INTRODUCTION AND
THE CASE OF CAHORA BASSA

Multinational Corporations and Corporate Control
Lecture 1

Strategic Leadership and Global Management
Prof. Dr. Dodo zu Knyphausen-Aufseß
www.strategie.tu-berlin.de
GUIDELINE

We start with a short overview of the main issues in this course (slides 9-17). I will mention the term “Multinational corporation” (MNC) and relate it to our discussions on “globalization”. Moreover, I will argue why we need theories for understanding the “raison d’etre” and the role of the MNC in a globalized world.

To further introduce you to some of the key topics of the course and to initiate a first discussion, I present a case. The case deals with the Cahora Bassa dam project that led to many controversies with respect to the involvement of the Siemens AG (slides 18-24).

Slide 25—taken from Penn (2009)—gives an overview of guidelines that have been formulated by various international institutions with respect to multinational enterprises. Apart from that, also individual companies have their specific guidelines. Slide 26 presents the South Africa Broad Based Black Economic Empowerment that is regulating MNC behavior.
PART 1
MNC: THEORIES AND PRACTICE
16 October 2019 to 5 December 2019
Wednesday, 2 to 4 pm, EW 202
Thursday, 12 noon to 2 pm, HL 001

PART 2
CORPORATE CONTROL
3 Block sessions
17, 24, and 31 January 2020
Friday, 9.30 am to 5.30 pm, H 0106
LECTURE 1

CASE STUDY
20 MINUTES PRESENTATION
GROUP PERFORMANCE
30%

WRITTEN TEST
80 MINUTES
INDIVIDUAL PERFORMANCE
70%

PORTFOLIO EXAM
You will earn 6 credit points for successfully completing this module.
You pass the module by achieving at least 50% regardless of what you have reached in each partial exam.

GRADING
CASE STUDIES AND LEADING QUESTIONS
## SCHEDULE WINTER TERM 2019/20

### PART 1: MULTINATIONAL CORPORATIONS: THEORIES AND PRACTICE (Professor Dr Dodo zu Knyphausen-Aufseß)

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### PART 2: CORPORATE CONTROL (Professor Dr Ulrich Pidun)

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MODULE ENROLMENT AND EXAM

CASE STUDY SELECTION
Registration on ISIS
Start: 17 Oct 2019, 8 am
Select your 3 favorite case studies
Case study allocation: 21 Oct 2019

EXAM ENROLMENT
Module registration
QISPOS or Examination Office
ERASMUS students by e-mail
(dittmann@strategie.tu-berlin.de)

WRITTEN TEST
20 February 2020
1 to 3 pm, room EB 301
Registration: 14 Oct to 20 Dec 2019
Re-test: 30 Mar 2020
GLOBALIZATION

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

Increasing transnational movement of

- People
- Capital
- Information and knowledge
- Goods and services
GLOBALIZATION IS NOT A NEW PHENOMENON: 
THE CASE OF SIEMENS

- Founded as "Telegraphen-Bauanstalt von Siemens & Halske" in Berlin in 1847
- 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

Source: www.Siemens.de
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

**Drivers of De-globalization:**

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 (?)

THE INTERNAL STRUCTURE OF AN MNC 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 and Bartlett (1990). The Multinational Corporation as an Interorganizational Network, p. 605
KEY QUESTIONS WE WILL DEAL WITH

- Why do multinational firms exist?
- What are the boundaries of the MNC?
- How do MNCs enter foreign markets, and how successful are the foreign activities?
- How are multinational firms governed?
- What roles do MNCs play, what roles can they play in a globalized world?
- Is there a case for a “global” theory of the MNC?
A NOTE ON THEORIES

Scientific theories

Theory 1  Theory 2  ...  Theory n

and derived concepts

Are the other theories consistent with what I perceive as “realistic”?

“Lay theories”

Practitioner’s theories

Consultant’s theories

Other theories

and derived concepts

Object range (“management practices“)

Hypotheses formulation and systematic testing

Development through experience; no systematic testing

“In theory there is no difference between theory and practice. In practice there is.“

SOME FLAWS

- Empirical tests often lead to conflicting results – due to different samples and different statistical methods.
- Theories are more than an aggregation of hypotheses – during empirical testing falsifying a hypothesis 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 conditioned 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 THEORIES ON INTERNATIONAL MANAGEMENT**

**Hymer’s doctoral thesis**

- Analysis of trade flows among different countries (macroeconomic focus)
- MNCs as key players in the object range of imperialism theories
- Analysis of direct investment patterns
- Focus on functions, especially marketing, but also increasingly finance and human resource management
- Increasing consideration of aspects of the economic and cultural environment, though usually without relating them to management processes of MNCs
- Detailed analysis of the direct investment behavior
- Industrial economics
- Product life-cycle theory
- Finance theory
- Further analysis of difficulties in internationalization within functional areas
- Development of process-oriented approaches
- Thesis of “Obsolescing Bargaining” within the relation between enterprise and state
- Transaction cost and internalization theory; integration efforts
- Description of MNCs as extensive networks; strategic and structural difficulties
- Particular interest in alliances and coalitions
- Cultural problems
- What do the Japanese do better?
- “Varieties of capitalism”
- Internationalization of small enterprises
- International Entrepreneurship & “Born Globals”
- “Taking the gloves off” the process-oriented approaches
- Macro- and micro-geographic approaches (e.g., Porter’s diamond model)
- Enlargement of research methodologies (e.g., long-term studies, behavioral studies)
- Corporate Social Responsibility
- Management and transfer of knowledge within MNCs
- Parent-subsidiary relationship
- Resource- and capability-based approaches
- International joint ventures
- MNCs from emerging economies (e.g., China)
- Digitalization
- De-Globalization
- “The global factory”

**Increasing internationalization of research (USA – world)**

Largest hydroelectric scheme in southern Africa

2,700 km²

5x the size of Bodensee

2,040 MW (for comparison: nuclear plant 345 MW)

THE PROJECT

Representatives of the Siemens AG were approached by Portuguese officials whether the company would be interested to serve as a “leading firm” for planning and implementation of a big dam and hydroelectric project in overseas province Mozambique in southern Africa.

Official call for tenders was released by totalitarian Portuguese prime minister Salazar.

ZAMCO, a consortium formed by Siemens, European and South African firms, was awarded the contract.

Swedish and Italian consortium companies ASEA and SAE withdrew from the project in 1969 due to public pressure. Siemens (with AEG and BBC) overtake ASEA’s part of the contract.

Final contract signing

Building activities started
SIEMENS AND THE GERMAN GOVERNMENT

- Supporting Siemens in pursuing the project
- Insuring project (worth DM 176 Mio.) with Hermes guarantee
- Portugal was seen as a NATO partner and as a stable country

Main motives for Siemens:
- Opportunity to apply the company’s high voltage-direct current-transfer technique on a large scale for the first time
- Gain a reputation as a competent partner for major building projects
- Ensure full employment in German facilities
PORTUGESE GOALS

Official statement:
Help to industrialize Mozambique and provide cheap energy to Mozambique and neighbor countries
Improve living conditions for inhabitants of the Sambesi region, and create new living space for one million settlers
Regulate Sambesi river and make it navigable, develop new watering possibilities, and to exploit natural resources

However, an unofficial, more critical view was that Portugal aimed at saving colonial power by a close collaboration with other white minority regimes, namely Rhodesia and South Africa. In turn, these countries used the project as a stronghold against “black Africa”.

Within the Portuguese government, there was also some resistance due to the enormous costs and the uncertain outcome of the project.
POLITICAL SITUATION IN MOZAMBIQUE IN THE 1970s

- Portuguese colony since 1507
- 10 million people on area 2.5x bigger than Germany
- Majority of 9 million blacks with almost no political rights and in poor living conditions
- In 1962 foundation of liberation army FRELIMO to establish a new Mozambique free of hunger and with equal rights and freedom for all people. Increasing readiness to fight with military weapons.
- Cahora Bassa project was seen as imperialist vehicle to fight against the black majority of people. Attempts to interrupt the project’s supply routes. 355 Portuguese soldiers died between December 1969 and February 1970.
REATIONS OF EUROPE AND THE WORLD

- The U.N. stated in its Resolution No. 2395 (1968) that it is “deeply disturbed about the continued and intensified activities of foreign economic, financial and other interests which impede the realization of the legitimate aspirations of the African peoples in those Territories”.

- The “Campaign Cahora Bassa” organized demonstrations and released declarations which denied political neutrality of Siemens’ activities, instead it was accused to support the colonial Portuguese as well as the South African apartheid regime.

- Siemens became increasingly nervous and checked, e.g., customer reactions in other business areas. The company responded to all letters and statements and supported its employees with arguments. It claimed that the task of a commercial enterprise is only to trade and to develop export markets for the benefit of the company and the German as well as the worldwide economy, and not to engage in any political affair. A project such as Cahora Bassa would have a longer lifetime than any political regime.

- The German government under chancellor Willi Brandt refused to raise the Hermes guarantees but did not withdraw from earlier decisions. Heavy reactions from FRELIMO and OAU (Organization of African Unity).

- The situation cooled down in 1972. After independence in 1975, FRELIMO supported the project and confirmed contracts with South Africa. Siemens claimed that this change of strategy confirmed the company’s earlier positions.
1. Analyze the case. Which stakeholder groups were involved and what do you think about their positions?

2. Which environmental development was misinterpreted by Siemens and why? How did Siemens react?

3. How do you assess Siemens’ strategy from the perspective of a socially responsible management philosophy?
SOCIAL RESPONSIBILITY FOR MNEs AS RECOMMENDED BY INTERNATIONAL ORGANIZATIONS

MNEs and Host Governments
- Not interfere in internal political affairs of host countries (OECD, UN)
- Consult government authorities and national employers’ and workers’ organizations to ensure that their investments conform to the economic and social development policies of the host country (ICC, ILO, OECD, UN)
- Reinvest some profits in the host country (ICC)

MNEs and Laws, Regulations, and Politics
- Respect the right of every country to exercise control over its natural resources (UN)
- Refrain from improper or illegal involvement in local politics (OECD)
- Not pay bribes or render improper benefits to public servants (OECD, UN)

MNEs and Technology Transfer
- Develop and adapt technologies to the needs of host countries (ICC, ILO, OECD)
- Provide reasonable terms and conditions when granting licenses for industrial property rights (ICC, OECD)

MNEs and Environmental Protection
- Respect the host country laws and regulations concerning environmental protection (OECD, UN)
- Supply information concerning the environmental impact of activities to host governments (ICC, UN)

MNEs and Consumer Protection
- Preserve safety and health of consumers by disclosing appropriate information, labeling correctly, and advertising accurately (UN)

MNEs and Employment Practices
- Cooperate with host governments to create jobs in certain locations (ICC)
- Give advance notice of plant closures and mitigate the adverse effects (ICC, OECD)
- Respect the rights for employees to engage in collective bargaining (ILO, OECD)

MNEs and Human Rights
- Respect human rights and fundamental freedoms in host countries (UN)

**REGULATING MNC BEHAVIOR: BROAD BASED BLACK ECONOMIC EMPOWERMENT (SOUTH AFRICA, 2004)**

**Broad Based Black Economic Empowerment** means the sustainable economic empowerment of all black people, [including] in particular women, workers, youth, people with disabilities and people living in rural areas, through diverse but integrated socio-economic strategies that include, but are not limited to:

a) increasing the number of black people that manage, own and control enterprises and productive assets;

b) facilitating black ownership and management of enterprises and productive assets by communities, workers, cooperatives, and other collective enterprises;

c) human resource and skills development;

d) achieving equitable representation in all occupational categories and levels in the workforce;

e) preferential procurement, including the promotion of local content procurement; and

f) investment in enterprises that are owned or managed by black South Africans.

**Companies operating in South Africa are rated (by specific agencies) along these dimensions. The less points the company gets, the more difficult will it be to find business partners.**