

**FRIEND OR FOE:
LEVERAGING THE IMPACT OF
FOREIGN MULTINATIONALS IN THE
AUSTRALIAN ECONOMY**

A report for the
Australian Business Foundation
January 2002

Why Do This Study?

- Concerns about branch office economy
- Concerns about takeovers of Australian firms by multinationals and loss of headquarter functions, R&D and autonomy
- Resurgence of protectionist sentiment
- Little recent assessment of foreign-owned firms in Australia

Purpose

- To build a model of non-financial contributions of MNCs
 - past focus on employment and direct investment
 - measure of intangibles
- To assess the contributions of foreign multinationals to the Australian economy

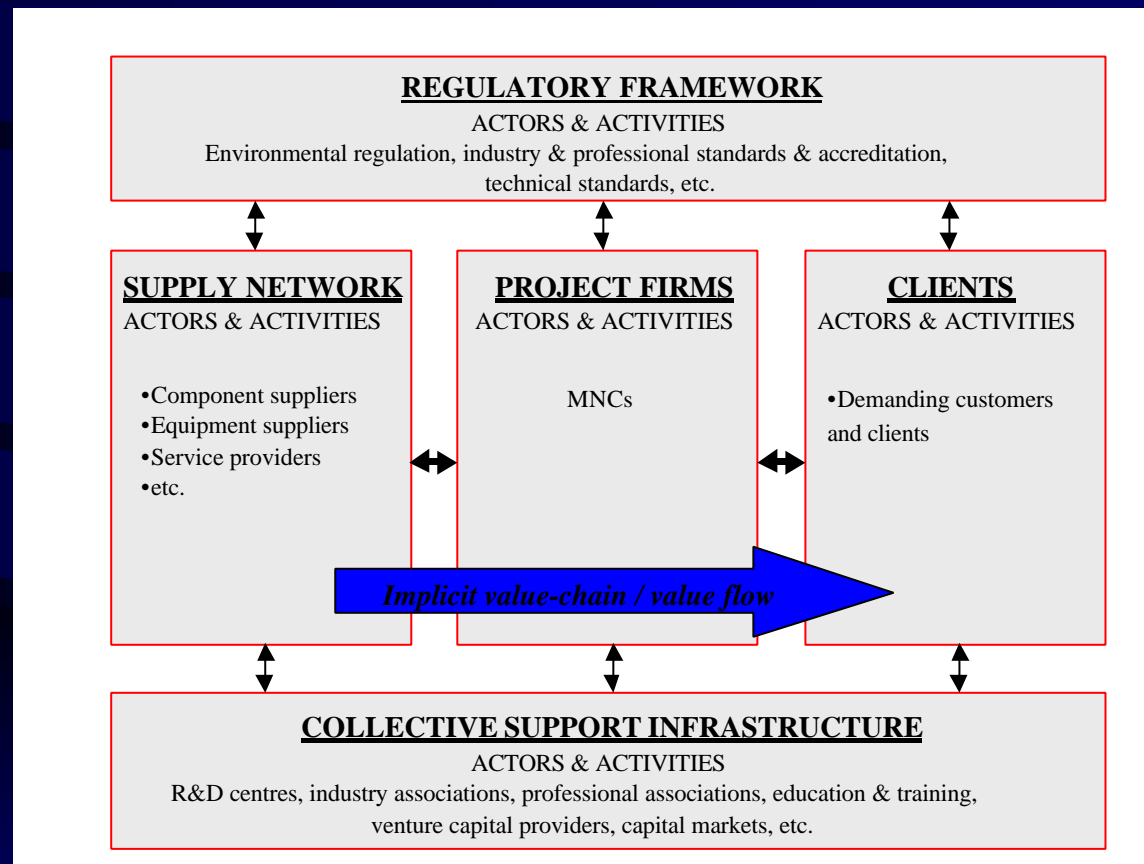
Who are the MNCs?

- We defined MNCs as firms which were headquartered overseas and which had production in at least two countries; or which had sales and marketing operations in Australia
 - interviewed 30 senior staff
 - resources (4), manufacturing (7), consumer products (5), banking (3), other services (11)

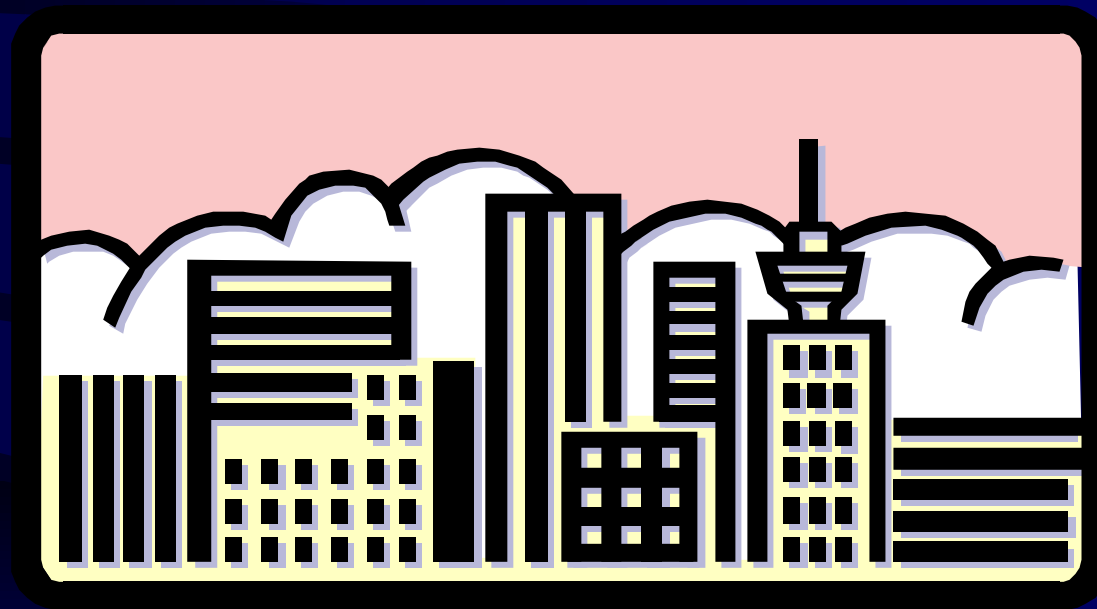
Who Are the Suppliers?

- 56 Australian SMEs
 - predominantly known suppliers to MNCs interviewed for this study
 - mail survey
 - Australia-wide
 - concentrated on comparisons between largest MNC and largest Australian-owned customer

Value Chain



Clustering and Local Integration



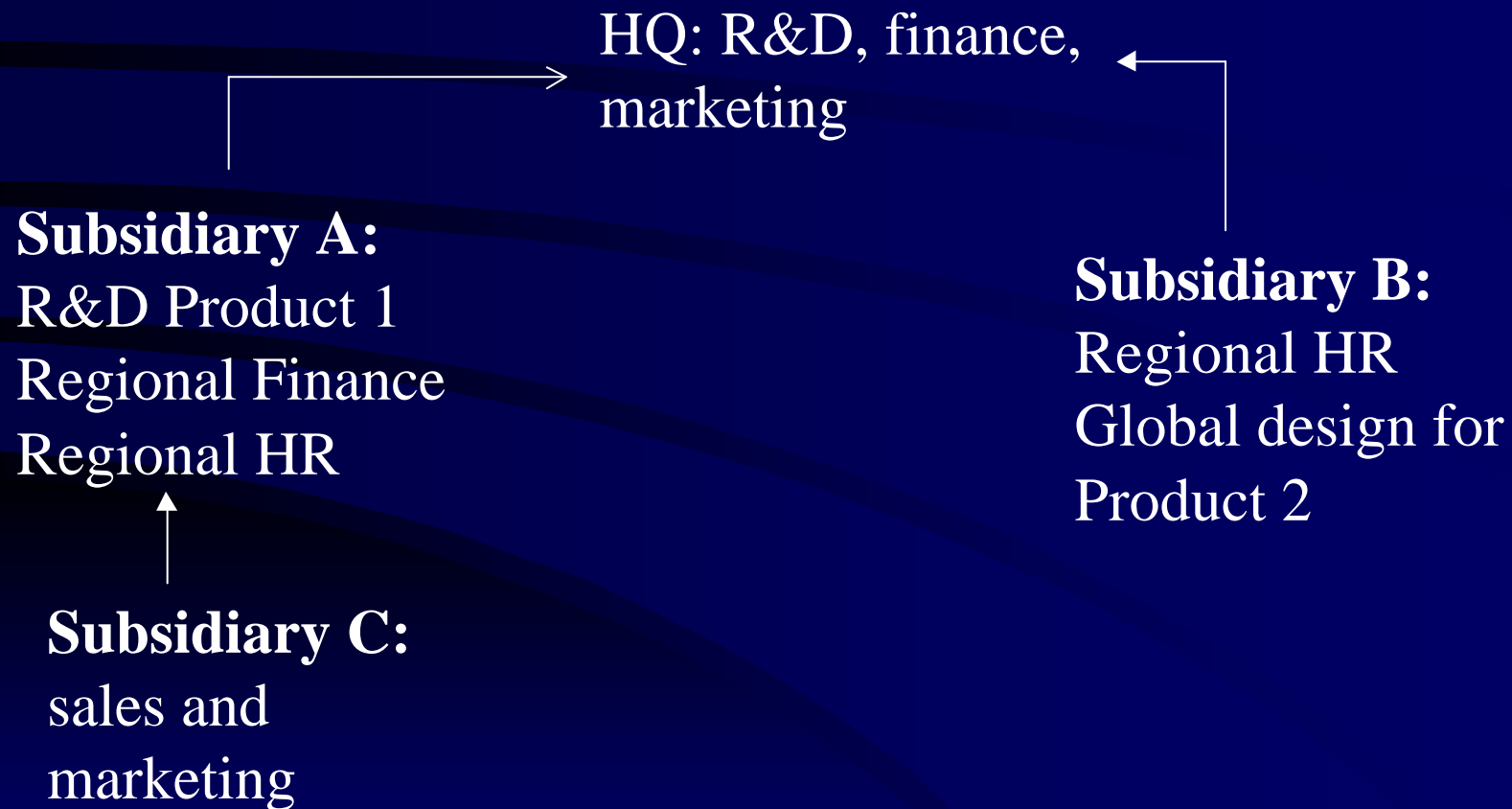
Strategic Alliances, M&As



Knowledge Networks and Knowledge Management



Reporting Structures within MNCs



E-commerce

DISTRIBUTION

SUPPLIER
LINKS

ORGANISATIONAL
STRUCTURE

OPERATIONS

***MARKETING
& SALES***

AFTER SALES CARE

Key Impacts

- Building Australia's capabilities and critical mass
- Extending Australia's global reach
- Building skills and knowledge

Capabilities and Critical Mass

- MNCs are demanding customers and can build suppliers' product and service standards;
- R&D focussed on product modification;
- Some significant strategic alliances
 - technology-based and where R&D also undertaken

Global Reach

- MNCs may export especially if an RHQ;
- Centres of excellence, however, are more significant
 - contribute more strongly to global reach than RHQs
- Australian suppliers to MNCs also access overseas markets through these customers
- E-commerce provides opportunities for testing

Knowledge Flows and Skills

- Ability to use MNCs to access global knowledge depends on MNC structure and reporting systems
- Knowledge may also flow to Australian suppliers
 - currently limited flows to public sector R&D
- Staff have opportunities for international exchange and training

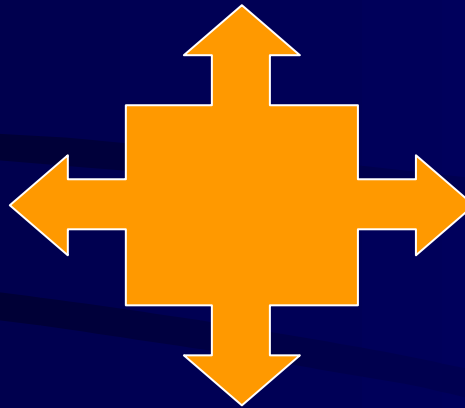
Other Factors

- Differences by nationality
 - UK/European firms more autonomous, more likely to export and do R&D
- Differences by mandate
 - employment highest in firms with local mandate
 - those with regional or global mandate were exporters, worked with customers, transferred technology and controlled product development

Friend or Foe?

Negative

- Limited impact of sales/marketing
- Limited R&D and links with NIS
- Reducing manufacturing



Unclear

- Strategic alliances
- E-commerce

Positive

- Employment & RHQs
- Centres of excellence
- Internal knowledge & global influence
- Expertise transfer to suppliers
- Staff training
- Testing of new products and services

Implications

- Refocus investment attraction programs
- Leverage Australia's business culture strengths
- Create regional and global centres of excellence
- Draw on MNCs for new skills and competencies
- Capitalise on MNCs as demanding customers & standard setters

Inward Investment

- Australia must aim to increase size and depth of knowledge intensive MNC activities
 - using AXISS as model, focus on Australia's sector-specific benefits or areas where we want competitive advantage e.g. health/biotechnology, ICT, food and education
 - support MNC CEOs wishing to expand their mandate or prevent scaling down of activities

Business Culture Strengths

- Promote Australia as testing ground for new products and services
- Value Australia's diversity and ability to interact with Asian and US/European customers
- Help expatriates return to Australia

Centres of Excellence

- Less focus on RHQs
- Policies to expand centres of excellence
- Mediate through firms, industry associations and MNCs themselves

MNCs for New Skills

- Acknowledge MNC role in training Australians for global employment
- Assist expatriates to return to suitable jobs
- Build networks with expats to tap into their sector-specific knowledge

MNCs as Demanding Customers

- Suppliers use MNC customers to gain skills and capability
 - leverage to gain international market access
- Work by themselves or through industry associations
- MNCs should also build strengths in local suppliers

Conclusions

- There are both advantages and disadvantages of MNCs operations here;
- Treating MNCs as foes is not helpful in the longer term;
- Australian must work to increase positive aspects of MNC operations;
- Actions for both government and industry