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## INT.5

# The Role and Operations of Multinational Organizations

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## INTRODUCTION

Multinational organizations are not a new phenomenon. They can be traced to early times, where businesses were involved in international trading [3]. American leadership of multinationals grew rapidly during the late 1950s and 1960s. During the 1970s, multinationals emerged as the most influential business organizations in the world economy. In the construction industry, the multinational organizations are those involved in planning, design, construction, or consulting activities on an international level in two or more countries. They create jobs in their countries and export services and goods to foreign countries. The multinationals engage in projects that are beyond the abilities of less industrial countries—generally, large construction projects such as the creation of industrial cities, defense, and infrastructures. The government is usually the client and multinationals headquartered abroad are contractors.

In 1992, the 225 top multinational contractors shared over \$146 billion of construction work, and 200 top multinational design firms shared over \$12 billion. Seven out of the top 10 multinational construction and design firms are from the U.S. The U.S. has the largest number of multinational design and construction firms procuring international projects. Of the top multinational contractors in 1992, 72 American firms garnered 49.2 percent of available multinational construction work (worth over \$72 billion), followed by Europe and Japan with 35.7 percent (over \$52 billion) and 8.4 percent (over \$12 billion), respectively. In the same year, among 200 design firms, 80 U.S. multinationals led by procuring 51 percent of all design work, worth over \$6 billion. Europe and Canada procured 38.8 percent (over \$4.6 billion) and 4.4 percent (over \$530 million), respectively.

## OPERATIONS

### Background

After World War II, Europe and Japan were involved in rebuilding, but Britain, with a smaller need for reconstruction, could concentrate its efforts on commonwealth markets. The U.S. emerged as a leader in the multinational firms due to its growing defense and economic base. However, after the fall of communism, things have changed.

More multinationals are competing for international projects due to weaker domestic economies. The U.S. is facing its own economic problems. However, the U.S. is still maintaining its leadership position (see Figure 1).

Multinational firms from Korea and Taiwan are very competitive on projects in the Middle East and in Asia, due to their lower labor costs, familiarity with local bureaucracy, and excellent knowledge of construction techniques. The following table presents the specialization of some major industrialized countries.

Table 1—Specializations of Some Industrialized Countries

Country	Specialization
USA	Sophisticated infrastructure, industrial, nuclear, petroleum/ petrochemical, and hazardous waste.
Europe and Japan	Infrastructure—transportation, communication, utilities, etc.
United Kingdom	Bridges, some infrastructures.
Italy	Dams, some transportation.

However, due to domestic and international economic conditions, firms do not tend to stick to one specialization. According to an *Engineering News Record* survey, petroleum and petrochemical projects continue to increase their dominance in the international market (see Figure 2).

Governments are supporting their multinationals by encouraging corporations and also by identifying potential projects abroad, and arranging partial financing, low interest loans, and other incentives. Due to vigorous competition among multinationals, profit margins have been shrinking. Multinationals concentrate in the regions of the world where foreign aid from industrialized countries is concentrated. Usually, large international firms are involved in foreign contracts. Of the 400 largest contractors and the 500 top designers in the U.S., a large percent are working on international projects.



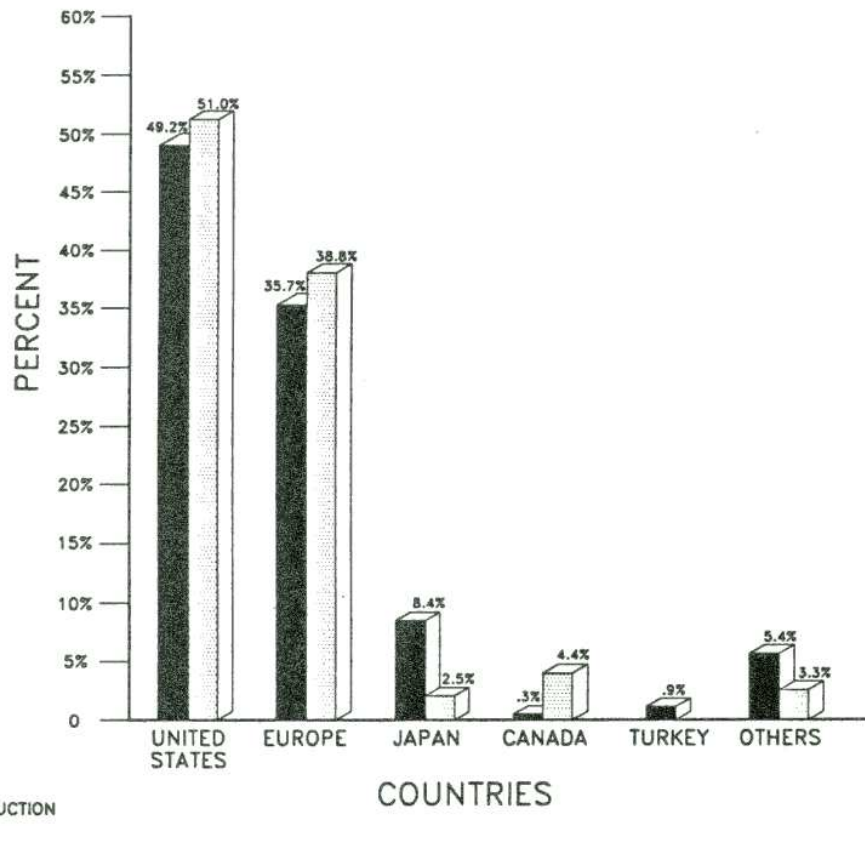


Figure 1—Percent of Work Awarded to Various Countries [1, 2]

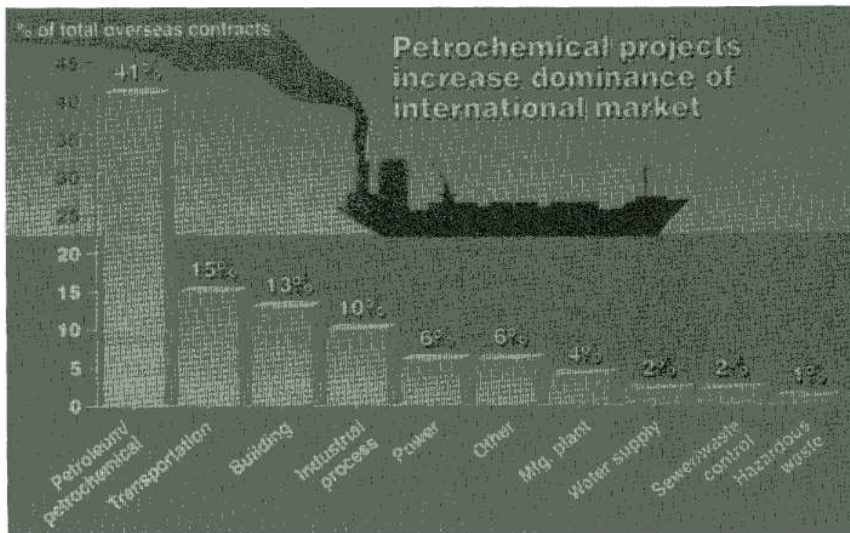


Figure 2—Multinational Construction Contracts by Specialty [2].

Because of greater resources, they have an edge over smaller firms as they can take the greater risks that are associated with the foreign projects. The structure of a firm largely depends on the nature of the project and its operations. Most firms are trying to do design and construction both for economic purposes and also to diversify their services.

In the past, multinationals would set-up temporary offices in the developing country after the award of the work; these offices operated until the completion of the project. Presently, the trend is changing. Some firms are setting up permanent offices, even after completion of particular projects, in order to market future projects. Important positions are even being filled with local personnel, and some of the work is done locally rather than at the home office abroad.

### Joint Venturing

Joint venturing among multinationals is common, and is done mostly to reduce financial risk. However, joint venturing with local firms is not very popular due to their lower financial support and technical expertise. The multinationals also feel that by joint venturing with locals, they will create businesses that may compete with them later. But in some Middle Eastern countries, the overseas contractors cannot do business without local sponsors. In some cases, joint venturing with competent local companies is beneficial because of their familiarity of local rules, bureaucracies, and working conditions. Also, influential local companies can help win contracts.

### Subcontracting

Mostly multinationals prefer to subcontract to local firms, rather than joint ventures, for better project control. Generally, the work tasks of subcontractors include some preliminary design, data collection, or small construction works under their management. Joint venturing and subcontracting have tremendous impacts on the growth and development of local industry.

### Procurement

Multinationals try to use locally available construction materials, such as concrete materials and wood. However, in some cases, there are problems with quality and availability. Equipment is usually imported and in some cases assembled locally. However, there are high costs associated with repairs and maintenance of the equipment locally, as well as shipping and importation of spare parts. To encourage the use of locally available materials, developing countries may place higher importation taxes.

### Funding

We can compare the multinational construction industry to that of international trade, for it is engaged in the export of goods and services such as managerial and technological expertise, materials, and equipment in return for foreign exchange. Generally, the import industry first starts developing skills in a particular field and manufacturing for a domestic market before exporting its goods, giving it an edge over its competitors. The multinationals do the same. The project funding is usually procured from outside agencies other than the developing country. The working investment is provided by the multinationals themselves. Mostly multinationals are from the same country that funds the project. The funds are linked to services or goods from the funding country.

### Constraints

Some of the constraints that multinationals face are internal. However, there are some external problems as well. The internal problems may include a conflict as to who shall control the major functions of the project, the home office abroad, or the foreign site office/subsidiary. Mostly, the problems exist in the management

structure of the company, probably due to its unfamiliarity with the foreign business. The staffing problems can be resolved by a management team operating the project as an integrated organization. In such cases, the management team needs to interact more with the work force. The external difficulties include political, social, trade restrictions, and currency.

## ROLES OF INDUSTRIALIZED VERSUS DEVELOPING COUNTRIES

The multinationals play an important role in the economic development of less industrialized countries. The government and funding agencies, through their policies, can affect the role of multinationals in the development and transfer of technologies. The transfer of technology includes promoting research and training in technical and managerial aspects of the project, so that nationals can maintain their facilities and also build similar projects with little or no assistance from multinationals.

The governments of less industrial countries can play an effective role by relaxing the local rules, regulations, and other political problems that may affect the operations of multinationals. Governments can promote the growth of the local construction industry. The governments and local agencies can expedite the growth of local industries by providing basic education and training to engineers, technicians, and workers so that multinationals can help the industry to grow faster. Governments need to make available quality material suited to the requirements of multinationals.

## PROJECT MANAGEMENT PROCESS

The multinational design and consulting organizations play an important role in the planning and design activities of a project, as developing nations often lack the expertise to do either. The planning and design activities comparatively have fewer labor requirements with lower capital investment than construction activities. The required labor usually consists of experienced professionals with high technical capabilities.

The construction phase requires labor, materials and equipment management. This activity is more demanding in terms of capital and labor than the design activities of the project. It also requires close interfaces with local construction industries, since needed labor must be acquired and handled locally. However, in some areas such as the Middle East, due to scarcity of both skilled and unskilled labor, the multinationals bring their own labor or get it from the nearby countries, whichever is cheaper.

Depending on the sophistication of the local firms, the multinationals may subcontract major portions of the construction to local contractors. However, overall construction management is done by the multinationals. Where local firms cannot handle complex tasks, less specialized tasks such as site preparation and earthwork are subcontracted.



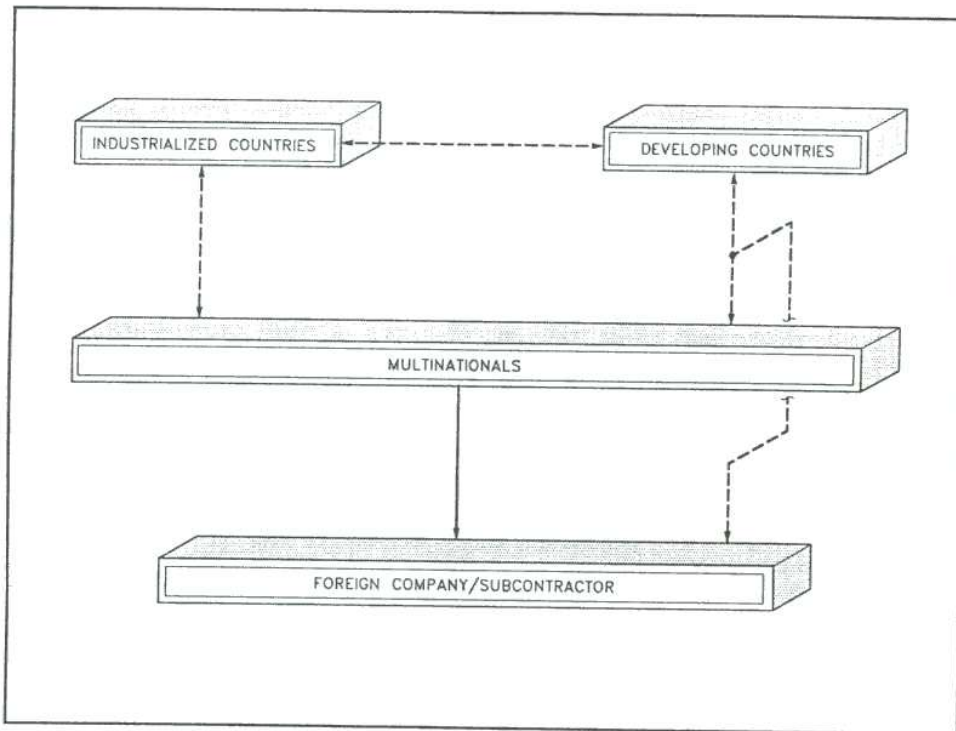


Figure 3—Multinationals and Relationships

#### Construction Techniques in Less Industrial Countries

Construction techniques used in industrialized countries vary between developing countries due to resource availability. The industrialized countries are rich in specialized labor and in the use of mechanized technologies, whereas developing countries are rich in skilled and unskilled labor and in the use of labor-intensive practices.

In some countries, governments encourage labor-intensive programs to increase employment opportunities. In some developing countries during large construction projects, such as dams, many skilled and unskilled laborers are employed. Machinery is used for tasks that manual labor cannot perform, such as tunnelling or lifting heavy objects to heights. However, labor intensive tasks may tend to extend the project completion date.

In some cases, the designers optimize the project by using different construction materials. For example, masonry may be used in lieu of concrete to lower construction costs. It is common to use large groups of manual laborers for repetitive tasks, such as earthwork and concrete placement.

Management of labor-intensive programs requires special skills that may vary from that of mechanized programs. The labor-intensive or mechanized methods are used after careful planning. In some cases, although labor intensive methods may be cheaper and faster, they may not be feasible, such as in populated areas.

#### Labor Planning and Resources

Labor planning is defined by the experts as the process that includes policies and programs for acquiring, using, developing, and preserving the human resources of an organization. However, in practice the labor economists and planners use supply and demand models. Labor planning is an art, and its success depends on available data and on the judgement of the planner. Multinationals develop their labor models and resource requirements using the ratio of expatriates to natives, which may vary by project type, by social, political and other aspects of the cultural environment, and by government regulations restricting the number of expatriates. Multinationals, where possible, use locals to reduce the costs.

The managers working for multinationals must have all the skills necessary for the success of domestic projects, as well as the knowledge required to manage foreign operations. They need to be adaptable in order to live and work in different cultural and political environments, and must be willing to accept broad job responsibilities. Multinationals find it difficult to get managers with all of the necessary qualifications who desire foreign assignments. Multinationals usually tend to send the managers working in their domestic organizations abroad because of their vital knowledge of company policies and procedures. However, some firms hire new managers. Due to current U.S economic conditions, a large number of Americans are seeking foreign assignment. There are financial incentives in overseas jobs, such as higher net incomes due to lower taxes, excellent benefits, and sightseeing/tourism opportunities.

As discussed previously, multinationals often hire unskilled and semi-skilled labor from the host country. Generally, laborers with prior experience of multinationals firms and who are easily trained and well adjusted to new work environments are considered. In some countries, there are shortages of skilled workers and multinationals have to train them. Labor supply and demand problems vary depending on countries, regions, and seasons. There might be an abundance of labor in one region and a shortage in another. Some multinationals use prefabricated materials and mechanized methods to reduce manual labor.



### Unions and Training

Analysis of labor unions is rather difficult as situations vary from country to country. In some cases, unions and the political group in power are of the same party. Locals usually are more favorably treated than foreigners. Due to the complexity and unfamiliarity of local politics, the multinationals must leave local politics to the politicians of the host country.

In the past, multinationals were used to maintain facilities, due to a scarcity of a skilled workforce in the host country. However, present contracts require multinationals to train the locals once the project is completed, making sure the facility can be properly maintained by the nationals. Many countries are also restricting the number of expatriates and the duration of their visa periods. Host countries require multinationals to have good training programs, so that nationals can operate and maintain their facilities, replacing expatriates. Western training methods may not be applicable in developing countries. Also, language and culture makes training difficult. In some cases, local languages may not have translations for technical words, and the attitude of the workers may not be responsive. Developing countries may want unskilled or semi-skilled workers to be selected as trainees and their training requirements may not be clear. It is important to tailor the training programs to suit the skill level of the workers. Multinational may not be accustomed to all these problems, and may have difficulties in meeting the training schedule. However, it is important to meet the training requirements, and to study demographics, labor requirements, and training methods, such as on-the-job training and building training centers, along with the associated costs. It is vital that multinationals take training programs seriously to avoid penalties for not meeting the schedule or subcontract to specialized firms or to other multinationals. Training managers/supervisors and professionals is comparatively cheaper and easier, due to their higher initial educational level.

### Additional Costs and Risks

Multinationals have higher overhead costs compared to domestic firms since labor is more expensive. The major costs include relocating managers/professionals and their families abroad, training, higher salaries and allowances, and the costs of administering overseas compensation packages. Apart from higher overheads, multinational firms face greater risks, such as war and currency devaluation or escalation. However, these risks can be overcome through insurance and contractual safeguards. Despite additional cost and risk, multinationals usually profit.

### CONCLUSIONS

The paper presents the role of multinational organizations and their operations in developing countries. It includes all of the major topics that affect the finance and operations of

multinationals, as observe through the author's experience working for several years with multinationals and United Nations organizations on overseas projects, and also by utilizing information from various sources. It is difficult to highlight all the problems and solutions facing multinationals and expatriates because they may vary from country to country and from project to project. However, this paper provides some guidelines and a framework for operations.

The multinational design and construction firms have increased their importance since large infrastructure and industrial projects require sophisticated technology and high technical and managerial skills of which developing countries are devoid. The multinationals can also be instrumental in securing funding from international agencies that less industrial countries cannot provide. It is essential that professionals and managers working on overseas projects are of the highest caliber, and must be capable of working at times in frustrating conditions. They must conduct themselves in a professional and diplomatic manner as they are not only representing their organization but also their country. They must make serious attempts to know about the country, government, laws, people, political, social and religious culture(s), require and in-depth knowledge of the industry relating to their project. The multinational organization help less industrial countries in the development and transfer of technologies and less industrial countries use multinationals for their growth.

To help resolve multiple problems facing multinationals and developing countries, all concerned and international agencies involved in funding should create a common database consisting of all the statistics regarding materials, labor, and cost (including problems and case studies on all the aspects of construction industry).

Due to continued recession in industrialized countries, more and more multinationals are seeking work abroad. After the end of the Cold War, and due to the increasing political stability of regions such as the Middle East and Latin America, international markets will be booming in coming years. Some of the major potential markets include Eastern Europe, Russia, Asia, Latin America, and the Middle East. The future for multinationals seems very bright because of optimistic markets abroad.

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