Volume 3 | Number 2 Article 8

Spring 1978

# Book Reviews

North Carolina Journal of International Law and Commercial Regulation

effect to the federal "Buy American" Act.[12] Though recognizing strong criticism of the wisdom of such legislation,[13] the court refused to discuss policy considerations, and relied solely on constitutional grounds.[14]

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[12] 41 U.S.C. § 10(a) *et seq.* (1965).

[13] *See e.g.*, Knapp, *The Buy American Act: A Review and Assessment*, 61 COLUM. L. REV. 430 (1960); Berliner, *State "Buy American" Policies-One Vice, Many Voices*, 32 GEO. WASH. L. REV. 584 (1964).

[14] 75 N.J. at ____, 381 A.2d at 789.

# BOOK REVIEW

**THE EUROPEAN MULTINATIONALS,** By Lawrence G. Franko. Stamford, Connecticut: Greylock Publishers, 1976. pp. xii, 276. Index Bibliography. $16.95.

In the thirty years since the end of World War II, the multinational enterprise has often been thought of as an American phenomenon. It has been praised and stigmatized as a vehicle for the spread of American values and attitudes and for the extension of American economic and political power. Nevertheless, it is evident that the multinational enterprise was not an American invention. The great trading companies of seventeenth and eighteenth century Europe were the equivalent for their times of today's multinationals. The mineral development of Latin America and Africa, which began long before World War II, was carried out by foreign firms from France, the United Kingdom, Belgium, Sweden and other states. Furthermore, no one can overlook Lever Brothers, Nestlé and SKF in considering the role of multinationals in worldwide manufacturing and distribution.

What was it then that made the multinational enterprise in the 1960's appear to be an American phenomenon? Had American foreign investment become so important in relation to that of the rest of the world that the characterization was accurate? Did the appearance of American dominance in foreign investment arise out of more complete statistics on American foreign investment and by more extensive scholarly and popular publication in the United States than in the other countries concerned? Or perhaps, even if the appearance of American dominance in foreign investment was incorrect, was there a difference between the behavior of American firms and the behavior of those from other countries which explained the difference in perception?

The answers to these questions are important, not only to the student of business behavior, but to governmental authorities in both home and host countries who are concerned with controlling or channelling the activities of multinational enterprises and to the lawyers and others within the enterprises themselves who are concerned with such efforts by governmental authorities. Although Mr. Franko was not interested as such in the regulation of multinational enterprises, his book provides some of the answers, or at least the beginnings of the answers, to the questions which should be asked if one is to know whether and how host countries should differentiate between multinational enterprises based in the United States and those based in Western Europe.[1]

Data on foreign investments in most countries is notoriously incomplete and difficult to compare. There are too many ways in which an investment can be made, and too many ways in which it can be counted or measured, to be sure of the statistics which are collected. Nevertheless, it appears that for a period of roughly ten years, from 1953 to 1964, American foreign investment in manufacturing enterprises was substantially greater than the total foreign investment in manufacturing enterprises from all Western European countries including the United Kingdom.[2] However, by 1962 it was already becoming evident that the relative balance between American foreign investment and that of the Western European countries was changing. By the end of the 1960's *continental* Western European parent firms alone were establishing more foreign manufacturing subsidiaries than were American parent firms.[3] Undoubtedly this trend has grown even stronger in the last ten years.

If one adds the growth of Japanese multinational enterprises and the increase in the foreign investments of the OPEC countries (which are not, granted, primarily in foreign subsidiaries), the image of the multi-

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[1] Although mention is made from time to time of Japanese multinationals, no study was made of them here, as the title of this book indicates. It is evident that their characteristics would call for a separate study.

[2] Table 1.2, p. 10.

[3] *Id.*

national enterprise as essentially an American phenomenon, which had some basis in fact for a period of time, may already be a thing of the past.

It is also evident that the perception of the multinational enterprise as an American phenonmenon has been strengthened by the degree to which American business activities are ventilated in public through the publication of statistics, studies of individual firms, articles in trade publications, and scholarly writing. It is striking to note in the literature on multinational enterprises the extent to which the references are to American sources.[4] With increased interest in the subject in other quarters, and especially with the creation of the United Nations Commission on Transnational Corporations and its secretarial unit, the United Nations Centre on Transnational Corporations,[5] this imbalance in sources of information may decrease and a more balanced view may develop.[6]

However, after these explanations are given, with the suggestion that host countries will in the future be less concerned over American multinationals as contrasted with those from other countries, it appears that some of the concern has arisen out of real differences between the actions and impact in host countries of American and Western European firms.

In part these differences arose out of the fact that American firms tended to introduce into foreign markets new products originally developed for the broadly based high-income labor-short American market. Western European firms, on the other hand, tended to introduce new processes for making old products. These processes had originally been developed for home markets which were resource poor but, compared to the United States, had low cost labor. Therefore, the technological innovations from Europe tended to emphasize material-saving or the substitution of lower cost materials for higher cost materials. As a result, the American firms relied more on advertising to promote their products than did the European firms, a tendency which could have been expected from home-country habits alone. But advertising, whatever its merits in marketing a product, increases the visibility of the

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[4] See, for example, the United Nations reports on multinational enterprises which have led to the current work of the United Nations in this field, publications which would have no reason to favor the citation of American sources over non-American sources. "The impact of multinational corporations on development and on international relations," E/5500/Rev. 1, ST/ESA/6 (1974) (United Nations publications, Sales No. E.74.II.A.); "Multinational corporations in world development," ST/ECA/190 (1973) (United Nations publication, Sales No. E.74.II.A.5).

[5] The terminology in the United Nations, at least, has shifted from "multinational enterprises" to "transnational enterprises." It is not clear to what extent this represents a shift in perception of the underlying phenomenon.

[6] See the work program of the Centre in the report of the Commission on Transnational Corporations on the work of its second session, Official Records of the Economic and Social Council, Sixty-first Session, Supplement No. 5 (E/5782, E/C.10/16), paras. 6-34.

advertiser. American firms were simply more conspicuous in the local markets than were the European firms.

The competitive habits learned at home by American firms who operated in a large national market also set them apart from European firms. The Europeans were more accustomed to the confines of a relatively small national market in which market position was often the result of agreement with competitors and in which important business decisions were often discussed with government officials before they were made. European firms were consequently better prepared psychologically to gear their activities to the economic desires of the host country's officials. From the host country's point of view they were perceived as being more socially responsible.

The organizational structures of American and European multinationals also reflected the differing experiences which the firms had had in their home countries. These differences in structure further contributed to host country perceptions as to the comparative social responsibility of the firms. Large American firms with multiproduct lines tended to be organized by product divisions. This put production and marketing responsibility for a given line of products under the same authority, permitting closer communication between the personnel responsible for the various functional activities in respect of those products. In addition, organization by product divisions made it easier to establish the relative profitability of various products produced by the firms. European firms, on the other hand, tended to be organized along functional lines, with production personnel responsible for production of the firm's entire line of products, and marketing personnel responsible for selling all of them.

These patterns were carried over to foreign operations. American multinational enterprises tended to use some variant of the product division structure, and the foreign operation in a given country was thought of as only one place in which this product was produced and marketed. The product division structure was used, not only because it was familiar, but because it permitted continuous communication between the personnel in the home country and their counterparts in the foreign subsidiary. The product division structure was also conducive to a regional approach to production in which plants in different countries contributed to the final product. Naturally, the organizational structure and the associated patterns of business behavior made the firm less committed to the economic goals and concerns of the officials in the individual host countries and somewhat insulated from the pressures which might be exercised upon it. While it was never true that a firm could easily pack up its plant and take it to another country because it objected to the government's policies, it was true that a firm which had plants in several countries making interchangeable items could reduce production or close down a plant at less cost than a firm with a fully integrated production and marketing structure in that country.

It was that integrated structure which the Europeans tended to have. They organized their subsidiaries on national lines, replicating in the foreign country the organizational structure used in the home country. The subsidiary in any given country produced and sold a full line of goods for that country. Consequently, the subsidiary acted more like a host country firm than did the subsidiary of the American firm.

With these factors in mind, and even leaving aside the fear that American firms might be the vehicle for American political or military goals (a concern which was obviously of a lesser character if the foreign firm was Swedish or Belgian, or even French or German), it is easy to see why many host countries desired to differentiate in their treatment of American and European multinationals.

Mr. Franko raises the question, however, as to whether we may not be seeing a reversal of this situation. When the host countries became interested in moving from import substitution, at which the European firms had excelled, to the development of export markets, they found that the subsidiaries of the European firms were at the bottom of the list, while the subsidiaries of the American firms ranked much higher.[7] This might have been expected from the factors described above.

It may be just as well for the European firms that they had already begun to move towards a European variant of the product division organizational structure.[8] If they were to compete in multinational markets which had become more open to import competition, a regional or worldwide organizational structure was called for. The question then arises though, whether the European multinationals will not be perceived by the host countries as being as unresponsive to local concerns as American multinationals are said to be.

Mr. Franko did not write his book specifically to furnish a basis for prognosticating as to future government regulation of multinationals. Rather, it was to fill a gap in our knowledge as to the European multinationals. This he has done admirably. However, it is obvious that in a field that so mixes economics, politics and law, his contributions to an understanding of the way in which the European multinationals act and why they do so add to our understanding of the host country response to them and to their American counterparts.

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[7] p. 232.

[8] pp. 198-212.

*The views expressed in this review are those of the author and do not necessarily represent the position of the United Nations.