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Intereconomics

*Suggested Citation:* Jungnickel, Rolf; Krägenau, Henry (1977) : Motives of multis in Germany, Intereconomics, ISSN 0020-5346, Verlag Weltarchiv, Hamburg, Vol. 12, Iss. 1/2, pp. 35-39, <https://doi.org/10.1007/BF02929169>

This Version is available at:

<https://hdl.handle.net/10419/139445>

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# Motives of Multis in Germany

by Rolf Jungnickel and Henry Krägenau, Hamburg \*

**This article which — like the subsequent one — is essentially based on a recently concluded expertise<sup>1</sup>, is concerned with the different motivational structures of German and foreign multinational corporations (MNCs). Whereas German direct investments abroad reveal an offensive character, the policy of foreign MNCs in the Federal Republic of Germany is much more defensive. There are also significant differences between German and foreign MNCs as regards the internal division of labour.**

Foreign investments of German business enterprises have soared in the past ten years by leaps and bounds. In 1975 the output abroad of the German manufacturing industry<sup>2</sup> probably reached a value of between DM 65 and 70 bn or 7 to 8 p.c. of its total turnover. The parent companies of German MNCs are estimated to account for more than a third of the industry's sales.

No less important is the engagement of foreign multinationals in the German economy. An inquiry by the *Deutsche Bundesbank*<sup>3</sup> has revealed that in 1972 roughly 15 p.c. of all the people employed in industry worked in firms with foreign capital participation. These firms, two-thirds of which are under foreign majority ownership, accounted for a turnover of DM 200 bn or roughly 20 p.c. of the total sales of industry.

The process of internationalization was pushed forward by only relatively few concerns operating on an international level. The behaviour patterns of these German and foreign MNCs are therefore of considerable importance for the German economic development. Important clues to their domestic and external economic effects<sup>4</sup> can be gleaned from their business strategy that is above all reflected in their investment motives. Relevant information is available for 119 subsidiaries of 20 German MNCs (including the ten biggest) grouped according to countries, and investments of 22 foreign MNCs in the Federal Republic which likewise comprise the most important companies.

In conducting the inquiry direct investments were subdivided into two basic types: sales-oriented and resource-oriented investments. Within this general framework of basic motives, the engagement abroad is influenced by a multitude of other factors for which provision was made in the questionnaire. Yet another question sought to establish the relevance of the profit motive to investment decisions.

In this connexion the question was not whether direct investments were made with a view to earning profits as such; this goes without saying for any private enterprise. The intention was rather to find out whether decisions to invest abroad were motivated by the intention to obtain a *higher* return than would have been possible in Germany. The replies to this question were relatively uniform. Only one answer said that higher profitability was the "decisive" factor in making the decision. In 14 other cases the profit motive was described as being of "great" importance while 17 further respondents said that higher profitability was of "minor" importance. If one proceeds from the assumption that maximization of profits is the traditional objective of private firms, it is surprising that the enterprises asked should have attributed so little weight to the profit factor. Two comments on this:

☐ firstly, the profit motive may have been partially understated for "tactical" considerations;

☐ allowance must further be made for the fact that the bulk of direct investments was only made in the last few years and that it takes several years before the break-even point is reached.

With these qualifications in mind the 27 p.c. share which has been calculated for such investments that are expected to yield a higher rate of return than possible in Germany, does not seem extra-

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<sup>1</sup> Cf. Rolf Jungnickel, Mathias Lefeldt, Henry Krägenau, Manfred Holthus, *Der Einfluß multinationaler Unternehmen auf Branchenstruktur und Außenwirtschaft der Bundesrepublik Deutschland*, Gutachten erstellt im Auftrage des Bundesministeriums für Wirtschaft (The Influence of multinational corporations on the inter-industrial structure and external economic relations of the Federal Republic of Germany, Report on an enquiry on behalf of the Federal Ministry of Economic Affairs), to be published shortly by Verlag Weltarchiv, Hamburg.

<sup>2</sup> Defined as turnover of producing foreign subsidiaries excluding resale goods produced in Germany.

<sup>3</sup> cf. Deutsche Bundesbank, *Ausländische Beteiligungen an Unternehmen in der Bundesrepublik* (Foreign investments in firms in the Federal Republic), in: *Monatsberichte der Deutschen Bundesbank* (Monthly Reports of the Deutsche Bundesbank), No. 11, Nov. 1974, p. 28 ff.

<sup>4</sup> cf. the article by Lefeldt/Holthus in the present issue.

ordinarily low any more. However, this does not alter the basic assertion that direct investments are predominantly determined by marketing considerations: the competitive struggle between the large MNCs is for market shares rather than for short-term profits<sup>5</sup>. This result also tallies with recent theoretical explanations of the expansion of multinational enterprises<sup>6</sup>.

Within the scope of market-oriented investments the MNCs mostly weighted all of the three types, frequently even equally. Market-oriented direct investments very frequently follow successful export sales, being only rarely the first step to gain access to a market. Nor are they exclusively intended to secure positions already gained. What

German MNCs are mainly interested in is the expansion of existing markets. Although only the largest enterprises were included in the inquiry, that is those which are already relatively firmly established in a given market, their direct investments are still of a remarkably aggressive character; more aggressive, that is, as might have been supposed from the study of numerous statements published by enterprises themselves – statements which tend to stress rather the defensive nature of their policies.

A relatively aggressive tendency of their direct investments is shown by all branches included in the inquiry with the exception of the automobiles industry which is included in the metal-production and processing section. Looked at from the point of view of regional distribution, the industrial countries outside Europe and particularly the USA deserve special mention. Even the chemical firms which have for long been represented on the American market are still making great efforts to open up new market positions there – evidence

<sup>5</sup> In this connexion it must be stressed however that medium-term market-share increases can also be a means – and possibly even the most effective one – of increasing profitability.

<sup>6</sup> cf. G. Koopmann, Warum gibt es multinationale Unternehmen? (Why are there multinational enterprises?), in: D. Keeschull, O. G. Mayer (eds.), Multinationale Unternehmen. Anfang oder Ende der Weltwirtschaft (Multinational enterprises. Beginning or end of the world economy), Frankfurt 1975, p. 39 ff.

**Table 1**  
**Motives for Foreign Investments of German Multinationals by Regions and Branches<sup>1</sup>**

Motives	Regions				Total	Branches			
	Original EEC	Original Efta	Other industrialised countries	LDCs		Chemicals	Electrical engineering	Metal industry (incl. automobiles)	Other firms
<b>a) Basic motives</b>									
<b>Marketing motives</b>									
(1) Opening up markets abroad	1.1	0.9	2.4	1.6	1.4	1.6	1.2	1.4	1.6
(2) Expansion of existing market positions abroad	1.8	1.5	2.2	2.3	2.0	2.1	2.0	1.7	1.9
(3) Securing of existing markets abroad	1.3	1.1	1.5	1.8	1.4	1.6	1.0	1.8	0.9
<b>Resource-oriented motives</b>									
(4) Availability of labour or raw materials	0.7	0.6	0.5	0.8	0.7	0.7	0.7	0.7	0.7
(5) Lower production costs	0.3	0.3	0.3	0.8	0.5	0.4	0.4	0.5	0.8
<b>b) Other influencing factors</b>									
(1) Higher profits than in Germany	0.1	0.1	0.7	0.8	0.4	0.6	0	0.6	0.4
(2) Surmounting of trade barriers	0.4	0.7	1.9	1.8	1.3	1.5	1.0	1.3	0.6
(3) Adjustment to measures of competitors	0.8	0.5	0.8	1.1	0.9	1.1	0.4	1.0	0.4
(4) Political pressure of country of investment	0.1	0	0.3	0.4	0.2	0.2	0	0.4	0.3
(5) Promotion of exports of parent company	0.9	0.9	1.1	1.1	1.0	0.9	1.3	1.0	0.5
(6) Establishment of an export base for neighbouring countries	0.9	0.9	0.8	0.7	0.8	0.9	0.8	0.9	0.5
(7) Securing of the German market	0.6	0.4	0	0.2	0.3	0.2	0.5	0.3	0.2
(8) Financial incentives of the host country	0.5	0.5	0.0	0.3	0.4	0.4	0.4	0.3	0.5
(9) Other motives	0.5	0.3	0.1	0.1	0.3	0.6	0	0	0
Number of subsidiaries included	33	22	14	50	119	51	26	22	20

<sup>1</sup> The data contained in the tables are the result of two different weightings: In the first instance the firms estimated the strength of their motivation for investments abroad against a four-tier scale (from "0" = no importance to "3" = decisive importance); in addition, a five-tier weighting according to the size of the subsidiaries was applied in tabulating the data. As the foreign MNCs (Table 2) do not vary so much in size, they were weighted by three classes only.

Source: Own surveys.

that the USA continues to be regarded as one of the most attractive countries for foreign capital investments.

The policy of MNCs to achieve expansion abroad increasingly through local production rather than through exports is only to a minute extent influenced by direct political pressure. By contrast, trade barriers weigh on the whole very heavily in decisions to make direct investments. This is particularly true of the chemical and metal-processing industries in an increasing order from European to non-European industrialized and developing countries. Chemical firms in particular have been stressing the importance of non-tariff trade barriers.

Such barriers are said to exist even in EC-Countries, particularly in Italy and France. In France for instance the registration regulations make it *de facto* necessary for pharmaceutical firms to start production in that country. Similar is the situation in the power plant construction where, contrary to all EC-agreements, it is general practice to accord preferential treatment to national producers.

It must be emphasized that in most cases trade barriers are by-passed not to secure existing export markets but to further an aggressive investment strategy. Local production enables enterprises easier to circumvent even trade barriers of "major" importance to exports from Germany. Investments made to get around trade (that is export) obstacles frequently also serve the *promotion of exports* from Germany. This is particularly evident in the electrical industry. Enterprises operating in other branches have also been weighting export promotion relatively highly. There would therefore seem to exist a positive rather than a negative link between production abroad and exports. Statistics about the MNCs' foreign trade confirm such an assumption. These figures reveal that the very firms producing the greatest quantity of goods abroad also register the highest exports. In the aggregate MNCs export 43 p.c. of their output; this figure — as well as the corresponding figures for individual branches — is much higher than the export quota for the whole German industry. The development of exports to countries in which the MNCs have their own subsidiaries is by no means below average. Exports to such subsidiaries already account for more than 40 p.c. of total exports. Deliveries of inputs and finished goods for resale to foreign manufacturing subsidiaries account for 15 p.c.

Investments for the purpose of starting *export bases* abroad play a somewhat less important role. As was to be expected, this type of investment is most important in the integration areas of Eu-

rope. In this context special mention must be made of several large-scale projects started by the chemical industry in Belgium and the Netherlands which already export far more than 50 p.c. of their output.

Most of the other exporting subsidiaries are not primarily to be regarded as export bases; they have developed from investments which were intended to supply the domestic market and are only about to enter the export business. Strongly export-oriented are mainly the subsidiaries of the German metal-working sector which operate in EC-countries. The same applies to labour-intensive manufactures which the MNCs in the electrical industry have transferred abroad and whose exports frequently consist of deliveries to parent companies; in other words: the intention was to secure the position in the German market.

Export orientation in general and the re-exports back to Germany in particular are typical for the (relatively few) resource-oriented investments. Of the 119 subsidiaries roughly only 15 p.c. are clearly resource-oriented. Lower production costs seem to have played no special part — an indication that the changes in the DM-rate during recent years have had obviously little effect on German production costs as compared with the international situation<sup>7</sup>. MNCs are more often interested in the availability of labour or partly (in the chemical sector) of raw materials.

There are no special regions which particularly attract resource-oriented investments, unless it be the already mentioned production sites of the large chemical companies in Belgium and the Netherlands. There local conditions are much more favourable than those in Germany for the supply of semi-finished products. Besides, the anti-pollution regulations are nothing like as onerous, labour is more readily available and transport costs for exports are lower.

As for capital investments in developing countries neither the availability of labour nor production costs are as important as they are widely supposed to be. The manufacturing facilities which electrical engineering firms have established in such countries and which operate mainly as suppliers of the parent company in Germany are, of course, distinctly resource-oriented. However, they are few in number and small in size and therefore hardly count in the assessment of the total investments in Table 1. From the point of view of numbers and also that of output volume the labour-oriented electrical engineering investments in EC and EFTA-countries are of greater importance. Cases in point are the production

<sup>7</sup> True, firms are now tending to attach increasing importance to the cost factor.

## MULTINATIONALS

**Table 2**  
**Motives for Investments of Foreign Enterprises in the Federal Republic of Germany by Branches<sup>1</sup>**

Motives	Branches					
	Chemicals	Mineral Oil	Electrical Engineering	Metal Industry (incl. automobiles)	Food and beverages	Total
<b>a) Basic motives</b>						
<b>Marketing motives</b>						
(1) Opening-up of the German market	1.5	0.6	0.5	0.3	0.2	0.6
(2) Expansion of existing market positions in Germany	0.9	0.2	2.1	1.9	1.2	1.1
(3) Securing of existing market positions in Germany	2.4	1.7	1.9	0.9	2.5	1.8
<b>Resource-oriented motives</b>						
(4) Availability of labour and/or raw materials	0.0	0.6	0.4	0.7	0.5	0.5
<b>b) Other influencing factors</b>						
(1) By-passing of trade barriers	0.0	0.0	0.0	0.2	0.0	0.0
(2) Adjustments to measures of competing firms	0.5	1.5	1.1	1.6	1.5	1.3
(3) Promotion of sales of foreign associated companies	0.6	0.4	0.4	0.3	0.0	0.4
(4) Establishment of an export base for neighbouring countries	1.1	0.6	1.1	0.6	0.7	0.8
(5) Lower production costs	0.0	1.1	0.8	0.3	2.8	0.9
(6) Financial incentives of the Federal Republic	0.1	0.6	0.1	0.0	1.2	0.4
(7) Stable political and social investment conditions	0.9	1.3	1.3	1.3	0.7	1.1
(8) Other motives	0.0	1.1	0.0	0.0	1.0	0.5
Number of enterprises included	6	5	4	4	3	22

<sup>1</sup> See Table 1.

Source: Own surveys.

units in Southern Europe, Belgium, France, Austria and Northern Ireland, which also supply the German market.

From an overall point of view however, less importance is being attached to the export basis motive than to the promotion of exports from Germany. In particular, foreign investments with the view of securing the position in the home market – and this means re-exports to Germany – are considered to be of only minor importance.

The import figures confirm this statement. Of their total imports which amount to about 8 p.c. of their turnover (German concern parts) a quarter – i.e. only 2 p.c. of the turnover – comes from subsidiaries abroad<sup>6</sup>. In their trade with their foreign subsidiaries the MNCs therefore show a high export surplus.

The structure of their trade with their subsidiaries and the investment motives clearly reflect the central position of the parent company: the subsidiaries have less comprehensive production programmes and also a lower share of value added, and that not only in developing countries. The assortment of goods the foreign subsidiaries

have on offer are mainly supplemented by supplies from the parent companies which also take care of inputs. These deliveries concern mainly capital-intensive and technologically sophisticated production<sup>7</sup>. In the case of several chemical and electrical engineering firms but also in that of some other labour-intensive MNCs, some of their foreign subsidiaries do specialize in the production of certain goods within the whole concern. But these productions and the resulting foreign trade flows are of relatively minor importance.

To find out the foreign MNCs' motives for investing in Germany, not the parent companies, but their German subsidiaries were asked. Since they have been established in the German market already for a long time and have grown to a considerable size the data in Table 2 not only reveal why Germany in preference to other countries was chosen for investments (in preference to exports or licences). The table also shows the conditions and targets of investments planned in Germany.

The basic motives of the foreign firms are very similar to those of German investors abroad.

<sup>6</sup> The densest concentration is on Belgium (Chemical and automobile firms) and on the Netherlands (Chemical concerns). Only the electrical engineering industry receives to an appreciable extent supplies from its subsidiaries in other countries (mainly Italy).

<sup>7</sup> The central position of the parent companies, particularly in technologically advanced areas is further illustrated by the fact that 90 p.c. of research and development is being carried out in Germany.

*Resource-oriented investments* matter even less. In view of its lack of raw materials and — in recent years — its labour market conditions, the Federal Republic even shows locational disadvantages.

For investments of foreign MNCs in Germany the predominating reason is clearly to secure their position in the German market. These investments, particularly those in the mineral oil and the food and beverages sectors are markedly more defensive in character than those of the German MNCs. A look at the age and size of the companies included in our inquiry should suffice to account for this structural difference. The opening up of the German market plays a major role only in the chemical sector, for here a few firms have been included which have been producing in Germany for only a short time. For MNCs operating in the fields of electrical engineering and metal-processing (including the automobile industry) the desire to expand their existing market position is matter of some importance.

Some other differences of motivation between German and foreign MNCs are the following:

- ☐ In all branches with the exception of the chemical sector investments are made mainly for reasons of adjustment to measures planned or already put into effect by the predominantly German competitors.
- ☐ Trade barriers have ceased to be a matter of importance when investments in Germany are contemplated. In particular subsidiaries of American MNCs do not consider exports as an alter-

native to production in Germany. Maybe if the parent companies had been asked — instead of their already established subsidiaries in Germany — they might have given more weight to trade barriers.

☐ The promotion of sales of foreign group companies weighs less heavily with foreign MNCs' investment decisions than is the case with their German counterparts. This is mainly due to the respectable size these foreign subsidiaries have already reached, but also to the fact that some of these MNCs — and this applies especially to American ones — are less export-minded than German MNCs. For the *export basis* factor the valuation is admittedly somewhat higher. However both valuations in connection with foreign trade give but an insufficiently clear picture of the intensive foreign trade ramifications of the foreign MNCs.

The German subsidiaries of foreign MNCs are frequently integrated with European sister companies or the parent company into a system of mutual division of labour, each specializing in certain production lines. This applies especially to MNCs operating in the field of chemicals, electrical engineering and the metal-working industry. The specialization practiced by these MNCs is reflected by the high share of their output being exported — 29 p.c. (without oil) of the turnover and the far above-average import quota of 21 p.c. (also without oil). Roughly 75 p.c. of this external trade is with companies abroad belonging to the same MNC. Particularly the import side is heavily swollen by the receipt of inputs.

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## Multinationals and Structural Changes

by Mathias Lefeldt and Manfred Holthus, Hamburg \*

**The effects of the activities of multinational corporations on the economy of the Federal Republic of Germany have hardly ever been examined empirically. The role of the multinational corporations (MNCs) in the process of structural change had not been studied either until an enquiry was recently undertaken for the Federal Ministry of Economic Affairs<sup>1</sup>. The following article is based on the expert report which deals with this and other aspects for the first time and is to be published shortly.**

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**T**he growth process of the economy of the Federal Republic has always been attended by structural changes. These have been reflected by relative changes in the contribution of individual sectors and industries to the total product of the German economy. The enquiry focused on the structural changes within the manufacturing industry and the relevance of the existence and

activities of multinational corporations in regard to these changes.

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<sup>1</sup> Cf. Rolf Jungnickel, Mathias Lefeldt, Henry Krägenau, Manfred Holthus, *Der Einfluß multinationaler Unternehmen auf Branchenstruktur und Außenwirtschaft der Bundesrepublik Deutschland, Gutachten erstellt im Auftrage des Bundesministeriums für Wirtschaft* (The influence of multinational corporations on the inter-industrial structure and external economic relations of the Federal Republic of Germany, Report on an enquiry on behalf of the Federal Ministry of Economic Affairs), to be published shortly by Verlag Weltarchiv, Hamburg.