The Future of the Multinationals

J. Irwin Miller

If I were to pick one word that characterizes today's world and will increasingly characterize the world just ahead, I would use the word "imbalance." There is raw material scarcity in many areas, raw material surplus in others. There is enormous per capita consumption in some countries, very little in others. There is an abundance of technological capacity in a few countries, a virtual absence in most others. There is great wealth in some countries, gross poverty in others. There is capital accumulation in some countries, capital shortage in others.

The mix of this imbalance is also significant. We can no longer easily refer to "have" and "have not" nations. The USA has food, large but insufficient amounts of capital, highly advanced technology, but little or no tin, nickel, chrome, platinum, zinc (not to mention less than the oil it wishes). The Arab states have tremendous quantities of oil, are accumulating equally tremendous quantities of capital, but have little technology and low food-growing capacity. India, most of the West African countries, and many South American countries are seriously lacking on all counts.

Today no group of nations—certainly no single nation—has access to a satisfactory balance of capital, food, raw materials, technology—especially at prices it has been accustomed to pay. This tells us that no nation or group of nations can hope to be economically independent, as we have defined that term in the past. For the generation ahead independence would seem to imply cutting consumption to what one may reasonably expect to lay his hands on, and that will vary enormously from country to country. It will bring varying degrees of hardship to most and disaster to some.

Since no nation has or can have everything it wants, and since most nations have something other nations want—and will, at least for a long time—it would seem that our best hope for achieving reasonable and desirable balance in a world of growing imbalance is for the nations of the planet to recognize *the fact of economic interdependence* and to shape their economic and foreign policies around this recognition.

Is this simply more "doom and gloom" stuff? Perhaps. Under pressure of shortages we (especially the Americans) will discover new ways, and we will make many substitutions. I do not, however, think history demonstrates that it is prudent to count on technology automatically to solve all these shortages in time. Most authorities think we can continue consuming energy in roughly our present pattern for about another twenty-five years before dramatic changes in the type or use of energy are called for. It might appear reasonable to suppose that within twenty-five years we will have addressed the problem and solved it. But twenty-five years is less than the time between World War II and today. And nineteen years ago the Paley Commission, under President Eisenhower, described the energy shortage of 1974 in very accurate terms; it even proposed a sensible program of solutions, none of which were implemented.

We live in a world that I believe is passing through wholly unprecedented changes—changes that cultural patterns and traditional responses have not yet digested. The results of those undigested changes can vary from global catastrophe to a world capable of providing its inhabitants with substantially increased material welfare—but the latter only if our world learns to deal effectively and perceptively with all kinds of imbalances that now confront us.

I have chosen to put together these two factors—undigested change and supply/demand imbalance—since they seem to me to dominate the landscape of the future. First the problem of *imbalance*. An optimist would suggest that imbalances in supply and demand ought to augur well for the future. If we *are* economically interdependent, then our institutional structures and our patterns of interaction will accommodate to this fact and mankind will be bound together by a most powerful binding agent—mutual material interdependence. But we should go slow with

J. IRWIN MILLER is Chairman of the Board of Cummins Engine Company, Inc. He delivered this address at the IMDI meeting at the White House.

our optimism. *How* people cooperate when they are interdependent can vary enormously. There are at least two basic ways:

1. Interdependent cooperation can be durable and harmonious when all the participants see the goals of their activity as either *identical* or *compatible* and when the participants assume that interdependence is their common fate for the foreseeable future.

2. Interdependent cooperation will be *transient and halting*, however, when some of the participants assume that the cooperative activity will be mutually beneficial only for the short term, and when they do not believe that in the future they will have to be bound together in the activity. Imbalances such as we are now experiencing would seem to necessitate long-term interdependent relationships. But if through pride or hostility it is judged preferable to escape such relationships, the structures and patterns of interaction that are established will be calculated so as to allow participants to break away as soon as it is advantageous. Interdependence of this sort is better characterized as anticipatory competition than as cooperation.

I suspect that the imbalances I have described have in fact created a world in which, for the foreseeable future, most nations would benefit most from long-term cooperative interdependent relationships. But while that probably is the case, it is not today generally perceived to be the case, even by the U.S. *Interdependence is seen by great nations as something to overcome rather than to benefit from.*

Look at our own country. In the U.S. we have sustained the appearance and hence the conviction of independence for the best part of two hundred years. Only very recently has our serene confidence in automatic progress been shaken. Our current mood is to become "independent" again as fast as we can, to be sure we are "No. 1." Hence our determination to be interdependent only until we can be independent creates a disposition primarily to compete rather than to cooperate.

I fear this for a number of reasons. We are the most powerful nation in the world by reason of all our resources, tangible and intangible. We would love to compete in a free market for scarce resources, because in an unhampered competition among unequals we would win. At least for a while.... But winning would be bad news for us, even in the short term. Our insatiable demand chasing increasingly scarce or increasingly costly supplies means dangerous inflation, as we now see. It means dislocation of production, and hence unemployment, as we also now see. It puts us on a collision course with the rest of the world, which is not as good at competition as we are. So they fight back with such tools as they can lay their hands on, and we now know what some of their tools can be.

To understand why the developing world is fighting back so vigorously and vociferously we must understand the Latin American concept of *dependencia*—a concept shared among almost all developing nations. These countries are intensely aware that in the past they did not automatically benefit from natural resources, imported skills, and expanded markets. Indeed, these very factors often formed the basis for dependencies upon the developed world. Since the opposite of dependence is independence, not interdependence, the nationalism that developing countries frequently exhibit in foreign and economic policy is ultimately calculated to turn every interdependent negotiation into another step toward independence. This is especially true, for example, where a developing country is trading a nonrenewable resource for an opportunity to participate in industrial manufacturing.

If imbalance has created a world wary of cooperative interdependence, the speed of technological change and its consequences have created a world that expects progress but is exhausted by constant transition. *Future Shock* depicted the impact of technological change on Western peoples; but similar changes are occurring at a much faster rate in developing nations. In the process, traditional patterns of relationship in family, religious, and economic life have been weakened or destroyed. And as the structures have weakened, we have seen a rapid acceleration of political instability. Along with these changes have come communications systems that generate expectations among populations, expectations that only 15-20 per cent of the most prosperous actually are able to realize. Hence, rather than change being perceived as progress, it is increasingly seen, or resented, as necessary but threatening and disruptive; as more likely to produce chaos, despair, and unfulfilled hopes than evolutionary progress.

We are living in a world where imbalance appears to lead national governments into short-sighted competition rather than long-term cooperation; and we are living in a world where efforts by national governments to cope with differential rates of change and expectations will make them increasingly hostile to the effects of outside influences.

Let us ask what all this might mean for multinational corporations (MNCs). First of all, given the massive and complex problem of distribution, it is difficult to deny that MNCs are a desirable, even necessary, tool for helping create the economic balance the times call for. With resources, capital, food, and technology unevenly distributed around the planet, and all in short supply, an efficient instrument of quick and effective production and distribution of a complex of goods and services is a first essential.

The effectiveness of their skills, however, will cause MNCs to be viewed with suspicion. By its very nature an MNC tends to create interdependence. It allocates tasks and resources in such a way as to sustain long-term imbalances in production, location, and distribution of skills in order to reach an efficient equilibrium in worldwide supply and demand. A world worried that interdependence means dependence will not immediately trust such an allocation. A world whose national governments would rather ensure that their countries had control of the *entire* means of production in one or two sectors than that they had control of the most efficient means of production in several industries will be very suspicious of any industrial development plan that does not lead production toward 100 per cent local content. And, it must be stressed, suspicion of MNC-created interdependence is justified in some respects. An MNC is an efficient distributor; it is perceived as an *equitable* distributor when and only when it is guided by law toward equitable patterns.

Second, the impact that MNCs have on the societies in which they function will be under intense scrutiny. MNCs are instruments of change. In the past those changes have been dictated by technological and managerial patterns at work in an industry rather than by conscious efforts to relate an industrial procedure to the culture in which it is inserted. Hence, while MNCs worry about entering unstable political situations in cultures not fully prepared for industrialization, sensitive governments worry about how the changes caused by MNCs will increase the instability of already unstabilized cultures.

I have suggested that two dominant facts about our world—economic imbalance and undigested change—will work together to create a general atmosphere in which MNCs will be viewed with mistrust. But in addition to these two general trends, there are three other factors that, at least for the short run, will make life more difficult for the MNC.

The *first* factor arises from the corporate sector itself. MNCs have a checkered history—a history of insensitive behavior within the host country; of forcing decisions made in distant corporate headquarters through a subsidiary's operations, even though those decisions run counter to host-country priorities; of attempts to meddle in and to corrupt host-country governments. In most of these areas MNCs are, on the whole, behaving better today. But the legacy will be difficult to overcome because the past—and indeed the most recently revealed present—of a few companies creates presumptions about all the rest.

The *second* factor is one over which MNCs have less control and for which they are less responsible: Without exception, MNC home countries are increasingly beset with all the grave internal problems associated in the past with developing-country economies. Preoccupied as they are with domestic concerns, the home countries will often act in ways that are disruptive and offensive. We have only to mention some of our own recent actions:

- The intervention of the CIA in Chile.
- The overnight imposition of a 10 per cent surcharge on imports.
- The original impulsive Russian wheat deal.
- The sudden embargo on shipment of soy beans to Japan.

A person can agree that every one of these actions was in itself proper—but at the same time he can see that each in its own way was highly irritating and provocative to another country and very likely to invite retaliation. I do not see an early end to such patterns of action. I expect retaliation to increase. And what is the most likely target against which to retaliate? If you cannot get at the home country directly, you can at least put the poker to the local American, German, or Japanese subsidiary. Hostility to MNCs will be on the rise.

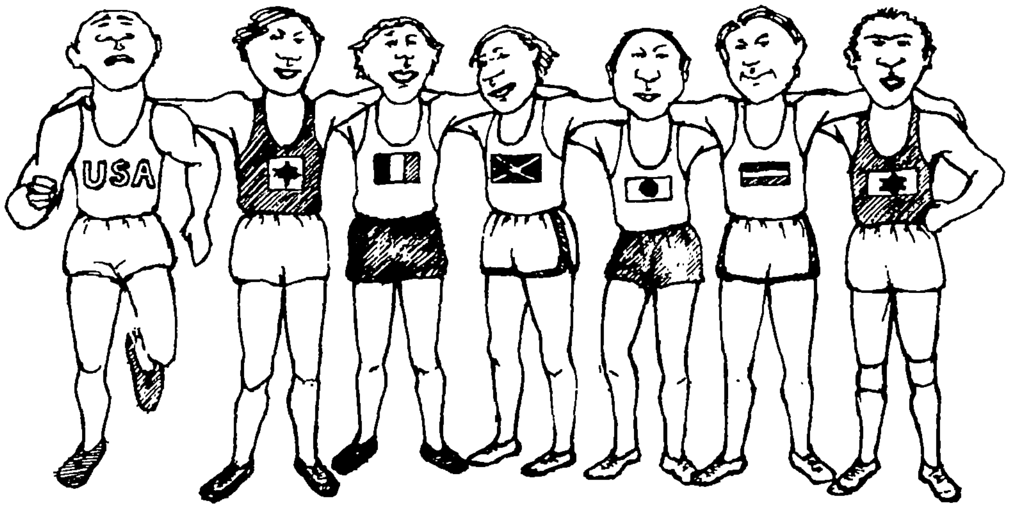
The *third* factor has to do with the role of the international community. For the foreseeable future I do not expect international bodies to exert effective political power over the activities of MNCs. To be sure, there are negotiations and prenegotiations on patterns of economic interaction between developed and developing countries that may well have spin-off effects on MNCs. And there is a growing body of opinion—mainly in developed nations—that this ought to be the ultimate aim of international action. It appears to me, however, that anything like a GATT agreement relating to MNCs is many years away. Most nations would still rather be free to go it alone than be bound to agreements that require reciprocal interdependent activity over the long term. However, these international bodies can now and will clearly soon provide an outlet for critical comment if relations between MNCs and host countries generally worsen. And they will very probably be the source of international standards of reporting and accounting—which may come sooner than we expect. Proposed at the international level, use of such standards may well be required before long as a condition of doing business in a developing country. The incentive for home and host nations alike will be that of gaining access to truly comparable information as between companies and between nations.

At the moment there is considerable talk about codes of conduct. Some already exist. Some are in formation. Each code in general reflects the bias of its proponents, and each code has so far tended to be general (leaning toward statement of an ideal) and unenforceable.

In all this the key issue will be what *happens* to a code after it has been formulated. Let us explore this for a few minutes. It seems to me that the role "codes of conduct" are apt to play in MNC/nation-state relations will be a limited one, whose significance is implicit rather than explicit, and one that ought therefore to be clearly understood.

First, I suggest that not until a code of conduct becomes part of a body of national law will it play an important role in shaping the environment in which an MNC actually operates. A code has proved to be of little importance when its sole place of appearance is in the unenforceable international area. But when it is brought home and incorporated in the national statutes of home or host country, it is possible to see how that country intends to address the role of MNCs as instruments of that nation's trade policy. Is the MNC viewed primarily as a means of drawing in capital, technology, and management skills? Or is it seen as a long-run instrument in helping to create and sustain export markets in developed and developing nations? These policy hints are too often ignored by MNCs as they make their decisions to enter or not to enter. The stance a country is taking toward interdependence and imbalance will be visible in the code it evolves for the MNCs in its midst, and MNCs already domesticated or thinking of entering will do well to appraise the tone or general thrust of codes and national legislation, as well as their specific words and phrases.

Second, the code of conduct a country develops will demonstrate what the country has learned about "digesting" the changes MNCs bring. A country that has



Janice Stapleton

learned how to negotiate location, production procedures, labor relations, etc. at the point of entry and to specify how it expects an MNC to operate may be a country that is well on the way to learning how to pursue the lowest total cost for achieving each of its national goals. It may, therefore, be one that is learning how to create and maintain stability in the process of change by well-targeted production, employment, and distribution rather than by the self-defeating means of police forces and torture.

Third, a well-developed code of conduct embedded in national law provides an MNC with both forewarning and some protection from quixotic treatment. Even if that code has a very nationalist sound to it, it at least provides the MNC with indications of how the country perceives itself to have been treated by MNCs in the past, where difficulties have emerged, and how the country will deal with them when they reappear.

I have suggested that the codes that will count in the foreseeable future are not those propounded by international groups, but rather are those that will be adopted by individual countries, perhaps extracted from international formulas, tailored to their own specific needs and experience and built into national law.

I would like to suggest that a similar development should be occurring among MNCs. There is intense effort among a number of organizations MNCs have created, or to which they relate, to develop "codes of conduct" promulgated by their trade association or group. This is a necessary and helpful activity. But the results of these efforts, which necessarily resemble a lowest common denominator, must be brought back to each corporation. Each company must determine what its own standards of conduct will be in relation to the products it produces, the production procedures it uses, its willingness to enter into some types of partnerships but not others, its own commitments to work with governments in some ways but not in others. These must finally be company-specific, since a national government no more negotiates with a code than a company negotiates with a continent.

I doubt whether codes of conduct will serve in the near future as the means to accomplish a worldwide homogenization of national policies governing multinationals. They may *someday* serve as the base for that; but the economic imbalance I have described is simply not yielding steps toward that kind of interdependence. Rather, "codes of conduct" are most usefully perceived as depictions of perceptions, intentions, plans, expectations, and, to some extent, promises that a nation-state gives to a multinational and a multinational can give to a nation-state. They function, therefore, to set the boundaries for negotiation and relationship. And because they stake out limits, it is far better that they should specify minimums—minimal expectations; minimum standards of promised conduct rather than ideals that end up being too broad to be useful and sometimes result in endorsement of conflicting aims.

What kinds of conduct should a multinational promise host countries in the codes it develops? First, it should make clear that it will not go into every country where it is invited to bid or to enter. A company that enters a situation half-heartedly, unsure that it really belongs there, will proceed defensively and with little commitment to the economic, social, and political life of the country. A code might well begin by declaring that the company will bargain until all of its major targets are in some way satisfied—and that it expects the host country to do the same—as a basic requirement for a healthy long-term relationship.

Second, once a company has decided to enter, it should commit itself to learning that country inside out. The code should assure the national government that the company will never look down on its people because they "don't do things the American way," and that this attitude will be reflected in the identification, training, and promotion of local talent. And the code should indicate that the company will identify with local problems to which the company's skills will be addressed, in much the same way as they would be in its home country.

Third, the code should specify the way in which and the extent to which the company is willing to be open with its local partners and the host government. In my opinion it should promise that the company's corporate planning and the role of the subsidiary will always be available. The code should guarantee that partners and the government will know the reasons for local capital and product decisions. It should give assurance that the country's tax people will have sufficient access to the company's books that they will not always carry suspicions about transfer pricing.

Finally, the code should address a very sensitive matter: corruption. It should make commitments to the governments with which the company deals about the standards by which the company holds to account those who are its agents.

What standards should these be? Let's explore this issue briefly, because at its root lies a cause of what makes the life of MNCs both difficult and unpredictable these days. We all know that certain practices in some countries are not tolerated here. We also know that MNCs do things abroad that they do not do at home, whatever the excuses. But this past year we have discovered that major corporations, domestic and MNC alike, have deliberately and explicitly violated laws in the name of competition—and to a degree that has brought all business to the lowest point of popular esteem in the last thirty years.

A complex, interacting, interdependent society like ours today cannot function without a considerable amount of restraint on the part of each member and each group. When individual businesses will not restrain themselves voluntarily in the public interest, restraints will inevitably be imposed by law upon *all* business.

Many now assert that it is improper, even dangerous, for nations or corporations or institutions to refrain voluntarily from doing what the law does now explicitly forbid, which is to say, "to have a conscience." Our ambivalence on this subject finds daily expression in our thoughts about our children, our business, and our country. Over the entrance to many gymnasiums we find written: "It's not whether you win or lose, but how you play the game." To my knowledge this has yet to be written over the entrance gate to any corporate headquarters, or the State Department of any nation.

To our children we say: "Never mind if all the others do it. You must have standards and stick to them, even if it costs you." The same parent at the office, however, is apt to say: "But everybody does it."

We know that tragedy and final emptiness is the reward of the selfish, the greedy, and the bully. But have we persuaded ourselves that legal greed or preoccupation with selfish interest is somehow the practical thing for humans in groups, and that people acting for institutions are somehow immune from the penalties of similar behavior when acting as individuals.

Only last year one of our most eminent economists, Milton Friedman, laid down the facts for us:

> Only people can have responsibilities. Business as a whole cannot be said to have responsibilities. The doctrine of social responsibilities is a fundamentally subversive doctrine. In a free society there is one and only one social responsibility of business—to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game.

Life would be wonderfully simple if this were true, and if individually we could be sure of being inside the charmed circle of immunity we have created, and not outside, on the receiving end of its actions. Yet something bothers us—history bothers us.

History tells us that the laws of human behavior are as inexorable as the laws of the physical universe; that we can no more escape the penalty of greed, individually or collectively, than we can escape the penalty of jumping off a cliff, individually or collectively. Athens didn't escape the penalty of national greed. Rome didn't. Spain didn't. Corporations at the turn of the century did not escape. Unions after World War II did not escape. And national governments and peoples may increasingly be expected to determine that MNCs of today and tomorrow won't get by either.

The words of Milton Friedman carry more wallop in the business and political communities today than the words of the Apostle Paul when he said: "If you bite and devour one another, take care that you are not consumed by one another." But Paul may well be nearer the mark. We cherish freedom and democracy, but we have long since forgotten Aristotle's warning about their costs: "Democracy is not possible, unless each of its members is as capable of outrage at injustice to another as he is of outrage at injustice to himself."

When you and I are on the receiving end of institutional action, we demand that institutions become in their various manifestations more responsive and more humane to us. When *we* are the institution, the same demands constitute an irrational and frightening threat to our own rights and security. We are split, and we resist putting ourselves together.

It is curious that, just at this time, when freedom has been conspicuously abused, we talk so much about the need for more freedom, less regulation, less government, more trust. If I should have to guess, I guess the reverse will happen: more laws to plug more abuses, more restrictions on the many because of lack of restraint and adherence to accepted standards by the few.

We are in the process of losing some of our freedoms, not because of the appetite of some monster government, but because we abused our freedoms when we had them. These words may seem strange when addressed to business, but few are the businessmen who haven't spoken them to their children.

The unanswered question in our society is this: In a world so interdependent and so newly crowded, where the least action produces instant reaction, will the great associations of men and women find the instinct to be human, the wisdom to distinguish between selfish interest and self-interest, and the vision to perceive the final fruits of disregard for the condition of others?

If abuses continue, codes of conduct will never forestall government action. A code of conduct is a limited document with limited influence. We will make a mistake if we come to think that by itself it will either solve problems or prevent actions that we as businessmen oppose. But we will also make a mistake if we fail to use that code to signal that our corporations are concerned about their impact upon the society that gives them their franchise, to signal our determination to cooperate as well as compete, and to accept not only responsibilities mandated by law but, in the interest of the whole, to do always less than the law permits, more than the law requires.

It is only thus I think that we shall justify and hence preserve our freedoms—and finally our right to exist.