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Multinational Corporations and Nation-States: Managing Shared- and Conflicts of Interest

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Abstract. Satisfactory and mutually beneficial relationships between multinational corporations and individual nation-states are sustainable as long as their perceived shared interests exceed any conflicts of interest. However, when events, or actions intentionally taken by either side or dictated by circumstances, alter an acceptable balance between the shared- and conflicts of interest, a good business relationship can deteriorate fast to the detriment of one or both sides. Thus, shared-interests cannot be assumed to continue over the long-range without consistent efforts by both sides to maintain them and, in the meantime, keep conflicts of interest within a tolerable level. This paper explores the factors that contribute to sustaining shared interests and containing conflicts of interest between multinational corporations and nation-states in order to avoid a deteriorations or possible disruption of an otherwise mutually beneficial relationship. Of the questions to be addressed are: what strategies and actions can help in strengthening the shared interests, and what actions and policy changes contribute to an increase in the conflicts of interest between nation-states and multinational corporations?
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1. Introduction

One of the important characteristics of multinational corporations (also referred to in this study as multinationals) is that they have their production, marketing, and other value-adding activities in more than one nation-state. As Hill (2004) explains, the rationale for doing so is that "if design can be performed most efficiently in France, that is where design facilities should be located; if the manufacturing of…. components can be performed most efficiently in Singapore, that is where they should be manufactured; and if final assembly can be performed most efficiently in China, that is where (it)…. should be performed" (p. 162). Another rationale for globalizing production and other operations is attaining the benefits that result from vertical and horizontal integration. As Todaro & Smith (2009) indicate "multinational corporations are creating global factories with both horizontal and vertical integration spread over many countries…., (and) the larger the market….the greater the incentive for innovation, because the potential return is much greater" (p. 598 and 808).

By virtue of this global spread, multinational corporations have to interact with more than one national government, each of which having its own policies, laws, national priorities, and domestic and foreign policy challenges. Meanwhile, multinational corporations have their own global objectives, which are likely to

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conflict with the needs and expectations of some nation-states and their governments; hence, the likelihood of some major conflicts of interest between multinational corporations, and sovereign states and the governments that rule and represent them. In this regard, Nye (1974) observes that “each institution (i.e. the multinational corporation and the nation-state) can profit from the activities of the other…. (but) conflict is endemic in the relationship” (p. 10).

Rubin (1975) also points out that “there is little doubt that situations arise in which there are real conflicts between multinationals and nation-states” (p. 14). The scope of such conflicts may depend, at least in part, on each government’s definition of its sovereign rights and sovereign authority as well as its policy regarding the extent of control it likes to establish over the economic activities within the country’s borders and territorial waters. To operate in such complex global environment, a cover story in Business Week (1990, May 14) indicates that the multinational company, sometimes, acts like a chameleon, and learns “to juggle multiple identities and multiple loyalties” (p. 98).

This paper is written for students of international business and international business operators, as it contributes to the literature on the implications of the shared- and conflicts of interest that result from operating in multiple jurisdictions. Current literature does not give sufficient emphasis to the ways to increase the shared interests and contain the conflicts of interest between nation-states and multinational corporations. Therefore, this study attempts to bring greater attention to the sustenance of mutually beneficial relationships between nation-states, which are focused on their national interests, and multinationals, that are most concerned about attaining their global objectives. It specifically explores some of the factors that lead to having shared- and conflicts of interest between multinationals and nation-states as well as some of the behaviors and strategies that may contain such conflicts so that shared interests would continue to exceed any conflicts of interest.

2. Roles Modern Governments Play

The roles played by modern governments frequently go beyond the minimal traditional roles like national defense and internal security. Nowadays, businesses, including multinationals, have to work under, and interact with, government agencies that often play expanding and changeable roles like those of regulators, joint venture partners, rule makers, national gate keepers, tax collectors, business game changers, income and wealth re-distributers, national resource allocators, national agenda setters, and domestic business cheer-leaders. Not only do governments play these and more roles, but they also reserve the right to change them due to their sovereign powers. Some changes, however, have mixed implications because they can impact businesses and their environments in multiple ways. They can alter the balance of shared- and conflicts of interest between the multinationals and national governments. Thus, a mutually beneficial business relationship can change into a losing one if excessive demands and regulations are imposed on business organizations, including multinational corporations.

3. The Sovereignty Factor

Some observers see that the rise and expansion of multinationals has led to the erosion of national sovereignty since national governments cannot completely control, or substantially influence, what multinational do beyond their nations’ borders. This viewpoint is based on the assumption that absolute sovereignty had exited at some time in history. The reality, however, is that national sovereignty has always been limited by international law, and voluntarily or involuntarily by state practice. Ku & Yoo (2013), for example, point out that isolationists hide behind the concept of absolute sovereignty, even though nation-states from time-to-time voluntarily consent to limitations of their sovereignty whenever they find this to be in their best interest (p. 227). Member states in the European Union, for example, have done that to make their union experiment a success. As

Weidenbaum (2004) also indicates, control over multinationals is increasingly becoming more difficult, regardless of the issue of sovereignty, since technological advances have made enterprises "far more mobile…. (and) the mobility of enterprises …. is reducing the effective power of governments" (p. 202).

4. The Essence, Contributions, and Strategies of Multinational Corporations

The multinational corporation is often described as a stateless or borderless corporation because of its global orientation and presence in multiple countries. However, different scholars emphasize different features in their definitions of the multinational corporation. Some view them as having many homes, rather than being referred to as stateless or homeless. Bateman, Snell, & Konopaske (2017), for example, define the multinational corporation as an "organizational model that consists of the subsidiaries in each country in which a company does business, and provides a great deal of discretion to those subsidiaries to respond to local conditions" (p. 190). This makes the multinational corporation look like a federation of different companies or semi-autonomous subsidiaries that are, at least, partially owned and controlled by a central unit.

To Forrow (1972), a multinational is just a "corporation holding substantial foreign investment but with a predominant home base" (p. 306). On the other hand, Shapiro (1991) describes the multinational corporation as an "octopus with tentacles extended…. to satisfy the…. appetite of its center (the parent company)" (p. 17), but observes also that it is the "most important economic phenomenon of the latter half of the twentieth century (p. 4). From the perspective of social network theory, Ghoshal & Bartlett (1990) and Bouquet & Birkinshaw (2008, March 14) think that multinationals should be viewed as inter-organizational networks in which subsidiaries act as semi-autonomous units but are still under some degree of control by their parent corporations (p. 487). These descriptions and definitions reflect the reality that the multinational corporations must have long-term investments in multiple jurisdictions. Thus, they also have global objectives that they pursue, regardless of the specific locations of their operating units or subsidiaries. Because of their presence in multiple countries, they can relocate any of their units or parts of their operations if they encounter major difficulties. Some multinationals even move their headquarters (parent companies) to other countries if such a move would enhance the chances of attaining their global objectives or lowering their overall tax obligations. Also Backer (2011) notes that multinational corporations like to move their value adding activities across national borders in search of better regulatory environments. He observes that by moving their capital and operations to different countries, the "resulting basket of regulations (to which they are subjected) reflects…. the aggregate regulations to which they wish to be subject" (755-756).

As they try to attain their global sales, profitability, and control over natural resources objectives, multinational corporations act also to accelerate economic growth in host countries, particularly those countries that offer them financial, fiscal, and regulatory incentives; and provide them with guarantees against political risks like loss of assets or the inability to repatriate profits. By so doing, the scope of shared interests can be expanded to the benefit of all stakeholders.

Despite recognizable conflicts of interest, the multinational corporations are, more often than not, viewed in host countries as facilitators of economic growth and one of the best means for accelerating the inflow of new technological advances and management know-how. They are also sought after to help in job creation and in increasing exports, among other contributions. Multinationals, however, are not philanthropic organizations. They are profit -seeking enterprises that can utilize their abundant resources, knowledge, and technological know-how to help developing countries in their battle for economic development. By virtue of

their innovations, and superior marketing and R&D capabilities, they can also accelerate economic expansion and prosperity in the more advanced economies.

Critics, however, frequently point to other actions that raise national governments' concerns about the multinationals such as tax evasion, tax avoidance, profit shifting among countries and subsidiaries, earning stripping, and lack of concern for environmental damage. As Gravelle (2015) indicates, some multinational corporations engage in earnings stripping, that is getting their subsidiaries to borrow more from financial institutions in low-tax jurisdictions and less from those in high- tax jurisdictions. Such practices influence where profits are made; thus lower the multinationals' tax obligations to the detriment of high tax jurisdictions. Some governments are also concerned about the use of the transfer pricing strategies that result in profit stripping and profit shifting, which result in some governments' losing potential tax revenues (Gravelle, 2015, p. 10).

5. Behaviors that Increase Conflicts of Interest

National governments and multinational firms have to weigh the repercussions of what they do on the sustainability of mutually - rewarding business relationships. Otherwise, shared interests erode. For example, when the Indian government demanded that Coca Cola should reveal its secret formula or operate as a joint venture with local partners as a condition for staying in that market, Coca Cola walked out of the huge Indian market for two decades. The government, at that time, underestimated or ignored how important it was for Coca Cola to protect its secret formula from its global competitors. The sudden demand, which was precipitated in part by economic nationalism, and in part by government's desire to have Coca Cola buy local ingredients in order to conserve foreign exchange reserves, added to the existing conflicts of interest, and resulted in opportunity losses for both sides. Similarly, national governments that focus solely on implementing some ideology or national policy, regardless of the multinational corporation's global interests, stand to lose the benefits that can be obtained from the investments made by multinationals. (Moye, 2013, p. 1).

Stiglitz (2011) emphasizes the importance of the multinational corporations' strict adherence to the host countries' environmental regulations rather than ignoring them or trying to get them changed. He states that "but for all the benefits they bring, multinational companies have been vilified – and for good reason. In some cases, multinational corporations take a country's natural resources, paying but a pittance while leaving behind an environmental disaster…. Sometimes, multinational companies exert their influence simply by threatening to leave…. if environmental or worker safety regulations are enforced or if they are asked to pay their fair share of taxes" (p. 476-477). Implied here is that areas of conflict expand when multinational corporations do not act as good corporate citizens or abandon their social responsibility once they go outside their home countries.

Missteps by Multinationals That Increase Conflicts of Interest

Tax Avoidance and Tax Evasion
Profit Shifting
Endangering Workers Health and Safety to Lower Cost
Adding to Environmental Challenges
Discriminating Against Locals and Favoring Expatriates
Contributing to Deficits in Balances of Trade and Payments
Interfering in Host Country Politics and Domestic Affaires
Disrespecting Local Cultures
Engaging in Corrupt Practices
Violating Hot Country Laws and Regulations
Engaging in inappropriate Business Practices that Can Hurt local Businesses

Government Policies and Actions that Increase Conflicts of Interest

Excessive Taxes and Fees Imposed on Foreign Owned Businesses
Discriminatory Government Procurement Policies
Mandatory Joint Ventures
Foreign Exchange Controls
Restrictions on Repatriation of Profits and Surplus Capital
High Domestic Content Requirements
High Local Labor Requirements
Mandatory Exporting Targets
Limits on Multinationals' Entry in High Growth Industries
Restrictions on the Multinationals' Land Ownership
Threats of partial or complete takeover of assets or sources of raw materials

6. Relations of Multinationals with their Parent Countries

Multinational corporations frequently resort to their home-country governments for assistance when they encounter sudden or major problems with host governments that may result in loss of assets or unfair discrimination in treatment. Sometimes they get some assistance, and sometimes they do not, depending on the prior behavior of such companies, foreign policy, and other considerations. Some parent country governments, labor unions, and anti-large business groups, however, accuse their own countries' multinational companies of greed, disloyalty, and selfish behavior. Parent country governments, sometimes, express disappointment because their countries' multinationals do not favor their home markets over others in their investment decisions. Multinationals are also accused of exporting jobs from their high-wage home countries by moving parts of their operations to low-wage countries. Like some host country governments, some home country governments also claim that their-own multinationals hide their profits abroad and manipulate their financial systems in order to evade or delay payment of taxes. Thus, like host governments, parent country governments recognize the conflicts of interests with multinationals just look upon them from different lenses. This adds to the public image challenges, faced by multinational companies, which they should not ignore in their strategic decision-making.

7. Globalization versus Economic Nationalism

One of the aims of economic nationalism is lessening the nation's dependence on imported goods by protecting domestic producers from foreign competition. In fact, economic nationalism, by definition, stands against control over major sectors of the economy by foreign-based businesses, and advocates favoring nationally-owned and controlled businesses in public policy making. Accordingly, government policies adopted in accordance with economic nationalism, as a sentiment and as an ideology, increase the scope of conflicts of interest between the nation-state and multinationals. Globalization, on the other hand, leads to more liberal flow of goods and factors of production across markets, greater global economic interdependence, and increased global economic integration.

Some leaders in countries that have historically been supportive of globalization, but see their economies losing some jobs due to the movement of industries to low-wage countries, in search of greater efficiency and higher profits, have been calling in recent years for the return of some version of economic nationalism to protect domestic jobs and maintain greater economic independence. They specifically blame multinationals for exporting jobs due to selfish interests. However, as Hill & Hult (2011) maintain, globalization by and large will most likely continue to be the engine of world economic growth and prosperity for many years to come (Hill & Hult, 2011, p. 21-22). Ghemawat (2007) as well forecasts that the current state of globalization, which to him is actually a state of semi-

globalization because the world economy is not sufficiently integrated, is likely to persist for decades although "the confidence interval fans out as one moves farther into the future" (p. 221).

8. Conclusions

This study adds to the discussions and literature on the complex relationship between the multinationals and the nation states, within which they operate. Dealing with multiple national governments that focus on their own economic and political interests, multinational corporations face the challenge of attaining their own global objectives and, in the meantime, meeting the expectations, and addressing the concerns, of those governments. Added to this challenge is the tendency of national governments to periodically change their policies and regulations as they desire. Thus, a good business climate, created under a certain set of public policies and regulations, may suddenly change without a prior warning, and without compensating businesses for any real or opportunity losses that may be incurred. It should be noted, however, that governments do not just impose new constraints on multinational corporations with every change they make or new policies they create. To entice some multinational corporations to enter, or stay in their markets, national governments from time-to-time offer them new fiscal and other incentives. However, such incentives have to be attractive enough to ensure that the shared interests would exceed in value any real or perceived conflicts of interest. In fact, both governments and multinationals need to periodically re-examine their policies and actions to help keep their shared interests attractive enough relative to the persistent and unavoidable conflicts of interest.

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