The Future of Multinational Enterprises: An Optimist's View

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The purpose of this short article is to offer some thoughts on the role of multinational enterprises (MNEs) in the global economy—looking backward to see what has changed and looking forward to see what might be coming over the next decade or so. These thoughts are not deeply researched, rather they are based on casual empiricism and reflection: a point of view on the business world as I see it. Hopefully they are also a little contrarian as well. A reflective piece like this is a good opportunity to challenge some of the conventional orthodoxies that dominate our literature.

I should note at the outset that I am focusing on large established MNEs, with revenues in the tens of billions of dollars, activities in dozens of countries, and operating on a for-profit basis. I am also talking predominantly about MNEs from developed markets, though emerging market MNEs from China, India, and other places will also get a mention. These are the "big beasts" of the corporate world that the academic literature has mostly addressed, and they will be my focus here.

1 A Fast-Changing Business World?

It is remarkable how many academic papers and business articles start out with the observation that we live in a fast-changing world or that the level of uncertainty in business has never been higher. As a rhetorical device to justify studying a particular phenomenon, it makes sense. But is it really true?

It goes without saying that the business world is ever-changing. Each generation likes to believe that it is facing a unique set of circumstances that are more challenging than those that came before. However, we tend to notice the things

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that are new and different and ignore the things that are relatively stable. So we talk a lot about the exponential growth in processing power and connectivity, for example, but we don't notice that the way we clothe ourselves (buttons, zips, shoelaces) hasn't changed significantly for a century or more.

It may not be possible to come to a definitive view on how fast-moving the business world really is. There are plenty of books and articles making the case for accelerating change, for example, Ismail et al. (2014), D'aveni (2010), Schwab (2017), and Brynjolfsson and McAfee (2014). But there are also thoughtful counterpoints: McNamara et al. (2003) finding no objective evidence of increasing levels of competition, Ghemawat (2011) showing how Globalization 3.0 is in many ways *less* global than what came before, and Eccles et al. (1992) exposing the games executives play with language when making the case for accelerating change.

So agreeing to write a piece on the future role of MNEs gave me a choice. I could have written about all the things changing in the world—the energy transition, the digital revolution, global warming, and the deglobalization of world trade—but then I realized in looking through the table of contents that plenty of other chapters would cover those issues better than I could. So instead, I took the other approach. I decided to write about what's *not* changing, that is, the enduring presence and stability of large MNEs despite everything else that's going on.

My argument, in a nutshell, is that the size and diversity of MNEs, coupled with their embeddedness in the institutions of capitalism, make them very resilient to changing external circumstances. While their resilience sometimes creates problems, it is more generally a force for good—as a moderating influence over some of the more volatile features of the global economy. It's an optimistic view, I acknowledge, but there is no harm in a bit of optimism in the challenging times we are living through.

2 Changes in the Fortune 500 and Global 500

Let's start with some data. I analyzed the change in makeup of the Fortune 500 and Global 500 from 1995 to 2020. The Fortune 500 is the largest US companies ranked by revenues. The Global 500 is the equivalent list for the world. I chose 1995 as the starting point because that is when the Internet revolution really took off.

Looking at the Fortune 500 first (Fig. 1), only 17 of the current list did not exist (in any form) before 1995. I won't name them all here, but it is the companies you would expect—Google, Facebook, Amazon, Netflix, Uber, and so on. But the point is there are only 17 of them. The other 483 consists of 198 "stalwarts" who have been in the list since 1995, 54 spinouts from large companies, and 232 "risers" who were around for many years before 1995 and grew to become members of the top-500 club.

The Global 500 analysis (Fig. 2) exhibits a similar pattern, with only 12 entirely new firms, 164 stalwarts, and 324 that were either spinouts or risers. But what's interesting about that list is the changes in the home countries of the companies on

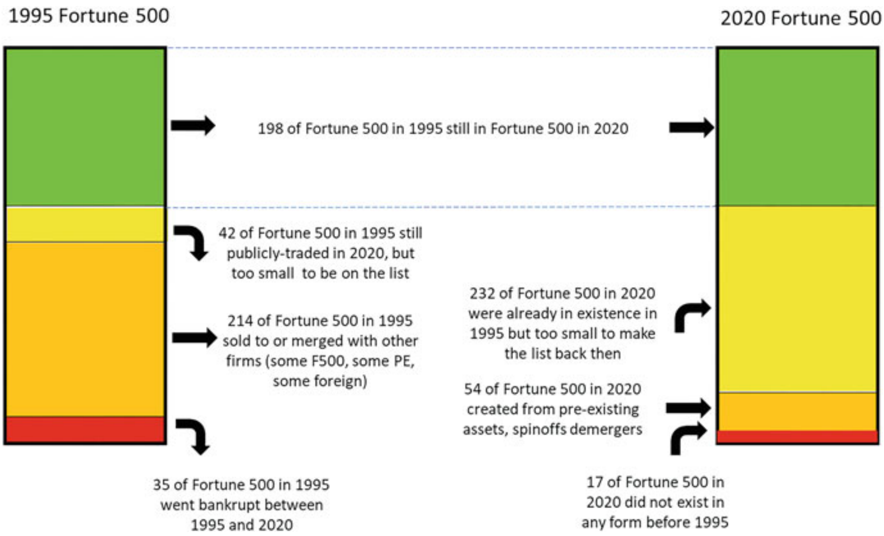

Fig. 1 Change in makeup of Fortune 500, 1995 to 2020. Source: figure compiled by author

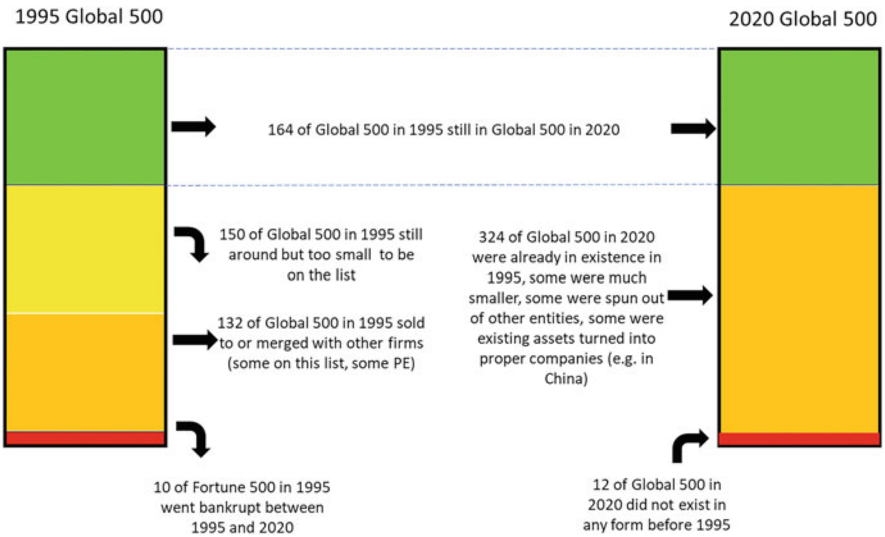

Fig. 2 Change in makeup of Global 500, 1995 to 2020. Source: figure compiled by author

it. In 1995 were 148 US firms, 147 Japanese, and 3 Chinese, but by 2020 there were only 121 US firms, 52 Japanese, and 119 Chinese.

I realize this analysis might be criticized for "sampling on the dependent variable" so I also did the equivalent analysis from the other direction, i.e., taking the original 500 lists from 1995 and examining what happened to them over the ensuing

25 years. It's a similar story, with a very small number of bankruptcies and fairly larger numbers of "fallers" and acquisitions.

3 What to Make of this Data? Some Observations

First, there is remarkably little change. Fewer than 4% of the top 500 firms were formed in the Internet era. There is so much talk about the Googles, Amazons, and Tencents of the world that we sometimes forget about the parts of the economy that are not being disrupted. It turns out that most of the big changes have occurred in just two parts of the economy—the technology media and telecoms (TMT) sector, and the retail sector. Other sectors, such as consumer products, industrial products, engineering, energy, financial services, and healthcare, have seen virtually no changes.

Second, the Fortune lists are based on revenues not on market capitalization. This helps to explain why we don't see more Internet-era companies on the list. It also reminds us that the capital market version of the economy is only loosely linked to the real economy. I would argue that this revenue-based ranking is a much better proxy for how the economy actually works than one based on market sentiment.

Third, the only notable thing about the Global 500 list is the changes by country. In 1995 Japan had 147 companies on the list because its economy was strong, and the Yen was highly valued. By 2020 Japan had stagnated, and China was the emerging superpower, with many of its formerly state-run assets now being managed as for-profit companies.

4 MNEs as Bastions of Stability

The simple takeaway from this analysis is that despite all the talk of disruption and change, there is also a lot of inertia and stability in the global economy. And the reasons behind this are not exactly surprising.

First, MNEs are hugely resilient *because* they are large and diversified. For the most part, they have strong balance sheets to help them weather shocks and downturns. They are diversified in both business activities and countries of operations, which gives them a hedge against problems in one particular region or area of activity. Many of them also operate in industries with high barriers to entry—sometimes based on scale economies, sometimes on long-term customer relationships, and sometimes based on regulatory protection. It takes a lot to kill these companies off.

Second, MNEs are better at reinventing themselves from within than anyone gives them credit for. We all know the stories of Kodak, Blockbuster, and Sears, but they are exceptions. Most MNEs are highly aware of the risks of disruption and are proactive in addressing those risks. Internal reinvention takes many forms—it includes acquiring promising start-ups, creating new operating units in fast-growth areas, behind-the-scenes cost cutting and reengineering, and portfolio-level redeployments of investment. Nokia is a fascinating case in point here: you can think of it as a failure if you take a short-term view of what happened in 2007–2010, but with a long-term perspective its actually highly resilient—it has been around for a hundred years, and it has bounced back from the smart-phone debacle to become once again a world leader (in 5G networks), with 100,000 employees.

Third, and contributing to the first two points, MNEs are better managed than smaller or single-country companies. This has been shown empirically by Nick Bloom and his associates (Bloom et al., 2012; Bloom & Van Reenen, 2007), when looking at the quality of management across multiple industries and countries. It is also entirely consistent with expectations and experience. In most cases, MNEs put huge amounts of money into training and development, they use rigorous management control systems to monitor performance across their worldwide operations, and they proactively use best-practice sharing and knowledge management systems.

These three points are unlikely to brook any argument, and indeed there is a good amount of empirical evidence to support them. But let me now offer some slightly more controversial arguments about the role MNEs play in the global economy as bastions of stability.

First, the leaders of MNEs are very conscious of their reputations and will go to great lengths to show to the world that they are "doing the right thing." These leaders understand that legitimacy is important, both in terms of their license to operate vis-à-vis national governments and in terms of how customers, employees, and other stakeholders perceive them. MNEs are often highly vocal in supporting societal trends, such as the Black Lives Matter movement, the sustainability agenda, diversity and inclusion more generally, and stakeholder-based governance systems.

Second, MNEs are constrained by the institutions that support them. This includes the capital markets (i.e., the rights of stockholders and bondholders), reporting requirements, employment and competition laws, tax systems, intellectual property rights, and a host of sector-specific regulations. These regulations and norms are sufficiently powerful and multifaceted that even if an MNE wanted to operate in a less-than-legitimate way, it might not be able to.

Not every reader will agree with these last two points. Indeed many observers (though probably not the type of people to read this article) will argue that MNEs are the "bad guys"—they exploit low-power workers, they pillage the earth's natural resources, they avoid paying taxes, they deny global warming, they launder money, and so on. Of course, there are examples of all these things happening, and we can point to high-profile protests (Greenpeace vs Shell, Occupy Wall Street, etc.) and legal verdicts (Apple, Google, HSBC, Rio Tinto, etc.) to underline that MNEs sometimes get it wrong. But in my experience, the leaders of MNEs are happy – even eager – to address these problems as they come to light. For me, it is a sign of strength in the global economy that activists and social movements bring injustices and problems into public view and that the leaders of MNEs listen and respond. A recent case in point is the G7-led plan to create a global minimum 15% corporate tax rate. While some countries, such as Ireland, have pushed back against this plan, MNEs seem entirely comfortable with it—indeed many of them have welcomed it as a way of creating greater clarity.

Another concern often raised is that MNEs from developed western economies may be trying to do the right thing, but emerging market MNEs from China, India, Russia, or the Middle East don't have the same scruples, or they lack the same constraints on their occasionally illicit behavior. There is some truth to this, but I would also observe that most of these emerging market MNEs aspire to a seat at the top table. This means, for example, adopting globally agreed accounting standards, listing on western stock exchanges and complying with all the rules that such a listing requires, hiring executives from western competitors, and sending senior executives to top western business schools to learn the latest best practices. I have personally worked with MNE executives from China, India, Brazil, Turkey, Ukraine, Mexico, Sri Lanka, and Saudi Arabia in recent years, and in all cases their intention is to become more like their western counterparts, essentially as a means of building their legitimacy.

Finally, there is a different but equally valid worry that MNEs can succumb to a herd mentality. By following the norms set by others, they increase their legitimacy in the short term, but they risk getting things badly wrong (as a collective) in the medium term. The global financial crisis is the obvious example of this—MNEs, regulators, ratings agencies, and others all following each other's lead and resulting in a systemic failure of huge proportions.

5 The Yin and Yang of Progress

How should we make sense of the role of MNEs in the global economy? I would argue that they aren't good or evil—they are large institutions operating across multiple sovereign jurisdictions, full of people trying to do their best for a sometimes-conflicting set of stakeholders, and within a complex set of institutions that constrain their actions in multifaceted ways.

I like to think of MNEs as bulwarks against the more volatile features of the global economic system as a whole. By volatile features I mean both exogenous shocks such as COVID and also specific agents of change such as entrepreneurial start-ups, venture capital funds, activist investors, and global movements such as BLM and Occupy. Progress occurs in a yin-yang like fashion—with MNEs and host country governments on the "yin" side of the equation and the entrepreneurs and social movements on the "yang" side.

So looking to the future, what does this mean for today's large MNEs?

First, there will be some creative destruction. There will be occasional failures (a la Kodak), there will be further consolidation especially in mature industries, and there will be a lot of internal reallocation of resources, with diversified MNEs shifting into the growing parts of the economy, as they have always done.

Second, there will be a lot of internal reinvention within these MNEs. Huge amounts of investment in information technology, automation of processes through AI, cost cutting, delayering and simplification, outsourcing of activities, and so on. This happens all the time, and thanks to continuing advance in digital technology, it is likely to accelerate further. But it is mostly below-the-radar activity.

Third, the increasing importance of Asia to the global economy will of course lead to more Asia-based MNEs. While it is tempting to see them as operating by a different rule book because of their heritage, my expectation is that they will increasingly adopt the strategies and practices of developed-world MNEs, for all the reasons I have already discussed. The forces for isomorphism are strong.

Finally, and this is more of a wish than a prediction, I see MNEs taking an increasingly active role as amplifiers of important societal trends. Writing this in mid-2021, the big challenges facing the world economy are (in order) recovering from and living with COVID, getting to grips with global warming, and promoting diversity and inclusion. Governments of course play a central role in addressing these society-wide challenges, but the large MNEs are arguably more influential in terms of the number of people and families they support. There are many good examples of MNEs taking on leadership roles around these contemporary challenges, and I am optimistic that this trend will continue.

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