifted significantly. U.S. firms accounted for 26 percent of the world's 100 largest multinationals, followed by Japan with 17 percent. France was third with 13 percent. The globalisation of the world economy together with Japan's rise to the top rank of economic powers has resulted in a relative decline in the dominance of U.S. firms in the global marketplace.

According to United Nations data, the ranks of the world's largest 100 multinationals are still dominated by firms from developed economies. However for the first time three firms from developing economies entered the U.N's list of the 100 largest multinationals. They were Hutchison Whampoa of Hong Kong, China, which ranked 48 in terms of foreign assets, Petroleos de Venezuela of Venezuela, which ranked 84 and Cemex of Mexico, which came in at 100. However if we look at smaller firms, it is evident that there has been growth in the number of multinationals from developed economies. At the end of 1990's the largest 50 multinationals from developing economies had foreign sales of $ 103 billion out of total sales of $ 453 billion and employed 483,129 people outside of their home country. Some 22 percent of these companies came from Hong Kong, 16.7 percent from Korea, 8.8 percent from China and 7.6 percent from Brazil. Looking to the future we can reasonably expect growth of new multinational enterprises from the world's developing nations.

1.3.2. The Rise of Mini-Multinationals

Another trend in international business has been the growth of medium sized and small multinationals (mini multinationals). When people think of international businesses, they tend to think of firms such as Exxon, General Motors, Ford, Fuji, Kodak, Matsushita, Procter&Gamble, Sony and Unilever large, complex multinational corporations with operations that span the globe. Although it is certainly true that most international trade and investment is still conducted by large firms, it is also true that many medium sized and small businesses are becoming increasingly involved in international trade and investment. For example consider Lubricating Systems, which manufactures lubricating fluids for machine tools, employs 25 people and generates sales of $ 6.5 million. It's hardly a large, complex multinational, yet more than $ 2 million of the company's sales are generated by exports to a score of countries from Japan to Israel and the Arab Emirates. Lubricating System also has set up a joint venture with a German company to serve the European market. Consider also Lixi,inc a small U.S manufacturer of industrial X-ray equipment;70 percent of Lixi's $ 4.5 million in revenues comes from exports to Japan. Or take G.W Barth, a manufacturer of cocoa-bean roasting machines. International business is conducted not just by large firms but also by medium-sized and small enterprises.

1.4. A General Looking to multinational Companies

Multinational companies, as General Motors, Procter and Gamble, Shell, Pepsi and Xerox, are large institutions with branches all over the world; furthermore, some of these branches own other branches, of the same company, in other countries. For instance, Proctor and Procter and Gamble - United States of America, own Gamble -Egypt and the head office in Switzerland in turn own this. Thus, multinational companies exist all over the world employing a large number of employees. They are owned either by businessmen, or shareholders, or other institutions; however, in some countries, the law stipulates that the domestic shareholders should own a large share in the company. Thus, the ownership of these companies is intricate and needs a separate study. Moreover, the volume of business of some of these companies is larger than the national income of some countries. For example, General Motors' volume of business was greater than the national income of Switzerland Consequently; multinational companies have a significant influence on our daily life.

In addition, multinational companies have a serious effect on the world economy. Firstly the size of their business and the factories they own are extremely large; they are able to monopolize the production of certain goods. However, a monopoly of consumer or capital goods has a negative effect on consumers and the economy as well, because it leads to an increase in prices which harm vulnerable economies, for example, if General Motors monopolizes the production of trucks, the price of goods will increase, as transportation will be costly due to the expensive price of trucks. Secondly, these companies have a huge number of employees working in their branches around the world. The average salary of these employees affects the national income of the countries; in addition with this huge number of employees, multinational companies have the power to affect the employment rate all over the world. For instance, if Proctor and Gamble decided to decrease its number of employees by forty percent, hundred of thousands of employees would lose their jobs; consequently, the rate of unemployment would increase. Lastly we can say that multinational companies have certain methods to control the world politically and economically; moreover, their power is growing by the time. In the future, multinational companies would have direct influence on many countries economy and politics, as the size of their business because they try to get more power day by day.

1.5. The Comparison between Local and Multinational Companies

Nowadays the world is going to globalization and globalization refers to shift toward a more integrated and interdependent world economy, so multinational companies become more important and powerful than local companies In comparison with national companies, multinational companies are in a much better situation in the area of control or environmental change, where they act in their own favour. For example, in determining where to build a factory for the production of a certain component, an MNC may look for and select the country with low wages and other cost-related advantages, which best satisfies its financial and non-financial requirements. The very size of multinational companies in relation to the local companies makes it easier for MNC (compared with national firms) to influence the policies of local governments and to derive advantages from it. In addition, MNCs may purchase local companies in order to eliminate prospective competitors. Due to increased diversification, MNCs face lower risks and usually have higher profits than local companies. A multinational company has, in fact, all or most of the advantages when compared with local companies, and this explains their current growth and significance.

1.6. The Reasons to Become Multinational Enterprises

There are a number of reasons why companies decide to become multinational by investing in overseas operations. There may be a desire to have production facilities nearer to the market or their source of raw materials in order to keep down transport costs. If a country has high tariffs on imported goods, establishment of a factory in that country may be seen as a way of obtaining tariff-free access to that market. It has been suggested that companies may decide to locate in a particular country for less reputable motives, although multinational companies, like all businesses, are primarily motivated by a desire to make profits, their establishment of production facilities in developing countries may be beneficial to the peoples of countries in certain ways. And we can summarize the reasons to become Multinational Enterprises as following;

1. They can protect themselves from the risks and uncertainness of the domestic business cycle.
2. They can join a growing world market for their goods and services. (Ex: U.S. MNEs primary targets Europe and Asia)
3. A response to increased foreign competition and to protect world market shares.(Using "follow the competitor" strategy)

4. A desire to reduce costs. (Transportation, labour, resource middleman)
5. A desire to overcome tariff barriers.
6. A desire to take advantage of technological expertise by manufacturing goods directly rather than allowing others to do it under a licence agreement.

II. GENERAL POLICIES OF MNE

Enterprises should:

1. Take fully into account established general policy objectives of the Member countries in which they operate;
2. In particular, give due consideration to those countries' aims and priorities with regard to economic and social progress, including industrial and regional development, the protection of the environment and consumer interests, the creation of employment opportunities, the promotion of innovation and the transfer of technology;
3. While observing their legal obligations concerning information, supply their entities with supplementary information the latter may need in order to meet requests by the authorities of the countries in which those entities are located for information relevant to the activities of those entities, taking into account legitimate requirements of business confidentiality;
4. Favour close co-operation with the local community and business interests;
5. Allow their component entities freedom to develop their activities and to exploit their competitive advantage in domestic and foreign markets, consistent with the need for specialisation and sound commercial practice;
6. When filling responsible posts in each country of operation, take due account of individual qualifications without discrimination as to nationality, subject to particular national requirements in this respect;
7. Not render and they should not be solicited or expected to render any bribe or other improper benefit, direct or indirect, to any public servant or holder of public office;
8. Unless legally permissible, not make contributions to candidates for public office or to political parties or other political organisations;
9. Abstain from any improper involvement in local political activities.

(http://www.itcilo.it)

2.1. The Benefits of Multinational Enterprises

There are many benefits of multinational enterprises so governments all over the world spend large a mounts of resources in order to attract multinational companies to their region or country, often based on the assumption that such companies generate various types of positive externalities, or spillovers, to domestic firm. Because they know that if they attract multinational enterprises to their country, in a specific period, it will provide many benefits for their country. For example the creation of jobs, which is the main reason why developing countries seek to attract multinational companies. Often the number of jobs in their subsidiary companies grows faster than in local companies. Also, wages and salaries may be higher in those subsidiary companies than in comparative domestic sectors. The multinational companies may also bring improved technologies and processes, which may be transferred to local firms and so raise productivity levels throughout the developing country's economy. They may also bring higher labour standards and higher environmental standards, through the introduction of cleaner and more advanced technologies. In addition, they pay taxes and so provide revenue for the host country's government. In these and other ways multinational companies activities may help to improve the situation of people in developing countries. By the way they will have many new job areas and they can decrease their unemployment. And also we can give the other reasons as following;

- A MNE investing in an area may result in a significant injection into the local economy. This may provide jobs directly or through the growth of local ancillary businesses such as banks and insurance. It might initiate a multiplier process generating more income as newly employed workers spend their wages on consumption.
- MNEs may provide training and education for employees thus creating a higher skilled labour force providing access to modern technological and management know-how

(e.g. research, development, marketing, finance); these skills may be transferred to other areas of the host country. Often management and entrepreneurial skills learned from MNEs are an important source of human capital.

- MNEs will contribute tax revenue to the government and other revenues if they purchase existing national assets as in the case in Zambia through the privatisation process.

2.2. Productivity and Multinational Enterprises

Productivity increases are critical for output and economic welfare to rise overtime. If growth is instead due to more inputs, welfare typically rises by less, because work generates less utility than taking leisure. The absence of productivity growth would also impose more narrow limits to growth, as inputs such as the work time in a day cannot be augmented indefinitely. These considerations are consistent with recent cross-country evidence. Differences in productivity growth are found to be a major determinant of differences in income growth (Easterly and Levine 2001), and differences in income levels across countries can be to a large extent traced back to differences in productivity levels (Prescott 1998, Hall and Jones 1999).

Why do these differences in productivity exist? Instead of the view that this is simply due to technological change occurring at different rates in isolated countries, some authors have argued that the international diffusion of technological knowledge between more or less--open economies is key to understanding cross-country productivity differences. Recent estimates that domestic productivity growth is derived ultimately from foreign sources in most countries of the world supports this view. (Eaton and Kortum1999, Keller 2002a).

When an economy liberalizes to become more open, broadly speaking, there might be market- as well as non-market mechanisms through which the technological knowledge of foreign firms can affect domestic productivity. First, foreign firms might exert competitive pressures that force domestic firms to change their pricing behaviour, eliminate inefficiencies and become thus more productive. Market mechanisms can also operate even with fully competitive markets: the change in relative prices associated with trade liberalization, e.g., can lead to productivity gains through a more efficient pattern of specialization.

MNE subsidiary can be attracted to domestic firms (Fosfuri, Motta, and Rønde 2001), because multinationals give access to new specialized intermediate inputs (Rodriguez-Clare' 1996), or because domestic firms use local intermediate goods supplier chains whose productivity has been raised through the know-how of the MNE.

I want to show the productivity and efficiency with an instance, in this example I will show the productivity of Brazil;

The purpose of this paper is to estimate and analyse productivity growth in two groups of industry firms in Brazil: multinational and national companies. It has been argued that the process of trade liberalization has allowed domestic firms to import technology and maintained a rate of technical progress compatible with the one attained by foreign firms. In theoretical terms, productivity growth is defined as a consequence of technological change – which is a result of a reduction in the average costs of the firm - and technical efficiency, which is due to management quality and demand conditions. Efficiency and technological innovation is obtained from the estimation of a stochastic production frontier, given by:

It e t X f Y it

e), ( ) 1 (=

Where *it* Y. is the current output,*_t X f it,* describes the maximum output (or frontier output). We assume also that *it v e+ =e,* where *it e* is a technical efficiency rate and *it v* is purely random, i.e._2, 0 ~ *v it N v s.* Equation (1) allows us to estimate the growth of the multifactor productivity as a composition of technological growth and change in technical efficiency. In empirical terms, this paper differs from previous works due to the data shortage in the period of analysis. To overcome data (1995 to 1998) restrictions, the stochastic production functions are estimated using a panel data model. Both samples are constituted by the 17 largest industries companies in Brazil ranked by gross sales. The results indicate that the increase of productivity is two times higher in the multinational sector than in the national one. Technological change is the dominant factor in the increase of productivity in both industrial sectors. Changes in efficiency are very low for national and multinational companies are around 8% higher in multinational companies.

(http://in3.dem.ist.utl.pt/downloads/cur2000/posters/pos037.pdf)

NEAR EAST UNIVERSITY

FACULTY OF ECONOMICS AND ADMINISTRATIVE SCIENCES DEPARTMENT OF BUSINESS ADMINISTRATION

MULTINATIONAL ENTERPRISES ; THEIR PRODUCTIVITY AND EFFECTIVENESS

- MAN 400 -

GRADUATION PROJECT

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ABSTRACT

A multinational enterprise is a firm that has productive capacity in a number of countries. The profit and income flows that they generate are part of the foreign capital flows moving between countries. As countries adopt more open outward oriented approaches to economic growth and development the role of multinational enterprises. As local markets throughout the world are being deregulated and liberalised foreign firms are looking to locate part of the production process in other countries where there are cost advantages. These might be cheaper sources of labour, raw materials and components or have preferential government regulation.

Multinational companies have very big share in the world market. In the worldwide 20 per cent of the population hold 86 per cent of gross global product, 82 per cent of the world exports market, 68 percent of direct foreign investment and 74 per cent of the phone lines.

My main aim is to show the structure of multinational enterprises and the strategies of MNE to reach the success and survive in the world market. In addition, I divided up my presentation into six parts, these are; Historical Background, General Policies of MNE, Financial Analysis, An Assessment Of Problems, Conclusion and Recommendations

INTRODUCTION

Today's globalise and highly competitive world markets needs to develop new trade areas and investments in that markets. So especially today Multinational enterprises are necessary for our world. **Multinational Enterprises** are headquartering in one country but have operations in other countries. Multinational companies, sometimes known as transnational corporations and they are a very important feature of the modern, globalise economy. A multinational company may be defined as one which operates in a number of countries and has production or service facilities outside its country of origin or we can describe it as a Multinational Enterprises is any business that has productive activities in two or more countries.

Operation managers use some functions to achieve their organizational objectives, these are Productivity and Effectiveness. We can explain these functions as following; **Productivity** is the relative measure of output per labour hour or machine hour often expressed as a ratio of output to input. The greater the productivity ratio, the more efficient the operating system. **Effectiveness** is a measure of how well an organization accomplishes its goals.

Sang M. Lee, Marc J. Schniederjans, Operations Management, (Houghton Mifflin Company, 1994) p: .18

I chose Multinational Enterprises, their productivity and effectiveness for my graduation project because Multinational Enterprises are very important in the world and the new "world order" is the ability for MNE's to do business in countries which were inaccessible a few years ago. MNE's have the possibility to operate in countries where external control of their

practices is difficult if not impossible (China, for example). When I started to prepare this project I got information from internet, different books and lecture notes.

The role of multinational enterprises in the world economy has increased steadily in the decades following the Second World War. The combined sales of the top 200 corporations exceed the combined income of 182 countries, all but the nine largest economies. More than 50 of the world's leading 100 economies are MNE's, not countries. The growing role of MNE's in the world economy has affected the behaviour of national and local governments. Sometimes it seems as if there is as much or more competition among governments for investment than there is among companies for market share. As they grow bigger and more powerful, MNE's become more important for their respective governments. They are seen as important contributors to their home economy and may become part of government foreign policy priorities.

After some researches I understood that there is enough information about that topic so I determined to study on it. I have prepared this project to overview the structure of MNE from different angles. And try to show what are their strategies to reach the success or productivity and what are their position in the world, how is their effectiveness to the world's globalisation market.

I can list the major topics in my project as following; Historical Background, General Policies of MNE, Financial Analysis, An Assessment of Problems and lastly Conclusion and Recommendations. In "historical background" there is some information about multinational enterprises such as; historical background of multinational enterprises and their expansion to the world market, productivity process and I tried to show how productivity can be maximize,

I. HISTORICAL BACKGROUND

1.1. Historical Background & Expansion of Multinational Enterprises

The history of multinational companies could be said to have begun with the founding of the British East India Company in 1600. Since the end of the Second World War there has been a rapid growth of such companies. In the last few years, international economic development has been marked by a rapid increase in the number and expansion of multinational companies (or associations, corporations). These companies possess, control, or administer production facilities in numerous countries. At present, multinational companies (MNC) account for more than 20% of global production and intra-company trade (i.e. trade between a parent company and its foreign branches) and represent more than 25% of global trade in industrial products. The majority of foreign direct investment is made by large MNCs. The method is that parent companies provide their foreign subsidiaries with management, technology, components, and marketing in exchange for part of the products and profits. The rationale behind the existence of multinational companies is the competitive advantage derived from a global network of production and distribution. This comparative advantage is in part a result of vertical and horizontal integration with foreign affiliates. Vertical integration enables MNCs to ensure the supply of foreign raw materials and semi-finished goods and to prevent (via intra-company trade relations, i.e. transfers) problems that often arise on foreign markets. They also have better distribution facilities and a larger network of services. Through the horizontal integration of foreign branches, an MNC can protect and make better use of its monopoly position, adapt its products to the local conditions and tastes, and ensure the quality of their products. The advantage of competitiveness is based on economies of scale in finance, research, development, and the acquisition of market information. The enormous production of MNCs creates conditions for the division of labour

and specialization of production to a greater extent than small national companies. Parts and components that do not require qualified labour may be produced in countries with low wages and then sent to another country for assembly. Apart from this, MNCs and their branches usually have better access to international capital markets than purely national companies, which makes it easier for MNCs to finance large projects. They may also concentrate research and development in a few advanced countries that have the best conditions for this purpose. Above all, foreign affiliates gather information from the entire world, making it possible for the parent company to have a better position than national companies, in terms of valuation, forecast, and the exploitation of changes in comparative costs, customer tastes, and in market conditions. (http://www.jusbiz.org)

Multinational enterprises play an important part in the economies of most countries and in international economic relations. And also we can say that globalisation is the increasing power of MNE's. MNE's have the power to disrupt collective bargaining agreements or bargaining structures. With the ever present threat of relocation to countries with low wages, low standards and a low degree of organisation, MNE's are in a strong position to put pressure on trade unions and their workers, as well as their governments, to accept whatever they are proposing. This is of increasing interest to governments as well as to employers and workers and their respective organizations. Through international direct investment and other means such enterprises can bring substantial benefits to home and host countries by contributing to the more efficient utilization of capital, technology and labour. Multinational enterprises can make to economic and social progress and to minimize and resolve the difficulties.

1.2. Productivity Process

I will try to show productivity with an instance. For example we can take the automobile sector and we can see formulate of productivity and we can understand that which operation is more productive for our company by this formulate.

Current plant productivity ratio = Output / Input =Number of automobiles/Hours of operation
= 100 / 100 = 1

A new procedure in the production of automobiles can improve efficiency by saving 20 percent of the labour hours required to produce the automobiles. The new procedure is implemented to save the input of labour and the plant's new productivity ratio is

New plant productivity ratio = 100 / 80 = 1.25

The new productivity ratio reflects the increase in the productivity caused by decrease in required input for desired output. After using this new procedure for some time, however the operations manager observes that it causes defects in the automobiles. Because the organization is no longer accomplishing its objective of producing defect-free automobiles, it is no longer performing its job effectively. To correct the defects in the automobiles, the current 80 hours of operation must be increased to 120 hours. The productivity ratio is then revised to

Revised plant productivity ratio = 100 / 120 = .833

By producing defect – free automobiles, the organization is again effectively performing its job. Unfortunately, as the last ratio indicates, it is not performing its job as productively as it was before it changed the manufacturing procedures. Ideally, this automobile manufacturer should try to continue to be effective and at the same time improve efficiency, such as by decreasing labour input, to truly increase its productivity. Typically, an organization must improve quality to improve overall productivity because by doing so, cost of reworking and scrap caused by poor quality are reduced.

Sang M. Lee, Marc J. Schniederjans, Operations Management, (Houghton Mifflin Company, 1994) p: 19

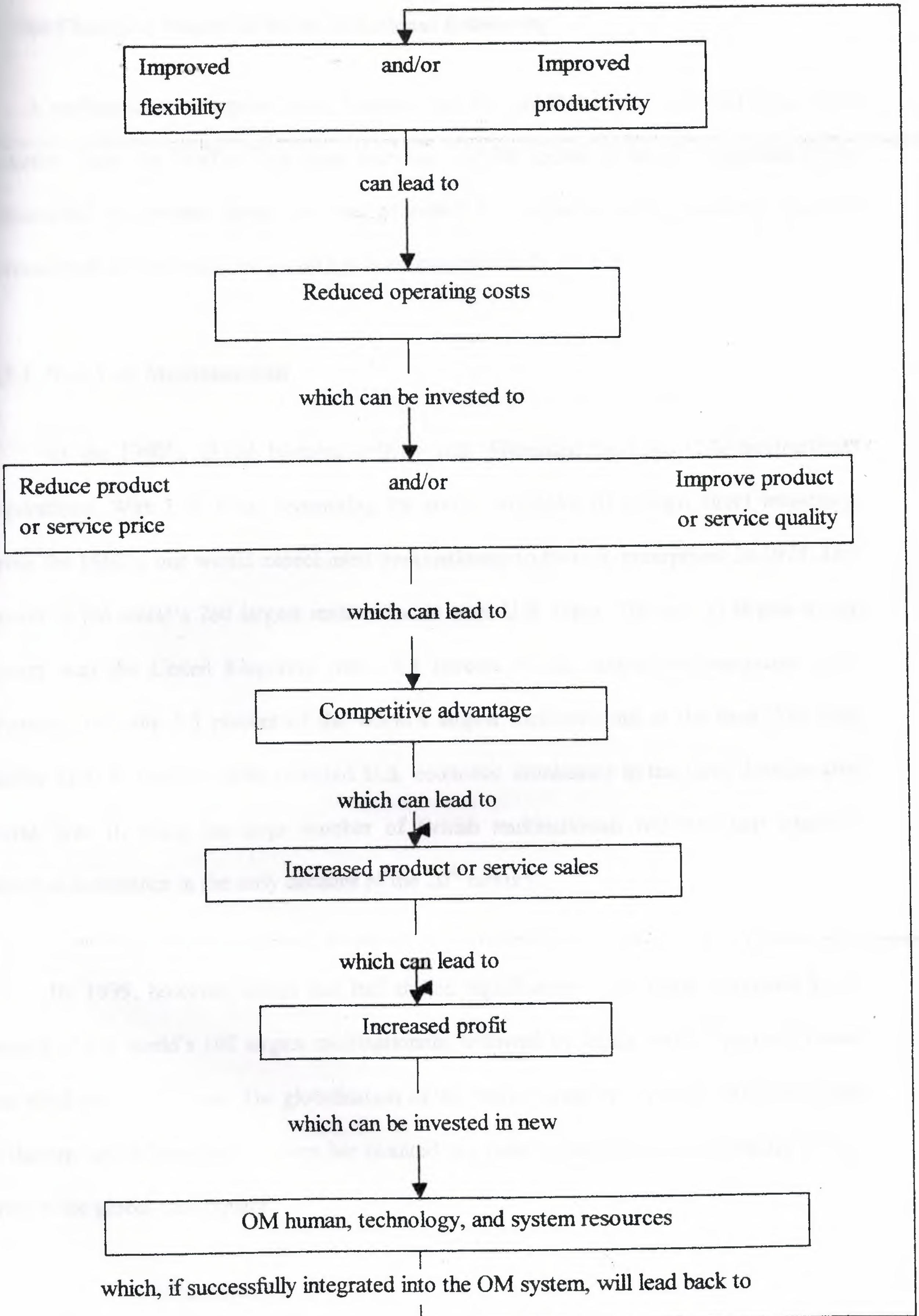
1.2.1. Maximizing the Productivity Cycle

The impact on an organization of increasing productivity is characterized by the concept of productivity cycling. The productivity cycle represent a logical sequence of events by which an organization can reap benefits because of an increase in productivity. The sequence of events can occur in any order but includes the following:

1. Improvements in productivity or flexibility (or both) are incurred by improved product quality, increased skills of human resources, improved work systems or procedures, or the introduction of new technology.

2. The improvements permit an organization to reduce its input relative to its output, which can reduce operating costs. Improved product or service quality, for example, can reduce rework and scrap costs; improved flexibility can reduce setup costs during changeovers for different products.

There is a figure which shows the productivity cycle as following;



Sang M. Lee, Marc J. Schniederjans, Operations Management, (Houghton Mifflin Company, 1994) p: 20

1.3. The Changing Nature of the Multinational Enterprise

A multinational enterprise is any business that has productive activities in two or more countries. Since the 1960's, there have been two notable trends in the demographics of the multinational enterprises; firstly the rise of non-U.S. multinationals, particularly Japanese multinationals and secondly the growth of mini-multinationals.

1.3.1. Non-U.S. Multinationals

In the 1960's, global business activity was dominated by large U.S. multinational corporations. With U.S. firms accounting for about two-thirds of foreign direct investment during the 1960's, one would expect most multinationals to be U.S. enterprises. In 1973, 48.5 percent of the world's 260 largest multinationals were U.S. firms. The second largest source country was the United Kingdom, with 18.8 percent of the largest multinationals. Japan accounted for only 3.5 percent of the world's largest multinationals at the time. The large number of U.S. multinationals reflected U.S. economic dominance in the three decades after World War II, while the large number of British multinationals reflected that country's industrial dominance in the early decades of the 20th century.

By 1999, however, things had had shifted significantly. U.S. firms accounted for 26 percent of the world's 100 largest multinationals, followed by Japan with 17 percent. France was third with 13 percent. The globalisation of the world economy together with Japan's rise to the top rank of economic powers has resulted in a relative decline in the dominance of U.S. firms in the global marketplace.

According to United Nations data, the ranks of the world's largest 100 multinationals are still dominated by firms from developed economies. However for the first time three firms from developing economies entered the U.N's list of the 100 largest multinationals. They were Hutchison Whampoa of Hong Kong, China, which ranked 48 in terms of foreign assets, Petroleos de Venezuela of Venezuela, which ranked 84 and Cemex of Mexico, which came in at 100. However if we look at smaller firms, it is evident that there has been growth in the number of multinationals from developed economies. At the end of 1990's the largest 50 multinationals from developing economies had foreign sales of $ 103 billion out of total sales of $ 453 billion and employed 483,129 people outside of their home country. Some 22 percent of these companies came from Hong Kong, 16.7 percent from Korea, 8.8 percent from China and 7.6 percent from Brazil. Looking to the future we can reasonably expect growth of new multinational enterprises from the world's developing nations.

1.3.2. The Rise of Mini-Multinationals

Another trend in international business has been the growth of medium sized and small multinationals (mini multinationals). When people think of international businesses, they tend to think of firms such as Exxon, General Motors, Ford, Fuji, Kodak, Matsushita, Procter&Gamble, Sony and Unilever large, complex multinational corporations with operations that span the globe. Although it is certainly true that most international trade and investment is still conducted by large firms, it is also true that many medium sized and small businesses are becoming increasingly involved in international trade and investment. For example consider Lubricating Systems, which manufactures lubricating fluids for machine tools, employs 25 people and generates sales of $ 6.5 million. It's hardly a large, complex multinational, yet more than $ 2 million of the company's sales are generated by exports to a score of countries from Japan to Israel and the Arab Emirates. Lubricating System also has set up a joint venture with a German company to serve the European market. Consider also Lixi,inc a small U.S manufacturer of industrial X-ray equipment;70 percent of Lixi's $ 4.5 million in revenues comes from exports to Japan. Or take G.W Barth, a manufacturer of cocoa-bean roasting machines. International business is conducted not just by large firms but also by medium-sized and small enterprises.

1.4. A General Looking to multinational Companies

Multinational companies, as General Motors, Procter and Gamble, Shell, Pepsi and Xerox, are large institutions with branches all over the world; furthermore, some of these branches own other branches, of the same company, in other countries. For instance, Proctor and Procter and Gamble - United States of America, own Gamble -Egypt and the head office in Switzerland in turn own this. Thus, multinational companies exist all over the world employing a large number of employees. They are owned either by businessmen, or shareholders, or other institutions; however, in some countries, the law stipulates that the domestic shareholders should own a large share in the company. Thus, the ownership of these companies is intricate and needs a separate study. Moreover, the volume of business of some of these companies is larger than the national income of some countries. For example, General Motors' volume of business was greater than the national income of Switzerland Consequently; multinational companies have a significant influence on our daily life.

In addition, multinational companies have a serious effect on the world economy. Firstly the size of their business and the factories they own are extremely large; they are able to monopolize the production of certain goods. However, a monopoly of consumer or capital goods has a negative effect on consumers and the economy as well, because it leads to an increase in prices which harm vulnerable economies, for example, if General Motors monopolizes the production of trucks, the price of goods will increase, as transportation will be costly due to the expensive price of trucks. Secondly, these companies have a huge number of employees working in their branches around the world. The average salary of these employees affects the national income of the countries; in addition with this huge number of employees, multinational companies have the power to affect the employment rate all over the world. For instance, if Proctor and Gamble decided to decrease its number of employees by forty percent, hundred of thousands of employees would lose their jobs; consequently, the rate of unemployment would increase. Lastly we can say that multinational companies have certain methods to control the world politically and economically; moreover, their power is growing by the time. In the future, multinational companies would have direct influence on many countries economy and politics, as the size of their business because they try to get more power day by day.

1.5. The Comparison between Local and Multinational Companies

Nowadays the world is going to globalization and globalization refers to shift toward a more integrated and interdependent world economy, so multinational companies become more important and powerful than local companies In comparison with national companies, multinational companies are in a much better situation in the area of control or environmental change, where they act in their own favour. For example, in determining where to build a factory for the production of a certain component, an MNC may look for and select the country with low wages and other cost-related advantages, which best satisfies its financial and non-financial requirements. The very size of multinational companies in relation to the local companies makes it easier for MNC (compared with national firms) to influence the policies of local governments and to derive advantages from it. In addition, MNCs may purchase local companies in order to eliminate prospective competitors. Due to increased diversification, MNCs face lower risks and usually have higher profits than local companies. A multinational company has, in fact, all or most of the advantages when compared with local companies, and this explains their current growth and significance.

1.6. The Reasons to Become Multinational Enterprises

There are a number of reasons why companies decide to become multinational by investing in overseas operations. There may be a desire to have production facilities nearer to the market or their source of raw materials in order to keep down transport costs. If a country has high tariffs on imported goods, establishment of a factory in that country may be seen as a way of obtaining tariff-free access to that market. It has been suggested that companies may decide to locate in a particular country for less reputable motives, although multinational companies, like all businesses, are primarily motivated by a desire to make profits, their establishment of production facilities in developing countries may be beneficial to the peoples of countries in certain ways. And we can summarize the reasons to become Multinational Enterprises as following;

1. They can protect themselves from the risks and uncertainness of the domestic business cycle.
2. They can join a growing world market for their goods and services. (Ex: U.S. MNEs primary targets Europe and Asia)
3. A response to increased foreign competition and to protect world market shares.(Using "follow the competitor" strategy)

4. A desire to reduce costs. (Transportation, labour, resource middleman)
5. A desire to overcome tariff barriers.
6. A desire to take advantage of technological expertise by manufacturing goods directly rather than allowing others to do it under a licence agreement.

II. GENERAL POLICIES OF MNE

Enterprises should:

1. Take fully into account established general policy objectives of the Member countries in which they operate;
2. In particular, give due consideration to those countries' aims and priorities with regard to economic and social progress, including industrial and regional development, the protection of the environment and consumer interests, the creation of employment opportunities, the promotion of innovation and the transfer of technology;
3. While observing their legal obligations concerning information, supply their entities with supplementary information the latter may need in order to meet requests by the authorities of the countries in which those entities are located for information relevant to the activities of those entities, taking into account legitimate requirements of business confidentiality;
4. Favour close co-operation with the local community and business interests;
5. Allow their component entities freedom to develop their activities and to exploit their competitive advantage in domestic and foreign markets, consistent with the need for specialisation and sound commercial practice;
6. When filling responsible posts in each country of operation, take due account of individual qualifications without discrimination as to nationality, subject to particular national requirements in this respect;
7. Not render and they should not be solicited or expected to render any bribe or other improper benefit, direct or indirect, to any public servant or holder of public office;
8. Unless legally permissible, not make contributions to candidates for public office or to political parties or other political organisations;
9. Abstain from any improper involvement in local political activities.

(http://www.itcilo.it)

2.1. The Benefits of Multinational Enterprises

There are many benefits of multinational enterprises so governments all over the world spend large a mounts of resources in order to attract multinational companies to their region or country, often based on the assumption that such companies generate various types of positive externalities, or spillovers, to domestic firm. Because they know that if they attract multinational enterprises to their country, in a specific period, it will provide many benefits for their country. For example the creation of jobs, which is the main reason why developing countries seek to attract multinational companies. Often the number of jobs in their subsidiary companies grows faster than in local companies. Also, wages and salaries may be higher in those subsidiary companies than in comparative domestic sectors. The multinational companies may also bring improved technologies and processes, which may be transferred to local firms and so raise productivity levels throughout the developing country's economy. They may also bring higher labour standards and higher environmental standards, through the introduction of cleaner and more advanced technologies. In addition, they pay taxes and so provide revenue for the host country's government. In these and other ways multinational companies activities may help to improve the situation of people in developing countries. By the way they will have many new job areas and they can decrease their unemployment. And also we can give the other reasons as following;

- A MNE investing in an area may result in a significant injection into the local economy. This may provide jobs directly or through the growth of local ancillary businesses such as banks and insurance. It might initiate a multiplier process generating more income as newly employed workers spend their wages on consumption.
- MNEs may provide training and education for employees thus creating a higher skilled labour force providing access to modern technological and management know-how

(e.g. research, development, marketing, finance); these skills may be transferred to other areas of the host country. Often management and entrepreneurial skills learned from MNEs are an important source of human capital.

- MNEs will contribute tax revenue to the government and other revenues if they purchase existing national assets as in the case in Zambia through the privatisation process.

2.2. Productivity and Multinational Enterprises

Productivity increases are critical for output and economic welfare to rise overtime. If growth is instead due to more inputs, welfare typically rises by less, because work generates less utility than taking leisure. The absence of productivity growth would also impose more narrow limits to growth, as inputs such as the work time in a day cannot be augmented indefinitely. These considerations are consistent with recent cross-country evidence. Differences in productivity growth are found to be a major determinant of differences in income growth (Easterly and Levine 2001), and differences in income levels across countries can be to a large extent traced back to differences in productivity levels (Prescott 1998, Hall and Jones 1999).

Why do these differences in productivity exist? Instead of the view that this is simply due to technological change occurring at different rates in isolated countries, some authors have argued that the international diffusion of technological knowledge between more or less--open economies is key to understanding cross-country productivity differences. Recent estimates that domestic productivity growth is derived ultimately from foreign sources in most countries of the world supports this view. (Eaton and Kortum1999, Keller 2002a).

When an economy liberalizes to become more open, broadly speaking, there might be market- as well as non-market mechanisms through which the technological knowledge of foreign firms can affect domestic productivity. First, foreign firms might exert competitive pressures that force domestic firms to change their pricing behaviour, eliminate inefficiencies and become thus more productive. Market mechanisms can also operate even with fully competitive markets: the change in relative prices associated with trade liberalization, e.g., can lead to productivity gains through a more efficient pattern of specialization.

MNE subsidiary can be attracted to domestic firms (Fosfuri, Motta, and Rønde 2001), because multinationals give access to new specialized intermediate inputs (Rodriguez-Clare' 1996), or because domestic firms use local intermediate goods supplier chains whose productivity has been raised through the know-how of the MNE.

I want to show the productivity and efficiency with an instance, in this example I will show the productivity of Brazil;

The purpose of this paper is to estimate and analyse productivity growth in two groups of industry firms in Brazil: multinational and national companies. It has been argued that the process of trade liberalization has allowed domestic firms to import technology and maintained a rate of technical progress compatible with the one attained by foreign firms. In theoretical terms, productivity growth is defined as a consequence of technological change – which is a result of a reduction in the average costs of the firm - and technical efficiency, which is due to management quality and demand conditions. Efficiency and technological innovation is obtained from the estimation of a stochastic production frontier, given by:

It e t X f Y it

e), ( ) 1 (=

Where *it* Y is the current output, *t X f it,* describes the maximum output (or frontier output). We assume also that *it v e+ =e,* where *it e* is a technical efficiency rate and *it v* is purely random, i.e. 2, 0 ~ *v it N v s.* Equation (1) allows us to estimate the growth of the multifactor productivity as a composition of technological growth and change in technical efficiency. In empirical terms, this paper differs from previous works due to the data shortage in the period of analysis. To overcome data (1995 to 1998) restrictions, the stochastic production functions are estimated using a panel data model. Both samples are constituted by the 17 largest industries companies in Brazil ranked by gross sales. The results indicate that the increase of productivity is two times higher in the multinational sector than in the national one. Technological change is the dominant factor in the increase of productivity in both industrial sectors. Changes in efficiency are very low for national and multinational companies are around 8% higher in multinational companies.

(http://in3.dem.ist.utl.pt/downloads/cur2000/posters/pos037.pdf)

III. FINANCIAL ANALYSIS

From the July 22, 2002 Issue ?

It was a record year--for losses. Of the world's 500 largest companies, 297 saw profits fall. Total earnings in 2001 were less than half what they were the previous year, by far the largest one-year drop since FORTUNE first published a Global 500 list in 1995 that included both service and industrial companies.

Just about anything to do with phones was particularly hard hit. Nortel Networks (No. 263), the Canadian telecom- equipment maker took the biggest plunge: It lost $24 billion more in 2001 than it had the year before. Britain's Vodafone saw its losses increase from $14.4 billion to $23 billion, and Nippon Telegraph & Telephone (No. 16), Japan's telecom mainstay, went from $4.2 billion in the black into deep red, with losses of $6.5 billion. All told, the 24-telecom companies in the Global 500 were $78 billion worse off this year than last.

But it wasn't a bad year for everyone. Old-economy stalwarts like chemicals giant Dupont (No. 172) saw profits surge by 88%, and Unilever (No. 68), which makes everything from diapers to ice cream, increased profits by 61%. Then there's Wal-Mart. The U.S. retailer, based in a modest town in one of America's poorest states, had revenues of $220 billion, the most of any company in history. In the process, Wal-Mart overtook Exxon Mobil as the world's biggest company, becoming the first service company to take the top spot. In Europe, BP invested heavily in retailing and added $26 billion in revenues, displacing Royal Dutch/Shell as the region's largest company. In Asia, slumping Mitsubishi lost the top spot to Toyota.

But then, change is a constant in the Global 500. In 1995 the four biggest companies on the list were Japanese--Mitsubishi, Mitsui, Itochu, and Sumitomo--as were six of the top ten. Exxon, GM, and GE from the U.S. and Royal Dutch/Shell from Europe filled out the rest of the top positions. This year only one Japanese company, Toyota, makes the cut. There are three European companies (BP, Royal Dutch/Shell, and Daimler Chrysler) and six from the U.S. In a reversal of fortune, the top three positions are held by American firms--Wal-Mart, Exxon Mobil, and General Motors.

The changes aren't only at the top. The Global 500 has proved a faithful mirror of broad economic trends. Take Japan, which has suffered several recessions since 1995, innumerable political changes, and the loss of some of its best baseball talent to the U.S. No wonder the number of Japanese companies on the list has fallen from 149 to 88. In 1995, Japanese firms accounted for more than a third of all Global 500 revenues; now it's about a fifth.

As Japan has declined, America has risen. The number of U.S. firms in the Global 500 increased from 151 in 1995 to 197 this year. In the same period, U.S. companies increased their share of total revenues from 29% to 42%. "By cutting costs and adapting rapidly to the changes in a very competitive business environment in the U.S., American companies also became more competitive abroad," says Stuart Schneider, a global strategist at J.P. Morgan Fleming. New entrants reflect this trend. Dell wasn't even on the list until 1997; now it is No. 131. Sun Microsystems, which first made the list in 1998, is No. 268.

Europe falls somewhere between the U.S. and Japan. The 15 countries that make up the EU have 143 companies on this year's list, down from 155 in 1995. But the EU's share of Global 500 revenues inched up from 28% to 30%. Again, the list reflects larger economic realities: Europe has grown faster than Japan over this period but not as fast as the U.S. With the advent of the euro, which is likely to reduce business costs, Europe should fare even better in coming years. "There is no inherent reason," says David Hale, chief economist at Zurich Financial Services in Chicago, "that Europe couldn't catch up with the U.S." Indeed, there are success stories in Europe. Nokia (No. 147), the Finnish mobile-phone manufacturer, first made the list in 1997. Now it's the standard-bearer of the cell phone industry.

One of the biggest changes since 1995 has been the emergence of China. Only three Chinese companies made the list that year. But as economic reform deepened and Chinese companies improved their accounting standards, their presence grew steadily. This year, 11 Chinese companies are on the list, in industries ranging from telecom to banking. But Chinese companies still account for less than 2% of Global 500 revenues. And some important things have yet to change in the Middle Kingdom. All 11 companies remain state-owned, and over manning is still rife. Oil giant Sinopec (No. 86) needs 937,000 employees to generate $40 billion in revenues, while Exxon's 97,900 employees bring in $192 billion.

Canada has 16 companies on the list, up from five in 1995. Six firms, three more than in 1995, represent Australia. And South Korea has 12 companies in the Global 500, up from eight, including Samsung Electronics (No. 105), which has doubled revenues and profits since 1995 while keeping employment levels almost the same. As for the rest of the world, two Russian oil companies--Lukoil (No. 422) and Gazprom (No. 236)--joined the list in 1999 and 2000, respectively. Indian Oil (No. 226) remains the only Indian company on the list, and PDVSA (No. 66), the Venezuelan oil firm, is still the sole representative from that country. Not a single African company cracked the Global 500. (www.fortune.com/fortune/global500)

IV. AN ASSESSMENT OF PROBLEMS

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).

- The MNE may employ largely expatriate managers ensuring that incomes generated are maintained within a relatively small group of people. The attraction for the MNE may be the large supply of cheap manual labour that they can employ at low wages. This may contribute to a widening of the income distribution. It will also not lead to the transfer of management skills.
- MNE investment in LDCs often involves the use of capital-intensive production methods. Given that many LDCs are often endowed with potentially large low wage labour forces and have high level of unemployment this might be considered inappropriate technology. More labour intensive production methods might be a more appropriate option for alleviating poverty and aiding development. Any resulting growth might be considered anti-developmental.
- MNEs engage in transfer pricing where they shift production between countries so as to benefit from lower tax arrangements in certain countries. By doing this they can minimise their tax burden and the tax revenue of national governments.
- As many MNEs are very large and have considerable power they can exert influence on governments to gain preferential tax concessions and subsidies and grants.

Outward oriented economists maintain that the cycles of poverty will not be broken from within the domestic economy. The level of investment needed to raise productivity and incomes is not possible. Thus foreign direct investment through the MNE activity is essential.

By investing in areas and utilising the factors of production where the LDCs have an absolute and comparative advantage MNEs will lead to a more efficient allocation of the worlds' resources. However if this leads to overspecialisation and over dependence in certain sectors of the economy then the host country will be vulnerable especially if the MNE decides for commercial reasons to leave the country in the future.

4.1. General strategies to reach the success in the world trade

There are many strategies are used to reach the success in multinational enterprises, we can explain each of them as following;

4.1.1. Global mandate

Different measures have been developed for "global strategy" in the literature, for instance, ethnocentric vs. polycentric (Perlmutter, 1969), global vs. multidomestic (Porter, 1986), global vs. multinational (Barlett & Ghoshal, 1989), and global rationalization vs. lateral centralization (Roth & O'Donnell, 1996). In essence, all these authors treat parent-level firm strategy as a dimension ranging from "global" to "multidomestic". The former strategy requires the MNE to concentrate its production and administrative activities in one location (usually the home country) in order to reap the cost and control advantages of economies of scale. With the latter strategy, foreign subsidiaries focus on their local markets, carry out production and marketing activities locally, and have a significant measure of autonomy from the headquarters (Westney, 1993).

Rosenzweig and Singh (1991) indicated that foreign subsidiaries in the global industries are more dependent on the parent and other subsidiaries within the MNE, while foreign subsidiaries in multidomestic industries are relatively self-sufficient organizations in relation to the parent, since they rely largely on the local environment for survival. As Gupta and Govindarajan (1991) suggested, the former is associated with high intensity of communication between the foreign subsidiary and the rest of the MNE, while the latter is associated with low intensity of such communication. Hill et al. (1990) also discussed the control implications of MNE strategies. A global strategy is associated with high control, while a multidomestic strategy is associated with low control. It can be inferred, therefore, that MNEs with a global orientation have higher ability to monitor managerial activities at their subsidiaries.

The focus of above discussions is on the parent company. When it comes to a specific national subsidiary, global strategy of the MNE may not reflect the actual role that particular foreign subsidiary plays. As some authors have argued, the internal structure of an MNE is not homogeneous throughout the organization, but is systematically differentiated so as to fit the different environment and resource contingencies (Ghoshal & Nohria, 1989; Lawrence & Lorsch, 1967). A more suitable indicator, therefore, may be "global mandate" of a particular subsidiary, defined here as the degree to which the subsidiary's business operations is integrated with the operations of its parent company, regardless the latter's stated global strategy.

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4.1.2. Local business strategy

Generic business strategies (Porter, 1980) employed by domestic corporations have been used by MNEs in developing economies (Kim & Lim, 1988). Two local business strategies--cost leadership and differentiation – are relevant here because of their implications on operational control and parent-subsidiary relations. A cost leadership strategy is commonly associated with internal processes of the business, and is therefore viewed as having low risk and low uncertainty (White, 1986). As this strategy benefits from "frequent detailed control reports" (Porter, 1980: 40), its task programmability is relatively high. A differentiation strategy, in contrast, is more associated with external environment of the business, thus involving higher risk and uncertainty; the tasks involved in such a strategy are characterized by such requirements as flexibility, quality, and creativity, suggesting low task programmability (White, 1986).

Theoretically, the two strategies are consistent with transaction cost and organizational capability perspectives, respectively. The former is concerned with cost minimization and equates production functions across subsidiaries, while the latter is more interested in value-creation and unique capabilities of each subsidiary (Madhok, 1997). Logically, the former would endorse more programmable tasks and tighter internal control, whereas the latter would favour the opposite.

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CONCLUSION AND RECOMMENDATIONS

Today multinational enterprises are very important part of the world economy and they determine the trend of world because the combined sales of the top 200 corporations exceed the combined income of 182 countries. More than 50 of the world's leading 100 economies are MNE's, not countries. It means that multinational companies have very strong structure and they are very success

The slow growth continued worldwide during the year 2002. If we examine the data, we will see that there are many losses in the year. Of the world's 500 largest companies, 297 saw profits fall. Total earnings in 2001 were less than half what they were the previous year. I think that this bad trend is related to the world economy because of the last two years economic growth at an international level was hindered. Some countries such as Japan and Germany are still facing recession problems, depressed growth rate and increased unemployment rates. The growth rate of oil exporting countries remains slightly higher than 2%. The Middle Eastern and North African countries witnessed deterioration of their economic situations and their Gross National Product (GNP) has declined to 2.2% with 2% decrease compared with the previous year 2001. This decline is attributed to the decreased rate in the export markets of some Arab countries in Africa. All these bad economic conditions of the world have affected the multinational enterprises so much but if they determine a good strategy, they can keep their share, even increase.

Multinational enterprises can get more power and overcome their difficulties by choosing only most productive countries. So multinational companies should make the country analysis more careful and they shouldn't forget that the most important thing is information because only right analysis can bring the right information and the right information brings the success.

APPENDIX 3.1.

Global 500 Rank	Company	Revenues ($ millions)
1	Wal-Mart Stores	219,812.0
2	Exxon Mobil	191,581.0
3	General Motors	177,260.0
4	BP	174,218.0
5	Ford Motor	162,412.0
6	Enron	138,718.0
7	DaimlerChrysler	136,897.3
8	Royal Dutch/Shell Group	135,211.0
9	General Electric	125,913.0
10	Toyota Motor	120,814.4
11	Citigroup	112,022.0
12	Mitsubishi	105,813.9
13	Mitsui	101,205.6
14	ChevronTexaco	99,699.0
15	Total Fina Elf	94,311.9
16	Nippon Telegraph & Telephone	93,424.8
17	Itochu	91,176.6
18	Allianz	85,929.2
19	Intl. Business Machines	85,866.0
20	ING Group	82,999.1
21	Volkswagen	79,287.3
22	Siemens	77,358.9
23	Sumitomo	77,140.1
24	Altria Group	72,944.0
25	Marubeni	71,756.6
26	Verizon Communications	67,190.0
27	Deutsche Bank	66,839.9
28	E. ON	66,453.0
29	U.S. Postal Service	65,834.0
30	AXA	65,579.9
31	Credit Suisse	64,204.5
32	Hitachi	63,931.2

33	Nippon Life Insurance	63,827.2
34	American Intl. Group	62,402.0
35	Carrefour	62,224.6
36	American Electric Power	61,257.0
37	Sony	60,608.0
38	Royal Ahold	59,633.9
39	Duke Energy	59,503.0
40	AT&T	59,142.0
41	Honda Motor	58,882.0
42	Boeing	58,198.0
43	El Paso	57,475.0
44	BNP Paribas	55,044.4
45	Matsushita Electric Industrial	54,997.1
46	Home Depot	53,553.0
47	Bank of America Corp.	52,641.0
48	Aviva	52,317.6
49	Fiat	51,944.2
50	Assicurazioni Generali	51,394.3
51	Vivendi Universal	51,365.7
52	Fannie Mae	50,803.0
53	Rwe	50,663.8
54	J.P. Morgan Chase	50,429.0
55	Nestlé	50,192.4
56	Kroger	50,098.0
57	McKesson	50,006.0
58	Nissan Motor	49,555.2
59	UBS	48,503.4
60	State Power	48,374.5
61	Cardinal Health	47,947.6
62	Merck	47,715.7
63	State Farm Insurance	46,705.2
64	HSBC Holding PLC	46,424.0
65	Peugeot	46,264.1
66	PDVSA	46,250.0

67	CenterPoint Energy	46,225.8
68	Unilever	46,130.6
69	SBC Communications	45,908.0
70	Hewlett-Packard	45,226.0
71	ENI	44,636.9
72	Metro	44,346.8
73	Morgan Stanley	43,727.0
74	Nissho Iwai	43,703.2
75	Deutsche Telekom	43,260.6
76	Dai-ichi Mutual Life Insurance	43,145.2
77	Toshiba	43,139.4
78	Dynegy	42,242.0
79	Munich Re Group	41,894.0
80	Tokyo Electric Power	41,752.2
81	China National Petroleum	41,499.1
82	Mizuho Holdings	41,445.1
83	Sears Roebuck	41,078.0
84	NEC	40,796.0
85	Fortis	40,528.8
86	Sinopec	40,388.0
87	Aquila	40,376.8
88	Fujitsu	40,043.9
89	Target	39,888.0
90	ABN AMRO Holding	39,702.7
91	HypoVereinsbank	39,405.4
92	Pemex	39,400.0
93	Procter & Gamble	39,244.0
94	Repsol YPF	39,091.1
95	Merrill Lynch	38,793.0
96	Zurich Financial Services	38,650.0
97	France Télécom	38,529.6
98	AOL Time Warner	38,234.0
99	Suez	37,932.5
100	Albertson's	37,931.0

1. Wal-Mart Stores:

Global 500 DATA	$ millions	% change from 2000:
Revenues	219,812.0	13.7
Profits	6,671.0	6.0
Assets	83,375.0	—
Stockholders' Equity	35,102.0	—

2. Exxon Mobil:

Global 500 DATA	$ millions	% change from 2000:
Revenues	191,581.0	-8.9
Profits	15,320.0	-13.5
Assets	143,174.0	—
Stockholders' Equity	73,161.0	—

3. General Motors:

Global 500 DATA	$ millions	% change from 2000:
Revenues	177,260.0	-4.0
Profits	601.0	-86.5
Assets	323,969.0	—
Stockholders' Equity	19,707.0	—

4. BP:

Global 500 DATA	$ millions	% change from 2000:
Revenues	174,218.0	17.7
Profits	8,010.0	-32.5
Assets	141,158.0	—
Stockholders' Equity	74,367.0	—

5. Ford Motor:

Global 500 DATA	$ millions	% change from 2000:
Revenues	162,412.0	-10.1
Profits	-5,453.0	-257.3
Assets	276,543.0	—
Stockholders' Equity	7,786.0	—

6. Enron:

Global 500 DATA	$ millions	% change from 2000:
Revenues	138,718.0	37.6
Profits	0	N/A
Assets	0	—
Stockholders' Equity	0	—

7. Daimler Chrysler:

Global 500 DATA	$ millions	% change from 2000:
Revenues	136,897.3	-8.8
Profits	-592.8	-108.1
Assets	184,671.4	—
Stockholders' Equity	34,727.9	—

8. Royal Dutch/Shell Group:

Global 500 DATA	$ millions	% change from 2000:
Revenues	135,211.0	-9.3
Profits	10,852.0	-14.7
Assets	111,543.0	—
Stockholders' Equity	56,160.0	—

9. General Electric:

Global 500 DATA	**$ millions**	**% change from 2000:**
Revenues	125,913.0	-3.0
Profits	13,684.0	7.5
Assets	495,023.0	—
Stockholders' Equity	54,824.0	—

10. Toyota Motor:

Global 500 DATA	**$ millions**	**% change from 2000:**
Revenues	120,814.4	-0.5
Profits	4,925.1	15.5
Assets	150,064.0	—
Stockholders' Equity	55,268.4	—

11. Citigroup:

Global 500 DATA	**$ millions**	**% change from 2000:**
Revenues	112,022.0	0.2
Profits	14,126.0	4.5
Assets	1,051,450.0	—
Stockholders' Equity	81,247.0	—

12. Mitsubishi:

Global 500 DATA	**$ millions**	**% change from 2000:**
Revenues	105,813.9	-16.4
Profits	481.7	-42.2
Assets	61,455.1	—
Stockholders' Equity	7,761.1	—

13. Mitsui:

Global 500 DATA	**$ millions**	**% change from 2000:**
Revenues	101,205.6	-14.2
Profits	442.8	-5.1
Assets	50,313.5	—
Stockholders' Equity	6,903.5	—

14. Chevron Texaco:

Global 500 DATA	**$ millions**	**% change from 2000:**
Revenues	99,699.0	107.4
Profits	3,288.0	-36.6
Assets	77,572.0	—
Stockholders' Equity	33,958.0	—

15. Total Fina Elf:

Global 500 DATA	**$ millions**	**% change from 2000:**
Revenues	94,311.9	-10.9
Profits	6,857.7	7.5
Assets	78,886.7	—
Stockholders' Equity	30,212.0	—

16. Nippon Telegraph & Telephone:

Global 500 DATA	**$ millions**	**% change from 2000:**
Revenues	93,424.8	-9.5
Profits	-6,495.5	-254.8
Assets	157,550.7	—
Stockholders' Equity	44,563.7	—

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