GLOBAL PROCESSES AND LOCAL EFFECTS:

FOOD PROCESSING TRANSNATIONAL CORPORATIONS IN THE DEVELOPING WORLD

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ABSTRACT

The physical manifestations of economic globalization are two fold: (i) there are global processes at work; and (ii) there are impacts from those processes. In conceptualizing what global processes really are, the primary agent of global economic activity, the transnational corporation (TNC), must be scrutinized. Since TNC operations between industries differ, assessments must be made on an industry-specific level. Accordingly, this thesis uses an interdisciplinary approach to uncover and evaluate the global workings of TNCs in one of the largest worldwide industries - the food processing industry. Using as case studies the three largest TNCs in the industry (Nestlé, Unilever and Philip Morris), an in-depth investigation is launched into how these institutions are global facilitators. A typology of food processing TNC activity is developed which identifies three key areas of global firm activity - Global Production, Global Management and Global Partnershipping. This triad provides the analytical framework with which to assess food TNC global processes and to subsequently link these global processes to local impacts.

The impacts from TNC global processes are most keenly felt in economically sensitive areas in the developing world. The food industry is especially important to developing world economies, where, on average, 31% (the high is 73%) of all manufacturing output is in the food and drink industry (as compared to industrialized countries, where the average is 19% and the high is 35%). Prior to assessing impacts, it is first necessary to identify the linkages between TNC activity and the local communities in which they operate. Using the global strategy indicators of Global Production, Global Management and Global Partnershipping, a matrix is developed which links these TNC global processes to thirteen primary local impacts in the developing world. Local impacts are readily apparent on agriculture, rural community, food security, local incomes, education, employment, labour conditions, environment, local firms, training, technology, nutrition and consumption. Monitoring these linkages through assessments of TNC corporate social responsibility can assist in maximizing positive outcomes.

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BIBLIOGRAPHIES AND TABLES

Bibliographies: This thesis contains the following four separate and distinct bibliographies:

Tables:

ABBREVIATIONS

$	-	United States Dollar
EIU	-	Economist Intelligence Unit
ESCAP	-	Economic and Social Commission for Asia and the Pacific
DC	-	Developing Country
FAO	-	Food and Agriculture Organization
GNP	-	Gross National Product
IC	-	Industrialized Country
ILO	-	International Labour Organization
JV	-	Joint Venture
KJS	-	Kraft Jacobs Suchard
LDC	-	Less Developed Country
M&A	-	Merger and Acquisition
OECD	-	Organization for Economic Cooperation and Development
PM	-	Philip Morris
R&D	-	Research and Development
TNC	-	Transnational Corporation
UNCTAD	-	United Nations Conference on Trade and Development, Division on TNCs
UNCTC	-	United Nations Centre on Transnational Corporations
UNDP	-	United Nations Human Development Program
UNIDO	-	United Nations Industrial Development Organization
WHO	-	World Health Organization

Chapter 1

INTRODUCTION: GLOBAL PROCESSES AND LOCAL EFFECTS

As telecommunications and information technologies facilitate access to the globe, the term 'global' has become a popular descriptive marker. A number of different aspects of society are perceived to be 'globalizing'. Some scholars speak of a global economy, others of a global culture, and others of the global environment. Processes within these areas are argued to be spreading throughout the globe and influencing attitudes, outcomes and structures. There are differing conceptions among scholars both within and between disciplines as to what globalization actually means. In order to pinpoint which, if any, aspects of society might be globalizing it is necessary to first identify potential global processes at work.

Some claim that the economy is the driving force behind all types of globalization. According to this view, it is primarily the transnational corporation (TNC) which orchestrates global economic change. As production, distribution, marketing, research, development, mergers, acquisitions and joint ventures are integrated and spread throughout a wide geographic area, transnational corporations are argued to have become truly global institutions. These business institutions, which produce and market products worldwide, are considered to be key agents of 'global processes'.

Global processes facilitated by TNCs vary according to industry. Not only do different classes of consumer goods impact economic life in distinct ways, but TNC operations between industries obviously differ. For instance, a car is neither manufactured nor used in a similar way as a packaged food. The difference between the two is not least that almost

everybody on the planet has consumed a processed or packaged food, while relatively fewer have purchased a car. Since no single product is more widely purchased than food, and because the food processing industry transforms this commodity into a globally marketed and widely available consumer good, an analysis of food industry TNCs provides a useful case in the investigation of global processes and local effects. How food processing TNCs affect local conditions is especially important in the developing world, where local impacts on food security, incomes, nutrition, training and agriculture are potentially far-reaching.

An explanatory methodology is developed in this thesis which not only identifies the 'global processes' of food processing transnational corporations, but also identifies and evaluates how these processes are linked to 'local effects' in the developing world. This two-part research concern not only contributes to an analysis of what global processes in economic life really are, but also contributes to an understanding of the connection between the 'global' and the 'local'. As introduced and developed in this chapter, while ideas about 'global processes' stem from the broader theoretical concern of 'globalization', the notion of 'local effects' is loosely extrapolated from the vast literature on 'development'. An examination of these theoretical lines of inquiry is presented next.

DEFINING GLOBALIZATION

Using globalization as a theoretical framework is a relatively recent phenomenon (Sklair 1996; Waters 1995; Yearly 1996). Bonanno et al. (1994), writing specifically about the global food sector, note that aspects of globalization are often viewed along very specific disciplinary lines. For instance, an economist's view of globalization and a sociologist's view will not necessarily conflict but may take quite different directions. Economists might focus on trade and investment issues, while sociologists might look more in-depth at production, consumption and cultural issues. This obviously does not come as a surprise, but emphasizes the fact that conceptions of globalization certainly vary with one's research interests.

Sklair (1996) notes that the study of globalization within the discipline of sociology revolves around two main classes of phenomena. One group of authors focus on the emergence of new systems of production, finance and consumption and point to qualitative changes within the 'global economy' (e.g. Ross and Trachte 1990; McMichael 1996; Sklair 1995). For another group of authors the interest lies in identifying patterns and behaviour which signify a 'global culture' or 'global society' (e.g. Robertson 1992; Spybey 1996). As Sklair points out, "[w]hile not all globalization researchers entirely accept the existence of a global economy or a global culture, most accept that local, national and regional economies are undergoing important changes as a result of processes of globalization" (Sklair 1996:6).

It is common for scholars writing on globalization to make a distinction between the 'global' and the 'international' (Dicken 1992; Sklair 1995; Hirst and Thompson 1996). When speaking of globalization and the economy, Dicken makes a functional distinction between the two terms:

> The major theme is that...activity is becoming not only more internationalized but that, more significantly, it is becoming increasingly globalized. These terms are often used inter-changeably although they are not synonymous. 'Internationalization' refers simply to the increasing geographical spread of...activities across national boundaries; as such it is not a new phenomenon. *'Globalization'...is qualitatively different.* It is a more advanced and complex form of internationalization which implies a degree of functional integration between internationally dispersed...activities. (emphasis added, Dicken 1992:1)

Following the lead of both Waters (1995:2) and Robertson (1992:9) in using the dictionary as a reference, I have found the *American Heritage Dictionary: Second College Edition* (1995) definitions of these terms extremely close to my own conceptions. International is defined as "of, relating to, or involving two or more nations" and "extending across the boundaries of two or more nations" (i.e. specific to two or more nations). *Globalization* means "the act, process, or policy of making something worldwide in scope or application". Thus, 'globalization' need not mean that something covers the entire globe, but that

something is in the process of doing so or has the potential to do so (i.e. it is not specific to a selected number of nations).

In the literature, descriptions of globalization vary according to focus. Waters (1995:5) views globalization as a "social process in which the constraints of geography on social and cultural arrangements recede and in which people become increasingly aware that they are receding". Waters is describing what he perceives to be the globalization of culture and society. Others might doubt that cultural globalization is occurring and focus instead on the economy. Koc (1994:266), for one, describes globalization as "a process of expansion of commodity relations [and] integration of domestic markets [which]...have created unbounded tendencies for the geographic expansion of the accumulation process". Koc is obviously describing globalization of the economy. In short, while the definitions of these authors differ, both refer to globalization as a *process*.

Yearly (1996) divides the process of globalization into the 'subjective' and the 'objective'. Scholars researching global culture/society models examine the 'subjective' aspect of globalization. For example, subjective research evaluates how people in a globalized world view themselves in daily life and through individual choices and behaviour (Spybey 1996; Robertson 1992). Conversely, 'objective' processes of globalization are described as the identification and analysis of 'global processes' as manifested within the worldwide economy (Sklair 1995; McMichael 1996; Ross and Trachte 1990). Yearly identifies 'the globalizing of business' as a fundamental feature of globalization in the economy. Specifically, the transnational corporation is viewed as a primary vehicle through which global processes are facilitated.

However, as Sklair (1996:16) notes, while there has been a distinction between those who view globalization as a subjective or objective process, the interrelationship between both aspects of globalization is important to consider. This becomes apparent further on when it is found that the global process of TNC marketing (objective process) affects local individual choices and behaviour (subjective process). Nevertheless, since this investigation focuses on

the global processes of TNCs, a review of perspectives on globalization and the economy (or global economy models) provides a necessary guiding framework.

PERSPECTIVES ON THE 'GLOBAL ECONOMY'

Scholars writing on globalization have been grouped together based on when the phenomenon is believed to have originated (Water 1995:4). In terms of those associated with global economy models, the distinction is between: (i) those who believe that globalization is a process which has been in operation for hundreds of years, but which has recently accelerated through trade and liberalization; and (ii) those who believe it is connected to the development of capitalism, in which global processes are characteristics of new functionally-integrated structures, which are transforming the world economy into an increasingly globally integrated system.

In most trade journals and newspapers the term globalization is used to describe trade liberalization and government multilateral trade agreements.[1] On the other hand, academically, globalization has been emphasized as a social process, signifying new functionally-integrated structures. These include global production, global business structures, global consumerism, global standardization and a global division of labour. The changing nature of these processes is believed to be either contributing to, or reacting to, the globalization of the economy. This thesis is theoretically connected to scholarly interpretations which tie globalization to global processes, rather than those that purely focus on national trade liberalization and deregulation. This is not to say that trade liberalization and deregulation are not important parts of the globalization process, but rather that this

[1]For example, trade publications writing on globalization and liberalization include *The Economist* 'School's Brief' on globalization. Title articles include: 'One world' (Oct. 18, 1997:134); 'Capital goes global' (Oct. 25, 1997:139); 'Workers of the world' (Nov. 1, 1997:115); 'Trade winds' (Nov. 8, 1997:124); 'Delivering the goods' (Nov. 15, 1997); 'Worldbeater, Inc. (Nov. 22, 1997:132); 'A world view' (Nov.29, 1997); 'Bearing the weight of the market (Dec. 6, 1997:14).

analysis evaluates the global processes and institutions which take advantage of a more integrated worldwide trading network.

The key issues raised by those researching globalization in the economy will be addressed in three sections. In the first section, competing positions on the status of the nation-state in the globalization process are discussed. Following that, arguments which focus on the role of the transnational corporation as a global facilitator are introduced. Finally, in the context of development literature, an alternative framework for evaluating the effect of TNCs in the developing world is presented.

VIEWS ON GLOBAL PROCESSES AND THE NATION-STATE

Sklair (1995) and Ross and Trachte (1990) approach globalization from systemic frameworks.[2] The focus of these authors is based on building a theory of the 'global system' or 'global capitalism', respectively. Under these perspectives, a number of processes or agents are identified which reinforce the view that globalization is a process which is transforming the world-wide economic system into a globally-integrated system.[3] Each views

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[2]Yearly (1996:14) cites Wallerstein's 'world-systems' theory as the first genuine 'systemic' attempt in sociology to understand "the development of various individual societies in terms of the broader world-historical context". According to Wallerstein (1974), the modern world-system is represented by a 'world-economy', which is composed of core, periphery, semi-periphery regions. Prior to the world-economy, the world-system is believed to have been comprised of a number of empires (or mini-systems) which functioned through a system of enhanced political power and control. While it is held that a number of world-empires have been created and destroyed through the centuries, the system of the world-economy has been more durable. The world-economy is described as experiencing periods of contraction and crisis which have invoked structural change and expansion. According to Wallerstein, once all areas of the world are 'peripheralized' into the capitalist world-economy a genuine change of the system will yield to world-socialism. Aside from the obvious criticisms of Wallerstein's prediction of world-socialism, the belief that the world-system is hundreds of years old, as well as his dependence on identifying an hierarchical structure of nations, separates world-systems theory from contemporary views on globalization (Sklair 1996). In short, world-systems theory does not evaluate global institutions which facilitate global processes (Yearly 1996).

[3]As discussed below, Sklair (1995) identifies three agents of social change within the 'global system'. This is in contrast to Ross and Trachte (1990), who are guided by Marxian 'crisis theories' in their assessment of the 'theory of global capitalism'. Crisis theories focus on why there is a tendency for the rate of profit to decline domestically and consequently why capital seeks new outlets 'internationally' (see Baran and Sweezy 1996; Gottdiener and

(continued...)

the nation-state as having been substantially weakened from global processes. However, their arguments over the perceived weakness of the nation-state is a major point of contention for 'anti-globalization' authors who argue that the weakening of the nation-state is a myth.

Hirst and Thompson (1996) point to the continuing existence of nation-states as proof that globalization is not happening. Their assumption is that if globalization of the economy were taking place, it would signify the weakening of the nation-state. Not only is this assumption flawed, but their criticism of globalization literature is weak, as no authors or positions are cited to prove a counter-argument. Instead, Hirst and Thompson fabricate a summary view of what globalization means:

> We deliberately chose not to write this book by summarizing and criticizing ...[globalization] literature, in part because that would be a never-ending enterprise...hence we decided to examine the evidence against [our own] concepts that could specify what a distinctive global economy would look like but which did not pre-suppose its existence. (ibid:3)

By not directing their criticisms at particular authors, one can only guess at which positions in the literature Hirst and Thompson are disputing. What is clear is that, in their description of the 'ideal' global economy, they concentrate on the relevance of the nation-state. Hirst and Thompson argue that in a 'true' global economy "distinct national economies are subsumed and rearticulated into the system", and transnational institutions can "no longer be controlled or even constrained by the policies of particular nation-states" (ibid:10-11). They further argue that in order for globalization to be considered to be occurring there must be evidence that nation-states have become powerless. What Hirst and Thompson fail to recognize, in their reluctance to review the literature, is that few, if any, globalization authors claim that nation-states have become completely obsolete. The truth is that while globalization authors

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[3](...continued)
Kominos 1989; Shaikh 1978). However, it should be noted that while Ross and Trachte controversially use Marxist-inspired theories as a guiding framework, the case studies provided by the authors are empirically-based, focusing on the concrete local effects of selected global industries (as discussed below).

do often remark that the nation-state is affected by new global structures, its relative strength (not complete powerlessness) is only one among a number of issues discussed.

As will become apparent, while it is not my view that the state has been rendered powerless due to new global processes, the nation-state is not this thesis' primary unit of analysis. As Yearly (1996:9) remarks, "the scientific study of society...has in practice long acted as though society was [entirely] found in the form of nation-states", thus complicating an investigation into largely independent global institutions. According to this viewpoint, focusing on the unit of the nation-state can distract from an analysis of global processes.

For instance, scholars such as Sklair are concerned with demonstrating that there are new actors within the global economy which have little connection to the nation-state:

> I distinguish between *inter-national* and *transnational* (...*global*) approaches to the 'global system'. This signals the difference between state-centrist approaches to an inter-national system based on the system of nation-states and transnational approaches to a global system based on global forces and institutions. (Sklair 1995:4)

Sklair's use of the term 'inter-national' with a hyphen is meant to accentuate the point that the word means the interrelationship between nations, whereas 'global' is meant to signify a system of social relations not founded on the relationship between nations. Hence, he describes 'state-centrist' approaches as those which prioritize the state or system of states as the unit of analysis, while global approaches are those which focus on "transnational forces and institutions [in which] the 'state' is one among several key actors and...no longer the most important" (Sklair 1996b:4).

Sklair (1995) builds an analysis of the 'global system' by identifying a variety of forces which are considered to be 'transnational' rather than 'nationally' based. His theory of the 'global system' is founded on the identification of transnational practices (or global forces) which operate in the economic, political, and cultural spheres, as represented by the 'TNC', a 'transnational capitalist class', and 'global consumerism', respectively. Sklair argues that

these institutions and practices have transcended state boundaries and, as a result, there is limited connection to state agencies and actors. By concentrating on the strength of the nation-state vis-a-vis global actors, Sklair's global system theory is overshadowed by the necessity of proving or disproving the relative strength of the nation-state. While Sklair's 'global systems theory' identifies global forces, his primary focus remains with proving that the agencies identified have transcended the nation-state. His thesis rests on proving globalization in a Wallerstein-like 'systemic' manner, rather than empirically testing global processes within an evolving system.

Reacting to arguments such as Sklair's (1995) which claim that global institutions weaken the power of the nation-state, Hirst and Thompson (1996) understandably question whether institutions can in fact ever transcend state boundaries. In today's world we continue to live in a grouping of nation-states and technically, in one way or another, business operations will always take place within distinct national boundaries. However, a fundamental weakness in Hirst and Thompson's critique of globalization literature is that they strictly equate the body of literature with arguments which support the view that the nation-state is weakening. While examples throughout this thesis will confirm that governmental polices on industry do influence the actions of transnational corporations, simply because transnational corporations abide by national rules of law does not mean that they do not pursue global strategies. Studying the TNC and globalization does not necessarily force one to accept the view that either the nation-state is powerless or that the TNC maintains ultimate power.

In fact, some authors writing on globalization accept that the nation-state plays a key role in the globalization process. Dicken (1992:xiii) argues that global economic change is "the outcome of the complex interaction between *transnational corporations* and *nation-states* set within the context of a *volatile technological environment*". In his view, the nation-state contributes to the shaping and reshaping of the global economic system. Likewise, Rodrik (1997) argues that while domestic norms and social institutions may be challenged by globalization, the role of government is not weakened, but needs to be re-thought and

strengthened to safeguard against social disintegration. Both of these authors contend that the nation-state has an important role in the globalization of the economy.

While perspectives on globalization processes offer a number of consistent themes relating to global facilitators such as the TNC, opinions regarding the role or fate of the nation-state in the global economy differ widely. In short, scholars studying globalization may or may not use the nation-state as a unit of analysis, or they may or may not believe that the power of the state is waning. As will be further elaborated on below, this thesis is interested in investigating local, not national, effects. Hence, the analysis to follow will focus on the impact global processes have on local communities and local peoples, rather than on entire nation-states. Nevertheless, while there are a number of units of analysis which authors researching the global economy focus on, one belief is that the transnational corporation acts as a key global facilitator.

FOCUSING ON THE TRANSNATIONAL CORPORATION [4]

It is not surprising that a wide variety of scholars consider the TNC to be a primary facilitator of global processes within the economy (Ross and Trachte 1990; McMichael 1996; Barnet and Cavanagh 1994; Dicken 1992). A key research area involves uncovering how these institutions both promote and react to social change in the global economy. Dicken (1992), for one, comments that the "TNC is the single most important force creating global shifts in economic activity" (ibid:47). As observed later in this thesis, the importance of TNCs in global economic life stems from their ability to regularly disperse operations globally and to efficiently shift resources between worldwide locations.

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[4]This section serves as an introduction to the TNC in the context of globalization literature. A more detailed analysis of the theory and practice of the TNC will be provided in Chapter Two's assessment of the food processing transnational corporation. In addition, Chapter Three will evaluate the impact food processing TNCs have in the developing world via 'spill-overs' and 'linkages' with local communities.

Scholars who argue that globalization is not happening refute claims that TNCs are global facilitators. For instance, Hirst and Thompson (1996) claim that if a TNC conducts a large amount of business within its 'home markets' then its global reach is limited. However, just because TNCs conduct business in 'home markets' does not mean they do not pursue global expansion. Moreover, measuring the extent of geographic penetration is not the only indication of global economic activity. Even Hirst and Thompson concede that there are 'qualitative changes' occurring in TNC business strategies which they do not consider (ibid:97). This thesis will argue that it is the qualitative changes in TNC activity which support new global processes.

In fact, new global business strategies are the primary vehicles through which TNC global expansion is taking place. Qualitative changes in TNC strategies are often reactions to changes in the business environment. For example, TNC global strategies have been nurtured a great deal by technological advancements. In turn, technological change is created and adopted by TNCs. As Guile and Brooks (1987) have argued, the ease with which technical knowledge is shared (i.e. between TNCs and affiliates) has nurtured the global integration of economic activity. While technology enhances strategies available to TNCs, the role of technology in industrial change is influenced by the industry of operation. As will be discussed in Chapters Two and Three, not all global strategies are technologically-inspired, especially in low-tech industries such as food processing.[5]

Focusing on industry differences, Barnet and Cavanagh (1994) demonstrate that transnational corporations support different areas of economic globalization according to specialization. For instance, through films, T.V., radio, music and magazines, TNCs in the global communications and entertainment industries are said to support the growth of a 'global culture'. On the other hand, advertising, distribution and marketing by TNC

[5]This is not to say that the food industry has not benefited from technological progress, but that industries such as electronics and automotives are more dependent on mechanical and mirco-electronic progress. On the other hand, as discussed throughout the next chapter, food processors benefit through improved communication, transport and production facilities, and are influenced by scientific advancements in biotechnology and genetic engineering (Connor 1988; Sorj and Wilkinson 1994; Goodman 1991).

manufacturers is believed to support the growth of 'global brands'. While it is true that TNC manufacturers do support the growth of 'global brands', each manufacturing industry achieves this through industry-specific global strategies. As will become apparent in Chapter Two, while there are certain similarities between the global operations of different manufacturing industries, TNC activity will always be specific to the nature of the product and the manner of production.

In order to mitigate against the tendency to make overall generalizations about the role of TNCs in the globalization process, it is important to select one industry of study. Global processes facilitated by a food processing transnational corporation can greatly differ from those in other industries. There are many reasons for this, not least because the product lines between two industries can be diametrically opposed. For instance, when comparing the food and automotive industries, the following differences are apparent: (i) food is a consumer non-durable, while cars are consumer durables; (ii) food is a low-value, high-volume commodity, while cars are high-value, low-volume commodities; (iii) food is consumed by everybody on the planet, while cars are purchased by a select few. TNCs from different industries will therefore invariably differ in terms of both their role and impact on globalization processes. As a result, local effects will also vary depending on the unique global strategies pursued by TNCs in different industries.

Thus, lumping TNCs into one generic group does not allow for an in-depth study of the specific and unique global strategies of different manufacturing sector TNCs. For example, studying the automotive industry will not shed any light on global processes in the agriculture and consumer packaged goods sectors, but an analysis of the food industry certainly will. Moreover, focusing on particular TNCs within an industry can only provide insight into the actions of those TNCs. Hence, while this thesis examines the food processing industry, the bulk of empirical findings will be based on the case studies of the three largest food processing TNCs worldwide. These include the principal case study of Nestlé and the

two comparative cases of Philip Morris and Unilever.[6] However, studying the role of food processing TNCs in economic globalization is one part of the equation. If food TNCs are globalizing, an important related question is how this affects local regions, local communities, and local people.

CONNECTING THE 'GLOBAL' TO THE 'LOCAL'

For Ross and Trachte (1990), TNCs are spearheading a new strategy in production based on 'global spatial mobility', in which low cost production areas in the developing world are argued to be a primary characteristic of the new 'global capitalist system'. While noting that the global mobility of firms has been an evolutionary process which is connected to past conceptions of a changing division of labour (see the 'new international division of labour' thesis discussed below), Ross and Trachte's primary focus is on how this evolving global mobility affects wages, employment, and industrial movements. Examples of abandoned factories in the once-thriving automotive industrial city of Detroit are used to demonstrate that the increased ability of firms to locate production sites globally weakens the power of labour unions and can depress wages.

Ross and Trachte are primarily concerned with the globalization of business and its effect on labour. However, this is just one of many possible local effects. As will be

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[6]According to *Fortune* magazine's 'global 500' list , based on sales Nestlé (Switzerland), Philip Morris (USA) and Unilever (U.K./Netherlands) are among the top forty corporations from all industries world-wide (*Fortune*, August 1996;1998). More specifically, at the time this empirical research was conducted, Nestlé, Unilever and Philip Morris were consistently the three largest corporations within the food processing industry. When considering sales revenue attributed to the 'food business', Nestlé is the largest ($46.8 billion), followed by Philip Morris ($32.3 billion), and then Unilever ($27.2 billion) (Nestlé, S.A. 1997; Unilever 1997a; Phillip Morris 1997b). Unilever and Philip Morris both derive a large portion of sales from other industry categories (ie. tobacco and personal/home care products, respectively). As a result, *Fortune* magazine's industry category for Philip Morris and Unilever sometimes varies from year to year, according to which industry the majority of the TNCs' revenue is earned. However, as detailed in Chapter Six, based on the annual reports of these and other food industry TNCs, Nestlé, Unilever, and Philip Morris consistently remain the top three generators of revenue attributed to worldwide food processing activities. The next largest competitors, ConAgra (USA), Diageo (UK) and Sara Lee (USA) have total revenues in food processing significantly below the 'big three' food TNCs (ConAgra 1997; Diageo 1997; Sara Lee Corporation 1997; Fortune 1996; 1998).

discussed in Chapter Three, the global firm (or food processing TNC in our case) has instituted a number of global processes via 'global strategies' which affect a range of local conditions, including not only labour issues, but also local food security, consumption, nutrition, agriculture, rural community, technology, environment, nutrition and consumption. In short, this thesis' socio-economic study of the 'global' will extend beyond simply evaluating global processes to also identify how TNC actions are linked to 'local' conditions.

For McMichael (1996), connecting the 'global' to the 'local' is an effective means by which to analyze how 'globalization' impacts 'development'. The idea of 'development' can be very subjective. As Harrison (1988:154-5) has observed:

> [T]here is no agreed definition of development. It is an inescapably normative term, which at various times has meant economic growth, structural economic change, autonomous industrialization...(etc.).

Perspectives on 'development' are most closely associated with the literature found in development economics and in the various theories associated with the sociology of development.[7] These theories originated after the Second World War (hereafter referred to as the 'post-war period') following widespread decolonization. During that time, theorists from both sides of the spectrum started to question the orthodox (classical and Marxist)

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[7] In the 1950s and 1960s, a group of scholars associated with the field of development economics known as the 'Pioneers of Development' challenged neoclassical trade theory. Neoclassical theory supported the view that free trade and the absence of governmental intervention would foster economic growth in the developing world. While not holding a unified position, the Pioneers of Development raised a number of issues, such as 'economic dualism' and the 'backwash effects' of international trade (see Marsden et al. 1987 and Toye et. al 1987). The Economic Commission for Latin America (ECLA) and the 'structuralists' (see Prebisch 1950 and Sunkel 1993) were associated with this school of thought, which in turn influenced views in the 'sociology of development'.

Theories associated with the sociology of development include the modernization school and the dependency school. Theories associated with these schools of thought were often the subject of intense criticisms. The modernization school includes Parson's (1966) typology of societies and Rostow's (1960) stages of growth (i.e. from 'traditional' to 'modern' society). The dependency school challenged the modernization school's evolutionary view of national development. Theorists associated with the dependency school viewed successive stages of growth as impossible due to the unequal structure of the capitalist system (see Blomstrom and Hettne 1984, Larrain 1989, Hulme and Turner 1990 for detailed reviews of competing positions). The 'core' countries of the system were believed to hinder the development of the 'periphery' countries for a number of reasons, including unequal exchange and unfair terms of trade (e.g. Emmanuel 1972), which reinforced a cycle of 'dependent development' (Cardoso and Faletto 1979). The dependency school has been criticized for its systemic views of core, periphery and semi-periphery and 'inaccurate' theorizing (see criticisms from Warren 1980, Laclau 1977, Brenner 1977).

evolutionary views of industrialization. In response to orthodox views, various development prescriptions based on nationally-organized programs of change were supported by development theorists.

For instance, import-substitution industrialization (ISI) was supported by the 'structuralists' in early development thinking (e.g. Prebisch 1959).[8] Similarly, conceptions of 'de-linking' advocated by 'dependency' inspired authors (e.g. Frank 1969) focused on the need for developing countries to achieve national self-sufficiency, thereby allowing them to sever ties with industrialized countries. In stark contrast to ISI proponents of the day, at the other end of the theoretical spectrum, neoclassical economists argued that developing countries should seek to follow 'export-oriented industrialization' (EOI) (e.g. Balassa 1981).[9] A crucial aspect of post-war development theories (no matter what the perspective) was their historical tendency to view TNCs as 'national' rather than 'local' vehicles to 'development' or 'underdevelopment'.

In fact, Gereffi (1989:517) finds the dogmatic classification of development strategies oversimplified. He demonstrates that a single development path cannot summarize the post-war period, but instead purports that a combination of strategies have been followed during different periods of worldwide economic expansion and decline. Likewise, Leys (1996b) holds the view that development theories are dated. He argues that the prescriptions supported by post-war theories of development have not accurately considered a changing world economy. He points specifically to the 1970s/1980s, when the world was in the midst of economic crises. During the 1970s, the world economic regulatory system, which was based on the post-war Bretton Wood's institutions (i.e. The World Bank and the International Monetary Fund), was on the brink of collapse.[10] Changes within the Bretton Woods system

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[8]While the role of the transnational corporation in import-substitution industrialization is discussed in Chapter Two, simply described, ISI is a policy where nations minimize the import of manufactured goods and produce goods at home to facilitate domestic industrialization.

[9]While the role of the transnational corporation in 'export-oriented industrialization' (EOI) is discussed in Chapter Two, simply defined, EOI is a policy in which nations build an industrial base by encouraging TNCs to produce goods internally for the sole purpose of eventual export.

[10]While some, such as McMichael (1996), describe the Bretton Woods system as collapsing in the early 1970s, others more accurately argue that the institution not so much collapsed as changed operations (Cohen 1982). Following regimes literature (Keohane and Nye 1977), Cohen (1982:334) asserts that while the rules and decision-making procedures of Bretton Woods in the 1970s changed, the changes were for the most part 'norm governed', with the institutional regime surviving.

included the devaluation of the dollar and the disbandment of fixed exchange rates. Petrodollars were flooding the world market, with excess earnings from the oil cartel, OPEC, introducing great inflationary pressure into the global economy. Eventually, inflation without growth (stagflation) put the world economy into 'crises' and intense competition, which resulted in a prolonged worldwide recession into the 1980s (Chase-Dunn 1992; Gilpin 1987 McMichael 1996).

In the wake of these crises, Leys (1996b:40) argues that a new global market has changed development options available to nations:

> ...as the pace of technological change accelerates and...a 'self-regulating' global market becomes rapidly clearer...[w]hat is in crisis, or more accurately, what is no longer possible, thanks to that same global market, is development conceived of as a project of change undertaken collectively by the population of a single...country, acting through the state.

Development theory, Leys contends, needs to reassess the world economy to measure the effect of "a now deregulated global market and the social forces that dominate it" (ibid:45). He argues that contemporary writing on development needs to act "not as a branch of policy-oriented social science within the parameters of an unquestioned...world order, but as a field of critical enquiry about the contemporary dynamics of that order..."(ibid:56).[11] However, while Leys critically assesses the failure of development literature to consider new dynamics in the world economy, he neglects analyzing how globalization literature might assist in bringing the development debate forward. McMichael (1992a; 1996) fills this gap.

In his discussion of globalization and development, McMichael (1992a) argues that a major problem with theories of development has been the focus on country-comparative studies of development. Development literature's use of the nation-state as the primary unit

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[11]Leys' (1996b) reassessment of development theory can be considered a contribution to the 'impasse' debate in development thinking. Early contributions to the impasse debate raised questions over levels of analysis. For instance, Sklair (1988) argues that development theories need to consider different levels of analysis (i.e. meta-theory vs. theory vs. empirical research). Later contributions reassessed development based on specific concerns. For instance, the volume edited by Shuurman (1993) focuses on issues such as gender and ethics in development. Discussed below are Leys' (1996b) and McMichael's (1992a) arguments that new global elements in the structure of the economy need to be added to perspectives on development.

of analysis is claimed to have "delimited the range of observable social processes to national arenas" (McMichael 1992a:356). McMichael does not argue that the nation-state is unimportant, but that comparative studies of national development trajectories make it difficult to observe new global processes in the context of unique local circumstances. For instance, country-comparative studies rely largely on broad-based statistics, such as national trade figures, export/import ratios, foreign direct investment statistics, and gross national product figures. These statistics say little about specific local conditions - e.g. how local farmers are affected by TNC global strategies.

By using a 'global' / 'local' framework one can go beyond studying the effect institutions have on entire countries and avoid comparisons between developing and industrialized countries. Instead, the focus moves away from nationally-based theories of development to an analysis of how global actors affect local conditions. As expanded upon below, my focus is not the national industrialization paths which may or may not have been followed by developing nations, or which may or may not have been the policy prescriptions of development thinkers, but rather the examination of the local effects of TNCs. While TNCs do influence national statistics, real effects occur in local communities. Hence, the developmental effects of TNCs are best judged by adapting a micro (local), rather than macro (national), perspective.

McMichael's distinction between the 'development project' and the 'globalization project' is a starting point in the separation of ideas between 'national development' and 'local effects'. He describes the post-war period to the mid-1970s as the 'development project', in which decolonization prompted a subdivision of the world into three geopolitical segments. This post-war subdivision culminated in the comparison of economic conditions between the First and Third Worlds.[12] During this period, he claims that Western governments supported

[12]It was in the 1950s that the idea of the 'Third World' began to emerge. It was originally conceived as a political idea or a political alternative founded in the non-aligned movement (circa the 1955 Asia-Africa Conference). During the Cold War there was a perceived need for a 'third force' between the opposing power blocs of the West (First World) and the East (Second World). Currently, the term 'Third World' is synonymous with 'developing country', 'developing world', and 'less developed country' (LDC).

the post-war Bretton Woods institutions in their bid to facilitate nationally-organized projects for economic growth. Concurring with Leys (1996b), McMichael (1992a) argues that by using the Bretton Woods institutions as a framework of reference, post-war theories of development provide an outdated historical context, rendering their application in a changing global economy outdated.

According to McMichael (1996) the 'globalization project' began when the Bretton Woods institutions (and the 'development project') came under intense pressure from the world economic crises of the 1970s. The crises were characterized by an intense bid for economic liberalization and enhanced global competition, forcing widespread national deregulation. McMichael identifies a few key processes arising under the globalization project, including: (i) changing patterns of accumulation; (ii) technological change; and (iii) new institutional forms (McMichael 1996:346-55).

McMichael's new institutional forms include a new type of transnational corporation with increased global flexibility. Due to the changing nature of the global economy, the TNC is argued to be increasingly able to foster global 'spatial' and 'social' links between producers and consumers (McMichael 1996:90). A prominent manifestation of new global links is found in a 'new global division of labour', in which TNCs have increased flexibility to disseminate production over a wide geographic area. Similar to the position of Ross and Trachte (1990), McMichael's (1996) view on the global division of labour is a contemporary version of the Frobel et al. (1980) thesis on the 'new international division of labour' (NIDL). The NIDL thesis argued that the greater worldwide mobility of firms encouraged the movement of production sites to cheap labour areas worldwide.[13] However, in Chapter Two it is found that

[13]Frobel et. al's (1980) NIDL thesis outlines how the classical division of labour between developing and industrialized nations has fundamentally changed. The 'new international division of labour' is held to be a manifestation of a firm's effort to maximize profits, due to, among other factors, advancements in technology and changes in the organization of labour. Under the NIDL, firms source different aspects of production to 'export-processing zones' or 'free trade zones' in the developing world. There have been critiques launched against the NIDL thesis not only due to its emphasis on a firm's search for cheap international labour (Jenkins 1984), but also because it neglects to account for the differing production processes between industries (e.g. see the volume edited by Henderson and Castells 1987). Hence, a number of scholars have updated the NIDL thesis with industry-specific perspectives of a 'global division of labour' (Fernandez-Kelly 1989; Child-Hill 1989; Henderson 1989).

the 'global production' strategies of food processing transnational corporations encompass much more than simply the search for cheap labour. More important considerations include raw material supply, existing local market characteristics, and worldwide market penetration.

For McMichael, newly-emerging markets and a fast developing 'global consumer' support the global standardization of products. Offering the same product worldwide is said to have become easier under globalization, as consumer tastes and preferences merge. However, as Barnet and Cavanagh (1994:22) remark, only a certain tier of global consumers have homogenous tastes:

> The inhabitants of a penthouse apartment on the Upper-East side of Manhattan are drawn by taste, style, habits and outlook into a closer relationship with similarly situated citizens in Brussels, Rio, Tokyo and further and further away from poorer, less mobile residents which may live a block or two away.

Hence, while the tastes of global consumer elites are becoming increasingly similar (i.e. are globalizing), there remain distinct differences between the majority of local consumer markets worldwide.

Accordingly, throughout the next several chapters it is found that standardization in the food processing industry is not applied to every aspect of the product. Instead, products are differentiated according to local tastes. This, however, does not mean that food TNCs do not pursue global strategies. As demonstrated in Chapter Two, product standardization alone cannot be used as the only benchmark of globalization. The reality is that TNC global strategies span every aspect of firm activity and are regularly adjusted to differing local circumstances. In essence, globalization for TNCs in the food industry means the ability to flexibly adjust global standards in operations to local circumstances.

As McMichael states, because "development is ultimately a strategy of organizing social change", it becomes important for us to understand the process of globalization (McMichael 1996:177;250). What McMichael terms 'development' during the globalization

project, this thesis terms 'local effects'. As previously discussed, the idea of development is subjective, as not only does it mean different things to different people but, as is later demonstrated, TNC actions are more accurately judged in the context of local impact, rather than national development. Moreover, studying local effects enables one to surpass the generalized comparisons of country-based development.

In short, the focus of this thesis is the linkage between the 'global' and the 'local'. Specifically, a framework is developed and then applied to *identify the global processes facilitated by food processing TNCs and subsequently assess their linkages to possible local effects in the developing world.* This research straddles several different disciplines within the social sciences, necessitating the adoption of an interdisciplinary approach in order to synthesize, analyze and thread together the vast literature on 'globalization', the 'transnational corporation', and the 'agro-food industry'.

The overall conceptual framework underpinning the research, developed in chapters two and three, is a product of my empirical evidence, and is therefore unique to existing studies of the transnational corporation.[14] Moreover, my treatment of the case studies - Nestlé, Unilever and Philip Morris - is also unique, not least because these food TNCs have not been used in existing literature to evaluate a similar research area.

The investigation proceeds in two stages, with each stage representing one part of my dual research concern. First, through an in-depth analysis of the empirical evidence on food processing TNCs, it will be shown that food TNCs facilitate global processes through this

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[14] The triad of TNC global processes developed in Chapter Two arose from an intense review of key empirical sources (as outlined in the next section) on my three case studies and on the food industry. In my analysis of sources on Nestlé, Unilever and Philip Morris, I sought to analytically distinguish a method to identify and catalogue food TNC global processes. It was found that all data uncovered on the food TNCs could be categorized into what I conceptualize as Global Production, Global Management and Global Partnershipping. I then applied the academic literature to my triad to test and strengthen its theoretical foundation.

Once my global process triad was conceptualized, I was able to catalogue and review all empirical evidence according to that framework. As will be demonstrated in Chapter Three, using evidence from the developing world, this triad was applied to systematically identify and evaluate 'linkages' between food processing TNC global processes and local effects in the developing world.

thesis' theoretically conceived categories of *Global Production*, *Global Management*, and *Global Partnershipping*. Significantly, this conceptual triad not only serves as the framework for assessing TNC global processes in the food processing industry, but it also provides, with industry-specific adjustments, the means by which to analyze TNC global processes in other industries.

Second, using my triad of food processing TNC global strategies, and with a unique set of empirical evidence gathered on food TNC operations in the developing world, the linkage between 'global process' and 'local effect' will be identified and evaluated. It should be noted that 'linkages' and 'effects' are inextricably connected, in that you must first identify the linkage before evaluating effects. In McMichael's (1992a:362) words, "the goal is to understand how global processes are interpreted, expressed and realized locally". It is in this way that the idea of globalization in the economy (via the food TNC) is used to identify local linkages and consequently assess a variety of local effects in the 'developing world'.[15]

OUTLINE OF RESEARCH DESIGN: A FRAMEWORK FOR EVALUATING GLOBAL PROCESSES AND LOCAL EFFECTS

In summary, theories of economic globalization frequently point to the transnational corporation as a primary vehicle through which global processes are facilitated. While the general importance of the transnational corporation has been emphasized in globalization literature, this thesis dissects the food processing TNC to develop an explanatory framework from which to identify and evaluate how food TNCs act as global facilitators. Subsequently, TNC global actions are assessed in regard to how they are linked to local conditions.

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[15]According to the United Nations Human Development Program (UNDP 1994), 'developing countries' typically include those with middle to low GNP per capita (see Appendix 1.1: List of Developing Countries According to the UNDP). As discussed above, this thesis' investigation of the connection between global processes and local effects will not use entire countries as units of analysis, but instead will focus on empirical evidence from local communities in the developing world.

In order to investigate how TNCs act as global facilitators, it is first necessary to survey theories of the transnational corporation. Hence, a review of TNC literature and an overview of the global food industry will be presented in Chapter Two. The bulk of Chapter Two's investigation will lie in establishing the 'global' aspects of TNC operations in the food processing industry. As theoretically conceived within this thesis, the global processes of transnational corporations in the food industry are identified through the intricate development of three distinct categories of TNC global operations - *Global Production, Global Management, and Global Partnershipping.* The placement of TNC global processes into these three distinct categories provides the organizing framework of this thesis. First, these categories enable a systematic assessment of globalization within the food processing industry. Second, through these indicators a framework is established which is used to assess the linkages between TNC global processes and local effects in the developing world.

It is through the global process triad that all empirical evidence will be weighed. The primary data sources may be divided into five blocs: (i) company public and internal documentation (including archival materials over a 30 year period)[16]; (ii) interviews conducted at Nestlé, Unilever and Philip Morris[17]; (iii) personal and on-site experience in

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[16]There was a great deal of empirical data uncovered in the company-sponsored documentation, which not only enabled an historical assessment of the evolving global strategies of the TNCs, but also assisted in the construction of my conceptual framework to reveal which areas of firm activities the food TNCs themselves perceived to be globalizing. This company-sponsored information could then be confirmed by independent local developing world sources and other sources obtained and reviewed.

[17]The interviews were conducted mainly with personnel at the 'corporate relations'/'worldwide regulatory affairs' departments of each TNC. These interviews not only provided contextual discussions of the research, but also subsequently allowed for access to important archival materials necessary for my historical analysis. In addition, internal company documentation such as company newspapers, magazines, speeches and country/regional reports were obtained through the interview contacts, which in turn enabled a more detailed search of the TNC archives. As elaborated on in Chapter Six, depending on the TNC, arranging interviews and retrieving data met with varying degrees of difficulty. To ensure that the interviewee was kept at ease, the interviews were unstructured and informal. While much of the information obtained through the TNC interviews was general, specific enquiries were, on occasion, researched by the interviewee, and a response followed at a later date, either via fax, mail or telephone.

several manufacturing industries in developing world regions[18]; (iv) developing world newspapers and reports [19]; and (v) international agencies (e.g. World Bank, UNCTAD, ILO) and academic reports.

Except where specifically noted in the subsequent analysis, the overall quality of the data provided by each bloc of sources was high, and generally allowed for the cross-referencing of stated facts and the implementation of other such reliability checks to support observable trends and patterns.

Through my own experience in developing world regions, I was familiar with a number of the sources which provided empirical data for this research. Specifically, developing world newspapers are noted to report both negative and positive accounts of local business activities, thereby suggesting an objectivity of the data they report. Moreover, through my previous experiences in developing regions, I became aware of which aspects of business activity local news sources are particularly interested in, such as working conditions, training practices, technological upgrading, and supplier links.

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[18]While my on-site experiences in the developing world prior to the commencement of this research provided an important contextual background, to interpret developing world data on TNC operations, the nature of the research question (i.e. the 'global' and the 'local') made it necessary for a wide net to be cast using worldwide data sources, rather than relying on field research in one particular location or in a couple of locations. Instead, the worldwide data sources provided instances of linkages across the globe, which could be compared and measured against the data retrieved.

[19] Developing world data sources include, but are not limited to, a wide range of online and CD-Rom sources. The list of developing countries provided in Appendix 1.1 served as a guide to my search for sources from the developing world. By and large, searches were conducted for sources covering the activities of Nestlé, Unilever and Philip Morris (and each TNC's prominent subsidiaries) in Africa, Asia, Caribbean, Central Asia, East Asia, South America and the Middle East. The following is a sampling of the databases used in this research:
(i) *Reuters* - provided worldwide coverage of full text articles and reports from 2,000 publications over a four year period (the Reuters database enabled searches by developing regions, which assisted in obtaining a large database concerning food processing TNC activity in the developing world); (ii) *EBSCO World Magazine Bank* - provided full text articles from over 1,000 worldwide magazines and journals from 1984 to the present; (iii)*Agricola* - provided worldwide coverage of literature relating to agriculture, including food and nutrition, food service management, natural resources and pollution, consumer protection and other food-related concerns; (iv) *F&S Predicasts* - provided full text reports from 1,000 government publications, trade journals, country reports and newspapers, with particularly good coverage of developing world news sources; (v) *Investext* - provided specialized full text reports and forecasts for worldwide companies and industries as researched by equities and brokerage firms; (vi) *Information Access Company* - this data source covers 7,000 specialist publications worldwide (*Information Access Company databases* searched include developing world publications, trade and business publications, agricultural publications and food industry publications).

By and large, the information obtained from the very wide data sources gathered for this research were fact-based. While there were some qualitative assessments, having such a large database enabled me to subjectively evaluate which accounts were most representative of the norm. The extensive sources compiled on the empirical case studies of Nestlé, Unilever and Philip Morris are found not only in separate Bibliographies for each TNC, but also in Appendices 4.2, 6.1 and 6.2 (which are coded tables of sources reviewed on each TNC's activities in the developing world). The 'General Bibliography' reflects sources referenced primarily for Chapters One, Two and Three.

Using this vast network of empirical data, in Chapter Three, the effects food processing transnationals have in the developing world are examined based on how TNC operations are 'linked' to local communities. Possible local effects are analyzed using the wide base of literature on the global food and agricultural system. As developed within this thesis, thirteen key 'local linkages' are connected to the operations of food processing transnational corporations. More specifically, the analysis examines how Global Management, Global Production and Global Partnershipping are linked to agriculture, rural community, food security, local incomes, employment, labour conditions, the environment, local firms, training, education, technology, nutrition and consumption. To this end, a conceptual framework is developed around a matrix of global processes and local linkages to provide the analytical tool for assessing the three most important empirical case studies in the global food industry - Nestlé, Unilever and Philip Morris.

Therefore, the conceptual framework of this thesis is developed by adopting an interdisciplinary approach, in which areas of study covering globalization, the transnational corporation, strategic management, the food system and the developing world are integrated throughout Chapters One, Two and Three. Subsequently, the largest food processing TNC in the world, Nestlé, is used as the principal case study to rigorously apply available empirical evidence to this thesis' methodology. The examination of the principal case study proceeds in two parts: in Chapter Four the case of Nestlé is tested against this thesis' global processes triad; in Chapter Five the findings on Nestlé's global processes are linked to possible impacts

in the developing world. Thereafter, in Chapter Six, evidence gathered on the next two largest food processing TNCs in the industry, Unilever and Philip Morris, is used to provide a comparative study of TNCs within the food processing industry. These three case studies are especially pertinent, not only because they are the three largest food processing TNCs in the world, but also because their presence in the developing world is substantial. Finally, Chapter Seven presents a synthesis and conclusion on the global processes and local effects of food processing transnational corporations in the developing world.

APPENDIX 1.1
LIST OF DEVELOPING COUNTRIES ACCORDING TO THE UNDP

The United Nations Development Program (UNDP) publishes a yearly report comparing social, economic and political conditions around the globe. Comparisons are generally made between two aggregate categories: 'developing countries' and 'industrial countries'. At the time of this research, there were 127 developing countries and 46 industrial countries listed (UNDP 1994). As presented in the case study chapters of this thesis, sources have been gathered from various communities found within the following UNDP listing of developing countries: [a]

Afghanistan	Colombia	Honduras	Mongolia	Sierra Leone
Algeria	Comoros	Hong Kong	Morocco	Singapore
Angola	Congo	India	Mozambique	Solomon Islands
Antigua & Barbuda	Costa Rica	Indonesia	Myanmar	Somalia
Argentina	Cote d'Ivoire	Iran	Namibia	South Africa
Bahamas	Cuba	Iraq	Nepal	Sri Lanka
Bahrain	Cyprus	Jamaica	Nicaragua	Sudan
Bangladesh	Djibouti	Jordan	Niger	Suriname
Barbados	Dominica	Kenya	Nigeria	Swaziland
Belize	Dominican Rep.	Korea, Dem. Rep.	Oman	Syria
Benin	Ecuador	Korea, Republic	Pakistan	Tanzania
Bhutan	Egypt	Kuwait	Panama	Thailand
Bolivia	El Salvador	Laos	Papua New Guinea	Togo
Botswana	Eq. Guinea	Lebanon	Paraguay	Trinidad/Tobago
Brazil	Ethiopia	Lesotho	Peru	Tunisia
Brunei Darussalam	Fiji	Liberia	Philippines	Turkey
Burkina Faso	Gabon	Libya	Qatar	Uganda
Burundi	Gambia	Madagascar	Rwanda	U.A.E
Cambodia	Ghana	Malawi	St. Kitts and Nevis	Uruguay
Cameroon	Grenada	Malaysia	Saint Lucia	Vanuatu
Cape Verde	Guatemala	Maldives	Saint Vincent	Venezuela
Central African Rep.	Guinea	Mali	Samoa	Vietnam
Chad	Guinea-Bissau	Mauritania	Sao Tome & Principe	Yemen
Chile	Guyana	Mauritius	Saudi Arabia	Zaire
China	Haiti	Mexico	Senegal	Zambia
			Seychelles	Zimbabwe

[a] While the UNDP groups the former Soviet bloc countries as industrial countries, they are still considered to be 'emerging economies'. As emerging economies, all the former Soviet bloc countries of Eastern Europe and Central Asia will be evaluated in this thesis as part of the greater 'developing world'* (including: Albania, Armenia, Azerbaijan, Belarus, Bulgaria, the Czech Republic, Estonia, Georgia, Hungary, Kazakhstan, Kyrgyzstan, Latvia, Lithuania, Poland, Romania, Russian Federation, Slovakia, Tajikistan, Turkmenistan, Ukraine, Uzbekistan). Similarly, territories not recognized by the UN, such as Taiwan, plus all other developing economic territories, including New Caledonia and French Polynesia, are considered part of the greater 'developing world. This brings the total eligible sample base to 148 'developing countries'* (plus economic territories), with a remaining 25 industrial countries outside the sample base.

*[Please Note: the terms *'developing world'*, *'developing countries'*, *'less developed countries'* (LDCs) are used interchangeably throughout this thesis to denote all countries/economic territories referred to in this Appendix].

Chapter 2

THE TRANSNATIONAL CORPORATION AND THE FOOD INDUSTRY: GLOBAL STRATEGIES FOR A GLOBAL INDUSTRY

While the plethora of writing on transnational corporations only just emerged in the 1960s, the existence of the 'international trading company' is virtually hundreds of years old. Early insight into the theory and practice of the 'international trading company' can be traced back to a number of nineteenth century thinkers, including Adam Smith, David Ricardo and Karl Marx.[1] The influence of these classical thinkers can be readily observed in the broad-based, post-World War Two theories of 'foreign investment' and development (Baran and Sweezy 1966; Prebisch 1959; Lewis 1957). Contemporary studies of TNCs touch on diverse and sometimes unrelated fields of study. Hence, Dunning (1996a:28) argues that "any attempt to theorize about TNCs or the extent and pattern of TNC activity crucially depends on the type of question one wishes to answer". He quite rightly observes that "political scientists and law scholars are likely to want to answer rather different kinds of questions than organizational theorists, trade economists, economic geographers, or business historians" (ibid:32). This chapter analyzes how the transnational corporation, specifically the food processing TNC, has become increasingly prominent in the global economy.

[1]The study of 'international companies' during the 19th Century was no doubt influenced by the political significance such institutions enjoyed during the time. For instance, an early 19th Century British Parliament charged the East India Trading Company with 'political and administrative responsibilities' in 'native states' (Barber 1987:96). This influenced early thinkers, such as John Stuart Mills, to maintain an interest in the workings of international companies.

ASSESSING THE TRANSNATIONAL CORPORATION AND THE GLOBAL FOOD INDUSTRY

STUDYING THE TRANSNATIONAL CORPORATION

Dicken (1992) and Dunning (1993) argue that the transnational corporation is the primary vehicle through which production and investment are globalized. Dunning (1993:3) provides a rough definition of the 'multinational enterprise' as an institution that engages in foreign direct investment (FDI) and owns and controls a number of activities in more than one country.[2] Since the post World-War two period, the term 'foreign direct investment' has been widely used in academic communities (e.g. in development economics, dependency theory, neo-liberal economics, etc.). However, as globalization of the economy continues, the term is becoming outdated. In today's economy, a transnational corporation, by its very nature, will invest in different geographic locations across the globe. As confirmed in my historical review of food TNC annual reports, TNCs no longer think of inter-country operations as 'foreign investments' but as 'global expansions' (Nestlé S.A. 1997; Nestlé Alimentana 1977; Philip Morris 1997c; Kraft 1977; Unilever 1997b;1977). As discussed later, within a changing global economy, TNCs are pursuing strategies which may be better described as 'global' rather than 'foreign'.

Within an increasingly integrated global business community, FDI is not the only measure of global firm activity. Yet, Hirst and Thompson (1996) use measurements of FDI as proof that global firm activity does not exist. They claim that FDI figures confirm that TNCs conduct a majority of their business in home markets, and, as a result, TNCs cannot be considered global institutions. By focusing solely on percentage breakdowns of 'FDI', Hirst

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[2]Some authors make a distinction between the terms 'multinational corporation' (MNC) or 'multinational enterprise' and 'transnational corporation' (TNC) (Dicken 1992:47; Hirst and Thompson 1996). The distinction is based on whether the firm is considered to follow 'multinational' or 'global/transnational' strategies (see discussion below). However, a majority of authors do not make a distinction in terminology (Dunning 1993; Barnet and Cavanagh 1994; Ross and Trachte 1990; Sklair 1995; UNCTC 1993). This thesis considers the terms to be interchangeable, and for the sake of uniformity, the term TNC will be used henceforth throughout this thesis.

and Thompson not only ignore the significance of important new global firm activities such as global distribution and marketing, but also fail to account for the steady increase in TNC mergers and acquisitions which reinforce the TNC's drive for global expansion. Moreover, TNCs such as Nestlé, Unilever and Philip Morris each earn over 50% of revenues from outside their home regions, and hence do conduct a majority of business in global markets (Nestlé S.A. 1997; Philip Morris 1997c; Unilever 1997b). These TNCs have pursued worldwide growth not only through 'global investment' (via mergers and acquisitions), but also through the use of global strategies in research and development, marketing, production, and distribution. Hirst and Thompson (1996:97) admit that these 'qualitative' changes in TNC business strategies were not considered in their own critique of globalization and the TNC.

A transnational corporation should be described as a firm conducting operations globally, not simply as a business pursuing 'foreign' operations. TNC operations include pursuing worldwide strategies in marketing, management and production through wholly- or partially- owned corporate affiliates (or subsidiaries). A TNC's 'global network' can encompass hundreds of worldwide subsidiaries and affiliates from all corners of the globe. The 'parent corporation' is the central link in this global network. Typically, the country where the parent corporation is located (referred to as the TNC's headquarters) is where the TNC was originally established or incorporated. An investigation of TNCs must therefore focus on both TNC headquarters and its complete network of affiliates.

Depending on the question one wishes to answer, there are a number of established frameworks which may be used to assess the TNC. Dunning (1993; 1996a) disaggregates studies into: (i) theories which seek to explain the existence and growth of the transnational corporation; (ii) theories which identify and evaluate the reasons why TNCs opt for foreign-owned production; and (iii) theories which assess both (i) and (ii), while also measuring the impact of the TNC on 'host' and 'home' countries (Dunning describes this as his 'eclectic

framework').[3] Under this categorization, the analysis at hand falls into none of the above groupings. This is because the first two of Dunning's categories have not only been frequently dealt with in existing literature, but are more pertinent to explaining 'why' TNCs exist rather than 'what' their day-to-day activities are on industry-specific levels.[4] While Dunning's third option does focus on assessing the impact of TNCs, the use of 'host' and 'home' countries as units of analysis necessarily ties the framework to country-comparative studies, rather than to an analysis of the interaction between global processes and local impacts.

Instead of using country-comparative studies of 'host' and 'home' country interactions, this thesis investigates the linkages between the 'global' (global processes of TNCs) and the 'local' (local impacts in the developing world). While the terms 'host' and 'home' countries are necessary descriptive markers, use of these terms to describe TNC allegiances has been scrutinized. It has been observed that, with the globalization of the economy, "explanations of behaviors of TNCs which draw on the national origins of the enterprise as a major explanatory variable are rapidly losing their value, to be replaced by an increased emphasis on the characteristics of the product markets in which the enterprises participate" (Vernon 1996:19). Thus, while TNC headquarters are legally domiciled in a particular country, this does not necessarily mean that the TNC has a particular allegiance to

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[3]Dunning's (1993) 'eclectic' paradigm seeks to provide an explanation of both the determinants and impacts of TNC activity on 'host' and 'home' countries. This is done by assessing the 'juxtaposition' between the competitive (or ownership-specific) advantages of firms and the competitive (or location-specific) advantages of countries.

[4]While the focus of this thesis lies with identifying the day-to-day 'global' processes of TNCs in the food processing industry, a brief review of positions on why TNCs (in general) exist and what motivates them to expand will provide a good background. Two opposing schools of thought are as follows:
(i) Scholars associated with the neoclassical school have typically viewed TNCs as instruments of efficient resource allocation. TNCs are said to exist due to market imperfections in the world economy. This type of analysis focuses on the oligopolistic or monopolistic advantages enjoyed by the TNC (e.g. Hymer 1979). Eventually, it is argued that the 'product cycle' (a theory inspired by Vernon in 1966) produces a trickle-down effect, whereby mature products previously manufactured in advanced countries are transferred to developing nations;
(ii) Marxist-inspired scholars, on the other hand, focus on how the TNC emerged through the pursuit of capitalist accumulation. Their arguments are closely associated with Marxian 'crisis theories'. For example, one view is that transnational capital seeks new outlets due to the inability to realize profits at home (i.e. the 'underconsumptionist' dilemma - see Ross and Trachte 1990). This is believed to be caused by the continued extraction of 'surplus' from wage labour. Eventually, this leads to the 'underconsumption' of the economy, whereby workers are no longer able to afford to buy products. Hence, with unrealized surplus, monopoly firms seek additional outlets in foreign markets. There are a number of studies of the TNC which borrow from both the Marxist and Neoclassical positions (e.g. see volume edited by Newfarmer 1985; Jenkins 1987).

that country. As Ohmae (1990:94) remarks, what matters is not the country of origin or location of headquarters, but rather the global arena and the local impacts of TNC activity.

Dunning (1993) elaborates that there are a number of alternative frameworks (in addition to, and aside from, the three listed above) which specifically address the local economic and social impacts of TNCs. For instance, the concepts of 'linkages' and 'spill-over effects' can be used to make a connection between TNC activities and local impacts. Dunning identifies the following areas as affected by TNC activity: (i) the quality of output; (ii) upgrading of human capital; (iii) technology; and (iv) environment (Dunning 1993). Along these lines, this thesis theoretically connects TNC global processes to a wide range of local effects. Once the global processes of food TNCs are identified, the local linkages and impacts from these processes are assessed. In Chapter Three, the 'linkages' and 'spill-over effects' from food processing transnationals will be discussed in detail. First it is necessary to identify exactly what is meant by the global food processing sector and outline how the strategies and operations of food TNCs are becoming more global.

UNDERSTANDING THE GLOBAL FOOD INDUSTRY

'Two million years of the food industry' is the title of a book put out by Nestlé, the largest transnational food processing company in the world (Toussaint-Samant et al. 1991). Whether a 'food industry' existed among the Homo Erectus and early Homo Sapiens (as Nestlé purports) is, to say the least, questionable. What is certain is that since the beginning of trade, commerce in food has set in motion the exchange of foods throughout the world. One can hardly say that the international trade of foods represents a global industry. More appropriately, this should be referred to as international commodity trade. While international trade in foods dates back hundreds of years, the cost of transportation and the difficulty in preserving foods on long voyages limited trade to items which were easily preserved (e.g. tea,

coffee, spices). The bulk of international activity in food during the early colonial period was based on finding new sources of transportable food from far away lands. For instance, the Europeans introduced their home crops of wheat and barley overseas, while crops from overseas such as cocoa, potatoes and maize were brought back to Europe. Eventually, through trade, the colonies came to serve as pockets of raw material supply to Europe (Tansey and Worsley 1995; Abraham 1991; Toussaint-Samant et al. 1991).

In the nineteenth century, a number of scientific and technological advancements in food preservation significantly changed the nature of international trade in food. Refrigeration, freezing and canning "started the modern food preservation industry" (Horman 1993:79). This is not to say that food preservation was new. A number of traditional skills, including food milling, distilling, refining, fermenting, curing and salting have been used for centuries. However, nineteenth century advancements in storage, transportation and communication nurtured the growth of the modern processed and packaged foods industry.[5] As Connor comments (1988:xxii), "[modern] food processing is the branch of manufacturing that starts with raw animal, vegetable, or marine materials and transforms them into intermediate foodstuff or edible products through the application of labour, machinery, energy and scientific knowledge." In addition to advancements in technology, continuing urbanization which has resulted in the separation of people from farm land and fresh food sources is believed to be one of the most influential social factors promoting the growth of the food processing sector (Abraham 1991; Tansey and Worsley 1995; Horman 1993).

In the post-World War Two period, food firms started to expand geographically. Prior to 1950, company growth generally involved national expansion, with limited international production. In addition, companies were dedicated to single product lines

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[5]Horman (1993) and Toussaint-Samant et al. (1991) outline some of the most significant nineteenth century scientific breakthroughs in food preservation as follows: (i) in 1804 Appert established a commercial cannery for preserving fruits, vegetables and meats in glass canisters; (ii) in 1811 Donkin invented the tin can; (iii) in 1831 Perkin invented an ice-making machine, which through compression-evaporation allowed for better refrigeration on long sea voyages; (iv) between 1860 and 1895 Pasteur (and later Underwood and Prescott) published works on microbial spoilage which verified that canning under the correct heating-time would keep out bacteria; and (v) in 1911 Ottensen developed high-speed freezing, which improved product quality.

(Whiting 1985; Mirabile 1990a). More intense geographic expansion and product diversification has marked the growth of food transnationals in the post-war period. Initially, a firm (such as Nestlé) specialized in a single product line (e.g. powdered milk), then moved on to produce a range of products in a commodity sector (e.g dairy products), and more recently has produced a wide range of processed food products (e.g. chocolate bars, pasta, snacks, etc.). Armed with product diversity, food transnationals have expanded globally through a number of means, including advertising, promotion and mergers and acquisitions. As later presented in the empirical case studies, an historical review of food TNC annual reports confirms that it has only been over the past dozen or so years that food transnationals have regularly employed these and a number of other 'global strategies' which have promoted the global integration of firm activities.

Transnational corporate involvement in the food industry can be divided into two broad sectors: 'staple foods' (raw materials) and 'branded foods' (processed and packaged foods) (UNCTC 1981).[6] The two areas are distinct in regard to their importance and impact in meeting nutritional needs, links to agriculture, levels of technology and the degree of transnational corporate involvement. TNC involvement in the staple foods sector includes industries such as wheat milling, corn milling, sugar refining and banana processing. TNC trading companies have a long history in the staple foods sector (especially during the colonial era). This is in contrast to TNC involvement in the branded foods sector, in which investments by TNCs have significantly increased in the post-World War Two era.

In general, branded foods are considered to be packaged, processed, and preserved foods marketed under a corporate brand-name. Branded food production includes dairy products, canned fruits and vegetables, dried soups and vegetables, breakfast cereals, margarine, table oils, processed coffee, frozen prepared foods and snack foods. As will be discussed later, 'branding' is the primary manner through which TNCs market their products.

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[6]The UNCTC (1981) makes a third classification of the food processing industry - 'the export oriented sector'. However, because exports are an inherent part of both the 'staple' and 'branded' foods sectors, a third category distinction in the food industry is not made within this thesis.

While TNCs in both the staple foods sector and branded foods sector are technically food processors, it is the branded food transnationals which have come to be associated with the global food processing sector in its entirety. As Rama (1992:23) notes, only about 5% of the largest food processing TNCs received more than half of their revenues from standardized staple foods. The three largest TNCs in the industry - Nestlé, Unilever and Philip Morris - receive almost all of their food-derived income from the branded foods sector.[7] Hence, for our purposes, hereinafter any reference to the 'food processing sector' will refer specifically to the branded foods sector of the industry.

Since food processing transnationals produce a variety of products, it will be helpful to distinguish between different food product lines. While not universal, a convenient way to classify food products is through the U.S. *Standard Industrial Classification* (S.I.C) system. As the UNCTC (1981:233) has noted, since most food company groupings and food trade manuals utilize the S.I.C classification system, most data available world-wide is based on it. As a result, a number of authors (including Whiting 1985; Leopold 1985; UNCTC 1981) distinguish between different sectors within the food processing industry based on the approximately 50 product lines that comprise 9 food groupings in the S.I.C code for 'food and kindred products'; or, in our terms, 'the food processing industry' (see Appendix 2.1). It is interesting to note that the 'food and kindred products' industrial classification is one of at least seven industrial categories having to do with food. Agricultural production, food processing and food retailing are considered to be distinctly separate industries.[8] Henceforth,

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[7]As will be presented in the empirical case study chapters, many food processing transnationals have non-food operations. For example, a large proportion of Unilever's business is devoted to soaps and personal care products; Philip Morris is best known for cigarette manufacturing; and Nestlé has a partnership in cosmetics. However, expansion into other product areas is usually limited to 'highly differentiated' consumer goods, thereby utilizing experience closely related to the branded foods sector. This thesis' analysis of food processing TNCs will be limited to their food product lines.

[8]In its entirety, there are ninety-nine industrial categories (comprising over 13,000 product lines) in the U.S. *Standard Industrial Classification*. Seven of these ninety-nine categories are related to food: (i) agricultural production (crops); (ii) agricultural production (livestock); (iii) agricultural services (which include crop planting and harvesting); (iv) fishing, hunting & trapping; (v) food stores; (vi) eating and drinking places; (vii) food and kindred products (food processing).

for purposes of definition, the 'food industry' (as opposed to the 'food processing industry') is deemed to include all business activity related to food (including agriculture and retail).

It is estimated that the global food sector is a multi-trillion dollar industry, accounting for roughly 10% of all measured industrial activity (Rama 1992; Barnet and Cavanagh 1994; ILO 1998).[9] This makes the food industry one of the largest industries worldwide. As Leopold (1985:319) notes, this industry is peculiar in that "it satisfies a basic and constantly recurring need: the need for food". By virtue of the fact that everybody needs food, the food processing industry is one of the most widespread mass-produced consumer goods industries in the world. Not only is its worldwide penetration vast, but unlike other consumer goods industries, food processing is considered to be relatively recession-proof.

Based on an analysis of data available for 22 industrialized and 91 developing countries, it has been found that the food industry comprises a larger percentage of total manufactured output in the developing world than in the industrialized world. The analysis revealed that while the food industry in developing countries accounts for an average of 31% of total manufactured output (the high for the developing world sample is 73%), by contrast, the average for all industrialized countries in the sample is 19% (and the high is 35%).[10] In fact, for nearly three-quarters of the developing country sample base (66 LDCs), the

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[9]As the ILO (1998) comments, the global output of food and drink products is difficult to measure because data for the sector is missing for many countries (and because aggregate figures typically also include the non-food-related tobacco sector). Nonetheless, what is certain is that the global food sector is likely to be a multi-trillion dollar industry. From the last available aggregate statistics, the ILO estimates that, between 1980 and 1991, the food industry (including tobacco) enjoyed an 87% growth rate in the developing world, with the industrialized world supporting a 20% growth. Furthermore, TNC turnover in the industry between 1974 and 1994 rose nearly 600% to $826.4 billion (ILO 1999a). As presented in Chapter Six, when considering the revenue derived from these sectors in the mid-1990s, Nestlé, Unilever and Philip Morris accounted for approximately 17% of the total revenues generated by the top 100 TNCs in these industries.

[10]Average percentage food sector manufacturing calculations were derived from data compiled by UNIDO for the food and drink industries, on a per country basis, for the years 1985-1995 (reproduced in ILO 1998). While the data was presented in two distinct statistical sets (i.e. the food sector and the drink sector), to reflect the food industry in its entirety, the data given for each sector was combined (per country) for the analysis at hand. To obtain the widest and most comprehensive sample base, the statistics for each country were mainly taken for 1994 (the most recent and complete data year), or in absence of data for 1994 the last available year was taken. To best represent the norm for each sample base, the extreme, overly food-sector dependent cases of Iceland (for industrialized countries) and Benin (for the less developed countries [LDCs]) were not included in the averages.

percentage of food industry manufacturing is higher than the industrialized world average (of 19%).[11] The rapid growth of the food industry in the developing world, coupled with the comparatively much slower growth of the sector in the industrialized world (recall footnote 9 above), is widely held to be evidence that the food processing sector has approached saturation in the latter. Prospects for growth are projected to be best in the developing world (Rama 1992; UNCTC 1981; ILO 1989; 1998).

Not only does most of the world's population live in the developing world, but it is predicted that economic growth and continuing urbanization will support the rising purchase of processed and packaged foods in LDCs. A survey on the food industry (*Economist* 04Dec93:15) notes that diets are changing fast in the developing world, and hence the appetite for processed foods is exploding. The processed foods' share of total food consumption in places such as Asia should rise dramatically. For instance, in Indonesia processed foods account for approximately 30% of food consumption. However, as economic wealth starts to accumulate in developing countries, processed foods consumption is estimated to reach 70% of total food purchases (a figure now realized in the industrialized countries). Since profit margins in the food processing industry are low and products must be sold in very high volume in order to generate substantial profits, food TNCs find prospects in the developing world alluring. Prior to examining how the food processing transnationals are accessing the growing worldwide market for processed food products, the next section first evaluates how TNC strategies have been transformed within the context of a changing worldwide economic environment throughout the last several decades.

[11]The food sector tends to occupy a greater percentage of manufacturing activity in LDCs because high tech industries have either not been introduced or fully developed. Once a country develops further industrial capabilities, the percentage share of total manufactured output allocated to the food sector tends to fall (ILO 1998). Nonetheless, having said that, even the 19% (on average) of total manufactured output the food sector comprises in industrialized countries makes it an important industry to even the most developed of nations.

TRANSNATIONAL CORPORATION STRATEGIES

PHASES IN TNC GROWTH

The United Nations Centre on the Transnational Corporation (UNCTC) provides an interesting history of the changing nature of transnational corporate strategies.[12] It is held that the transnational corporation has gone through three phases in strategic operations: (i) stand-alone strategies; (ii) simple integration strategies; and (iii) complex integration strategies. Originally, TNCs invested abroad largely through 'stand-alone' affiliates (UNCTC 1993:154). Stand-alone affiliates are said to be the earliest form of transnational expansion. Hamill (1993a) identifies the stand-alone affiliate as a 'miniature replica' of the TNC, where the affiliate produced 'replica' product lines for supply in a host market. Partly as a result of import-substitution industrialization in the early 1950s and 1960s, host country governments offered a number of incentives for TNCs to manufacture and sell products in their home markets.[13] It is in this period that food processing transnationals started to search for lucrative markets in the developing world. As remarked by Nestlé (Nestlé Alimentana 1975:10), "[t]he extensive program establishing industrial undertakings in developing countries...became...marked after the 1960s, when Nestlé built its first factories in Africa and Asia".

Under the second phase of TNC growth, establishing operations outside the parent firm's home country went beyond creating 'stand-alone affiliates'. Instead, foreign locations were used not only as sites for local production, but also as export bases (i.e. firm strategies

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[12]As part of restructuring at the United Nations, the UNCTC was disbanded as a self-contained unit in 1992-3. It was subsequently transferred and incorporated into the United Nations Conference on Trade and Development's (UNCTAD's) division on Transnational Corporations (UNCTAD ed. 1996a: xii).

[13]As discussed in Chapter One, import-substitution industrialization (ISI) was a policy embraced by post-war development theorists which encouraged the domestic production of goods in lieu of the import of manufactured goods. Domestic manufacturing was not restricted to firms originating from 'home' countries. TNCs were encouraged by host governments to act as domestic manufacturers; or, in the UNCTC's terms, as 'stand-alone affiliates' (Landsberg 1979; Gereffi 1990; Haggard 1990).

became globally-focused rather than nationally-based). Described by the UNCTC as 'simple integration', production was sourced to where it was most cost-effective and then exported to surrounding markets.[14] The developing world became part of the TNC's overall tactical strategy in the practice of 'worldwide sourcing' (Gereffi and Evans 1982:125).

Worldwide sourcing represented a move by TNCs to transfer parts of the 'commodity chain' to locations other than the country of final sale (UNCTC 1993:119). A commodity chain is defined as a network of production processes, in both materials and labour, which results in a finished commodity (Chase-Dunn 1992:39). At each stage within a commodity chain, an intermediate product is produced which then becomes an input into the next stage of the process. Many refer to this as 'value-added' (Dicken 1992; Dunning 1993).[15] Each successive point within the commodity chain adds value to the product. The final assembly of the product typically constitutes the highest value-added part of the commodity chain. As a rudimentary example, the commodity chain of a canned good includes (but is not limited to) growing raw materials, developing flavouring, cooking, making containers/packaging, canning, sterilizing, marketing, and retailing. Each activity is a separate value-added process which contributes to the manufacture and sale of the end product (Connor 1988; Rama 1992).

While there has been a degree of 'simple integration' in the food industry, it has not been as pronounced as in other higher value-added industries, such as automotives or electronics. Different components of the food manufacturing process cannot be separated as

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[14] Although the UNCTC (1993) does not directly make the connection, what has been described as the 'simple integration' strategies of TNCs is conceptually connected to the notion of the 'new international division of labour' (NIDL) and the idea of export-oriented industrialization (EOI). Frobel et. al.'s (1980) NIDL thesis identified the TNC's search for cheap labour areas in the developing world. These cheap labour areas were used as sites to manufacture goods for export, which corresponded with developing country policies of export-oriented industrialization. Under EOI, developing nations sought to industrialize through domestic manufacture for export (Gereffi 1990; Haggard 1990). The connection between the concepts of EOI and 'simple integration' is demonstrated in Haggard's (1990) study of the NICs, in which it is observed that developing country governments offered incentives to TNCs to act as exporters and support export-processing zones.

[15] The logic behind the 'commodity chain' approach is similar in many respects to what other scholars have termed the 'value-added chain' (Dunning 1993; Dicken 1992) or 'value-chain' (Porter 1986a; 1990). As will be discussed below, these concepts refer not only to processes involved in the manufacture of products, but also to other firm activities, including marketing and product development. Economically, the term 'value-added' is used to denote the relative size of a particular production/service process. For instance, "value-added for an industry sub-sector is calculated by subtracting the costs of materials, containers, components, supplies, purchased fuel and energy, and certain other purchased production inputs from the value of shipments" (Connor 1988:91).

easily as is done in these higher valued-added industries. The extent of global sourcing in the food industry would be limited to the purchase of inputs (e.g packaging and raw materials) from different global locations, with full production of components remaining in one location (Rama 1992; Oman and Rama 1989).

The UNCTC (1993) describes the third phase in TNC growth as 'complex integration'. 'Complex integration' depicts a fundamental shift in the strategies of food processing transnationals. In this phase there is a willingness of TNCs to locate various functional activities, not just production, across the globe. It is argued that within the last two decades "as commodity chains have become more globalized ...some links that were internal to the modern corporation are being externalized" (Gereffi et al. 1994:7). Very generally, 'complex-integration' strategies involve a greater dispersion of activities than stand-alone or 'simple integration' strategies. Under complex integration strategies, multi-directional linkages and information flows between parent firms and affiliates (intra-firm), and between TNCs and local firms (inter-firm), start to develop (Campbell 1993; Dunning 1993; UNCTC 1993; Dicken 1992). 'Intra-firm' linkages occur within the TNC's network of affiliates and are supported by various types of operational headquarters which centralize TNC activities.[16] On the other hand, 'inter-firm' linkages occur through mergers & acquisitions and joint ventures with outside firms. The combined use of both intra-firm and inter-firm linkages has facilitated the pursuit of both global strategies and worldwide firm expansion. It is to a more in-depth analysis of evolving TNC global strategies that we now turn.

[16]Operational headquarters include the following: (i) 'functional headquarters' specialize in carrying out specific functions for worldwide affiliates (e.g. marketing and research and development); (ii) 'production headquarters' globally coordinate product lines between affiliates; and (iii) 'regional headquarters' are responsible for the coordination and support of all activities in a region (UNCTC 1993:9; Nestlé, S.A. 1998; 1987; Unilever PLC 1987a; 1997b; Philip Morris Companies Inc. 1997b; 1988).

COMPETING VIEWS ON 'GLOBAL STRATEGIES'

As Ghoshal (1987:425) has observed, "enthusiasm notwithstanding, there is a great deal of conceptual ambiguity about what a 'global' strategy really means". Much of the original literature on 'global strategies' (or strategic management) has come from the Harvard Business School/Review (Porter 1990; Prahalad and Doz 1987; Barlett and Ghoshal 1989), with other contributions from strategic management studies (e.g. Yip 1991).[17] A major problem with this literature is that there is truly "a myriad of definitions and descriptions of...companies and their [global] strategies" (Hagedoorn and Schakenraad 1994:159). Scholars further comment that there are so many distinctions between what constitutes a global industry, what makes a global firm, and what signifies a global strategy, that it becomes difficult to incorporate and build upon the differing conceptions in a coherent way (ibid; Yip 1991; Ghoshal 1987).

As Ghoshal (1987:427) rightly observes: '[t]he difficulty for both practitioners and researchers in dealing with the small but rich literature on global strategies is that there is no organizing framework within which the different perspectives and prescriptions can be assimilated". Without going into detail, and by means of example, strategies are categorized by scholars as either global or something short of global:

- Porter (1986a; 1990) uses two terms - *'Multi-domestic' and 'Global'*
- Barlett and Ghoshal (1989) use four terms - *'Multinational'; 'Global'; 'International'; 'Transnational'*
- Prahalad and Doz use three terms - *'Locally Responsive'; 'Multi-focal'; 'Global'*

Each author has a different taxonomy of TNC strategies. However, in essence, the division exists between Porter and Barlett/Ghoshal on the one hand, who group transnational corporate strategies between the 'global' and the 'not global', and Prahalad/Doz (along with

[17]Much of the literature on global strategies originates from the business schools. While the business schools tend to evaluate the economic efficiency of a firm's global strategies, this is not the focus of this thesis. Instead, the literature is used as a framework for identifying new global strategies in the context of evolving global processes within the food processing industry.

Yip) on the other hand, who start from the premise that transnational corporations all have global strategies, but assert that there are different levels of global activity.

Rama (1992) identifies the food industry as 'perhaps' multi-domestic rather than global. She bases this assessment entirely on Porter's (1986a) taxonomy of transnational corporate strategies. Unlike the UNCTC, which views multi-domestic strategies as a sort of predecessor to global strategies, Porter (1986a) believes that both 'global' and 'multi-domestic' strategies will always co-exist and do not follow one another. He distinguishes between 'multi-domestic industries' and 'global industries' by attempting to identify whether there is a competitive advantage to integrating manufacturing activities on a global basis.

Assessing a firm's competitive advantage means analyzing its 'value-chain' to measure whether global strategies can take advantage of economies of scale. Porter's (1990) conception of a 'value-chain' includes not only the physical manufacturing of a product, but also the technology, human resources and overall infrastructure of firm activities that can be attributed to the final sale of the product. This being the case, it is curious that Porter puts a sufficient emphasis on labeling a TNC as pursuing a global strategy based almost entirely on the type of manufacturing strategy used. He identifies a global strategy as when firms disperse manufacturing activities to cost-effective areas around the globe, in which "one large plant...serve[s] the world market" (Porter 1990:55). For Porter, 'global industries' are believed only to be those that sell more or less globally-standardized products, such as semiconductors, copiers, watches, etc. Multi-domestic industries, on the other hand, are viewed as those that do not offer a standardized product, but modify and adapt their products for an array of different markets, such as consumer packaged goods (e.g. processed foods), consumer finance and the insurance industry. According to this view, it is believed that industries which offer locally-adapted products cannot be described as global (Porter 1990; Barlett and Ghoshal 1989).[18]

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[18]Contrary to Porter's (1990) distinction between multi-domestic and global strategies, in Takeuchi and Porter (1986) a more balanced view is taken. Instead of drawing a line between 'global' and 'multi-domestic' aspects of firm operations, the authors assert that a TNC's global strategy is a balance between catering to 'local needs' and 'standardizing' products and activities globally. A discussion of a firm's need to balance between local needs and globally-standardized products will be presented later in a review of the positions put forward by Prahalad and Doz (1987), Douglas and Wind (1987), and Yip (1991).

The tendency for some scholars to make blunt assessments over the existence of global strategies based almost entirely on a TNC's manufacturing strategy has yielded various general labels to describe TNC activity (e.g. as above - 'multi-domestic', 'international', 'transnational', and 'multi-focal'). Rebutting generalized labels, Ghoshal (1987:427) observes that "simple categorizations schemes...are not very helpful in understanding the complexities of corporate-level strategy... . Instead what may be more useful is to understand the key strategic objective of a [T]NC and the tools that it possesses for achieving them". In other words, a better way to assess the strategies of TNCs is to disaggregate firm activity into different operations. Instead of steadfastly labeling a firm as either multi-domestic or global, TNCs should be assessed according to a variety of different functions.

Contrary to Porter (1990), Yip argues that a global strategy should not be predominately defined by whether a firm offers a standardized product:

> A strategy is global to the extent that it is integrated across countries. Global strategy should not be equated with any one element - standardized products or worldwide market coverage or global manufacturing network. Global strategy should, instead, be a flexible combination of many elements. (Yip 1991:2)

Yip's position is that "virtually every industry has aspects that are global or potentially global and...[hence] a strategy can be more or less global in its different elements" (ibid 1991:1). Thus, a key to accurately assessing TNC global strategies is to clearly understand the industry of operation. Types of investment, production, marketing and management all depend on industry needs and standards. Prahalad and Doz (1987) confirm this view and rightly assert that global strategies will differ between industries and will be subject to varying industry conditions. For instance, while a TNC such as Nestlé markets its instant coffee globally, the taste of the coffee differs geographically. Due to market variations (e.g. demand conditions) the taste is different, but at the same time Nescafe is marketed in similar ways worldwide (Heer 1991; *Economist* 1993b).

Hence, it should be remembered that firm activity - notably manufacturing, marketing, product promotions, research & development (R&D), distribution, recruitment, etc. - are separate and distinct firm functions. Keeping this in mind, to accurately assess TNC global processes a framework has been developed within this thesis which divides global firm activity into three key functional categories - *Global Production*, *Global Management*, and *Global Partnershipping*. As detailed later in this chapter, a variety of firm activities fall under each of these categories: (i) in the category of **Global Production**, the manufacture, distribution and design of a product are included; (ii) operations under the **Global Management** umbrella include marketing strategy, corporate policy, research & development and technology; (iii) **Global Partnershipping** includes strategic alliances via joint ventures, subcontracting and mergers and acquisitions.[19] The three functional categories constructed within this chapter will form the theoretical basis from which to assess TNC global processes.

TNCs pursue many types of global strategies depending on function. As depicted in Table 2.1, applying the three key conceptual categories which will be developed within this thesis to a spectrum of global strategy options similar to that developed by Douglas and Wind (1987) yields various different global strategies choices, including:

(i) *pure standardization strategies* - all aspects of firm activities are globally-standardized
(ii) *pure differentiation strategies* - all aspects of firm activities are locally-differentiated.
(iii) *mixed global strategies* - some firm activities are globally-standardized, some are locally-differentiated, and some are mixed.

For Douglas and Wind, TNC global activity is measured in degrees based on whether an activity is completely globally-standardized or differentiated by location.

[19]While TNC strategies have been categorized into three main functional areas, a few are interrelated. For instance, as will be discussed later, in terms of 'product design', the decision to standardize a product is a production decision to reap economies of scale. On the other hand, the decision to alter a product's design to suit local market tastes starts as a marketing directive and follows through to a production activity.

TABLE 2.1
TRANSNATIONAL CORPORATION GLOBAL STRATEGY SPECTRUM

Global Strategy Indicators [a]	I. Globally-Standardized TNC Strategies	II. Locally-Differentiated TNC Strategies	III. Mixed TNC Global Strategies [b]
GLOBAL PRODUCTION			
Manufacture/Operation	S	D	D-S
Distribution	S	D	D
Design/Standardization	S	D	D
GLOBAL MANAGEMENT			
Corporate Policy	S	D	D-S
Marketing Strategy	S	D	D-S
R&D and Technology	S	D	S
GLOBAL Partnershipping			
Mergers and Acquisitions	S	D	D-S
Joint Ventures	S	D	D
Non-equity Partnershipping	S	D	D-S

Key: S = Strategy is globally-standardized
D = Strategy is differentiated by location
D-S = Strategy is mixed (some aspects are globally-standardized and some are differentiated by location)

[a] Global Strategy Indicators are unique to this thesis and will be fully developed and discussed below.

[b] This is an illustrated example of Mixed Global Strategies. Each TNC's Mixed Global Strategies will differ.

Neither the first option, in which all firm strategies are 'standardized' and firm activity is uniform throughout the world, nor option two, in which every aspect is 'differentiated' with no coordination or commonality among global locations, are viable strategies in today's global economy. In between these two extremes fall 'mixed global strategies', in which some components of firm activities are standardized and some are differentiated. Not only might there be different strategies for each functional area of firm activity (i.e. standardized

production vs. differentiated marketing), but a particular function may be standardized in some parts of the world and differentiated in others. For example, Kellogg uses a 'mixed marketing strategy' with its Corn Flakes cereal line, in which in some areas (Latin America and the Far East) promotional themes are regionally standardized, but in other areas (Europe) promotional themes, packaging and distribution strategies are highly differentiated (Douglas and Wind 1987:28). As is demonstrated in the remainder of this chapter, it is the TNC's increased flexibility and ability to achieve a 'mixed global strategy' which best categorizes the global corporation of today.

In short, while there are differing perceptions and groupings of TNC global strategies, in general, authors writing on transnational corporate strategies are increasingly in agreement that TNCs are globalizing their activities (e.g. Howells and Wood 1993; Yip 1991; Hagedoorn and Schakenraad 1994).[20] Disaggregating TNC activity into the three distinct categories of Global Production, Global Management, and Global Partnershipping provides a framework with which to assess the global processes facilitated by food TNCs. While in the remainder of this chapter each functional category will be evaluated against existing literature, in Chapter Three the global strategy triad will be used to identify the linkages between food TNC global processes and local impacts in the developing world.

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[20]Contrary to global strategy proponents, critics, such as Fleenor (1993), insist that since the majority of authors associated with global strategies literature cannot come to an agreement in the classification of TNC global activities, then there is no such thing as a global strategy. An *Economist* survey on the transnational corporation (March 27, 1993) echoed Fleenor's critical view of the 'global firm' with section headings reading: 'The non-global firm', 'Think global. Then think again', 'Think global. Now be serious'. However, the *Economist's* critical stance on the global firm was later revised in a survey published on transnational corporations roughly two years later (*The Economist* June 24, 1995), with section headings reading: 'Go global, young man', 'The world is our oyster', 'Global knowledge machines'.

GLOBAL PROCESSES FACILITATED BY FOOD PROCESSING TRANSNATIONALS [21]

GLOBAL PRODUCTION

Global production can be conceived of in a number of ways. The two most popular are the 'global sourcing' of production processes and the manufacture of a 'standardized' commodity for a global market. While the concepts of 'global sourcing' and 'product standardization' strictly describe a TNC's manufacturing processes, other descriptions of 'global production' are more broadly-based . As discussed above, Gereffi et al. (1994) use the concept of 'global commodity chains', and Porter (1986a; 1990) uses the idea of 'value-chains' to describe global production. In each of these concepts, 'production' is considered to include all facets of firm activity, including not only the manufacture of a good, but research & development, technology, marketing, distribution, etc. Contrary to this view, my concept of Global Production does not include all facets of firm activity, but only the manufacture and distribution of goods. Dicken (1992:203) uses the term 'production unit' to describe those activities associated only with a firm's manufacturing processes.

In this thesis, activities which fall outside of the actual manufacturing process, including TNC operations in marketing, corporate policy, R&D, joint ventures, M&As and subcontracting will later be attributed to either a TNC's Global Management or Global Partnershipping activities. In short, Global Production refers only to the 'production unit' in the manufacture of a good, including the following three sub-sections: (i) 'manufacturing and operations'; (ii) 'distribution'; and, (iii) 'product design and standardization'.

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[21]This section identifies the global strategies pursued by food processing TNCs. While examples from an array of food transnationals (including the three TNC case studies) will be given, the crux of applied analysis on Nestlé, Unilever and Philip Morris will be presented in Chapters Four, Five and Six.

Manufacturing and Operations

Connor (1988) identifies four main components within a food processor's 'production unit'. Materials comprise the greatest percentage of costs, with labour the next largest, followed by capital equipment and finally miscellaneous expenses.[22] The manufacturing costs will always vary depending on the ingredients and complexity of the processed food. For example, to produce butter, the two primary ingredients of fresh farm milk and salt are needed in the manufacturing process. In contrast, manufacturing frozen pizza would not require fresh farm goods, but instead a number of semi-processed ingredients, such as flour, cheese, and tomato paste. Since the manufacture of frozen pizza requires more processed inputs than butter, the value-added of the product is greater (Connor 1988:31).

Leopold (1985) believes that low cost labour is the main reason why transnational food firms have set up operations globally (and, in particular, in the developing world). Leopold's argument, however, echoes views put forward under the 'new international division of labour' thesis, which puts far too much stress on the search for cheap labour. In fact, the International Labour Organization (1989; 1991) comments that labour costs are not a very important consideration in a food processing TNC's decision of where to produce a good. This is primarily because labour costs of approximately 14% make up a relatively low proportion of total costs (Connor 1988:110).

Burch and Pritchard (1996) have observed that the availability of low cost and efficiently produced raw materials is a more important factor in the decision of where food TNCs establish processing facilities. Using empirical research, they find that Unilever had purposefully placed manufacturing and processing facilities in areas where raw materials could be obtained cheaply and where storage and distribution facilities were located closest to potential markets. In this manufacturing example, the issue of labour costs was a low priority.

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[22]Average costs of materials include: agricultural raw material (32% of total costs), semi-processed food ingredients (18% of costs), containers and packaging (9% of costs), and chemicals such as salt (0.6% of costs). Other costs include: labour (14% of total costs), capital equipment (7% of costs), and miscellaneous costs such as transportation, real estate, financial services, energy, etc. (10% of costs). The percentage breakdown of total costs are average estimates and will vary according to the type of commodity being produced (Connor 1988:110).

Nonetheless, while suppliers from local economies are regularly used to provide raw materials to TNCs, if inputs, such as packaging, are not readily available the TNC turns to global sourcing by importing ready-made manufactured inputs (ILO 1989; 1991).

Considering the logistics of manufacturing packaged foods, there are two strategies food transnationals pursue. The first is where a TNC establishes affiliates in a number of locations to produce predominantly for local markets. This, however, should not be confused with what have been described as the 'stand-alone' TNC strategies of the past. While today's affiliates may produce for local markets, they are no longer 'miniature replicas' of the TNC. Under new TNC global strategies, affiliates must look to the parent TNC for guidance in investment decisions and in the general management and marketing of products. This makes the food processing subsidiaries of today not 'stand-alone' affiliates, but components of a globally integrated entity (ILO 1989).

The second manufacturing strategy food TNCs use involves combining local production with global distribution. In this instance a number of affiliates are established in different geographical locations to manufacture a single product, which is then distributed regionally. For example, food processing TNCs produce a range of items which are packaged with a number of different languages on the packaging. A case in point is Philip Morris' Toblerone candy bar, which has been produced with up to 16 languages (and affiliate contact information) on its packaging. While the candy bar is manufactured in one location, it can potentially be sold in at least sixteen different countries by various regional and local distributors.

In the drive to locate production units globally, a CEO of Heinz has remarked how "[t]he developing nations of the world have become part of Heinz's future as a global enterprise" (O'Reilly 1988:66). Production based in developing countries is said to provide not only low cost raw materials, but also offers a new market and export-base for TNC products. For instance, Heinz entered the Zimbabwe market not only to manufacture and distribute its 'own-brand' baked beans locally, but to also develop a successful export market from that regional base (ibid).

In addition to manufacturing their own brand-named items, food transnationals produce and sell non-branded items. Non-branded items are foods manufactured for large-scale retailers or distributors which are packaged under the retailer's, not the TNC's, name. Since the TNC's corporate or brand-name is not associated with the product, the food processing transnational is acting solely as a production house. Heinz manufactures baked beans under its own brand, but it also acts as a production house for retail chains producing own-label items. This means a consumer can unknowingly consume Heinz baked beans by purchasing the often cheaper supermarket brand (Swain 1997). It has been revealed that retail chain own-label foods are threatening the profit margins of many food TNC brand-name items (*Economist* 1993b: 17). Hence, a food processing transnational acts as a production house to maintain a competitive position in the global marketplace. Since a retail chain is going to sell its own label anyway, a TNC, such as Heinz, offers to manufacture the product, rather than have the retail chain support a competitor.

Distribution

Food processing transnationals manufacture items which are 'store ready' (i.e packaged and ready for sale). For the most part, packaged foods have long shelf lives, which means that distribution does not have to be immediate. While food processing transnationals often sell products directly to retailers, it is also common for food TNCs to use an intermediary such as a distributor (or wholesaler). A distributor buys goods in large quantities from a manufacturer and sells the goods at a higher price to a variety of retail stores. Finding an effective distributor can be half the battle in the marketing of products. If the product is not on the store shelf, it cannot be bought.

Just because a product is sold globally does not mean that one global distributer is used. Since there are very rarely 'global distributors' who have effective channels worldwide, distribution strategy is based on both product attributes and market location. It is more likely for the TNC to contract with a range of local and regional distributors. This is mainly because distribution is dependent on forming a working relationship with local retailers. For example,

to distribute its product, Coca-Cola (Coke) not only sells to large distribution channels, but also works with a number of small local distributors. The small distributors are considered to be "the foot soldiers in Coke's global army, the ones who act locally and end up in the chairman's speeches" (Barnet and Cavanagh 1994:170). A case in point is "Pops Valenine, a 73-year old Filipino...[who] works at least twelve hours every day selling Coca-Cola, refusing to leave the marketplace until he has sold 50 cases, [and there is] Larbe Lahgui, loading donkeys with Coca-Cola for transport through the steep, narrow streets of Fez in Morocco" (ibid). Hence, while products are sold globally, they are distributed in distinctly local ways.

Product Design and Standardization

An important component in the manufacture and distribution of a product is product design. TNCs must decide whether products should be tailored to local tastes (i.e. differentiate production) or standardized for worldwide markets. Levitt was one of the first to suggest that TNCs should basically ignore local preferences in favor of standardized products:

> Many of today's differences among nations as to products and their features actually reflect the respectful accommodation of ...[TNCs] to what they believe are fixed local preferences. They *believe* preferences are fixed, not because they are but because of rigid habits of thinking about what actually is. Most executives in...[TNCs] are thoughtlessly accommodating. They falsely presume that marketing means giving the customer what he says he wants rather than trying to understand exactly what he'd like. So they persist with high-cost, customized...products and practices instead of pressing hard and properly for global standardization. (Levitt 1983b:97) [23]

[23]It should be noted that while Levitt (1983b) holds strong views on the economic viability and necessity of product standardization, he does acknowledge that some adjustments to local tastes and preferences is necessary. In the end, he believes that the TNC should only accept and adjust to local conditions "reluctantly, only after relentlessly testing their immutability, after trying in various ways to circumvent and reshape them..." (ibid:101).

This rather paternalistic view assumes that consumers should not tell the TNC what they want, but rather the TNC should show consumers what they need. Product standardization is believed to be supported not least by the fact that "communication, transport and travel...has made isolated places and impoverished people eager for modernity's allurements...[in which] almost everyone everywhere wants all the things they have heard about, seen, or experienced via the new technologies" (ibid:92). There is, of course, a great deal of truth in this last thought, but it remains questionable whether local tastes and preferences are becoming obsolete. In fact, Douglas and Wind (1987:19) comment that the very idea of a standardized product is "naive and over simplistic".

The basic assumptions behind Levitt's (1983b) idea of product standardization is that consumer needs and interests are converging and, hence, substantial economies of scale can be achieved by producing only one version of a product (yielding lower prices for consumers). What Levitt fails to observe is that these assumptions do not apply to all industries and all business environments. While some industries have been able to identify a global consumer segment and develop a 'global product', these market segments are typically targeted at a very small percentage of high earners (e.g. consumers of Rolex, Dior, etc.). On the other end of the spectrum, there are those industries which need to adapt product lines to 'local' tastes and preferences. As noted above, Nescafe instant coffee is altered depending on the locale. The term locale, instead of country, is used because food processing transnationals sometimes produce different variations of products distributed within a single country. For instance, Heinz produces two different types of tomato ketchup in the United States, producing a sweeter version for the southern states (Swain 1997).

Moreover, the importance Levitt attaches to economies of scale is somewhat flawed. While economies of scale inevitably arise from larger levels of output, it should be kept in mind that production costs are only one component of a firm's operations. As Douglas and Wind (1987) comment, global strategies are often based on understanding the tastes and needs of local customers, and must therefore extend far beyond the issue of production efficiency. These authors point to the fact that "a strategy based on a combination of a standardized

product at a low price, when implemented in countries which vary in their competitive structure, as well as the level of economic development, is likely to result in products which are over designed and overpriced for some markets and under designed and underpriced for others" (Douglas and Wind 1987:22). In addition, the impact of technology on the manufacturing process has made it easier for TNCs to differentiate products. Economies of scale can now be achieved in producing various versions of a global product through robotization and automation. As Huszagh et al. (1986:43) remark, "the *flexible factory* will allow firms to offer differentiated products to different market segments on a global scale" (emphasis added).[24]

One of Nestlé's longest serving chairmen, Helmut Maucher (1994b), speaks repeatedly about the need to 'think global and act local'. Likewise, Anthony O'Reilly (1988) of Heinz claims that while penetration of the developing world is part of Heinz's overall global strategy, the commitment to product flexibility and to adapting packaging and recipes to accommodate local tastes remains important. He goes on to say that "[b]ecause disposable income in developing countries is in short supply, the need to produce products at reasonable prices is even greater than it is in industrialized societies" (O'Reilly1988:67). To accommodate this need, and to balance global strategy and local responsiveness, Yip et al. (1988) suggest that a standardized marketing campaign (marketing a single brand-name globally) can be combined with product design differentiated for each local market. The fast-food retailer McDonald's offers what is perceived to be the same hamburger globally. However, the ingredients of the hamburger are adapted according to different local tastes both within and between countries (David 1984). Hence, while standardized product design might not be the norm in the global

[24]The 'flexible factory' is an idea associated with 'post-Fordist' theories. While the 'Fordist' era witnessed the mass production factory with large-scale assembly-line manufacturing, the post-Fordist system is characterized by more sophisticated technological and organizational capabilities which allow for more efficient production (Hirst and Zeitlan 1991; Goodman and Watts 1994; Ruigok and van Tulder 1995). Later, in the discussion of TNC strategies in research & development and technology, it is found that manufacturing facilities are becoming increasingly better equipped for smaller and more diverse production. However, while the 'flexible factory' is improving manufacturing capabilities for all industries, the Fordist/post-Fordist theories on the structural transformation of production lend themselves more closely to consumer durable industries (i.e. electronics, automotives, domestic appliances, etc.).

food processing industry, global uniformity in other areas of TNC operations such as marketing, research & development and corporate policy is more widespread. Now that the area of Global Production has been identified, an analysis of Global Management strategies is presented next.

GLOBAL MANAGEMENT

The organizational and management structures of TNCs invariably differ both within industries and among firms. How a TNC decides to organize depends largely on "the age and experience of the enterprise, the nature of its operations and its degree of production and geographical diversity" (Dicken 1992:192).[25] Analytically, this thesis divides the Global Management strategies of food processing TNCs into three distinct areas - 'corporate policy and structure', 'marketing strategy', and 'research & development and technology'. Just as Global Production can be standardized or locally responsive, the same is true with Global Management strategies.

Corporate Policy and Structure

As Howells and Wood (1994:17) remark, "the ability of companies to coordinate their different functional operations..in an integrated fashion on a global scale" is a key component to managing TNC global processes. To achieve global coordination, food processing transnationals globally distribute corporate policy documents to affiliates on employee training practices, use of appropriate technology, policies on local suppliers, use of company logos, and general statements on the firm's 'corporate culture' (Quelch and Hoff 1994; ILO 1989). However, while the parent company distributes centralized policy documents to its affiliates,

[25]The organizational structure of TNCs is largely firm-specific. While general findings on organizational structure are presented in this section, analyses particular to Nestlé, Unilever and Philip Morris will be presented in the chapters dedicated to those case studies.

local management has a degree of independence in interpreting these policies. For instance, while product coordination groups at Unilever's headquarters centrally organize the TNC's worldwide production and marketing, at the same time Unilever has stated that "the managements of subsidiary companies are given as much freedom as possible in managing their own affairs within the framework of the policy laid down" (quoted in ILO 1989:125).

As demonstrated in Unilever's case, the TNC's corporate structure is managed through 'intra-firm' coordination between headquarters and subsidiaries. Barlett and Ghoshal (1994) identify three categories of managers within a TNC's corporate structure: (i) the global business manager; (ii) the country manager; and (iii) the functional manager. The global business manager strives to achieve global-scale efficiency and integration in the worldwide production process. On the other hand, the country manager's goal is to adjust global company products to local consumer needs and to monitor the availability of local resources. Barlett and Ghoshal note that the need for local flexibility can put country managers at odds with global business managers. Global business managers strive to achieve standardization, but local managers seek to adjust products to local tastes. Contrary to both the global business manager and the country manager, the functional manager is not involved in manufacturing or marketing, but globally integrates other firm activities in research, development and technology. Functional managers from several countries frequently exchange ideas to pool knowledge and expertise (Barlett and Ghoshal 1994).

Gurcharan Das, a manager for the TNC Vicks, argues that part of the strength of the new global corporation is the ability to bring local ideas into a global forum:

> Globalization does not mean imposing homogeneous solutions in a pluralistic world. It means having a global vision and strategy, but it also means cultivating roots and individual identities. (Das 1994:197)

The TNC becomes a global think tank of locally applied ideas. For example, the Indian subsidiary of Vicks successfully launched a new advertising campaign which was developed by a Mexican subsidiary. In this sense, TNCs "have a natural advantage over local companies

because they have talented people solving similar problems for identical brands in different parts of the world" and they learn from each other's successes and failures (Das 1994:200).

Through flexible corporate structures, it has been observed that the classic hierarchy between a TNC's headquarters and its subsidiaries has been transformed into a global network of inter-related, specialized units. The business managers, country managers and functional managers are the specialists, while "the top executives at corporate headquarters are the leaders who manage the complex interactions between the three" (Barlett and Ghoshal 1994:78). As discussed, even local subsidiaries are held accountable to headquarters and lose some control over production decisions (*Economist* 30Jul94:65). According to the UNCTC (1993), affiliates which lose control over production decisions are no longer 'stand-alone' entities which operate independently of headquarters, but have become part of the TNC's global corporate structure through the 'complex integration' of all activities.

As will be confirmed in the case study chapters, food processing TNCs maintain a centralized corporate structure, but integrate different levels of management to adjust global operations to local circumstances, and vice versa. In the next few sections, the interconnection between global and local management is further illustrated by TNC marketing strategies. While brand-name promotion is achieved through the use of globally-standardized logos and trademarks, packaging is often adjusted to local standards and preferences.

Marketing Strategy

The nurturing of a global brand image is achieved through marketing strategy. Food processing transnationals are amongst the biggest worldwide advertising spenders, with the food industry the third largest advertising spender of all industry groups (just behind automotives and personal care products) (*Advertising Age* 1999). An analysis of yearly statistics confirms that food-related TNCs comprise nearly 20% of the top 100 global advertisers. More interestingly, among all transnational firms from all industries, Unilever and Nestlé have remained the second and third largest global advertisers respectively for

virtually the entire decade of the 1990s (*Advertising Age* 1994; 1996; 1998; 1999).[26] Out of five regional groupings, Nestlé and Unilever appeared among the top 10 spenders in the same four regions (Asia/Pacific, Europe, Latin America, Middle East), and Philip Morris was among the top 10 spenders in three regions (Latin America; Middle East and North America) (*Advertising Age,* "Regional Ad Spending Leaders", Nov., 1999). As demonstrated by these statistics, advertising and promotion are extremely important components through which food transnationals sell their branded products globally.

Marketing strategy is intimately connected to the product type. The decision to alter the design of a product to fit the needs of a target market is not only a production decision which weighs financial viability, but is also a marketing strategy. Occasionally, products are introduced into new markets to initially fit local tastes, but sometimes the product can become more globally-standardized. Yip (1991:35) provides a good example:

> [i]n only a few years, Japanese were converted to eating donuts, gradually with more cinnamon, until they are now the same recipe as the American donut, but a little smaller to fit the Japanese hand.

The gradual alteration of the donut slowly brought the Japanese and the Americans to eat a largely standardized product. While this marketing action - product manipulation - slowly introduced a standardized product to the Japanese market, this is a unique example. Instead of standardizing product taste, the typical strategy of food processing TNCs is to cater to local tastes. It is more common for food TNCs to standardize a number of other elements in their marketing campaigns, including promoting the company name, establishing a brand-name, using similar global packaging and developing global promotions (Yip 1991; Hamill 1992; Egan et al. 1992; Quelch and Hoff 1994).

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[26] *Advertising Age* determines the 'Top Global Marketers" based on worldwide advertising spending outside of the U.S.. Nevertheless, even when including U.S. ad spending in the worldwide aggregate, Nestlé, Unilever and Philip Morris continue to be among the top ten advertisers worldwide.

The extent to which TNCs standardize packaging, advertising and promotions depends largely on whether local consumers accept a foreign element in the marketing mix (Yip 1991). In addition to deciding something as basic as whether the artwork on a packet should be standardized across markets, food transnationals must decide if the printing of multiple languages on the packet would be acceptable for a mass-marketed product. In the case of Philip Morris' Toblerone candy bar, both of these global strategies were deemed acceptable, as the packaging on the product confirmed that the same candy bar was marketed in many different countries. However, by far the most frequently pursued standardized marketing strategy is the promotion of 'brand-names'. Unlike patented technologies that can be copied over time, brand-named goods are trademarked items which become permanent corporate assets.

As Egan et al. (1992) acknowledge, 'branding strategy' can be sought for a number of different reasons, the most important of which is image building.[27] Marketers might use a different brand for each individual product, or one brand for an entire product line. A popular method has become 'corporate branding', in which the TNC's company name is used as the brand-name. For instance, Nestlé attaches its corporate name to many of its core product lines. However, this is not to say that the Nestlé corporate name is attached to all of its products. When Nestlé acquires (or forms a strategic partnership with) local food companies which already have established brand-names, the corporate branding strategy is sometimes abandoned. Its acquisition of Buitoni (the Italian pasta manufacturer) is a case in point. While the Nestlé logo appears on Nestlé's core branded products, such as candy bars and instant coffee, it does not appear on the Nestlé-owned pasta line, which features the Buitoni trademark instead.

Occasionally, a TNC's corporate brand-name does not translate into a foreign language. The literal meaning of Coca-Cola in Chinese characters translates into "Bite the Wax Tadpole" (Barnet and Cavanagh 1994:170). Not surprisingly, Coca-Cola came up with

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[27]Marketing objectives in product branding include image building, brand loyalty, segmentation, product acceptance, offensive marketing, and strategic defense (see Egan et al. 1992).

alternative characters to represent its product in China. Thus, it is sometimes necessary for the TNC to adjust the company brand-name to accommodate the local language. For instance, in Mexico Pepsico is called Sabritas. However, a number of TNCs are learning that global standardization is more cost-effective than local responsiveness when it comes to marketing strategy and brand-name.[28] In the past, Nestlé named all of its global affiliates 'Food Processing Ltd.', but that strategy has since been abandoned and all affiliates now maintain the Nestlé corporate name along with the firm's well recognized brand-names.

The promotion of the same brand-named product around the globe does not mean that the advertising associated with the brand is always applied uniformly. For example, the agricultural products division of Anheuser-Busch uses a 'locally responsive' strategy to market its 'sticky California rice' in China, Korea and Japan. While the product and the brand-name are standardized, the artwork on the package varies according to the characteristic rice bowl found in the different targeted ethnic communities (Barnet and Cavanagh 1994:173). According to the global strategy spectrum described above (recall Table 2.1), this would constitute a 'mixed global strategy', in which marketing is differentiated, but production is standardized.

In addition, different elements in a single advertising campaign are often mixed. Coca-Cola aired a 'global television commercial' during the 1992 Winter Olympics - the same commercial was broadcast at the same time to over 3.8 billion viewers in 131 countries (*Wall Street Journal*, August, 27 1992). The commercial was standardized in every respect, except that it was broadcast in twelve different languages. The economies of scale achieved by globally standardizing a marketing campaign are obvious. Coca-Cola estimates that it has saved over $90 million by producing globally-standardized commercials (Quelch and Hoff 1994). But global standardized marketing is not easily achieved for all products. Soups and frozen foods are more culturally influenced, requiring TNCs to diversify marketing. The

[28]Global standardization in marketing strategy is especially pertinent in the age of the 'Internet'. Food TNCs have designed global direct marketing sites on the world wide web. While a number of TNC subsidiaries have their own Internet sites, marketing concepts and brand names are more effectively promoted on the Internet when presented in a standardized, globally-recognized manner.

example of Anheuser-Busch altering packaging according to the local characteristic rice bowl is a case in point. As Quelch and Hoff (1994:184) observe, "the driving factor in moving toward global marketing ...[is the] worldwide use of marketing ideas, rather than any scale economies from standardization".

Worldwide marketing concepts generally centre around uniform brand-name promotions. The introduction of brand-named products in the developing world is becoming an increasingly popular strategy for food processing TNCs. As one food transnational CEO put it, "seventy-five percent of the world's population ha[s] not been exposed to the Heinz brand" (O'Reilly 1988:65). This is because, on rough approximation, nearly three quarters of the world's population lives in the developing world. Hence, Heinz has decided that investment and sales in the developing world need to be part of its continuing global strategy in market expansion. This would seem wise, for as Barnet and Cavanagh (1994:166,179) remark, "the explosion of urban populations,...in the Third World, will bring more and more people into contact with...advertising messages". These advertising messages reach not only the city-dwellers familiar with popular brand-names, but also the rural areas. In a remote fishing and farming village in the Philippines, a range of products, such as Philip Morris' Tang, Procter & Gamble's Pringle's potato chips, Hormael's Spam, Hershey's Kisses, Nabisco's Chips Ahoy, Del Monte's tomato juice, and Planter's Cheeze Curls, can all be found (ibid:166).

Food processing transnationals enter developing countries not only through the marketing of brand-named products, but also by offering basic, low-cost, locally-differentiated products. Heinz has entered the Chinese market by offering a cut-price baby food, sold in basic packaging. The firm plans to establish itself in the baby food business and to gradually move into other product lines in the Chinese market (O'Reilly 1988:69; Heinz Annual Report 1995). A similar strategy is pursued by Nestlé, which manufactures and sells powdered milk in bulk (with no packaging) at open market stalls in Indonesia. This strategy is pursued in expectation that eventually over 50 million Indonesian consumers will develop a taste for

Nestlé products (Barnet and Cavanagh 1994:226). The simple introduction of products into untapped markets is a key element of global marketing strategies.

Research & Development and Technology

Enhanced global coordination through functional managers enables TNCs to facilitate the global-local integration of R&D and technology. Local products are developed in centralized research & development headquarters and new technologies are easily disseminated to local subsidiaries. Research & development is inextricably linked to technological change, and this scientific knowledge is applied in laboratory experiments. For Connor (1988:51), it is after R&D that "technological change evolves from inventive to innovative activity". During the innovation stage, a number of alternatives are pursued to find the best method of manufacturing a new product. The result is a new ingredient, additive, preservative, component, machine, or finished product. The success of a new food product is easily measured through consumer acceptance. Conversely, a new process in manufacturing is judged against improved labour quality and other productivity improvements (Tansey and Worsley 1995:174).

New products are introduced to either satisfy consumer demands or to improve an existing product. Compared to other manufacturing sectors, expenditure on R&D is relatively small in the food processing industry, averaging less than 1% of gross revenues since the 1960s (Connor 1988:53; Nestlé S.A. 1997; 1987; Unilever PLC 1997b; 1987b; Philip Morris Companies 1997c; 1988).[29] While this percentage has not significantly increased through the decades, net expenditure in R&D has risen at a rate of about 9% per year due to increased sales. Research is usually carried out on new ingredients, packaging materials, cooking technologies and preservation. Not all scientific knowledge used by food processors originates from work done in their R&D laboratories. Research and technologies are often

[29]In other industries, R&D expenditure as a percent of total gross revenues has been estimated as follows: (i) Automotive - 4%; (ii) Chemicals - 5%; (iii) Electronics - 7%; (iv) Computers - 9% (Howells and Wood 1993:43). A reason for the lower percent of sales devoted to R&D in the food processing industry is that it is a low-tech sector (Hoare Govett Securities 1995).

imported from other industries such as machinery, paper, plastics, medicine and pharmaceuticals (Connor 1988). Biotechnology, imported from both the medical and pharmaceutical fields, is the latest influence in food processing technologies.

Biotechnology is one of the fastest growing areas of technological innovation.[30] In truth, the food industry has been using a traditional form of biotechnology for centuries in the fermentation of wine, beer, yoghurt and cheese. Processes such as fermentation produce a number of chemical reactions (usually via micro-organisms) which split compounds into simple substances. Some time ago, the discovery that beetroot could be broken down into sugar was a significant biotechnological finding. More recently, innovations which manipulate the genes of plants and animals to produce hybrid products are held to be the future of food research (Sorj and Wilkinson 1994; Goodman 1991). The 'genetic engineering' strand of biotechnology is believed to have enormous potential and has already started to fundamentally change the 'nature' of the things we eat. Not only does genetic engineering produce virus-resistant crops, but the genetic makeup of fruits and vegetables is being changed to enhance certain qualities (e.g. taste, texture, ripeness).[31] Many of these foods are consumed fresh, but many more are found in our processed foods.

The topic of genetically-modified (GM) foods has become a politically-sensitive issue, especially in the United Kingdom against the backdrop of the BSE crisis. As Tansey and Worsley (1995:179) comment:

> a major concern over the future direction of...[genetic engineering] is that the economics which underpins these developments is too narrowly based and ignores external costs which may be born outside the firm or organization involved or by future generations.

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[30]By definition, biotechnology refers to the manipulation of living organisms with a view to: (i) altering their characteristics; (ii) using them as a components in a larger production process; (iii) producing a specific desired product (Brenner 1991:21).

[31]While the late 1990s have witnessed much public controversy over the safety of genetic engineering, a number of scientists have held the process not to be radically different from that which occurs naturally (Connor 1999a; Schoon 1998; *The Economist*, June 13, 1998 - 'In defense of the demon seed'). In fact it is noted that "[t]ransfering genes between species of plant is nothing new. Many crops are hybrids of different species (wheat for example, is derived from a hybrid of at least three different wild grasses). What is new is the precision with which genes can be transferred."(Schoon 1998; *The Economist*, April 26, 1997 - 'Genetic engineering. The year of the triffids').

The nature of plants and animals as we currently know them can significantly change with genetic engineering. The long-term effects of these newly-developed products on the land and on human beings are not yet known (Woolf 1999). However, a supportive view of genetic engineering is that it will improve human nutrition and enhance the choice of foods available (Connor 1999a; Schoon 1998; *Economist* 12Jun98). Under pressure from consumer and environmental groups, a number of food TNCs (including Unilever and Nestlé) have recently abandoned the inclusion of genetically-modified ingredients from selected products in countries where public interest groups have raised objection (Lean 1999; Waugh 1999; Koenig 1999).[32] In fact, food processing TNCs are not greatly hurt by the banning of genetically-engineered ingredients from their packaged foods. Instead, it is the farmers and the firms which own the technology who will be most impacted (i.e. the biotechnology research firm, Monsanto, and farmers who buy Monsanto's seeds).[33]

In truth, the research and development of new packaged and processed foods is more important to food processing TNCs than advancements in genetic engineering. While improvements in raw materials and capital equipment might minimally benefit costs (through cheaper inputs and labour saving devices), the success of a new product increases sales significantly. About 70% of Unilever's R&D budget is devoted to 'immediate commercial

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[32]In the U.K., the furore over the safety of GM products was sparked by what has been held to be inconclusive and seriously flawed scientific research (Connor and Arthur 1999; *The Economist,* Feb. 20, 1999 - 'Seeds of discontent). The U.K. Advisory Committee on Novel Foods and Processes (ACNFP) found that the research in question, where GM potatoes were fed to rats, "had failed to find any meaningful conclusions because of 'serious doubts' over the way the study was designed" (Connor and Arthur 1999). In the years prior to the publication of this 'flawed' research, GM products were widely-held to be safe for consumption by leading scientists worldwide (Schoon 1998; *The Economist* May 30 1992 - 'The bionic tomato'). It should be kept in mind that TNCs do not have the freedom to introduce food products which are not approved by governing food bodies worldwide. The BSE scare may have helped to undermine consumer confidence of GM foods - especially so in the UK (Koenig 1999). However, as even GM supporters acknowledge, "scientists and industry must accept that the BSE crisis has put the burden of proof in food safety firmly on the innovator" (*The Economist,* June 13, 1998 - 'In defence of the demon seed'). As of now, it seems there are to be many more years of testing before firm public acceptance of GM products materializes.

[33]The possible local impacts from food processing TNC decisions regarding genetically-engineered products is discussed in Chapter Three's review of local linkages. In this chapter, discussion of genetic engineering is meant to highlight that, up until 1999, this scientific area was considered to be a small but integral part of the food TNC's global research and development network.

interests' (e.g. new products) (Unilever Research and Engineering Division 1995; Unilever PLC 1997b). Market research is considered an integral part of the research & development of a new product. As Barnet and Cavanagh (1994:174) remark, "with the exception of the laboratory mouse, the global customer is the most studied mammal on earth". Food TNCs conduct surveys on consumer tastes, smells, wants and needs. In addition to market research, Nestlé claims to engage in human physiology, health and nutrition as part of new product research. A CEO of Nestlé has commented that he hoped one day R&D would be capable of "creating the type of products that...[borders] between preventive medicine and food product" (Maucher 1994b:151). But the reality is that nutrition and well-being are not associated with many of the food TNC's product lines. Similarly, United Biscuits spent over three years on research and innovative technical development to introduce a new type of (not very nutritious) potato chip (Tansey and Worsley 1995:187).

The manner in which TNCs conduct research & development can have a significant impact on the global dissemination of information. As Howells and Wood (1993:46) observe, "[t]he increased use of shared databases, electronic mail, video conferencing and workstation technology has now enabled companies to explore new ways in which R&D can be undertaken between separate sites". These advancements in telecommunications have helped many aspects of the TNC's business. In terms of R&D, telecommunications has, among other things, facilitated the increased coordination between geographically-dispersed laboratories and has increased information sharing to enable a wider research reach. The tendency is for food TNCs to disperse research facilities globally. According to Warrant (1994), in comparison to other industries, food transnationals devote a large proportion of spending to supporting globally dispersed research facilities. Nestlé confirms this emphasis by stating that a primary reason the firm disperses R&D facilities worldwide is to adapt products to "different psychological and cultural attitudes" (Nestlé Research Center 1997; ILO 1989:77).

In addition to global 'intra-firm' dissemination of R&D activities, the collaboration between different TNCs in research & development has been used to curb costs (Warrant 1994). Food processing transnationals have on occasion made their research facilities freely

available to one another. In effect, global 'inter-firm' arrangements allow for the free exchange of information between food TNCs, with no royalties paid or received (ILO 1989:78). The inter-firm cooperation between food processing transnationals constitutes 'informal global partnershipping' in R&D. It is the formal arrangements in Global Partnershipping which are discussed in the next section.

GLOBAL PARTNERSHIPPING

Up to now this chapter has primarily concentrated on the internal organization and coordination of TNC activity in production, marketing, distribution and research & development. A significant third analytical category of global processes formulated in this thesis is that of Global Partnershipping. In addition to internal activities, food processing transnationals form contractual 'inter-firm' strategic partnerships with other similar firms. TNCs seek out 'global partners' in their drive to expand worldwide operations. There are many elements of Global Partnershipping, one of which is represented by what Oman (1989) refers to as 'new forms of investments' (NFIs). New forms of investment include global strategic alliances found in joint ventures, licensing agreements, franchising, production-sharing, subcontracting agreements, and mergers and acquisitions.[34] NFIs are vehicles used to partially or fully acquire local food processing firms and their trademarked brands. The aim of these partnershipping agreements is not to transform the acquired company into a 'cloned' wholly-owned subsidiary which markets the parent TNC's brands. Instead, the strategy is to

[34]Generally, Oman (1989) considers 'new forms of investment' to be agreements which do not give the TNC equity control of the venture (i.e. the TNC owns less than 50% of the assets). In this thesis, however, the '50% or less' distinction is not made. In Global Partnershipping the issue of who maintains the controlling interest is not the primary concern. Instead, the fact that an increasing number of global partnerships are characteristic of today's food processing industry is the focus of an exploratory investigation into global processes. Hence, since Oman's '50% or less' rule is not applied, 'mergers and acquisitions' have been added to the list of new forms of investment. This is primarily because, as with any other partnershipping agreement, the merger of any two companies is in effect a partnershipping of two companies' assets.

maintain the identity of the acquired firm and add already established local trademarked brands to the parent company's assets.

For Oman (1989), these 'new forms of investment' are business operations which lie between 'arms-length transactions' (e.g. export and trade) and more traditional types of expansion (e.g. 'stand-alone affiliates'). As confirmed later in the case studies, through my historical review of food TNC annual reports, it is observed that from the immediate post-World War Two period through to the 1970s, arms-length transactions and traditional forms of expansion best categorized TNC geographical expansion. Global Partnershipping strategies are unique and qualitatively different from these earlier types of corporate expansion. While a number of vehicles used in Global Partnershipping are not necessarily new, their importance and frequency vis-a-vis traditional forms of expansion have become pronounced. As presented in the next three sub-sections, 'mergers and acquisitions', 'strategic alliances via joint ventures', and 'subcontracting' have become key aspects of TNC global operations.

Mergers and Acquisitions

Mergers and acquisitions (M&As) in the food processing industry have increased significantly in the new global economy (Nestlé S.A. 1997; 1987; Unilever PLC 1987b; 1997b; *Economist* 07Jan99; 1993b).[35] Barnet and Cavanagh (1994) comment that the flurry of M&A activity in the 1980s resulted in the consolidation, dismemberment, and disappearance of food companies. However, while it is true that M&As inevitably result in the concentration of a few large food processors, the truth is that the acquired firms are not typically dismembered and do not disappear. Instead, there is a simple transfer of ownership.

For instance, as part of the deal in which Nestlé acquired the U.S.-based company Carnation in 1985, Nestlé ensured that "Carnation would remain an independent company"

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[35]Mergers and acquisitions are by no means 'new', but their use has accelerated in the recent past. As far back as 1905, Nestlé and the Anglo-Swiss Milk Company merged (Mirabile 1990b; Heer 1991). Mergers in the early part of the 20th Century were for the purpose of strengthening market shares in single product lines (e.g. powdered milk). Conversely, in the post-World War Two era mergers started to occur with the intention of expanding into related but differentiated product lines.

(Heer 1991:430). After the acquisition, it is claimed that the only difference for Carnation and its employees was that the company was now owned by Nestlé. While future business plans needed to be approved by Nestlé, the operations of Carnation were little changed. The point is that in M&As, where the purpose is to acquire brand-names ('brand-name M&As'), companies do not disappear, but rather management changes hands (see Appendix 2.2: Selected Mergers & Acquisitions in the Food Processing Industry, 1979-1990).

The Carnation M&A was a friendly takeover, in which the management of both Nestlé and Carnation decided to merge and form a partnership. Conversely, a hostile takeover is not an agreed upon partnershipping of firms, but the one-sided decision of an acquiring firm to attempt to gain control through a majority purchase of publicly-traded shares.[36] If the purpose of the hostile takeover is to acquire a new brand-name, the operations of the acquired company are not drastically changed. While there might be a degree of streamlining and restructuring in the management of united entities, the basic manufacturing operations of the two merged entities typically remains separate (Ricardo-Campbell 1997).

Another purpose in pursuing a hostile takeover can be to sell-off and dismember the acquired firm. This is what happened to Beatrice Foods (Gazel 1990). The Wall Street investment firm Kohlberg Kravis and Roberts (KKR) identified an opportunity to substantially profit through the leveraged buy-out and subsequent dismemberment of Beatrice in the mid-1980s. The empire of Beatrice included over 400 business which were acquired over its lifetime. Beatrice, the food processing TNC, virtually disappeared after KKR sold-off its constituent businesses. However, many of Beatrice's businesses, such as Hunt's Ketchup and Orville Redenbacher's popcorn, live on under the umbrellas of other food transnationals. This reinforces the view that mergers and acquisitions act more to transfer and consolidate assets than to disband companies. Hence, while the relative number of independent food processors

[36]Hostile takeovers are not possible with private companies, or with companies in which the majority of shares are held by one individual or group of individuals.

has sharply declined, the size of food TNCs has dramatically increased, yielding a higher concentration of a few big firms.[37]

Connected to the consolidation and concentration of food processing firms is the expansion of TNC product portfolios. As Connor (1988:44) notes, "mergers are a fast route to broadening a firm's product line and one that may appear to be cheaper than building new capacity". Over a ten year period between the mid-1980s and mid-1990s, it has been estimated that the largest food transnationals (Nestlé, Unilever and Philip Morris) have spent over $45 billion combined on mergers and acquisitions to acquire new product lines (Nestlé S.A. 1998a; 1987; Unilever PLC 1998a; 1987b; Philip Morris Companies Inc. 1998d; 1988; *Economist* 1993b). Not only are M&As an easy way to secure globally recognized brand-names, but economies of scale in marketing, research & development and distribution are achieved.[38] Mergers and acquisitions are a cost-effective policy in the global geographic expansion of firm activity.

While M&As are a common way for TNCs to gain entry into the developing world, a number of problems arise when purchasing local firms. The lack of modern machinery and poor local infrastructure (e.g roads, electricity, communication) are risks or considerations associated with M&As pursued in the developing world. In addition, local supply and distribution networks, as well as poorly marketed local brands, might pose problems. To gain further control over these variables, Whiting (1985:357) remarks that food transnationals have attempted to vertically expand into an array of related businesses to accommodate local operations (e.g. become the distributors of their own products). However, my historical

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[37]Leopold (1985:320) has observed that as a result of M&A activity in the 1980s, the resulting concentration in the food industry (i.e. fewer small firms and more larger firms) was much higher than in most other manufacturing industries. Based on average concentration ratios, the food industry ranked fourth among the twenty major manufacturing sectors. The concentration of food firms is most heavily associated with branded foods (i.e. high value-added product lines).

[38]An additional reason to pursue M&As is to weed out competition by acquiring a firm to discontinue its product line. The acquiring firm can shut down the manufacturing plants of rival firms and subsequently use the facilities to produce their own products (thereby avoiding costly price wars with rivals) (*The Economist,* Food Industry Survey, Dec. 4, 1993). While rare, the purpose in pursuing this type of strategy is not for the partnershipping of assets - it is a tactic in global competition.

review of TNC annual reports suggests that this is no longer the case, as TNCs have instead pursued horizontal expansion into different product lines (Nestlé S.A. 1997; 1987; Nestlé Alimentana, S.A. 1977; 1967; Unilever PLC 1997b; 1987a; 1987b; 1977; 1966; Kraft Inc. 1977; 1987).[39] While product diversification can be accomplished by acquisition, it has become more common for food transnationals to use a variety of strategic alliances.

Strategic Alliances via Joint Ventures

One manner in which to form a 'strategic alliance' is through a 'joint venture' with another firm. Joint ventures are commonly pursued in manufacturing and production activities, but are also found in R&D. Alliances are made via joint ventures either between two competing TNCs, or between a TNC and an already established local firm. In the case of the former, a good example is the teaming of Nestlé and Coca-Cola (ILO 1991:100; *Coca-Cola Annual Report* 1992). The two have formed a 'worldwide' joint venture to offer a new brand of cold coffee. Under this arrangement, Coca-Cola's beverage marketing and distribution expertise is combined with the well-recognized coffee products of Nestlé. In this instance, the joint venture achieved the cooperation between the two entities to market a new product.

More typically, TNCs pursue joint ventures to acquire a local company's brand-names. When Heinz realized that its presence in the developing world was weak, it sought to expand via joint ventures instead of mergers. For the CEO, "a joint venture offer[ed] the twin advantages of familiarity and facilities" (O'Reilly 1988:66). TNCs usually strive to gain a majority interest (i.e. at least 51%) in local firms. The TNC uses its global marketing and management skills to promote a local firm's products, and it also introduces its own well recognized brands to the local company's product portfolio. For instance, Heinz bought into

[39]Leopold (1985) distinguishes between the vertical and horizontal diversification of food processing transnationals. Vertical integration or diversification is when a TNC acts to control different links in the food chain. This would include getting involved in distribution, retail and agricultural production (both forward and backward linkages). Horizontal diversification, on the other hand, is the diversification of firms into other food product lines. Horizontal diversification is usually achieved through joint ventures and M&As.

the local Win-Chance Foods Company in Thailand. The local company produced a popular brand of flavoured milk powders called 'Mix Me', to which Heinz added its Infant Milk Cereal line of products to create the new 'Heinz Win-Chance' product line. In the end, Heinz used the joint venture not only as a platform to enter the Thai market, but also as a base to export Heinz brands throughout Southeast Asia (ibid:70).

Other types of strategic alliances include licensing (or franchising). Licensing in the food industry entails granting the right for an independent firm to produce and package a TNC's trademarked brand. Under this structure, the TNC is paid a royalty for all units produced by the independent company. Coca-Cola has pursued franchising, under which the TNC's famous soft drink is produced by independent bottlers under licensing agreements. Recently, Coca-Cola has reversed this policy and is attempting to buy back these independent licensing agreements so that it can better control the worldwide production and distribution of its trademarked product (*Coca-Cola 10-K* 1995; 1985). While some drink industry TNCs use franchising and licensing, packaged food processors do not usually pursue this avenue. Packaged food processors might buy rights from other companies to use certain images on their products (e.g. Hollywood or sports images on packaging), but they rarely, if ever, license out their own brand-named products.

Non-equity Partnerships

Dicken (1992:214) observes that, in addition to strategic alliance joint ventures in which partial ownership exchanges hands, there is a type of strategic alliance in which no equity stake is exchanged. Instead of ownership-sharing, a very specific type of arrangement is written into contract. While licensing and franchising agreements fit this type of arrangement, food processing TNCs rarely pursue these options. In the food processing industry the most typical non-equity strategic alliance between two firms is that of subcontracting. A TNC enters into a subcontracting agreement to obtain a required input from local suppliers or farmers. Subcontracting for raw material inputs is the most common type of non-equity partnershipping used in the food processing industry. Food processing

TNCs claim to rarely (if at all) use subcontracting in the procurement of industrial inputs (ILO 1989:69; Nestlé 1994a; Colon 1997b). Hence, our discussion of subcontracting will be limited to the procurement of raw materials.

As the ILO (1989:69) notes, "it is sometimes difficult to draw a line between the purchase of local raw material and actual subcontracting". As a general rule of thumb, subcontracting will always attach specifications (particular to the TNC's needs) to the contract. The local supplier acts as a vertically integrated local link in the TNC's network (Dicken 1992:217). A number of key elements are found in subcontracting agreements. Contracts might be renewable, short-term, long-term or conditional. Generally, the TNC offering the subcontracting agreement sets the terms and has a great deal of power over the firm/farmer performing the service.[40]

To obtain raw materials, food processing TNCs often use a form of subcontracting called contract farming, which involves the purchase of crops by TNCs from independent growers. Under these circumstances, agricultural workers do not work for TNCs but for local independent contract growers. Farming by contract is by no means a new strategy. Firms such as Nestlé and Unilever have been using this method since the turn of the century. However, contract farming has increasingly come to replace TNC-owned plantations and estates (Unilever PLC 1967; 1977; 1997b; ILO 1989:19). On the other hand, for TNCs which have never engaged in plantation growing, contract farming (or direct purchasing) is encouraged in lieu of purchasing commodities on the international markets (Nestlé U.K. 1995:14). Contracts are usually signed at planting time, and specify what acreage the TNC will acquire and at what price (Oman 1989; Little and Watts 1994; Nestlé 1994b). In general, the subcontracting agreement usually affords the TNC substantial control over production

[40]Subcontracting should be qualitatively distinguished from simple purchase contracts. TNCs regularly engage in arms-length transactions with local suppliers to purchase inputs for production. A simple purchase contract is usually needed for generic, mass-produced industrial inputs (e.g. tin cans, plastic bags, etc.). On the other hand, subcontracting agreements are more intricate and binding than simple purchasing agreements.

techniques, inputs, product choice, and quality standards. Sometimes the TNC provides technical assistance and advice on farming techniques.

With the rapid global expansion of food TNCs, contract farmers feel pressure to respond flexibly to food TNC needs (Watts 1994a:252). Enhanced global transport and storage facilities give food TNCs a great deal of flexibility, enabling TNCs to acquire inputs and raw materials anywhere. For instance, if a farmer does not fulfill a contract in Kenya, a food TNC can easily go to Brazil to obtain the needed raw material (Philips 1997). Through contract farming, not only do TNCs avoid the risks associated with farming, but the TNC also has the added advantage of imposing strict conditions on farmers. In this sense, some would rightly argue that contract farming is an uneven 'partnershipping' of the TNC with a local supplier.

The issue of contract farming raises a great number of important issues concerning links with agriculture, farmers and rural communities in the developing world. As Le Heron (1993:26) remarks:

> Our main interest here is to analyze how through the system of contracting production, a company is able to exert control over local farmer behaviour and land use decisions. This type of analysis helps to clarify local/global relationships and provides a bridge between the higher order ideas relating to globalization.

In the next chapter, not only will the linkages between the 'global' and 'local' in Global Production, Global Management, and Global Partnershipping be identified, but an analysis of possible local impacts will also be presented.

APPENDIX 2.1:

S.I.C CLASSIFICATION OF THE FOOD PROCESSING INDUSTRY ('Food and Kindred Products')

This appendix lists the food processing sub-sectors included in the United States *Standard Industrial Classification Manual* (1987) of `food and kindred products'. Numbers in parenthesis indicate the S.I.C classification number.

(20) Food and Kindred Products

(201) Meat Products
- (2011) Meat Packing Plants
- (2013) Sausages and Other Prepared Meat Products
- (2015) Poultry Slaughtering and Processing

(202) Dairy Products
- (2021) Creamery Butter
- (2022) Cheese, Natural and Processed
- (2023) Condensed and Evaporated Milk
- (2024) Ice Cream and Frozen Desserts
- (2026) Fluid Milk

(203) Canned and Preserved Fruit and Vegetables
- (2032) Canned Specialties
- (2033) Canned Fruit, Vegetables, Preserves, Jams, and Jellies
- (2034) Dried and Dehydrated Fruit, Vegetables, and Soup Mixes
- (2035) Pickled Fruit and Vegetables, Vegetable Sauces and Seasoning, and Salad Dressings
- (2037) Frozen Fruit, Fruit Juices, and Vegetables
- (2038) Frozen Specialties

(204) Grain Mill Products
- (2041) Flour and Other Grain Mill Products
- (2043) Cereal Breakfast Food
- (2044) Rice Milling
- (2045) Blended and Prepared Flour
- (2046) Wet Corn Milling
- (2047) Dog, Cat, and Other Pet Food
- (2048) Prepared Feed and Feed Ingredients for Animals and Fowl, Not Elsewhere Classified - including feeds and feed ingredients.

(205) Bakery Products
- (2051) Bread and Other Bakery Products, Except Cookies and Crackers
- (2052) Cookies and Crackers
- (2053) Frozen Bakery Products, Except Bread

(206) Sugar and Confectionery Products
- (2061) and (2062) Sugar Cane
- (2063) Beet Sugar
- (2064) Candy and Other Confectionery
- (2066) Chocolate and Cocoa Products
- (2067) Chewing Gum

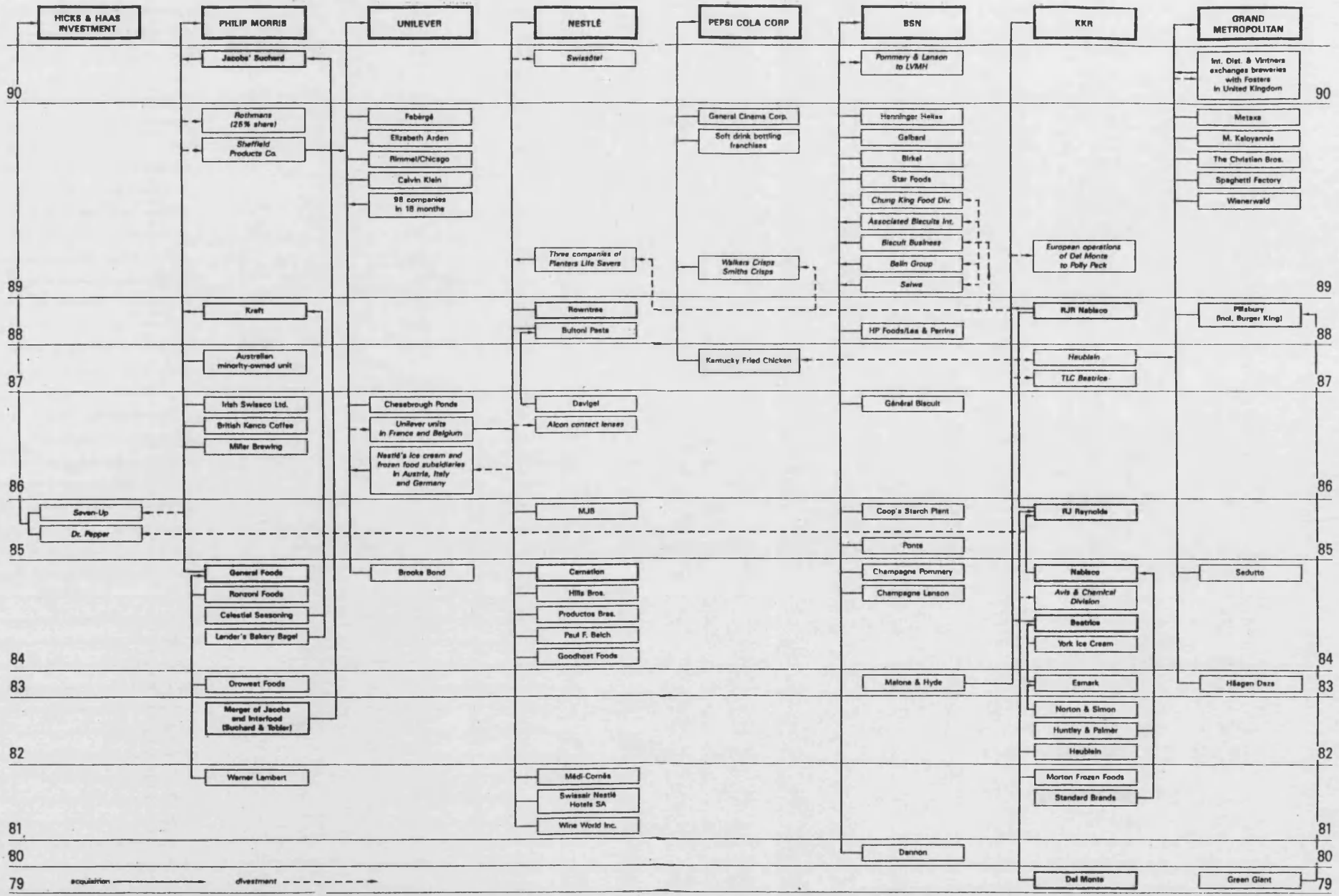
(207) Fats and Oils
- (2074) Cottonseed Oil Mills
- (2075) Soybean Oil Mills
- (2076) and (2077) Other Fats and Oils
- (2079) Shortening, Table Oils, Margarine, and Other Edible Fats and Oils.

(208) Beverages
- (2082) Malt Beverages
- (2084) Wines, Brandy, and Brandy Spirits
- (2085) Distilled, Rectified, and Blended Liquors
- (2086) Bottled and Canned Soft Drinks and Carbonated Waters
- (2087) Flavoring Extracts and Flavoring Syrups, Not Elsewhere Classified - including syrups, fruit juices, colors for bakers.

(209) Miscellaneous Food Preparations and Kindred Products
- (2091) Canned and Cured Fish and Sea foods
- (2092) Fresh or Frozen Packaged Fish and Sea foods
- (2095) Roasted Coffee
- (2098) Macaroni, Spaghetti, and Other Pasta Products

(2099), (2083), (2097) Food Preparations, Not Elsewhere Classified - including baking powder, yeast and other leavening compounds; cocoa products (except confectionery) made from purchased materials; peanut butter; packaged tea; ground spices, potato, corn, and other chips; malt; ice; and vinegar and cider.

APPENDIX 2.2: SELECTED MERGERS & ACQUISITIONS IN THE FOOD PROCESSING INDUSTRY, 1979-1990



Source: Reproduced from ILO (1991:98-99)

Chapter 3

THE GLOBAL FOOD PROCESSING SECTOR IN THE DEVELOPING WORLD: THE 'GLOBAL' AND THE 'LOCAL'

As production and consumption must always take place in specific geographic locations, some component of localism is always involved in global firm activity (Bonanno et al. 1994). Tansey and Worsley (1995:6) echo this view by recognizing that "[g]lobal forces have local effects, from terms and conditions for workers to agricultural practices to consumer desires, and vice versa". Acknowledging the linkage between the 'global' and the 'local', in this chapter the Global Production, Global Management, and Global Partnershipping strategies of food processing transnationals will be assessed against local impacts in the developing world.

PERSPECTIVES ON GLOBAL FOOD AND AGRICULTURE

Studying the local effects of primary food production is an area of research most closely associated with the 'sociology of agriculture'.[1] Research in this field has generally been centered on the study of agricultural production, with a focus on analyzing endogenous sources of rural change connected to peasant farming, land ownership and farming techniques (Buttel 1996; McMichael ed. et al 1994; Friedland ed. et al 1991). Buttel (1996) observes that the focus on endogenous sources of development was a reaction to the perceived failing

[1]The sociology of agriculture encompasses literature referred to in the following ways: (i) rural sociology; (ii) the political economy of family farming; (iii) agrarian political economy; (iv) the sociology of capitalist agriculture (Buttel 1996; Friedland 1991).

of external agricultural influences introduced during the 'green revolution'. In the 1960s and 1970s, the green revolution was the name given to the effort to introduce new cropping techniques developed in the 'West' to rural areas in the developing world (i.e. the introduction of exogenous sources of change). During that time, it was thought that the introduction of high-yielding staple crops would alleviate food shortages and assist in feeding the growing populations in Asia, Africa and Latin America. The pros and cons of the green revolution have been analyzed extensively in the literature (see Abraham 1991; Mellor 1990; Hayami 1990). The purpose in referring to it here is to acknowledge that a view was formed within rural sociology that the introduction of inappropriate industrialized world technologies caused widespread inequality in the developing world. Since Western influences were argued to be damaging, rural sociologists have frequently focused on endogenous components to facilitate rural development (e.g. such as land reform) (Buttel 1996:19).

Le Heron (1993) argues that, contrary to dated views in 'the sociology of agriculture', agriculture can no longer be seen to be untouched by global capital. Not only have scholars recently focused on the mechanization of agriculture ('agricultural industrialization'[2]) (Mellor 1990; Pugliese 1991; Urban 1993), but in what has been termed the 'global agro-food' perspective the linkage between local agriculture and global industry has been highlighted. The 'global agro-food' perspective has brought the analysis back to evaluating exogenous forces of change, concentrating on how influences, such as food TNCs, can impact not only the global food system, but local agricultural communities. For instance, Friedmann (1991) believes that a primary manifestation of agricultural industrialization is the growth of a global mass market of processed foods. She is convinced that farming has come to depend on industrial inputs to sustain itself:

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[2]Le Heron (1993:37-43) offers three elements which he considers to be the crux of agricultural industrialization: (i) changes involving rural labour processes in which machines increasingly displace labour; (ii) the introduction of technologies to supplement, modify or replace biological production processes (e.g. fertilizers, hybrid seeds, agro-chemicals, biotechnologies); (iii) the development of industrial substitutes for rural products (e.g. sweeteners instead of sugar, fats rather than butter or palm oil, thickeners in lieu of cornstarch or flour).

> My argument is...that agri-food industries became (and are increasingly) intermediaries between agricultural producers and food consumers. Instead of crops destined for the kitchen pot, agriculture increasingly supplies raw materials to the food processing industry for production of durable foods... (Friedmann 1991:66)

In short, through 'agricultural industrialization', industrial capital is able to manipulate the natural constraints of agriculture through the preservation and processing of food.

A collection of writings from four edited volumes on global agro-food have popularized the view that the food system is becoming increasingly global (Bonanno et al. eds. 1994; McMichael ed. 1994; Burch et al. eds. 1996; Friedland et al. eds. 1991). Buttel notes that much of the research in these volumes offers not only reassessments of the sociology of agriculture, but are also contributions to globalization studies:

> the global agri-food system, agro-industrial restructuring, global agricultural commodity system and chains, complexes, and so on...represent the emerging scholarly tradition, or traditions, of 'global agri-food restructuring', which is itself a branch of the...notion of 'globalization'. (Buttel 1996:17) [3]

Glover and Kusterer (1990:1) observe that the several terms used to describe this literature (i.e. 'agribusiness', 'agri-food' and 'agro-industry') cover such a variety of phenomena that making a distinction between them is difficult. Nevertheless, in general, the study of 'global agro-food' seeks to analyze a newly evolving 'global food system'. For Friedmann (1994:258-9) this system or 'complex' should be thought of as "a chain (or web) of

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[3]In commenting on perceived weaknesses in the literature associated with the global agro-food perspective, Buttel (1996) observes that "[since] many of the scholars...have been significantly influenced by the literature on global Fordism and global post-Fordism...and flexible specialization...They have thus tended to imply that the hallmark or measuring stick of the new globalization is the increased prevalence of a new type of 'footloose', stateless, de-territorialized firm which engages in 'flexible specialization'" (ibid:21). Buttel rightly asserts that the flexible specialization Fordist/Taylorist models are "not particularly useful in understanding contemporary changes in agri-food systems" (ibid:18). He bases this assessment on the fact that the food industry differs fundamentally from the automobile industry, from which Fordist-inspired theories were originally conceived. Raynolds (1994) is equally as cautious about the Fordist/post-Fordist arguments in global agro-food studies and believes scholars should concentrate on evaluations of global commodity chains instead. In our evaluation of food processing TNCs, it is found that the Fordist/post-Fordist debate does not apply to a majority of the manufacturing practices in the food processing industry.

production and consumption relations, linking farmers and farm workers to consuming individuals, households and communities". In brief, the interrelated processes of the global food system transform raw farm products into edible consumer goods.[4]

According to Friedmann (1991;1993;1994), the post-war food order is distinguished by distinct global food complexes - 'the wheat complex', 'the durable foods complex' and 'the livestock complex'.[5] The theories of global commodity complexes have analyzed how certain commodities have altered worldwide production and consumption patterns. Loosely related to the conception of 'commodity complexes' is the idea of 'food regimes' (Friedmann and McMichael 1989; McMichael 1992b; 1994a). Much like commodity complexes, three distinct food regimes are argued to have categorized the food system over the last century. The first food regime occurred under the colonial system, from the late nineteenth century to the First World War, when large-scale agriculture was an important and vital export sector in the developing world. The second regime started at the end of the Second World War and continued until the early 1970s, and was characterized by 'intensive accumulation' and the rise of 'agro-industry' (agricultural industrialization). The third food regime is said to have started in the 1970s and continues into the present, with the development of an increasingly interconnected global food system.

Scholars associated with 'food regimes' literature focus on how the agro-food system is influenced by global rather than national regulation (McMichael 1992b; McMichael and

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[4]Tansey and Worsley's (1995) definition of a 'food system' is more broad-based than Friedmann's. They argue that the food system links several different aspects of life: (i) the biological; (ii) the economic and political; and (iii) the social and cultural. In general, the idea of a food system is used to ascertain "how and why we eat, how food is produced and reaches our mouth and why we eat what we do" (ibid:1). While Tansey and Worsley are correct in their assertion that the 'food system' includes physiological and psychological links, this thesis focuses on the socio-economic impacts of food TNCs within the food system, not mankind's historical relationship with food.

[5]Friedmann's 'wheat complex' is said to have been supported by the massive outflow of U.S. food aid in the 1970s. Cheap wheat from the U.S. was offered to developing nations under U.S. Public Law 480. According to Friedmann, the outcome of selling inexpensive wheat was that a number of developing countries replaced their traditionally home grown staple foods with subsidized wheat. Not only did this make developing nations more food import dependent, but it is said to have encouraged the change of dietary patterns across the developing world (issues of food import dependency will be discussed later). Friedmann also identifies the 'livestock complex', which borrows from Sanderson's (1986) formulation of the 'world steer'. This complex describes the global interconnection between livestock farming, the global feed industry, and traditional agricultural crops. On the other hand, as discussed below, the 'durable foods complex' describes the global interaction between the global food processing industry and agriculture (Friedmann 1991; 1993; 1994).

Myhre 1991; Raynolds et al. 1993; Le Heron 1993). For example, Raynolds et al. (1993:1105) consider "how the development of regulatory mechanisms in international institutions implicate [or challenge] the state system in general, and state agricultural policies in particular". Debates surrounding the ideas of both 'commodity complexes' and 'food regimes' tend to be historically-based, leading more to an historical analysis of the evolution of the worldwide food system than to a critical evaluation of global forces and local impacts. In fact, Heffernan and Constance (1994) note that agro-food research can differ greatly depending on one's unit of analysis:

> If the research question deals with the dislocation of labor and resulting impact on rural communities, then the appropriate unit of analysis is probably a specific commodity and its related labor process...On the other hand, if the research question deals with the regulatory issues..of the agricultural and food system, the appropriate unit of analysis is the nation-state...But if the research question is, 'What is the driving force behind the restructuring of the global food system?', the unit of analysis has to be the TNC, or group of TNCs, as these units decide what food is grown, where, how and by whom. (Heffernan and Constance 1994:29)

Since the unit of analysis in this thesis' investigation of the global food system is the TNC and not the nation-state, discussions of regulatory issues (whether national or global) will be limited to analyses associated with the global strategies of food processing TNCs and their local effect(s) in the developing world.

While global agro-food literature covers a broad spectrum of subject areas (and units of analysis), a recent focus has been on how global influences in food and agriculture (including, but not limited to, the transnational corporation) affect local conditions. For instance, Sorj and Wilkinson (1994) and Buttel (1990) discuss the relevance of TNC-sponsored biotechnology in the developing world; Pugliese (1991), Burch (1996) and Watts (1990) discuss the global food system and contract farming; and Rama (1985; 1992) and Leopold (1985) investigate the food system in the developing world. The positions of these

and other agro-food scholars, as well as related positions outside this tradition, will be drawn upon in the following discussion of the local linkages and effects of food processing transnationals.

THE IMPACT OF TRANSNATIONAL CORPORATIONS THROUGH LOCAL LINKAGES AND SPILL-OVER EFFECTS

ASSESSING THE IMPACT OF TRANSNATIONAL CORPORATIONS

Heffernan and Constance (1994:30) are convinced that the best way to analyze the local effects of global food production and consumption is to concentrate on the central coordinators of the food system - the transnational food corporations. Dicken notes that assessing the impact of transnational corporations is a hotly-debated issue:

> [E]xtreme differences of opinion...surround the question of the impact of the transnational corporation. According to viewpoint, TNCs either expand national or local economies or they exploit them; they are either a dynamic force in economic development or a distorting influence; they either create jobs or destroy them; they either spread new technology or pre-empt its wider use, and so on...The list of contrasting views is almost endless. Indeed, virtually every aspect of the TNC's operations - economic, political, cultural - has been judged in diametrically opposed ways by its proponents and its opponents. (Dicken 1992:387)

Dicken goes on to say that "*the simple fact is that it is impossible to make a simple, all embracing assessment of impact*" (emphasis added, ibid).

The fact of the matter is that different types of transnational activity have distinct effects. Moreover, varying circumstances (i.e. local conditions) substantially alter the effect of TNC activities. Hence, this thesis' investigation of the impact of food processing TNCs in the developing world will be evaluated on a case-by-case basis. As a general guiding

framework, impacts from TNC activity will be assessed based on the triad of global processes developed in Chapter Two. Hence, food TNC activity in Global Production, Global Management and Global Partnershipping will be evaluated to assess 'linkages' and 'spill-over effects' with local communities. For example, Global Partnershipping strategies are connected to a range of local impacts on the rural community, agriculture and food security; Global Management strategies are linked to consumption, nutrition and technology transfer; and Global Production is connected to local incomes, labour conditions and local industry. However, before addressing these varying local impacts, the mechanisms of 'linkages' and 'spill-over effects' will be presented to demonstrate how they will be used to make a conceptual connection between TNC global processes and local effects.

Local Linkages and Spill-Over Effects

Measuring the impact of transnational corporations requires the identification of several variables. First, it is necessary to establish what type of transnational corporation will be studied (food processing transnationals), then what part of transnational activity will be studied (global strategies), and finally an area needs to be identified for the study of impacts (developing world communities). Next, the vehicle through which impacts will be assessed needs to be outlined. Our vehicle of assessment will be 'local linkages' and 'spill-over effects'.

For Dunning (1993:446) spill-over effects are the consequence of linkages forged between the transnational corporation and the local economy. Dunning is primarily concerned with the economic impact (or spill-over effect) of backward and forward linkages. In the case of the food processing industry, backward linkages are observed through contract farming, under which local farmers serve as raw material suppliers to the TNCs. In addition, supplier linkages exist in the higher value-added activities, such as employing a local firm to produce the packaging for a product. On the other hand, forward linkages would be found in a food

TNC's sale of the final product to local distribution and retailing channels. A number of scholars have agreed that the identification of linkages is an effective way to assess the local impact transnational corporations have on a range of social, cultural and economic variables (Dicken 1992; Buckely and Casson 1990; Rhys Jenkins 1990; Reiffers et al. 1982).

Dicken (1992:389) identifies five main areas where it is believed TNCs have major impacts: (i)capital/finance; (ii)technology; (iii) trade; (iv) industrial structure/entrepreneurship; (v) employment/ labour. Several types of firm activities are identified as possibly influencing local conditions. For instance, high-tech processing facilities can impact technological know-how in a community. Rhys Jenkins (1990:118) makes a similar list of possible local effects (research & development, wages, advertising and trade strategy), but he is more interested in socio-cultural, rather than socio-economic, impacts. An example of a socio-cultural linkage would be the connection between a food TNC's advertising strategy and changes in local consumption patterns (e.g. consuming pasta rather than rice).

Depending on the area of study, varying local linkages and spill-over effects can be identified. In this thesis, the local impacts of food processing transnationals will be assessed through a detailed evaluation of the processes realized in the areas of Global Production, Global Management and Global Partnershipping. The breadth of potential spill-over effects in the global food processing industry is vast, with two broad categories of effects identified - 'direct effects' and 'indirect effects'. The impact TNC labour practices have on employees is a direct linkage yielding a direct effect. On the other hand, indirect effects are those which cannot be entirely attributed to a TNC's activities. For instance, by convincing consumers to purchase and consume a certain food product, a TNC's marketing campaign might indirectly affect local nutrition. The effect is 'indirect' because the goal of an advertising campaign is first and foremost to sell the product, not to impact consumer nutrition. Moreover, even if local consumers were convinced by an advertising campaign to consume a product, one consumer's nutrition might be affected, while another's might remain the same. This is because a range of other variables (age, medical history, etc.) will always influence the effect food products have on health.

It is obviously much easier to measure direct effects because the linkage is relatively clear. The evaluation of indirect effects is slightly more subjective and intuitive. It should be noted that while each global strategy and its local linkages and effects are discussed separately, they are all inherently interconnected. For example, a TNC's advertising campaign might directly affect consumption (e.g. increased purchasing of food), which would, in turn, indirectly affect local incomes/savings (e.g. convincing consumers to spend), which may have a further indirect effect on nutrition (e.g. differing food consumption patterns can influence health). In the remainder of this chapter, an explanatory methodology is developed which provides a framework for assessing the linkage between food TNC global processes and local effects in the developing world.

Table 3.1 provides a synopsis of the links identified in the next three sections of this chapter. There are 13 key local linkages connected to this thesis' triad of TNC global activity. Rather than assessing nation-wide effects (i.e. export/import data, balance of trade, etc.), this thesis examines local linkages. From the following review of linkages it will be become apparent that impacts from TNC activity are not wholly positive or negative, but mixed depending on local circumstances. While the remainder of this chapter constructs a framework of analysis for assessing the linkages between food TNC global processes and local effects, it is not until the case studies on Nestlé, Unilever and Philip Morris (Chapters 4, 5 and 6) that empirical findings will be applied.

TABLE 3.1
MATRIX OF GLOBAL PROCESSES AND LOCAL LINKAGES: THE CASE OF FOOD PROCESSING TNCs IN THE DEVELOPING WORLD [a]

	Agri-culture	Rural Comm-unity	Food Sec-urity	Local In-comes	Em-ploy-ment	Labour Cond-tions	Envir-onment	Local Firms	Train-ing	Educa-tion	Tech-nology	Nutri-tion	Con-sump-tion
GLOBAL PARTNERSHIPPING													
Cont.Farm/Subcontr.	x	x	x	x	x	x	x		x		x	x	x
M&As				x		x		x			x		
Joint Ventures				x		x		x			x		
GLOBAL PRODUCTION													
Mfr./Operations		x		x	x	x		x	x	x	x		
Distrib./Export			x	x	x			x					
Product Design							x					x	x
GLOBAL MANAGEMENT													
Marketing Strategy				x			x					x	x
R&D/Technology						x		x	x	x	x	x	
Corp. Policy/Structure	x	x	x	x	x	x	x	x	x	x	x	x	x

[a] This table is meant to serve as a summary matrix, in which an 'x' indicates that a 'linkage' has been identified between 'global process' and 'local effect'. All three categories of global strategies and all thirteen identified linkages are assessed against varying local effects throughout the remainder of this chapter, in which it is found that many of the linkages are overlapping and interrelated. For instance, a TNC Global Management policy of paying higher wages than local firms can affect the 'local income' levels of employees, which might in turn indirectly affect 'consumption' through increased purchases.

LINKING FOOD TNC GLOBAL PROCESSES TO LOCAL EFFECTS IN THE DEVELOPING WORLD

CONNECTING GLOBAL PARTNERSHIPPING TO LOCAL EFFECTS

Effects From Subcontracting via Contract Farming

Contract farming practices typically produce among the most significant (direct and indirect) impacts food processing transnationals can have on rural communities.[6] As discussed in Chapter Two, contract farming is a form of Global Partnershipping in which the TNC contracts with local farmers for the supply of raw material. TNCs have preferred contracting for raw materials rather than in-house production for various reasons, not least of which is the desire to escape the risks and uncertainty associated with farming.

There are a number of conditions and fulfillments attached to contract farming which have split opinion on its effect in local communities. As discussed below, the advocates contend that there are various positive externalities which significantly contribute to the socio-economic development of rural communities (Glover and Kusterer 1990; Hillman 1981; Rama 1985a; Oman 1989). The opponents are convinced that contract farming is plagued by an exploitative relationship between TNC and farmer, and hence minimal, if any, benefits are observed (Watts 1990;1994b; Little 1994; George 1979; Mingione and Pugliese 1994). An analysis of effects from TNC subcontracting via contract farming is presented in sub-sections (i) through (iii) below.

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[6]Contract farming is not an activity limited to the food processing transnational (nor solely to private enterprise). There are a number of 'outgrower schemes', including government and aid agency sponsored schemes, which support contract farming activities in rural areas to encourage the growing of staple foods and other commodities (see Little 1994:218; Glover and Kusterer 1990:5; Burch 1994).

(i) Linkages to Agriculture, Rural Community and Food Security

Opponents of contract farming argue that food TNCs encourage 'export cropping', which in turn is believed to jeopardize 'subsistence living'. Rural 'subsistence living' is described as maintaining oneself through household labour and farming for one's own food consumption.[7] Some income is always required in subsistence living for essential expenses such as buying seeds for household crops. Thus, limited wage earning tasks are normally performed, such as home-based hand crafts and other low-scale, off-farm labour (Glover and Kusterer 1990:149). Opponents of contact farming argue that export-cropping replaces the small-scale local production of food and home based crafts, thereby jeopardizing the rural subsistence way of life and local 'food security'.[8] Valuable farm land is said to be diverted from both household farming for subsistence living and from the large scale cultivation of staple crops for local distribution (George 1979; Abraham 1991). Because of this, it is argued that excessive amounts of food need to be imported for local consumption, which results in food import dependency and local food shortages in the developing world (Little 1994; Mingione and Pugliese 1994; Barnet and Cavanagh 1994).

However, as noted by the UNDP, food shortage is a question of distribution, rather than actual underproduction:

> The overall availability of food in the world is not a problem. Even in developing countries, per capita food production increased by 18% on average in the 1980s. And there is enough food to offer everyone in the world around 2,500 calories a day - 200 calories more than the basic minimum. (UNDP 1994:27)

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[7]It should be noted that not all subsistence living entails the 'luxury' of growing one's own food. Mingione and Pugliese (1994) distinguish between 'rural subsistence living' and 'urban subsistence living', where urban subsistence livers are worse-off because, unlike the rural poor, they are not able to grow their own food to sustain themselves. In terms of the export-cropping versus subsistence living arguments explained below, the context refers to 'rural subsistence living'.

[8]According to the United Nations Development Program (UNDP), 'food security' means that "all people at all times have both physical and economic access to basic food" (UNDP 1994:27).

In most circumstances, the poor distribution of food and the lack of purchasing power are the primary risks to food security, not low levels of local staple food farming nor increased food imports.[9] By and large (with the exception of war and drought), "people go hungry not because food is unavailable, but because they cannot afford it" (ibid). Unlike the conditions during the famines of the 1970s and 1980s, many authors agree that food output and supply are now at levels at which the entire population of the globe can theoretically be fed (Brown and Goldin 1992; Mellor 1990; UNDP 1994). Today, the primary issues contributing to the problem of hunger and mal-nutrition are the purchasing power of the poor and the price of foodstuff (Mellor 1990), national distribution policies (Brown and Goldin 1992) and 'entitlements', not the lack of subsistence living (Sen 1990).

Contrary to jeopardizing food security, proponents of contract farming argue that it provides jobs in the local community which can help people buy the food they need and want. For example, Little (1994:228) observes that "participation in a contract venture does not necessarily lead to...[local] nutritional or food problems. In fact, when farmers incomes, especially those of women producers are raised because of contracting activity, nutritional status and food security are likely to improve if additional foods can be purchased". However, Barnet and Cavanagh (1994:210) argue that, under contract farming, a large proportion of subsistence farmers are forced to forfeit or sell their land to larger-scale plots, which results in local people becoming dependent on the 'money economy' and hence turning into "poorly paid hands on the [land]...they once farmed for themselves". Challenging the view that a money economy is somehow detrimental to rural communities, Mingione and Pugliese (1994:57-7) note that rural subsistence has long depended on various forms of wage labour to maintain subsistence. In fact, in field studies Glover and Kusterer (1990:136) have found that the self-provisioning of food has infrequently been completely foregone in favour of wage

[9]According to figures presented in the UNDP's food security index for developing nations, the less dependent a country is on imported food (a low food import dependency ratio), the more likely it is that the country does not meet its daily caloric needs (UNDP 1994:154). Hence, the inference is that food importation does not negatively impact food security. Nevertheless, with UNDP country-wide statistics it is difficult to assess 'local' effects. For instance, some rural (or urban) areas might have more severe 'food shortages' than other areas of a country.

labour. Instead, as long as the need continues, both subsistence living and a 'money economy' co-exist. In short, the fact is that rural subsistence communities have long been dependent on the 'money economy', but at the same time have been able to maintain some land for the self-provisioning of food (Mingione and Pugliese 1994).

In the face of contrasting scholarly views on the importance of subsistence living to rural communities, an important related question is how local people themselves view subsistence living. Local people often comment that subsistence living is not a goal, but the attainment of money might be. McCann, a worker on a contract farm in Zimbabwe, comments:

> Money would make me happy because, you see every time I want to have chicken I can have. Eggs I can have. Anything that pleases my soul...I can have because of money. (Phillips 1997:53)

The goal is obviously the attainment of a better standard of living, not the persistence of subsistence living. In some villages in India, 20% of the farm land (including subsistence plots) is abandoned in favour of wage labour (Dimbleby 1997). This demonstrates that in many cases it is an individual farmer's choice of whether or not to pursue subsistence farming.

Hence, contract farming is not so much a deterrent to subsistence living, but an outlet for farmers to sell excess crops. As Glover and Kusterer (1990:140;150) observe, rather than jeopardizing food security, activities such as contract farming provide jobs in the local communities which can help the poorest of the poor buy a more varied diet. Based on field research, a number of scholars offer the following convincing arguments on why contract farming is not damaging to rural communities or local food supplies:[10]

[10]The findings of Glover and Kusterer (1990) are based on field research carried out in Latin America, Canada and Africa. The case studies in Latin America provided a comparative analysis of the impact of contract farming on a variety of food products, including tomatoes, bananas, sugar, fresh fruit, vegetables, milk, canned fruit and juices. In Canada, their research examined the connection between the transnational food processor, McCain, and potato farmers in New Brunswick. Finally, in Africa, research involved assessing the public sector's participation in contract farming in Kenya.

(i) Even if contract farming (or export cropping) is pursued, subsistence plots are not generally abandoned (Glover and Kusterer 1990:135;149). However, if subsistence plots are abandoned, subsistence living is not revered by the rural poor, nor does it necessarily mean that the absence of subsistence farming jeopardizes food intake (ibid; Phillips 1997);

(ii) Contract farming does not necessarily mean that staple crops are displaced. Surplus land is typically used to accommodate contract farming (Glover and Kusterer 1990). If staple crops are displaced and the result is the need to import food, statistics confirm that food security is not generally jeopardized (UNDP 1994);

(iii) Since governments regulate contract farming, there are safeguards which protect against the 'inefficient' use of land (Glover and Kusterer 1990:148;155). For instance, if the growing of staple crops is desirable, governments can offer farmers enticements to produce crops for local markets rather than to use land for contract farming. Moreover, governments have the power to instruct TNCs where and how to buy local raw materials (Montavon 1993; 1997)[11];

(iv) There are positive linkages between contract farming and local food/staple crop production, in which the irrigation, fertilizing and technology of contract crops have residual benefits on local food/staple crops (Glover and Kusterer 1990:142;148; Montavon 1993; 1997).

Hillman (1981) and Rama (1985a) have come to a similar defense of contract farming (and export cropping), concluding that there is only a negligible effect on food security, and that transfers of technology benefit the local growing and distribution of food crops.

[11] As will be discussed in the case study chapters, it is found that governments have substantial power in influencing land allocation for contract farming. For instance, Nestlé was only able to contract for raw milk in Moga (India) within a strict radius set out by the government. Likewise, in China, Nestlé was restricted by the government to contracting for raw coffee supplies in designated poverty areas (Montavon 1993;1997).

(ii) Links to Technology, Employment, Labour Conditions and Environment

The possible impact on local food security is but one indirect linkage from a TNC's pursuit of contract farming. More direct local linkages are founded in the relationship between the contract farmer and the TNC. As discussed in Chapter Two, under a typical contract farming arrangement a food processing company purchases the crops of independent growers. These independent growers are typically medium- or large-scale peasant farmers. Small-scale peasant farmers are also used for the supply of certain products (Glover and Kusterer 1990:132). For instance, as will be discussed in Chapter Five, Nestlé contracts with over 60,000 small-scale peasant farmers in India to obtain raw milk supplies (Montavon 1993). However, for crops such as fruits and vegetables TNCs typically use medium- and large-scale growers (Oman and Rama 1989:256).

The conditions of production specified in contract farming agreements include planting dates, delivery dates, harvesting style, size and shape of the raw material, technology used in harvesting, chemicals used in fertilizing, etc. (Burch et al. 1992:261). Consequently, a number of scholars contend that contract farming is unfair to contract growers (Watts 1994b; Little 1994; Clapp 1994). Farmers are said to be bullied into being 'hired-hands' on their own land. For Phillips (1996), this renders peasant farmers 'passive' and powerless. Glover and Kusterer (1990:132) make an interesting counter-claim to the passive farmer argument:

> contract farming holds far less possibility for coercion than traditional agricultural relations between small holders and rural elite. Landlords and money lenders can coerce the rural poor into quite exploitative relationships because the elite control access to land and inputs that the rural poor need for their survival.

Moreover, it should be noted that any relative 'powerlessness' of farmers vis-a-vis the TNC is partly a reflection of the nature of contracts. There is always a working relationship between contracting parties, in which the 'supplier' (the contract farmer in this case) acts to a certain extent like the client's (the TNC's) employee. When asked to comment on the hierarchical relationship between contract farmers and TNCs, a manager of a contract farm in Zimbabwe

acknowledges that the buyer (or TNC) tells the farmer what to do, and the farmer must comply in order to keep the contract (Phillips 1997:67).

On the flip side, a benefit to farmers is that, by virtue of the fact that a contract exists, the grower is assured the certainty of a buyer, which enables better access to both credit and new markets. This is not to say that a degree of dependence does not exist. The TNC obviously holds the power, not least because it has the flexibility to obtain raw materials anywhere worldwide. In contrast, the contract farmer is bound to the small geographical area where local crops can be grown.

Due to both the global mobility of TNCs and their ability to impose stringent contractual terms there are a number of uncertainties contract farmers bear. For example, farmers are often required to produce certain sized fruits and vegetables. The TNC has the power to refuse acceptance of any raw material which does not fit the specification of the contract. As a result, farmers are often left with a substantial stock of rejected fresh produce. On one Zimbabwe pea farm it has been estimated that out of approximately seven tons of peas from a hectare, there is about a 30-40% rejection rate because some peas do not meet size specifications set by the TNC (Phillips 1997:45-46). While contract farmers are free to sell 'non-qualifying' produce on the local market, there is not a guarantee of sale.

Nevertheless, while farmers are held to stringent conditions, contract farming via the TNC has increased farm productivity levels (Oman 1989; Glover and Kusterer 1990; Miller 1996). A primary reason for increased productivity is the transfer of technology and management styles from the TNC to the contract grower. One contract grower comments that customers (i.e. the TNCs) give help, advice and instruction which has brought farmers "a long way" (Phillips 1997). Due in part to these transfers, Oman and Rama (1989:262) remark that a number of ex-contract growers have themselves become processors and compete with those for whom they once worked. Hence, the benefit of both increased household income and employment should be weighed against the constraints of contract farming.

While some scholars point to the positive impacts of technology transfers, others argue that the use of 'inappropriate technologies' via TNC transfers is detrimental to farmers.

Similar to critiques of the green revolution, the transfer of inappropriate technologies through industrial inputs, chemical fertilizer and seed and industrial technologies are said to damage the long-term maintenance of rural agricultural systems (Campbell 1996; Johnston 1979). In the case of contract farming, intensive cultivation and 'over-farming' are believed to cause a number of lasting and damaging effects on 'sustainable agricultural development' (Campbell 1996). Typically, TNCs contract for more raw materials than they actually need, thus promoting 'intensive cultivation'. This is primarily because TNCs want to ensure that manufacturing plants are supplied with enough raw material for continuous operation.

The overproduction of land (or intensive cultivation) can degrade soil and water resources by the excessive use of pesticides and inappropriate crop rotation (Burch et al. 1992; Watts 1994b). Since TNCs do not own the land, there is not a direct interest in supporting sustainable agriculture. Campbell (1996) comments that agricultural damage can be mitigated via consumer interest groups which pressure TNCs to become more environmentally conscious.[12] However, even if food processing TNCs are monitored by environmental interest groups, small-scale contract growers in the developing world are generally not targeted by consumer groups. Out of necessity, developing world contract growers continue to use intensive farming and demonstrate only a slight interest in long-term environmental preservation. This is argued to be the case because many contract farmers are not fully informed of the long-term damage intensive farming can do to the soil and, hence, to future earnings (ibid).

Along these lines, issues relating to the 'environment' continue to attract the attention of global interest groups which may influence a TNC's decision of whether to pursue environmentally friendly activities. As later discussed, in this context, TNCs may opt to pursue policies which reflect good 'corporate social responsibility'. For instance, in addition to

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[12]The case of DuPont is an example of a TNC bowing to interest group pressure on sustainable development. In response to consumer demands for sustainable agricultural development, DuPont's agricultural products division has introduced the 'perfect crop protectant'. This pesticide is targeted at specific pests; it breaks down quickly in the environment; it has negligible toxicity to people, fish, wildlife, nontarget and beneficial insects and other organisms; it does not affect water quality; and is effective in small quantities (Krol 1991).

imposing conditions on the quality of raw materials farmed, TNCs can include 'good practice standards' in contract farming agreements. 'Good practice standards' might include directives for farmers to: pursue environmentally sound farming practices; guarantee that child labour will not be used; and ensure that minimum wage standards be met. Actively enforcing such social concerns would be a function of a TNC seeking to conduct business according to international standards. Abiding by international standards of 'good practice' is often voluntary, and a TNC's pursuit in that regard is either a function of its policies of corporate social responsibility, or a reaction to pressure from global interest groups/international institutions to pursue such paths.[13] As observed later, in contrast to small local competitors, the high global profile of TNCs makes it more likely that they will be held accountable to pursue good social practices in both their own operations and in subcontracting arrangements.

(iii) Training, Local Incomes, Nutrition and Consumption Linkages.

Contract farming offers new employment and improved infrastructure for individuals in the rural community. A farm worker on a contract farm has indicated that he views the TNC as his ultimate employer, and not the actual contract farmer, because "all the people's lives are endangered, severely jeopardized...if the [TNC] is not satisfied he will simply do away with the community" (Phillips 1997:29). The importance attached to TNC buyers of locally farmed goods was made abundantly clear in a case where a TNC came to inspect a contract farm in Zimbabwe; to impress the visiting TNC, the rural community raised the TNC's flag as local children sang a welcome song written specifically for the TNC (ibid).

While the dependence on TNCs to support contract farming can be extreme, there are a number of benefits that accrue to local communities. Because TNCs need to efficiently obtain

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[13]Simply because a TNC might include 'good practice' standards in contracts does not necessarily mean that the TNC actively monitors contract farmers to ensure that the standards are met (ILO 1999c; Nestlé S.A.1998b). As will be discussed in Chapter Six, without TNC enforcement, the inclusion of good practice standards in subcontracting agreements serves only to market a TNC's 'rhetoric', and therefore does not represent the actual 'practice' of 'good practice'. However, while a TNC's pursuit of good practice might have the potential to alleviate social labour injustices, on issues such as child labour, it is at the governmental, not TNC, level that policies and legal enforcement would achieve maximum positive results.

raw materials, rural infrastructure is often improved through better roads and communication networks. Furthermore, based on findings from several case studies in the developing world, Glover and Kusterer (1990) argue that rural communities benefit overall through increased incomes from farm work, making it possible for families to purchase additional food and to acquire luxury goods such as stoves. These indirect benefits not only yield improved nutritional intake, but also allow for the procurement of household labour saving devices. Due to the rise in rural incomes from contract farming, field studies have suggested that there is a residual benefit of rural families foregoing a child's subsistence labour, thereby keeping them in school for more days and more years (ibid:153).

While local effects from contract farming are variable, on balance, the direct and indirect linkages of contract farming are clear (Burch et al. 1992; Glover and Kusterer 1990; Rickson and Burch 1996). However, the extreme reliance of rural communities on TNCs to create and maintain jobs via contract farming makes the communities vulnerable to TNC global mobility. As one manager of a contract farm notes, TNCs can easily find other suppliers, and there are plenty of suppliers willing to fulfill that role (Phillips 1997:68). Hence, to stay competitive, contract growers try to offer the lowest prices possible to TNCs, which means that wages paid to pickers on contract farms can be extremely low. Having said this, it should be noted that pickers personally decide whether the wages paid are worth their time and labour. For instance, documented cases confirm that labourers on contract farms leave their jobs mid-stream when conditions are imposed which are thought to be unreasonable (e.g. picking certain sized peas). Hence, while the TNC is clearly the dominant partner in contract farming, growers and labourers have their own minimum requirements which must be fulfilled in order to keep the partnership alive.

M&A and Joint Venture Linkages to Local Incomes, Labour Conditions, Local Firms and Technology

Due to the increasing demand for processed and packaged foods in the developing world, as well as a saturated demand in the industrial countries, food processing transnationals have increased their rate of expansion in the former (Nestlé U.K. 1995; Chisholm 1994; International Labour Organization 1991:19).[14] Rather than expand into the developing world from scratch (i.e. build new factories, find new distribution networks, brand new foods etc.), Global Partnershipping through the merger and acquisition of well established local firms (with already popular local brands) is a food TNC's preferred strategy.

As discussed in Chapter Two, when a local firm is acquired by a food transnational, it does not necessarily cease to exist, but its ownership is transferred to the TNC. The local firm becomes an affiliate of the TNC. The increased use of M&As by food TNCs can deplete local ownership in the industry. This is a primary negative effect of TNC merger and acquisition expansion into local food industries. If a significant proportion of local companies are acquired, quite often the remaining local firms are relegated to the role suppliers, not food processors (ILO 1991:107; EIU 10Jul96). An example of the overbearing concentration of TNCs in the local food industries of the developing world can be observed in the case of the Philippines, where two food processing transnationals (Del Monte and Dole) account for two-thirds of the employment in the fruit industry (ILO:1989).

The International Labour Organization (ILO 1991) remarks that the displacement of local food firms can be partially avoided by joint venture agreements. In fact, strategic alliances via joint ventures is an increasingly popular strategy pursued by both food processing transnationals and local firms (O'Reilly 1988; Oman and Rama 1989; ILO 1991). Oman and

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[14]The International Labour Organization (1989:27) believes that an additional reason food processing transnationals are turning to the developing world is that they have become too big in the industrialized world and are weary of anti-trust laws. However, while anti-trust laws do monitor M&A activity, food TNCs are not so much weary of laws, as interested in gaining new market shares. As *The Economist* Food Industry Survey notes (Dec. 4, 1993:13), the motivation to pursue M&As and leverage buy-outs can be summed up in one word - "greed". This is confirmed by several food TNC CEOs, who note that the improved economic and political outlook in the developing world makes it an attractive market (ibid:14; Maucher 1994b; Fitzgerald and Tabaksblat 1996; O'Reilly. 1988).

Rama (1989) illustrate the benefits accrued by joint ventures in the example of the Brazilian yogurt industry. The production of natural yogurt in Brazil was largely non-existent until the market was 'revolutionized' by a joint venture between a French TNC (Gervais-Danone) and a local firm (Pocos de Calda). In return for a minority equity position, the TNC gained entrance into the local market and provided its well known trademark, technology and technical assistance to boost sales. The new natural yogurt product became a commercial success in Brazil. This, in turn, induced local firms (and entrepreneurs) in Brazil to seek out TNC partners for similar joint venture arrangements.

Hence, while mergers and acquisitions might displace local firms, joint ventures can encourage local entrepreneurship. It should be noted that many food TNCs want a majority interest in joint ventures with local firms (Maucher 1994b; O'Reilly 1988). However, this is countered by the requirement of many developing country governments that local firms, rather than TNCs, maintain the majority interest. Differing requirements will obviously dictate whether these agreements are formed at all. Joint ventures with local firms in the developing world are a common practice among food TNCs, and negotiations are often struck to satisfy developing country governments. The successful pursuit of M&As and joint ventures by TNCs invariably brings new technology and products into the developing world's food processing industries.

In addition, impacts on employment from M&As and joint ventures have been observed. In terms of levels of employment, the ILO has found that employment figures remain relatively unchanged. Contrary to popular belief, mergers and joint ventures do not produce a great deal of layoffs or new hirings (ILO 1989; 1991; Business Week 1984). Typically, effects on labour force include the introduction of new skills, the improvement of labour conditions and the transfer of technology through new machinery, equipment and communications (ILO 1991). The transfer of skills and technology are closely related to the new partnered entity's (or TNC affiliate's) production strategies.

Primary Linkages to Employment, Education, Training, Labour Conditions, Technology and Local Incomes From Manufacturing, Distribution and Product Design

The first step in the production of a packaged and processed food is the procurement of raw materials. Possible effects from obtaining raw materials through contract farming have already been discussed. The next stage in the process is the actual manufacturing of a processed food. A fundamental element in all manufacturing processes is labour. Based on an analysis of data available for 23 industrialized and 92 developing countries, it has been found that employment in the food industry comprises a larger percentage of total manufacturing employment in the developing world than in the industrialized world. The analysis revealed that while the food industry in developing countries accounts for an average of 25% of total manufacturing employment (the high for the developing world sample is 61%), by contrast, the average for all industrialized countries in the sample is 14% (and the high is 29%).[15] In fact, for over three-quarters of the developing country sample base (70 LDCs), the percentage employment in the food industry is higher than the industrial country average (of 14%). As these statistics suggest, and as the ILO confirms, the "food and drink industries ha[ve] played a major role in the total employment growth of developing countries" (ILO 1989:155; ILO 1998). Hence, how food TNCs in the developing world run factories and treat employees is of special significance. In this regard, there are a number of direct effects associated with a TNC's Global Production strategies.

Employee training at TNC affiliates is typically broken into four areas: (i) management and skilled personnel; (ii) engineers and technicians; (iii) sales personal; and (iv) semi- or unskilled production workers. Training is more in-depth for management, technicians, and sales personnel than for production workers. The former three categories of employees are

[15]Average percentage food sector employment calculations were derived from statistics compiled by UNIDO, on a per country basis, in the food and drink industries for the years 1985-1995 (reproduced in ILO 1998). While the data was presented in two distinct statistical sets (i.e. the food sector and the drink sector), to reflect the food industry in its entirety, the data given for each sector was combined (per country) for the analysis at hand. To obtain the widest and most comprehensive sample base, the statistics for each country were mainly taken for 1994 (the most recent and complete data year), or in absence of data for 1994 the last available year was taken. To best represent the norm for each sample base, the extreme, overly food-sector dependent cases of Iceland (for industrialized countries) and Benin (for the less developed countries [LDCs]) were not included in the averages.

sometimes afforded the opportunity to travel to TNC headquarters for high-quality training seminars. But, as would be expected, training for production workers is limited to on-the-job instruction. The correlation between advanced training and job level is confirmed by the Mexican government's assessment of food TNCs in Mexico. In a response to an ILO (1989) survey, the following was observed: [16]

> in very broad terms, we can state with confidence that the training provided by [TNCs]...in Mexico is always limited to achieving higher efficiency in a specific post, and makes no attempt to raise the general level of skill of the labour force, except in the case of workers destined for managerial positions. (Mexican government, quoted in ILO 1989:99)

While many developing nations require TNCs to implement training programs, governments are typically critical of TNC efforts because "the companies' schemes are designed to their own specifications and do not meet the real needs of...[the local community]" (Mexican government, quoted in ILO 1989:99). This should not come as a surprise, as TNCs are obviously going to implement training which is firm- and industry-specific - this is the nature of business training.

Moreover, the fact that managerial training is usually of a very high quality is a significant contribution to the improvement of skills in the local labour pool. For instance, Unilever organizes 'international seminars' for senior managers from all its worldwide affiliates. The seminars are held at the company's headquarters and cover a diverse range of subjects, including industrial relations, safety, economics, administration, computer skills, marketing and sales (ibid:92; Heron 1991; Oliver 1998). These broad-based seminars offer more than simply job training, but enhance the employee's overall education. In this thesis, 'education' is qualitatively distinguished from 'training'. An employee will be 'educated' rather than 'trained'

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[16]The International Labour Organization (1989) conducted a study of the labour practices of transnational corporations in the food and drink industry. Questionnaires were sent to ILO member countries, food processing transnationals and trade union organizations. Responses by TNCs to the ILO survey were poor, with only seventeen TNCs responding to questionnaires. Government and trade union responses were generally better.

when learning entails more than simply acquiring skills which can only be used on the job (e.g. factory assembly-line work). Training which can be carried over to everyday life or another job, such as accountancy skills and management skills, contributes to the individual's overall 'education'.

A key issue in TNC employment is whether managers are recruited from the local community. According to the ILO (1989), "all [TNCs]...claim...to apply a policy of employing nationals of the host country...to the greatest possible extent" (ILO 1989:55). This should be measured against the fact that developing country governments often mandate that TNCs employ local managers (ILO 1989; 1991). Nevertheless, a strategy of employing locals is confirmed in the case of Nestlé, where the proportion of foreigners relative to local workers has steadily declined. This is due not only to local government guidelines, but also to Nestlé's business decision to enhance local operations by replacing expatriates with local executives in all developing country affiliates (Batino 1996; Nestlé, S.A. 1994a).

In addition to training, labour conditions at TNC manufacturing facilities is an important issue. It has been largely agreed among TNCs, governments, and trade unions that wages paid by TNCs are higher than those offered at local companies (ILO 1989; 1991; Bulaulitan 1995; Heer 1991). According to the ILO, "in developing countries, there is no doubt that [TNCs]...pay higher wages than similar local companies" (ILO 1989:103). This is largely because, due to global economies of scale, TNCs can provide better employment packages than local competitors. However, it should be noted that wages in the food industry are usually lower than those offered in other manufacturing industries (ILO 1989; 1998). As a result, food TNCs have a more positive effect on local incomes than local food firms, but a less positive effect per person employed compared to other industries using more advanced manufacturing technology. Although, since more people in the developing world are employed in food manufacturing than in most other industries, the wage differential between industries is reduced based on aggregate totals of employment generated (ILO 1998; ILO 1989).

TNC impacts on local manufacturing employment have been found to be gender-specific. In the case of women, Glover and Kusterer (1990:137) remark that "the most

positive transformational effect of agribusiness employment on women's lives c[o]me not from contract farming but from processing plant employment". It has been observed that wages from food processing employment have dramatically increased the incomes of women in particular. Results from field studies also reveal that "employment [in food processing] increased [women's]...self esteem, self confidence, and household influence" (ibid:137). At the same time, it has been noted that there is a growing imbalance between the salaries paid to men and women. Compared to men, "[w]omen make up a large proportion of part-time and seasonal workers...dominating the less stable and lower skilled jobs which are relatively poorly paid and have few opportunities for training and promotion" (ILO 1991:112). Hence, women benefit from TNC employment, but qualitatively less than men.

In addition to direct employment, TNC manufacturing facilities in local economies can generate additional employment through linkages with local suppliers and service firms. It is generally held that food processing TNCs prefer to support a policy of buying local supplies and using local services (Heer 1991; Montavon 1997; ILO 1989:157). However, this was not the case with McDonald's in the Philippines, where McDonald's originally insisted that all food, as well as packaging material, be imported to meet quality standards (David 1989:126). The Philippines Board of Investment challenged McDonald's policy and mandated that the company utilize local products; McDonald's complied and developed ties with local suppliers. The role of governments in setting minimum operating guidelines for TNCs cannot be underestimated.

Local suppliers are used not only due to governmental guidelines, but also as part of a TNC's business strategy. Linkages connected to TNC manufacturing include the use of local firms to supply glasswork, labels, packaging, and canning, as well as in transportation and advertising. As the employers' confederation of the Philippines observes: "most...[TNCs] undertake full national distribution of their products and are therefore major customers of local enterprises which provide warehousing, land transport and inter-island shipping services" (ibid:65). In the Philippines, it is estimated that an additional 50% of total direct employment in the local food industry is generated via indirect linkages with suppliers. Hence, the

relationship of food processing TNCs with local firms is paradoxical. On the one hand, TNCs indirectly generate outside employment via linkages with local firms for manufactured inputs. On the other hand, as discussed with mergers and acquisitions, the TNC may apply excessive competitive pressure and drive local food processing firms out of business.

While the case of indirect employment generation in the Philippines food processing industry is impressive, it should be noted that not all local communities can obtain such dramatic increases in indirect employment from TNC activity. Occasionally, local industry is not able to supply TNCs with the manufacturing or service inputs needed, which limits TNCs from generating indirect employment. Rama (1992) notes that while China wishes to attract food processing transnationals, a major deterrent is that local inputs are sub-standard and unacceptable. Rama has observed that the local supply of packaging meets only 50% of the demand. Thus, if a TNC establishes in China, short of manufacturing it itself, packaging often needs to be imported (which is sometimes restricted by government regulation). On the other hand, the presence of TNCs in the local economy has been known to encourage local entrepreneurs to fill supplier gaps through the establishment of new firms to provide high-quality packaging (*Economist* 1993a; 1993b).

Rama (1992:154) argues that because food transnationals hold local suppliers to high standards, the TNC plays an important role in helping to modernize developing country export-oriented food industries. She observes that, in China, poor packaging is responsible for the loss of export markets. The problem of poor quality packaging and processing is highlighted by the statistic that up to 45% of agricultural produce is lost in the developing world due to spoilage and inadequate processes. This compares to a rate of 8-10% in the industrialized world, where packaging and processing are of a much higher standard (ILO 1991:105; Teasley 1993; Rama 1992). Food TNCs help mitigate losses in the developing world by processing and preserving more efficiently. Moreover, transfers of technology through joint ventures can help local firms improve standards. The direct benefit is that, with improved packaging, more food becomes available, which can indirectly improve the local food supply.

The percentage of the developing world purchasing processed and packaged foods is rising yearly (*Economist 1993b*; Jitpleecheep 1995a; 1996). For those who can afford to purchase these higher priced packaged foods, a pertinent related concern is that of the nutritional quality of the processed foods. Abraham (1991:143) cites the poor nutritional quality of TNC foods as a primary negative impact on developing world communities. For instance, as part of Nestlé's Global Production strategy, the TNC was using the Ivory Coast as a production outpost for its instant coffee (Nestlé S.A. 1994b). Eventually, the locals were interested in trying this locally produced (but globally marketed) good, and slowly developed a taste for Nestlé's instant coffee. The increased consumption of instant coffee caused locals to spend more income on a nutrionless item.

However, TNCs do not only market global luxury products, such as coffee and candy bars, but also produce goods designed to local tastes and needs. For example, as will be demonstrated in the case study chapters, Nestlé sells packaged spices and soups in India and other 'locally-specific' products throughout the developing world (e.g. *Informatics* [India]17Nov95; Tan 1996; South American Business Information 26Jul93b) . While TNC global production strategies can be adjusted to local needs, the TNC's brand-name remains an inherent part of product marketing. Marketing is a part of a TNC's management strategy, and in the next section local linkages are identified and connected to TNC Global Management activity.

EXAMINING GLOBAL MANAGEMENT AND LOCAL EFFECTS

Marketing Strategy and Local Linkages to Nutrition, Consumption, Local Incomes and Environment

There is a general consensus that as incomes in the developing world rise, there will be an increased demand for processed foods (Rama 1992; ILO 1991; Brown and Goldin 1992; *Economist* 1993b). As Swegle remarks, "when poor people get more income, the first thing they do is spend it to upgrade their diets" (Swegle 1991:xii). While a large percentage of consumers in the developing world cannot afford to purchase processed foods, Brenner (1991) notes that this is changing. The current trend supports a decreased demand for basic un-packaged foods and a growing demand for convenience or processed foods. This shift in demand is reflected in both rural and urban areas. As Ghersi and Rastoin comment (1981:21): "[t]he efficiency and the development of the large firms' marketing networks are not confined to the city supermarkets. Anyone going right into the countryside, even into the poorest areas, can easily see how extensively the big companies have distributed their products (Coca-cola, Nestlé...)". The impact of food processing transnationals on the consumption patterns of developing nations is primarily influenced by marketing strategy. The fact is that "big firms with large advertising budgets can create new habits" (ibid:20).

Two issues are of primary importance when considering the suitability of marketing branded products in developing countries: cost and nutrition (UNCTC 1981). Many doubt that the increased consumption of processed foods translates into an improved diet. The nutritional value of processed foods has been called into question in both the developing and industrialized worlds. A number of scholars argue that packaged and processed foods are largely responsible for diet-related health problems (Abraham 1991; Tansey and Worsley 1995; Robin Jenkins 1991). Not only are chemical additives unhealthy, but the increased use of fats and sugars in packaged foods has been linked to heart disease and diabetes. Barnet and Cavanagh (1994:247) report the findings of the Ministry of Health in Bahrain, which notes that the penetration of processed food products has produced radical changes in diet in many

developing countries. The Nestlé infant formula controversy is a high profile case which highlights the potential impact food processing TNCs can have in the developing world. While this case will be discussed in detail in Chapter Five, it provides a good preliminary example here of the indirect link between marketing and local nutrition.

Nestlé sells powdered infant formula to mothers in the developing world as a product to be used if breast-feeding is not an option (i.e. medical reasons, orphaned children, etc.). Even its critics generally agree that the basic nutritional content of Nestlé's powdered milk is healthy (Sethi 1994; Heer 1991; WHO/UNICEF 1979). However, since the formula needs to be prepared with water, the quality of local water supply is an important related consideration. Nestlé's advertisement of the formula covers a wide range of targeted markets, including areas where there is not a sanitary supply of water. Combining the formula with unhealthy polluted water significantly affects the overall nutritional quality of the product, which in turn causes significant health risks to newborns. As a result, it was in the 1970s that consumer protection groups and the World Health Organization (WHO) first claimed that Nestlé's marketing campaign was inappropriately targeted at developing communities. It was argued that not only could an inappropriate product affect the nutrition of the local population, but that the marketing of a 'luxury' product in developing economies where incomes are low reflects poor judgement. In response, Nestlé has stated that it is impossible to control who buys products, or monitor how products are prepared. While the ramifications from this case will be discussed in Chapter Five, the point here is that there are clear links between TNC marketing and local nutrition. Abraham (1991:143) argues that Nestlé's 'non-committal' view on its marketing policies in the developing world constitutes the height of 'social irresponsibility'.

While the question of TNC social responsibility will be further addressed in the next section, Robert McVicker (1994), a Senior Vice President at Kraft-Philip Morris, claims that food transnationals are socially responsible by virtue of the fact that products both enhance consumer nutrition and meet changing consumer needs. He points to the role of research in launching new 'nutritional' products. While McVicker indicates that technological research is important in developing new products, he also highlights the influence of consumer research

on product development. Consumer research is part and parcel of a TNC's marketing strategy, in which not only are consumer reactions to taste measured, but their responses to the need for products are said to be equally as important. He argues that new products are manufactured as a result of research into consumer wants and needs. However, since TNCs depend on the ability of marketing campaigns to convince consumers what they should want, it is possible that TNCs influence perceptions of consumer needs.

Food packaging is an extremely important part of a TNC's marketing strategy. On the one hand, it serves a functional role in the preservation of foods. On the other hand, it is one of the key instruments through which food processing TNCs sell products. The direct local impacts from packaging include not only links to nutritional perceptions (as conveyed on labels), but also to the environmental friendliness of the package. Besides the obvious question of biodegradability and the greater environmental global good, a pertinent concern for local communities is whether excess packaging can be adequately dealt with in refuse collection. Refuse collection is no small matter in the case of packaged foods. In large cities, vast quantities of empty cans, bottles and paper are discarded into already overstocked landfill space (Rama 1992; ILO 1991). Hence, consumers require not only nutritious products, but packaged goods which can be disposed of in an environmentally-friendly manner.

In short, "advertising can create new needs [in food wants] and even change the order in which needs are ranked" (Ghersi and Rastoin 1981:20). The question becomes whether research, development and technology can make foods which are appropriate to local consumers in the developing world.

Research & Development Strategies are Linked to Local Firms, Nutrition, Training, Labour Conditions, Education and Technology

Product development is an important priority for food processing transnationals. Research involves not only perfecting processing, engineering, packaging and flavoring, but also includes an intense study of the potential customer. While market research is an inherent part of a TNC's marketing strategy, it is also connected to research & development. The

combined activities of marketing and research have enabled TNCs to introduce a wide range of products for a diverse sampling of consumers. As previously discussed, food TNCs are generally interested in catering to local tastes, which is why research laboratories are spread throughout the industrialized and developing worlds (Philip Morris Globe 1998c; Unilever Research and Engineering Division 1995; ILO 1989:77). In addition to the global dissemination of research facilities for product development, some food transnationals have introduced worldwide centres dedicated to the study of nutrition (Nestlé 1996). In Chapter Five it is found that the linking of nutritional centres with product development laboratories can have significant impacts on consumer nutrition.

Nutritional laboratories are inherently linked to new technologies in food science. Biotechnology is the most significant addition to new technologies in the food industry (Tansey and Worsley 1995; Goldberg 1993). Yet, as Sorj and Wilkinson (1994:88) remark, food processing TNCs are less involved in genetic engineering research than transnationals in primary food processing, agri-chemicals and seeds industries. This is due primarily to the emphasis of 'genetic engineering' in agriculture on seed development. As discussed in Chapter Two, genetic engineering attempts to manipulate the natural breeding process of plants and animals through cell and molecule modification. This is mainly an agricultural-related activity.[17]

The decision of food processing TNCs to respond to grassroots protests and abandon the inclusion of genetically-modified crops in their processed food products has direct local impacts on consumers (Arthus and Gleenie 1999). Opponents of GM foods have targeted food processing TNCs because the absence of GM ingredients from processed foods means that primary food growers and seed companies do not have an outlet to sell GM crops (Lean 1999). For GM opponents, abandonment is the only option to safeguard the natural environment and

[17]Goodman (1991) describes the biotechnological manipulation of farming processes in plants and animals as 'appropriationism'. Seed research is targeted at manipulating the genetic make-up of agricultural goods to grow a certain texture, colour or taste raw material. In these instances, biotechnological research 'appropriates' part of the natural agricultural process by replacing indigenous plant varieties with industrially manipulated seeds. Sorj and Wilkinson (1994) have observed that the involvement of food processing TNCs in this type of biotechnological research is minimal.

maintain a 'pure' food base. The proponents of genetic modification claim that the grassroots actions to ban GM foods are hurting the local consumer and holding back technology (Connor 1999b; *Economist* 19June99). They argue that GM crops are healthier breeds of normal crops, with additional benefits to the environment through the development of 'naturally' pest-resistant crops (thereby avoiding unhealthy chemical pesticides). In addition, the more efficient GM crops are said to yield far greater quantities of food per acre than normal crops, which can benefit world-wide food security. While the public jury is still out regarding the fate of GM foods, evidence from the scientific community suggests that complete abandonment would be a step backward for food science (*Economist* 19June99; Connor 1999b). Food processing TNCs have taken the decision to abandon GM foods not because of conclusive scientific research, but from the pressure of grassroots actions (Arthur 1999; Koenig 1999; Lean 1999).

While the food processing TNC has much power in the ultimate fate of GM products (by deciding whether or not to include GM raw materials in products), the fact is that food processors are more interested in the manufacturing (not growing) of food. Food processing TNC internal research in food science is largely limited to finding new ways to process (not grow or genetically modify) foods. For instance, through the use of biological micro-organisms, Unilever is able to produce yoghurt and cheese with vegetable oil instead of milk. Goodman (1991) describes this as a process of 'substitution', in which raw materials are being replaced by new, natural, non-traditional inputs. This substitution process is similar to the method used in the chemical manipulation of raw materials. Chemical science breaks down a single raw material into several elements, such as sugars, starches, fats and proteins. These elements are then used as substitutes for traditional inputs in processed foods (Goodman 1991; ILO 1984b:5). In terms of local impacts, the biological or chemical substitution of raw materials can lessen the demand TNCs have for local raw materials, which in turn directly affects the demand TNCs have for crops.

In comparing biological versus chemical substitutions, a perceived benefit is that chemical additives and preservatives are being replaced by natural biological inputs. Through the use of biological substitution, the nutritional value of products are changing. Sorj and

Wilkinson (1994) argue that the substitution of biological (i.e. natural) rather than chemical (i.e. manufactured) inputs in processed foods will benefit consumer health. While food processing transnationals are typically not directly involved in the food 'additives' business (TNCs usually buy these inputs instead), their processed products act as important vehicles through which new technologies are applied and consumed.

Scholars have claimed that the food processing industry is using food technology to the consumer's benefit (Leatherwood eds. et al 1993; MacNulty 1993; ILO 1991). It is argued that food processing TNCs are pressing for finished products which are "healthier, lighter, more nourishing, consistent and easy to use and which have a longer shelf life and better appearance, taste and smell" (ILO 1991:16). If local requirements in nutrition and production are taken into consideration, food technology can significantly benefit the developing world. For instance, the speed of fermentation and the processing of local staples (such as Chinese tofu-curd made from fermented soya bean and Indonesian tempeh-a cake made of soya bean) can be improved by up-to-date food processes. The combined use of traditional fermentation practices with new techniques can positively serve local communities through more efficient, but locally-specific processing (UNCTC 1981; ILO 1991:17).

New research in the food industry is also connected to manufacturing processes, which can be broken down into three main areas: traditional, conventional and emerging (Nestlé Research Centre 1997; ILO 1984b:7). Traditional technologies are those which have a high labour intensity but are technologically simple (e.g. high skill intensity as found in hand cooking). Conventional technologies are used for unskilled labour in assembly lines. Emerging technologies include micro-electronics, which assists in improving the automation of manufacturing activity. The technological updating of equipment through micro-electronics can contribute to the modernization of local food processing industries. Impacts from the modernization of equipment are two fold: (i) there is a lower concentration ratio of labour to machines; and (ii) production becomes more efficient. Since mechanization requires less labour, the resulting decrease in available jobs is a negative impact. However, at the same time, labour-saving devices can positively improve working conditions. This positive/negative

dynamic is observed in the case of a Cadbury factory. The TNC was able to cut labour from 40 to 20 workers per line by using a computer-controlled, purpose-built, programmable mechanical arm (ILO 1989:79). While an obvious disadvantage was that the need for labour was curtailed, the workload of women not only became lighter and less monotonous, but wages also increased.

Due to the use of labour-saving devices, food processing TNCs are frequently faulted for introducing 'inappropriate' technologies into the developing world (ILO 1989; Johnston 1979; Ghersi and Rastoin 1981). It is claimed that more 'appropriate technologies', which accommodate developing country labour surpluses, should be considered. Hence, scholars have suggested that food TNCs should switch to 'appropriate' technologies which will benefit both TNCs and local communities (Johnston 1979; ILO 1989, 1991; Ghersi/Rastoin 1981).[18] As an example of an 'appropriate' technology, the ILO (1989) observes that TNCs can switch fish processing from canning (a modern method) to smoke-drying (a traditional method). It is argued that the traditional method is more labour-intensive and cheaper, thus benefiting both the TNC and its workers.[19] In this vein, while TNCs will obviously continue to use new technologies in worldwide operations, some TNCs, such as Unilever, have instated 'policies' which also encourage the introduction of 'appropriate' technologies into developing world factories (ibid; Unilever Magazine 1998d). However, corporate policies are simply statements of intentions, which might not always match practice.

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[18]As part of the ILO's *Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy*, it is stated that TNCs should adapt technologies to local needs and characteristics (1977:para.19). In an ILO study roughly a decade later it was concluded that, in general, governments and trade unions agree that TNCs do attempt to incorporate ILO principles and standards into operations (ILO 1989:150). However, as later observed in the case study chapters, quite often this is because TNCs have no choice but to follow government guidelines.

[19]Recently, the ILO (1998) has offered a revised position on the issue of 'appropriate technologies', in which it has been observed that while new technologies might be labour-saving and, hence, not immediately 'appropriate' for LDCs, the increased productivity and resultant rise in real incomes arising from new technologies, in the long term, creates more consumer goods and, eventually, more jobs than the technology may have originally eliminated. Hence, not all instances of new technologies are deemed to be 'inappropriate', even if they are labour-saving.

Corporate Policies and Structures are Linked to all Thirteen Key Local Impacts

TNCs have claimed that corporate policy guidelines can contribute to the global implementation of 'appropriate' social policies in local communities (Philip Morris Companies, Inc. 1998a; Guardian 1995; Nestlé S.A. 1994a). Corporate guidelines are reinforced by distributing policy documents to worldwide subsidiaries. Unilever's brochure on *Ethics of business in developing countries* is a good example (Oliver 1998; ILO 1989). Other policy areas include environmental protection, consumers rights, marketing, and labour conditions (UNCTAD 1994:7). If put into practice, corporate policies can yield a number of beneficial local effects, including improved working conditions, higher wages, employment generation, infrastructure development and community programs. In addition, even when a TNC's policy is directed to internal operational issues, indirect local impacts can be observed. For instance, a TNC's internal recruitment policy can indirectly influence the demand for local education. As later demonstrated in the empirical case studies, if a TNC places emphasis on particular diplomas and training, local people who want a job with a TNC will seek the required qualifications (Reiffers et al. 1982).

Policy documents distributed to local affiliates from TNC headquarters are left open to interpretation by local managers. Allowing the affiliate a certain degree of independence in the application of corporate policy can benefit both the local community and the affiliate employees. Local managers are better placed to assess appropriate local policies on technologies, employees, and distribution. This is not to say that the affiliate acts as an independent business. As discussed in Chapter Two, the TNC headquarters almost always sets investment and production parameters. TNC corporate policy documents serve as management guidelines in global operations. In addition, corporate policy documents are sometimes designed to be general statements of 'corporate culture', which globally promote a TNC's image. By invoking global operational guidelines, TNCs believe they are supporting the concept of 'corporate social responsibility'. The existence or non-existence of this principle in a TNC's corporate culture can have significant ramifications on the effect transnational corporations have in the developing world.

TNCS AND CORPORATE SOCIAL RESPONSIBILITY

The term 'corporate social responsibility' is commonly found in TNC internal and public documents. As discussed previously, procedures and guidelines are globally distributed on a range of topics, including competition practices, raw material procurement, consumer rights, and marketing methods (UNCTAD 1994:331). Scholars and international organizations have described these policy statements as part of the TNC's effort to be (or perceived to be) a socially responsible corporation (see Hoffman and Frederick eds. 1995; UNCTAD 1994).

The idea of 'corporate social responsibility' is distinguished in the literature between the 'shareholder' versus 'stakeholder' perspectives. The 'shareholder' view holds that a corporation's responsibility is limited to the pursuit of profits for its shareholders (Friedman, M. 1983). Additional responsibilities such as community service or charity would constitute a violation of that principle. On the other hand, the 'stakeholder' perspective holds that a firm should consider the impact its operations will have on society (Freeman 1984). The impacted parties are called stakeholders; the individuals, groups or other entities which are affected by the TNC's actions. Under this view, the corporation does not only have a responsibility to the shareholders, but to employees, suppliers, customers, local communities and governments (ibid; Simon et al. 1993).[20]

Statements of corporate social responsibility are often included in TNC documents in either a general or specific manner. For instance, one TNC's 'general statement' on the topic reads as follows: "General Mills has a strong commitment to corporate citizenship and the concept that companies, as well as individuals, must contribute to the well-being of society" (General Mills quoted by UNCTAD 1994:317). On the other hand, a 'specific statement' is

[20]The concept of corporate social responsibility is based on social contract theory (Donaldson 1984). On the one hand, TNCs must obey local laws which grant them existence. This is considered the 'minimum' fulfillment of a social contract. On the other hand, 'maximum' corporate social responsibility goes beyond fulfilling the social contract to providing best-practice service. This would include corporate philanthropy and not acting in a manner which would damage the local community even if the law allowed it (e.g. in locations where local laws might not protect citizens). In the end, a corporation is composed of a group of individuals, who in addition to being ordinary members of society, represent corporate interests. As a collective entity, they together assume corporate social responsibility.

issued by another TNC regarding a local issue: "training schemes [should] take local techniques into account with the aim of developing them" (Unilever, quoted in ILO 1989:80). Corporate statements generally cover all vital areas of firm operations. Hence, corporate policy documents exist for virtually every category of TNC global strategy identified in this thesis. These corporate policy documents are meant to instill minimum guidelines and thus promote firm-sponsored corporate social responsibility.

TNCs seek to use the concept of corporate social responsibility to project a positive global image. As Sorj and Wilkinson (1994:98) note, food processing transnationals express a great deal of concern regarding their image. In interviews conducted with a number of food processing transnationals, the firms were anxious not to be associated with biotechnological innovations that might have a negative impact on developing countries (ibid). TNC concerns lie perhaps not with the greater good of the developing world, but instead with maintaining a 'friendly' profile in developing country markets. The importance of these markets to large food processing transnationals cannot be overstated.

Hence, global corporate image is important. Not only do TNCs maintain rules of conduct regarding public interaction, but policy statements often indicate that guidelines from international institutions should be followed. The International Labour Organization (ILO) and Codex Alimentarius Commission (Codex) are two bodies which are often mentioned in TNC policy statements. While the ILO has provided broad recommendations on the social and labour practices of TNCs, Codex is concerned more directly with monitoring the global food and drink industry.[21] The declarations these international institutions make are not enforceable by law, but are voluntary recommendations. While Codex and the ILO have relatively little

[21] Among other directives, the ILO adopted a Convention setting out a minimum age of 15 years for 'commercial agricultural' work. This Convention excludes 'family farm work' on small-scale holdings, since under these 'work' conditions children are deemed not to be exploited but are used to contribute to family maintenance. This is in contrast to 'commercial agriculture', in which children are engaged in doing physically strenuous work for long hours with little or no pay (and often without the support of family members) (ILO 1997; 1999b; 1999c).

On the other hand, Codex (which is run jointly by the World Health Organization [WHO] and the Food and Agricultural Organization [FAO]) was founded to monitor world trade in foods. Its recommendations range from the safety of production to standards on food labels. The standards and codes are only suggestions. The industrial countries claim that Codex guidelines are below their current standards. This might be due to the fact that businesses are much better represented at Codex meetings than governments or consumer organizations (Tansey and Worsley 1995; Jackson 1993; Avery et al. 1993). Because business is thought to have a prevailing voice in Codex, the guidelines seem to be biased toward their interests.

real power in the matter of international food standards, they assist in providing general global guidelines and remind TNCs that they have a corporate social responsibility to stakeholders.

In the end, the concept of social responsibility is just that - a concept. It is, however, a guiding principle, whereby TNCs attempt to match voluntary corporate actions with broader social goals.[22] In many ways, TNCs are held to higher standards than their local counterparts.[23] This double standard is not entirely unfair because, as observed later in the case studies, through great economies of scale, TNCs typically have deeper pockets than independent local firms. It is, therefore, comparatively easier for a TNC than a local firm to adjust their technologies to meet local needs, to sever relationships with suppliers who damage the environment, to offer training programs to employees, and to pay higher wages.

REVIEW OF FRAMEWORK

A matrix of TNC global processes and local linkages has been developed to demonstrate the range of interactions between food processing TNCs and local conditions (recall Table 3.1). While in the next few chapters this matrix will be applied to the cases of Nestlé, Unilever and Philip Morris, first a brief review of this thesis' organizing framework is in order.

In Chapter One, 'globalization' theories were discussed, which identified a number of different units of analysis as important to the investigation of the 'global economy' (i.e. Sklair 1995; Ross and Trachte 1990; Barnet and Cavanagh 1994; Dicken 1992). There was largely

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[22]It is interesting to note that global managers believe their companies do have a responsibility in a range of social concerns. Moss-Kanter (1991) discovered that the most popular concern was education, followed by the environment. Conversely, relatively few managers believed that the alleviation of poverty was their company's responsibility.

[23]For instance, in terms of environmental regulations, it has been noted that even though smaller firms can collectively be just as polluting as larger ones, the latter are held to higher standards. This was found to be the case in India, where large food firms are frequently held accountable by officials, but smaller firms are "hardly aware of environmental laws and have never seen an inspector" (ILO 1998:126).

a consensus among scholars that the 'transnational corporation' is the fundamental instrument through which 'global processes' are perpetuated. In order to pinpoint how TNCs are contributing to globalization in the economy, this thesis believes it necessary to gain an in-depth understanding into the actual global processes facilitated by food processing TNCs via an analysis of global strategies. Understanding TNC global processes is just one side of the equation; hence, the question posed in Chapter One was not only how to theoretically assess TNC global processes, but also how to connect these processes to local effects.

In Chapter Two, global processes were identified by categorizing TNC global operations into three key areas. Unique to existing studies of transnational corporate activity, this thesis has divided TNC global strategies in the food processing industry into three broad functional areas - Global Production, Global Management and Global Partnershipping. Each of these areas identifies various global processes facilitated by TNCs, including the standardization of production processes, the global sharing of ideas (via R&D), and the systematic global expansion of operations via M&As. The conceptualization of these TNC global processes sets the framework with which to identify linkages and evaluate the possible local effects of TNC activity in the developing world.

Using the theoretical framework developed in Chapter Two, in this chapter the global strategies of food processing transnationals were evaluated to link process to possible effects. Food and agriculture literature highlighted which local effects are especially pertinent to the developing world. Using the global strategy indicators of Global Production, Global Management and Global Partnershipping, thirteen key local linkages were identified. It was found that each TNC global activity could be linked to several local effects. The potential local effects are not either wholly positive or negative, but dependent on local circumstances. In the next two chapters, this explanatory methodology will be applied to the case of Nestlé. While Chapter Four evaluates the evolution of Nestlé and the global strategies it has increasingly come to depend on, Chapter Five takes that evidence and applies it to various empirical findings which demonstrate how Nestlé's activities are linked to a variety of local conditions in the developing world.

Chapter 4

APPLIED GLOBAL STRATEGIES: NESTLÉ IN REVIEW

Based on sales dedicated to food items, Nestlé is the largest food processor in the world. The TNC's financial figures reveal that, with the exception of approximately 4% of revenue generated from cosmetics and pharmaceuticals, 96% of Nestlé's business is derived from four broad categories of processed foods ('*beverages*' comprise 27% of total revenue, '*milk products, dietetics, ice cream*' comprise 28%, '*prepared dishes/cooking aids*' comprise 26% and '*chocolate/confectionery*' comprise 15%) (Nestlé S.A. 1997). Total annual sales of over $48 billion makes Nestlé the thirty-sixth largest corporation in the world (*Fortune* 1998).[1] As detailed by a geographic breakdown of Nestlé's worldwide manufacture and sale of products (see Appendix 4.1), Nestlé's global production capability spans five continents, 79 countries and 489 factories, with the sale of Nestlé products reaching nearly all countries worldwide.

The growth of Nestlé has been facilitated by distinct global processes. As developed theoretically in Chapter Two, TNC global processes were linked to a triad of global strategies. The case of Nestlé will now be applied against these criteria using not only internal company documents, but also over four-hundred local sources on Nestlé's activities (see Appendix 4.2

[1]To put Nestlé's total sales of $48 billion in perspective, it compares to Ireland's gross domestic product (GDP) of $39 billion and New Zealand's GDP of $43 billion (UNDP 1994:205). Comparisons with developing nations are even more remarkable, where according to my analysis of data for 81 developing countries, Nestlé's revenue was greater than the GDP of 66 developing nations (UNDP 1994:180-1). However, as some scholars and interest groups might infer, this is, of course, not to argue that simply due to its size, Nestlé has greater power than national governments. As examples will confirm below, many developing country governments regularly impose restrictions on the actions of even the largest TNCs.

and the 'Nestlé Bibliography').[2] A preliminary review of the article titles in Appendix 4.2 and the Nestlé Bibliography provides a snapshot of the subjects covered by these sources. As per this thesis' analytical framework, each source was reviewed for contextual discussions of Global Production, Global Management and Global Partnershipping (Appendix 4.2 is coded and summarized to that effect). Using this evidence, an historical review of Nestlé is followed by a detailed analysis of the TNC's global operations and processes. An examination of how Nestlé's global strategies impact local communities in the developing world will follow in Chapter 5.

NESTLÉ: A BRIEF HISTORY

To gain an accurate understanding of the global processes facilitated by Nestlé, it is important to first glimpse into the firm's more than 130 year history.[3] Investigating a company with this much history provides an interesting case into how a firm has transformed throughout the century within an increasingly global economy. Tracing the firm's changing strategies from inception allows one to witness how a TNC is actually born. In the beginning, Nestlé was a small Swiss company offering a single product to the people of Switzerland.

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[2]Nestlé sources are divided into the following two distinct sections:
(i) The 'Nestlé Bibliography'* includes all sources cited by or about Nestlé. Documentation consists of Nestlé public and internal documents (including company archives), academic sources on Nestlé, and more specialized worldwide newspaper, industry, and interview sources (including those translated from local languages);
(ii) Appendix 4.2 is a table which categorizes sources about Nestlé's activities in the developing world into this thesis' analytical categories. Sources in the Appendix include worldwide references reviewed on Nestlé, but not necessarily cited in the 'Nestlé Bibliography'.
*[Please Note: due to the electronic retrieval of some references (via on-line databases/CD-ROMS, including Reuters, F&S Predicasts, World Magazine Bank, Investext, Data Monitor, Agricola), author names were not always attributed, and as a result many are cited in the Nestlé Bibliography under the trade name of the publication. The majority of references cited in both this chapter and Chapter Five may be found in the 'Nestlé Bibliography', with further references found in the 'General Bibliography'.]

[3]In terms of bibliographical sources it is important to note the changing legal names of the Nestlé corporation. Originally called 'Farine lactee, Henri Nestlé' in 1867, the firm eventually came to be known as 'Nestlé Alimentana, S.A.', with a separate subsidiary 'Unilac Incorporated' as the 'overseas' arm . Since 1977, the full legal name of the consolidated firm has been 'Nestlé, S.A.'.

The Nestlé name and logo (birds in a nest) date back to 1860s Switzerland, where a German pharmacist, Henri Nestlé, invented a powdered food for infants. During this period, the infant mortality rate was high in Switzerland, where one child in five did not survive past the age of one (Heer 1991:30). Influenced by the need for an infant food (or, in other words, market opportunity), Henri Nestlé produced a powdered infant formula through a special drying process combining milk, cereal and sugar (Mirabile ed. 1990b). As it was an innovative product, infant formula became an immediate success and Henri Nestlé was soon exporting the product to overseas markets.[4]

The fact that infant formula was the founding product of the Nestlé Corporation proved ironic almost one hundred years later in the face of the 'infant formula controversy'. In the 1970s, an organized international consumer boycott lasting for more than seven years (with remnants even today) was launched against Nestlé for its sale of infant formula in the developing world. It is interesting to note that while infant formula was basically the company's only product in 1867, according to revenue figures in the company's 1976 annual report (during the height of the controversy), infant foods and dietetic products comprised only 7.4% of company sales. The infant formula controversy will be discussed later in a review of Nestlé's global marketing policies. First, it is necessary to examine how Nestlé was transformed from a largely one-product, one-country company to a transnational corporation with over 8,000 different brands worldwide (Rapoport 1994).[5]

Helmut Maucher, Nestlé's Chairman from 1981 until the year 2000, breaks down the firm's post World War Two strategic growth into three distinct and uneven phases (Maucher 1994b:11): (i) the first phase was a long period ranging from the late 1940s to the early-

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[4]By 1873, the demand for Henri Nestlé's infant formula exceeded his production capabilities. Unable to keep up with the expansion of the company, Henri Nestlé decided to retire and sold the business to a joint stock company (Farine Lactee). In 1905, the joint stock company merged with another firm, the Anglo-Swiss Condensed Milk Company. The 1905 merger set the foundation for an expanding Nestlé Corporation, in which milk- and chocolate-based products became the company's strengths (Heer 1991; Mirabile ed. 1990b).

[5]In contrast to Rapoport's (1994) figure of 8,000 brands, Nestlé U.K. (1993:2) estimates that the firm sells over 15,000 products worldwide. This discrepancy is because Rapoport is measuring the total number of brands sold, while Nestlé U.K. is calculating the total number of products within each brand sold (e.g. there can be more than one product sold per brand name).

1970s, when Nestlé focused mainly on internal growth with a few important acquisitions[6]; (ii) the second phase was a very short period in the second half of the 1970s, and is described as a difficult period for Nestlé in the face of unrest in the world economy; (ii) finally, the third phase began in the early 1980s and continues to the present, and is characterized by Nestlé's pursuit of a new wave of growth aided by 'an aggressive policy of acquisitions'.

Interestingly, Maucher's categorization of Nestlé's stages of global growth concurs with the analysis of phases of TNC growth assessed in Chapter Two. As will be recalled, TNCs were viewed to have become increasingly global institutions through the progression of three stages -'stand-alone', 'simple-integration', 'complex-integration' (UNCTC 1993:154). The decade of the 1970s was considered to be an interim or transformation period of crises between the last two stages. Regarding Nestlé in the 1970s, Maucher comments that the international economic environment of the period did not lend itself to company expansion. Circumstances such as new floating exchange rates and the soaring prices of commodities made for "tougher competition in every market", which substantially affected Nestlé's growth strategy (Maucher 1994b:15). In the tough economic environment of the 1970s, Nestlé pursued only a handful of acquisitions.[7]

As discussed in both Chapters One and Two, the economic crises in the 1970s, including the collapse of fixed exchange rates and the change in the structure of the Bretton Woods system, served as a catalyst for deregulation in the global economy, which, in turn, nurtured new TNC global strategies (Leys 1996b; McMichael 1996). This is confirmed in

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[6]With one exception, in its first hundred years Nestlé expanded by acquiring products which complemented its existing technologies. These included products which used the same raw materials and similar dehydration techniques (i.e. condensed milk, infant formula and milk chocolate). An exception was the 1938 addition of instant coffee to the Nestlé product portfolio. The addition of instant coffee ('Nescafe') to the firm's portfolio was not achieved through acquisition, but it was invented by Nestlé in answer to the Brazilian government's request that the firm develop a use for the country's excess coffee supplies (Heer 1991; Mirabile ed.1990b). The first substantial acquisition outside of Nestlé's core products was not until 1947, when Nestlé acquired a Swiss culinary products firm, Alimentana. While the culinary products acquired (e.g. soup cubes and spices) were outside Nestlé's traditional foods, they complemented the firm's product portfolio by using similar dehydration techniques.

[7]The two most prominent food company acquisitions of the decade were: (i) in 1973, Stouffer, a U.S.-based frozen foods manufacturer; and (ii) in 1978, Chambourcy, a French-based fresh dairy foods manufacturer (Heer 1991; Mirabile 1990a).

the case of Nestlé, in which the company's strategies started to change after the crises of the 1970s. Nestlé's evolving strategy became most apparent in the 1980s, when the firm actively pursued an aggressive policy of expanding into new product technologies in ice cream, sandwich foods, and pasta (Nestlé S.A. 1987; 1977; Maucher 1994b; Heer 1991).[8]

The deregulatory environment of the 1980s not only encouraged Nestlé to expand globally through mergers and acquisitions, but the TNC also began to focus on strengthening marketing and coordinating research and development worldwide (Nestlé S.A. 1987; Nestlé Alimentana 1977; Mirabile 1990b; Maucher 1994b:18). As Sethi (1994) observes, during the 1980s there was a change in management structure to consolidate the company's *highly fragmented operations*. The proliferation of products, brands and subsidiaries made it necessary to implement a new global management strategy, supporting the drive to globally organize marketing, production and R&D. In the sections to follow, it is confirmed that Nestlé's first phase of growth was highly fragmented and representative of 'stand-alone' operations, but in its third phase, a new global management structure emerged representing a globally-oriented, 'complex-integration' strategy.

In a letter to shareholders, Nestlé describes its growing global activity as both a reaction and contribution to the "the growing globalization of the world economy":

> Our optimism...for the years to come is based on the efforts made since the beginning of the eighties. The strategy followed over the past years has given a new dimension to Nestlé. At the beginning of this period, the Group depended heavily on its European business and half of its profits came from coffee. Since then, we have extended our presence into other regions of the world *[e.g. via Global Partnershipping]*, where we now hold strong and promising positions. For our products, too, we have developed a more balanced distribution of risks and better prospects for growth *[e.g. via Global Production]*. [Moreover, there has been an] increase in research and development spending and the strengthening of the Group's image and that of its brands *[e.g. via Global Management]*. (Nestlé 1997:2)

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[8]The mergers and acquisitions which enabled Nestlé to expand into these new technologies include: (i) in 1985, Carnation, a U.S.-based dairy-related foods firm, which also contributed to Nestlé's ice cream range (Nestlé S.A. 1986:21); (ii) in 1986, Herta, a German-based company specializing in delicatessen packaged goods; and (iii) in 1988, Buitoni, an Italian-based pasta manufacturer. (Nestlé S.A. 1987; Heer 1991).

In short, in what is described by Nestlé as a 'global economic environment', the importance of 'global strategy' in several distinct areas is stressed as a means to the TNC's growth. While prior to the mid-1980s Nestlé's growth was largely dependent on sales from both its 'home markets' and its coffee business, since then the TNC's expansion has not only increasingly become more geographically global, but its product portfolio has also become globalized. As demonstrated in Table 4.1, a manifestation of this growth is represented by the 712% increase in sales revenue the company has enjoyed since the 1960s: [9]

TABLE 4.1
NESTLÉ'S FINANCIAL GROWTH, 1966-1996 [a]
(SWISS FRANCS IN 000,000'S)

CONSOLIDATED WORLDWIDE OPERATIONS	1966	1976	1986	1996 [c]	AGGREGATE PERCENTAGE INCREASE 1966-1996
GROSS SALES REVENUE	Fr. 7,447	Fr. 19,063	Fr. 38,050	Fr. 60,490 [d]	712%
TRADING PROFIT	Fr. 680 [b]	Fr. 1,802	Fr. 3,671	Fr. 5,862	762%

Source: Data compiled and analyzed from: *Nestlé Alimentana Company/Unilac Incorporate Annual Reports 1966*; *Nestlé Alimentana Company/Unilac Incorporate Annual Reports 1976*; *Nestlé Annual Report 1986*; *Nestlé Management Report 1996*; *Nestlé Management Report 1998.*

[a] The financial data given for each year are the actual numbers recorded in the company's historical financials. As a result, the aggregate percentage increases in both Gross Sales Revenue and Trading Profit between 1966-1996 are not adjusted for inflation.

[b] Consolidated Trading Profit numbers were not given in the 1966 Annual Report. Thus, the 1966 figure given is estimated based on the trading profit percentage disclosed in the 1967 Annual Report.

[c] Over a two year period, between this thesis' analytical benchmark year of 1996 and data published in Nestlé's 1998 Annual Report, the TNC's revenue increased 19% to 71.7 billion Swiss Francs, and its Trading Profit increased 21% to 7.1 billion Swiss Francs.

[d] While Nestlé does not provide a breakdown of sales revenue which would reveal aggregate company sales trends in industrial vs. developing countries, in the 1996 Annual Report there was a limited listing of the year-on-year sales trends for some markets (as measured in local currency). Even this partial glimpse allows for an interesting comparison of sales trends in specific industrial and developing countries. The sales trends for industrial countries cited between 1995-1996 show either slight sales decreases of -4.5% to -0.7% for the U.S.A., France, Spain and Switzerland, no change for Japan, and slight increases of +1.4% to +3.0% for Germany, U.K., Canada, and Italy. In stark contrast, the only three developing countries listed show comparatively larger sales increases of 14.3% in Brazil, 36.6% in Mexico, and 20.1% in the Philippines (Nestlé S.A. 1997: 13). In previous reports reviewed, either similar sales trend figures were not detailed (as in 1966 and 1976), or rampant inflation in the developing countries listed distorted local revenue growth numbers (as demonstrated in the +178% growth recorded for Brazil and the +105% recorded for Mexico between 1985-1986).

[9] To assess Nestlé's history, in addition to independent sources, company documentation between the late-1960s and late-1990s has been analyzed. As a basis of comparison, documents published in the years 1967, 1977, 1987, and 1997 were used as benchmarks to assess changes between the decades. It should be noted that TNC annual reports are generally published three to four months following the year end. For example, an annual report with a year ending December 31, 1998, generally became available in March-April 1999. Due to these and other logistical concerns (arising out of the necessity to keep a consistent comparative record), this thesis' financial and qualitative analysis of TNC annual reports generally ends with data which became available prior to December 31, 1999. Moreover, to ensure a consistent analysis between the ten-year interval benchmark years, comparative data presented in Chapter Six rests on data published in the four benchmark years indicated above.

Based on my review of not only over thirty years of Nestlé documentation, but also independent sources on the TNC's activities, it becomes clear in the remainder of this chapter that Global Production, Global Management and Global Partnershipping are three areas of firm activity which have emerged to become the key vehicles facilitating Nestlé's worldwide expansion since the late 1980s.

GLOBAL PRODUCTION AT NESTLÉ

Company records during the late 1960s confirm that Nestlé's worldwide affiliates operated as 'stand-alone' businesses. Production and distribution were generally conceived on a 'local' rather than 'global' level. This is illustrated in the 1966 annual report, where production and distribution were grouped into three categories - 'local production', 'local production and imports' and 'imports'. Nestlé used the term 'local production' to mean the *local manufacture and distribution* of products. During the 1960s, 'imports' to developing nations meant products were shipped to developing countries *from manufacturing bases in Nestlé's home/regional markets* (Nestlé Alimentana 1967:39). The developing world was largely excluded from Nestlé's production plans, in which the majority of products distributed in the developing world arrived through imports rather than through domestic or regional production.

Nestlé's drive to locate manufacturing facilities worldwide, and hence the *initial stage* of the firm's Global Production strategy, became apparent in the mid-late 1970s. An analysis of historical figures reveals that Nestlé production facilities in the developing world increased by 43% between 1966 and 1976 (Nestlé Alimentana S.A. 1967; 1977). However, even then factories in the developing world were only established if a large domestic demand existed. Short of a large domestic market, Nestlé expressed little interest in using developing countries as regional export bases. In fact, it has been found that during the 1970s there was only one Nestlé factory in the developing world which manufactured goods almost exclusively for

export (in Abidjan, Ivory Coast) (Nestlé Alimentana 1975:34; Heer 1991:332). Since exporting products from developing countries was rarely pursued in the 1970s, production was neither globally-integrated, nor globally-sourced.

By 1986, company records show a marked increase in local production throughout the developing world, in which there were 60% more factories in the developing world in 1986 than in 1966 (Nestlé Alimentana 1967:4; 1977:54; Nestlé S.A. 1987:42). While during the same twenty-year period Nestlé factories in the industrialized world enjoyed an even higher growth rate at 81%, as discussed in the next section, this trend was dramatically reversed between 1986-1996, when Nestlé's developing country factories grew at nearly four times the rate of its industrialized country factories. As will be demonstrated below, Nestlé's manufacturing growth since the late 1980s is a reflection of a Global Production strategy which targets sites around the globe (and especially in LDCs) as export bases, rather than as simply 'stand-alone' production facilities for domestic markets.

PRODUCTION FOR GLOBAL EXPORT AND LOCAL MARKETS

By 1997, Nestlé notes that "[a]s a result of acquisitions policy implemented since the early 1990s, the Group now possesse[d] a local base for a large variety of products" (Nestlé S.A. 1997:6). In this statement, Nestlé no doubt refers to its 489 factories in 79 countries. Breaking down this worldwide factory presence, it has been calculated that 200 factories (or 41% of the total) are based in 57 developing countries, with the remaining 289 factories (or 59% of the total) located in 22 industrialized countries (Nestlé S.A. 1997). As demonstrated in Table 4.2, in achieving this staggering worldwide presence, between 1986-1996 Nestlé's

rate of production growth was most pronounced in developing countries, where it enjoyed an 83% rate of growth of factories, compared to only a 9% growth rate in the industrialized world.

TABLE 4.2
NESTLÉ'S PRODUCTION FACILITY GROWTH RATE, 1966-1996

WORLDWIDE AREA	1966-1976 [a]	1976-1986	1986-1996 [d]	AGGREGATE PERCENTAGE INCREASE 1966-1996
DEVELOPING WORLD	43% [b]	12% [c]	83%	194%
INDUSTRIALIZED WORLD (including Nestlé's entire European home market)	37%	32%	9% [e]	98%

Source: Data compiled and analyzed from: *Nestlé Alimentana Company/Unilac Incorporate Annual Reports 1966*; *Nestlé Alimentana Company/Unilac Incorporate Annual Reports 1976*; *Nestlé Annual Report 1986*; *Nestlé Management Report 1996*; *Nestlé Management Report 1998*.

[a] In the 1966-1976 period, Nestlé production facilities in both the developing and industrialized worlds were primarily stand-alone operations, producing for large internal domestic markets, with little or no export to regional areas (Nestlé Alimentana S.A. 1967; 1977; 1975; 1997).

[b] Factory growth during the 1966-1976 period in the developing world is largely connected to the 'import-substitution industrialization' ideology of the period, which resulted in the short-lived expansion of stand-alone affiliates (see Chapter 2). Nestlé explicitly states in its 1966 and 1976 Annual Reports that facilities were for 'local production'.

[c] The dramatic slowdown in the rate of growth of production facilities in the 1976-1986 period was influenced by the various economic crises of the time (see Chapter 1 and Chapter 2).

[d] Over a two year period, between this thesis' analytical benchmark year of 1996 and data published in Nestlé's 1998 Annual Report, the TNC's total worldwide factory presence has increased by 6.8% (with the developing world enjoying a 13.5% increase, compared to only a 2% increase in industrialized world factories).

[e] The reduced growth of industrialized world factories in the 1986-1996 period reflects arguments put forward which claim that a saturation level has been reached in the industrialized world (see Chapter Three). Instead, in the 1990s, Nestlé is focusing on the developing countries as both markets in their own right and as regional export centres (further discussed below).

In addition to this convincing statistical data, the global growth of Nestlé production facilities in the 1990s is remarked upon by hundreds of local sources in the developing world (e.g. Jitpleecheep and Petsiri 1996; *Business World* [India] 24Jan95; *Saudi Gazette* 15Jun96; also

see manufacturing sources in Appendix 4.2). Over the years, the worldwide spread of production bases has helped Nestlé penetrate a growing number of developing markets. Compared to the 1960s, when Nestlé had a handful of production facilities in Asia, in the 1990s the firm has not only started to produce a wide range of product lines in this and other developing world regions, but has also increasingly exported products from LDCs to surrounding markets. Headlines from local LDC sources reflect Nestlé's strategy nicely:

- "Nestlé to use Thailand as an export base"
  -(*Nation* [Thailand] 11Aug94)

- "Nestlé plans to export its top product next year to nearby nations"
  -(*Star* [Malaysia] 07Dec94)

Nestlé's rapid expansion into Asia is confirmed by the fact that while the TNC maintained 4 factories in 4 Asian countries in 1966, its presence grew to 62 factories in 18 Asian countries by 1996 (Nestlé Alimentana S.A. 1967; 1977; Nestlé S.A. 1997).

Further evidence of the emergence of Nestlé's Global Production network in a deregulating global economy is demonstrated in the case of the 'ASEAN Free Trade Area' (AFTA).[10] To take advantage of AFTA, Nestlé has built five factories in Malaysia, Thailand, Philippines, Singapore and Indonesia (*Bangkok Post* 27Apr95). To qualify for tariff reduction, the new entities were required to not only be in partnership with local capital, but each factory was also required to export a majority of its production (Lehman Brothers Limited 1993; Rapoport 1994; *Bangkok Post* 27Apr95). For instance, six varieties of Nestlé breakfast cereals which are produced under AFTA rules in the Philippines are not only exported within the free trade area, but also to other worldwide markets (Molina 1995). In the case of AFTA, regional economic liberalization enticed Nestlé to establish production facilities locally and export globally.

[10]ASEAN stands for the Association of Southeast Asian Nations, and includes Singapore, Thailand, Philippines, Indonesia, Malaysia and Brunei.

Nestlé's Chairman offers an interesting view on the new regional trade areas, noting that "the advantage of being [a] big [country] will no longer be as marked as previously, when markets were just opening up. Today, a small country...has the opportunity of being chosen as the site of production facilities for a large economic area" (Maucher 1994b:58). The Chairman goes on to say:

> Things were different when European products were being exported to developing countries, or later when production facilities were opened in those countries [ie. *'stand-alone' affiliates*]. That increased the value-added to products manufactured there - a trend that is continuing. Now, however, something completely different is taking shape: *a greater separation between production and sales points, owing to the globalization of markets and to liberalization, which allows production sites to be set up far from where the products are consumed* [ie. *'complex-integration' strategies*]. (emphasis added, Maucher 1994b:140)

Nestlé's claim of increasingly locating production sites throughout the developing world is confirmed by the 194% aggregate increase in LDC production facilities between 1966-1996 (refer to Table 4.2).

In the remainder of this chapter, examples from the manufacturing category of Appendix 4.2 confirm that while in the past the Nestlé network consisted of 'stand-alone' affiliates producing for single domestic markets, the TNC's worldwide subsidiaries are now part of a globally-integrated production network. Interestingly, the development of such a network has enforced a type of internal competition between Nestlé affiliates, in which they compete amongst themselves to win export sales orders. As Nestlé United Kingdom has noted:

> [Nestlé U.K.]...has to compete against other Nestlé factories worldwide for massive orders from the Nestlé World Trading Corporation in Vevey [and for orders from other export customers]. (Nestlé, U.K. 1993:20)

Evidence from both company and independent sources suggests that this internal competition helps Nestlé's products to be sold widely and efficiently around the world (SBC Warburg 1996; Heer 1991; also see Global Production sources in Appendix 4.2).

Nevertheless, while Nestlé affiliates compete against one another for global export orders, they also act as partners in supplying product lines to each other. The TNC's U.K. affiliate has observed that "just because the popularity of certain specialty and ethnic foods fails to justify their production in the U.K., consumers don't have to miss out" (Nestlé U.K. 1993:64). Items imported by Nestlé U.K. include sauces from Malaysia, TV dinners from India and coconut milk from Sri Lanka (*South China Morning Post* 26Jan96; Nestlé U.K. 1993; *International Product Alert* 15Apr96). In short, production is occurring increasingly further away from consumer markets, a fact which is represented by Nestlé's Global Production strategy of globally integrating manufacturing and distribution activities.

GLOBALLY-STANDARDIZED VS. LOCALLY-DIFFERENTIATED PRODUCTS

Worldwide product standardization is rare in the food processing industry. Nestlé has a number of seemingly 'globally-standardized' products, but in reality it is the marketing and quality of the product which is standardized, not product taste. While the TNC does manufacture some completely standardized food products (such as chocolate bars and mints), the vast majority of products are adjusted to satisfy local tastes. This represents what was described in Chapter Two as a 'mixed global strategy', in which global standardization in marketing is flexibly mixed with local differentiation in product design.

Referring to 'globalization' in the food processing industry, Nestlé has highlighted its standardization of product quality rather than product design:

> in the food industry, globalization does not mean that, sight-unseen, products are simplified for the international market, or even easier, forced unchanged onto the rest of the world by one country. On the contrary, there has been a globalization of product-linked concepts *such as quality and quality assurance*... (emphasis added, Maucher 1994b:69)

Levitt (1983:97) would describe this Nestlé strategy as being "thoughtlessly accommodating" to consumer preferences. The fact that Nestlé and other food TNCs regularly adjust products to local circumstance, while at the same time standardizing processes and marketing, demonstrates that Levitt's strict connection between complete product standardization and industry globalization (as discussed in Chapter Two) is too rigid. The evidence in the Nestlé case supports a flexible 'mixed global strategy', rather than a purely standardized one.

Local sources in the developing world support Nestlé's claim that it adjusts products to local tastes. For instance, descriptive developing world newspaper headlines read as follows (also see further global 'product design' titles in Appendix 4.2):

- 'Local flavours praised as good R&D innovation'
  -(Tan 1996 - in *Straits Times* [Singapore] 10Mar96)
- 'Nestlé relaunches soybean powdered milk product for the Thai health market'
  -(*Nation* [Thailand] 26Sept94)
- 'Nestlé launched a mixed chocolate bar in Brazil'
  -(*South American Business Information* 26Jul93b)

A strong example of a global-local mixed strategy is found in the case of Nestlé's instant coffee. 'Nescafe' is sold globally but adjusted to local tastes in over 200 different varieties. While the product taste is not globally uniform, the processing is standardized. In keeping with Nestlé's global standards in processing, subsidiaries are required to use high quality coffee beans in standard refinement and treatment processes. However, in the final roasting and mixtures the end product is adjusted to local tastes (Montavon 1997; Nestec S.A. 1998b; Nikkei Weekly 03Apr95; Maucher 1994b).

In order to satisfy local conditions, Nestlé has attempted to use local raw materials when possible. This has included Nestlé's use of: coconut in Brazil for a coconut milk product (*South American Business Information* 26Jul93c); soya in India for a tofu-like product (Montavon 1993); local maize and soya in Nigeria for infant cereals (Nestlé S.A. 1994b); rice in Malaysia for noodles (ibid). In theory, a strategy of using local raw materials should make products cheaper to produce and thus more affordable to local people in the developing world. However, a policy set by headquarters governing minimum quality standards for raw materials often precludes the local purchase of 'inferior' local inputs (Credit Suisse First Boston 1996:23; Rapoport 1994). Thus, the goal of purchasing locally is counter-balanced by the requirement that subsidiaries use inputs which meet Nestlé global guidelines and quality standards. This suggests that Nestlé's global production standards are adjusted depending on local circumstance. For instance, Nestlé Malaysia was given clearance to surpass corporate policy and purchase inferior raw materials because government regulations required the TNC to purchase inputs locally (Rapoport 1994). The flexibility of Nestlé in responding to different local concerns, while at the same time instilling global guidelines, represents the 'complex-integration' of a mixed global production strategy.

In addition to offering products designed to local tastes, Nestlé LDC subsidiaries also access and produce a wide-range of globally-standardized products, including: Nestlé India's use of Western-style vending machines to market globally-standardized chocolate bars (*Dalal Street Journal* 01Oct 95); Nestlé's promotion of mineral water in Vietnam (An 1994); Nestlé India's introduction of 'quick cook' pasta to the region (*Informatics* [India] 02Feb95); and Nestlé Malaysia's consistent marketing of products from the TNC's 'global product catalogue' (Lehman Brothers 1993:8; Nestlé UK 1993). The ability to offer both locally-adjusted and globally-standardized products puts Nestlé's developing world subsidiaries in a good position to exploit changing standards of living. It has been observed that such a scenario is clearly apparent in the case of the South East Asian LDCs, where increased urbanization and a growing middle class has led to the purchase of higher valued-added Nestlé products (*Asian Venture Capital* 20Dec95; *Taiwan Business News* 14Nov95; *Nikkei Weekly*

28Aug95; Lehman Brothers 1993). The TNC's flexibility in offering both 'local' and 'global' products is an essential part of its mixed Global Production strategy in product design.

Nestlé's 'local'/'global' product mix is used as a strategy to enter developing markets. Initially, sales channels are established by offering basic, mass-produced foodstuffs which consumers in the developing world can afford. Once consumer incomes rise, Nestlé is able to market higher value-added products, which, as will be discussed in Chapter Five, have the potential to change local consumption habits (*Nation* [Thailand] 02Dec94; Ota 1995; *Economist* 17Jun95). Through 'branding', these value-added products are promoted using globally-coordinated marketing strategies - a part of the TNC's Global Management initiative.

NESTLÉ'S USE OF GLOBAL MANAGEMENT

Global Management strategies were rarely discussed in Nestlé's early documentation. References to global marketing, R&D, and corporate policy were limited or non-existent in the 1966 and 1976 annual reports. While the 1986 annual report mentioned the need to 'consolidate' (or standardize) the marketing of a product, there was not a detailed emphasis on the need for a global marketing strategy (Nestlé S.A. 1987:8).

It has recently become clear that global strategies in marketing, R&D and corporate policy have become priorities for the firm. In the 1996 annual report, Nestlé not only comments that its global R&D has come to play an integral part in its worldwide distribution of products, but great emphasis (in relation to past reports) is also placed on the TNC's effort to coordinate marketing campaigns globally (Nestlé 1997: 7; 26;34;42).[11]

[11]An effective way to assess the growing importance of R&D and marketing at Nestlé would be to compare these categories of expenses as a percent of sales in the past 30 years of annual reports. Unfortunately, this is not possible, as Nestlé did not dedicate separate expense categories for R&D and marketing in the reports reviewed prior to the late 1980s. However, expenses in R&D (1% of sales) and marketing (3% of sales) were detailed in the 1996 annual report, which is one indication (among many) of the increased emphasis Nestlé has attached to these global firm activities.

A comparison of Nestlé annual reports between the 1980s and 1990s further confirms that the nurturing of a global corporate image has become more important to the TNC. In the 1986 report there was largely no mention of the firm logo, but in the 1996 report Nestlé promotes the firm logo as a universally-recognized symbol which personifies Nestlé's global corporate identity and brand-name.

Moreover, unlike previous annual reports reviewed, the 1996 report is the first time Nestlé devotes a section to global management principles, in which "employees everywhere in the world" are encouraged to "grasp more easily the meaning of the Nestlé spirit" (Nestlé 1997:19). The 'Nestlé spirit' in the 1990s is promoted as an essential part of the firm's social image. The next three sub-sections examine Nestlé's drive to globally manage activities in 'marketing', 'R&D' and 'corporate policy'.

GLOBAL MARKETING CONCEPTS APPLIED IN LOCALLY-DIFFERENTIATED MARKETS

Nestlé documentation has stated that because consumer eating habits differ worldwide, marketing strategy must consider local conditions (Nestlé UK 1998a; Nestlé Research Center 1997; Maucher 1994b:51). By monitoring consumer habits, Nestlé subsidiaries regularly develop advertising campaigns which take advantage of local perceptions. However, even when subsidiaries have developed their own marketing campaigns, headquarters provides guidelines to ensure that a common global theme runs through all campaigns (Nestec S.A. 1998b:3; Heer 1991:298). This is no small feat considering the sheer magnitude of Nestlé's global marketing efforts.[12]

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[12]Throughout the 1990s Nestlé has consistently been among the top ten spenders on worldwide advertising. Its worldwide advertising expenditure (including the U.S.) for 1998 alone, $1.8 billion, represented a 13% increase on the previous year's total. To place Nestlé's 1998 worldwide marketing expenditure in perspective, it is approximately 28% higher than Coca-Cola's, 38% higher than McDonald's; 60% higher than Colgate-Palmolive's; and 80% higher than Microsoft Corporation's. Furthermore, when considering marketing expenditure that does not include U.S.-dedicated spending, throughout the 1990s Nestlé has consistently remained the third largest advertiser, spending $1.6 billion in 1998, a figure which is roughly 33% more than that spent outside of the U.S. by TNCs such as Ford Motor Company, General Motors and Toyota (*Advertising Age* - "Top Global Marketers", Nov., 1994; 1996; 1998; 1999).

Sources from the developing world confirm that there is a degree of synergy in the marketing campaigns of subsidiaries, thus promoting a unified Nestlé global image and ensuring that products are perceived similarly worldwide. A unified global image is observed in several examples, including: Nestlé's building of its corporate brand image for its core product groups (including coffee, ice cream, noodles) in China (Tomkins 1995); the introduction of a cereal beverage in Thailand using the globally-promoted brand name of 'Carnation' (*Nation* [Thailand] 02Dec94); the use of its global brand name 'Baci' in the local Brazilian market (Bulloch 1996); and Nestlé's decision to use already-tested global marketing concepts/brand names on local foods produced in India (*Financial Express* [India] 29Nov95). Rapoport (1994) comments that a uniform worldwide perception of the Nestlé brand is most apparent in the case of eleven strategic brand groups, such as Nestlé's instant coffee, which are sold in almost all countries worldwide.[13] Marketing concepts for these benchmark products are exchanged between subsidiaries, which mix local and global standards. For instance, the General Manager of Nestlé Thailand successfully launched 'Nescafe' instant coffee based on marketing ideas created by Nestlé Greece. The implementation of already-tested global marketing ideas, adjusted to local tastes, proved to be a resounding success in Thailand, as shown by a 400% increase in soluble coffee sales over a seven- year period (ibid:131).

Nestlé has not been shy about attempting to convince consumers to change their food consumption habits. Introducing instant coffee to traditional tea-drinking cultures in the Asian LDCs (including India, China, Thailand) is part of Nestlé's global market penetration strategy (O'Donnell 1994; *Wall Street Journal Eastern* 20Aug93). Tea cultures are targeted because pouring water on soluble coffee is similar to pouring water on tea, and it requires the same basic equipment. Due to this strategy, it been estimated that Nestlé has captured a resounding 55% of the worldwide market share in soluble coffee (Credit Suisse First Boston1996:2,6),

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[13]Nestlé's 'strategic international brands' would include: Nescafe (coffee); Maggi (noodles); Buitoni (pasta); KitKat (chocolate bar); Smarties (sweets); Nestea (icetea); Perrier (mineral water); Milo (energy drink). While these are global brands, as discussed in both this chapter and Chapter Five, many of these product groups are adjusted to local tastes (Nestlé S.A. 1997:11; Nestlé S.A. 1999).

and the TNC continues to attempt to convert tea drinkers in the developing world to coffee drinkers (Gault 1994; *Nation* [Thailand] 21Oct94).

In addition to the Nescafe example, Nestlé has been successful at introducing a range of worldwide products to LDC markets. This includes the introduction of the Maggi brand of ready-to-cook gravies to India. Not only was this product the first of its kind in India, but flavours, such as 'pizza flavour', reflect Nestlé's introduction of global tastes to local markets (*Informatics* [India] 09Feb95). Other examples include: Nestlé South Africa's introduction of the global brand Milkmaid cream to the local region (*International Product Alert* 19Apr95); and Nestlé Philippines' full range of premium global ice-cream products, sold in local and regional markets (EIU 16Apr96; Batino 1996). In offering these global products to local markets, Nestlé adjusts standardized global marketing themes to local market preferences.

An essential part of Nestlé's marketing of global brands is the attention it pays to packaging:

> [in Nestlé's] brand policy and packaging design especially, it is not advisable to do something different in every country. For certain products, there are advertising experiences and principles that work almost everywhere. (Maucher 1994b:51)

Globally-standardized marketing campaigns are transmitted through local media channels, which allows Nestlé to spread information about a variety of cultural foods, such as 'Western' coffee and 'Italian' pasta, all over the world (*Nation* [Thailand] 02Dec94; Maucher 1994b:55; Gault 1994).[14] By popularizing a few key products worldwide, Nestlé has slowly encouraged the globalization of consumer food habits. However, any potential convergence of consumer habits is tempered by the TNC's strategy of altering a great number of its

[14]The breadth of Nestlé's marketing reach through local media is demonstrated by its measured advertising spending activity in various regions: it has been found that the TNC is the 3rd largest advertising spender in Europe/Eastern Europe; the 5th largest spender in both Asia/Pacific and the Middle East; and the 8th largest spender in Central and South America (*Advertising Age* - "Regional Ad Spenders", Nov., 1998).

products to local consumer tastes. As a result, the firm's marketing strategy closely resembles what was described in Chapter Two as a 'mixed global strategy', in which the TNC demonstrates a flexibility in adjusting global 'standardization' with local 'differentiation'.

A Global Network of R&D is Linked to Local Applications

In the food industry, spending on R&D is low in comparison to other industries (Howells and Wood 1993; Warrant 1994; Connor 1988). It has been estimated from recent financial data that Nestlé only devotes about 1% of sales to research and development. Yet, according to company representatives, "Nestlé places great emphasis on R&D" (Nestlé S.A. 1997:46; Heer 1991:514).[15] Nestlé's R&D is coordinated under the separately established affiliate, Nestec Ltd. Reporting to Nestec are 22 'technological development centres' located in 13 countries and 1 'scientific research centre' located in Switzerland (Nestlé, S.A. 1997:72).

Nestec's 22 research arms form a global network and liaise closely with strategic business units at Nestlé's headquarters (Hoare Govett Securities 1995; Nestlé Research Centre 1997; *Business Times* [Singapore] 30Aug94; Tan 1996). The research units are responsible for product development, including new products, packaging and processing. Global coordination is based on assigning product specializations to each unit (Hoare Govett Securities 1995:31; Nestlé Research Center 1997). In an effort to ensure that global R&D is not duplicated, each unit has a different area of specialization, with Nestec setting the agenda for projects through its chief laboratory in Switzerland. Research is concentrated in

[15]As discussed in Chapter Two, since the food processing industry is low-tech, its R&D expenditure as a percent of total sales is low compared to other high-tech manufacturing sectors. Nevertheless, a comparative analysis of food processing firms reveals that Nestlé's contribution of about 1% of sales to R&D is on the high side for the industry (Philip Morris Companies Inc. 1997c; Unilever PLC 1997a; Connor 1988; ILO 1998:34).

six main areas - nutrition, biological science, food science, plant science, food technology, and quality/safety assurance.[16]

Seventy percent of Nestec's effort is devoted to developing products and processes for worldwide markets and to adapting existing global products to local tastes. The remaining 30% is dedicated to monitoring global strategic trends and local business opportunities (Hoare Govett Securities 1995:31). Werner Bauer, the head of Nestlé's Research Centre, comments that the expert research findings of Nestlé's global R&D network are applied to local circumstances (Bauer 1997). This claim has been confirmed to some extent. For instance, as will be further discussed in Chapter Five, it has been found that Nestlé's group-wide research on locally grown soya has been used to develop soy-based drinks, prepared dishes and infant food in India, the Phillippines, Singapore, Nigeria and Brazil, with further distribution throughout the developing world (Tan 1996; Nestlé S.A. 1994b; Montavon 1993). Similarly, global R&D directives which seek to find ways to use local raw materials for new products include the following cases: Nestlé's development of a specialized process by which traditional millet grown in the Ivory Coast is easily made into edible processed food products; and Nestlé's research which developed a use for the local raw material, coconut, for a variety of products sold in Sri Lanka and Brazil (*South American Business Information* 07Jul93c; Nestlé Research Center 1997; Nestlé S.A. 1994b) .

In addition to the firm's internally-dispersed R&D, there is strong evidence that Nestlé is an active sponsor of independent local research. From my search of the U.S. Department of Agriculture's food and agricultural abstracts database, it was found that Nestlé is a frequent sponsor of worldwide independent academic and scientific food-related research.

[16]Nestlé's areas of research can be elaborated on as follows: (i) nutrition research includes analyzing the health effects of foods (ie. preventative nutrition); (ii) biological science includes the use of bio-chemistry, microbiology and enzyme technology in food preparation; (iii) food science includes the manipulation of proteins, fats, carbohydrates and food flavors; (iv) plant science includes studies of plant physiology; (v) food technology examines the physical aspects and sensory evaluations of food; and (vi) quality and safety assurance tests packaging standards and monitors for food contaminants (Hoare Govett Securities 1995:31; Nestlé Research Center 1997:10).

Hundreds of research titles were found to be sponsored by Nestlé and its affiliates. By way of example, research papers found to be location-specific include:[17]

- 'Caloric energy efficiency studies in Gambia'
- 'Studies of post harvest conservation of staple foods in the Ivory Coast'
- 'Vitamin D-deficiency rickets in Saudi Arabia'

While Nestlé's sponsorship of academic research is, by and large, medically- and locally-specific, the bulk of research pursued internally by Nestlé's scientists is focused on making the TNC's product line 'saleable' (ie. primarily concerned with the quality, look, feel and smell of its food products) (Nestec S.A. 1997; 1998c; Nestlé Research Centre 1997:5).

In bold statements, Nestlé frequently asserts that it takes its role as a provider of nutrition seriously (Maucher 1994b; Nestlé Research Centre 1997). As one brokerage house has observed, "Nestlé has made many public statements concerning its overall philosophy of promoting general 'health and well-being'" (Hoare Govett Securities 1995). Part of Nestlé's drive toward nutrition involves developing nutritious'plant-based' products. As the head of Nestlé's Research Centre comments:

> Because of the earth's limited resources, we need plant-based alternatives having high-grade protein content, say, from soybean or legumes. (Bauer 1997:8) [18]

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[17]Potential conflicts associated with Nestlé sponsoring local research is discussed in Chapter Five's assessment of local impacts.

[18]Several Nestlé representatives have stated that one of the TNC's goals is to offer plant-based, rather than meat-based, products to the developing world (Maucher 1994b:66:158:142; Bauer 1997). Citing its intention to use local raw materials in the developing world, the view that meat-based products are more expensive to produce for developing world farmers than plant-based products was listed as a primary reason behind its strategy; not that one or the other is necessarily more nutritious (Maucher 1994b:156). Meat-based products are said to be more expensive (and hence a perceived burden to developing world farmers) because a greater percentage of arable land is needed to produce animal protein than is needed to produce vegetable/wheat protein. This is mainly because not only do animals need veterinary care and land for living quarters, but feed must also be grown to maintain livestock (Montavon 1993; 1997). As discussed in Chapter Five, there is some evidence that Nestlé is offering newly-developed plant-based products in some developing world communities (*South American Business Information* 26Jul93c; *Nation* [Thailand] 26Sep94; Montavon 1993).

My review of scientific research abstracts does confirm that Nestlé sponsors both general nutritional studies and vitamin absorption studies on plant-based foods, of which titles include:[19]

- 'An approach to partial parenteral nutrition of the low birth weight infant'
- 'Nutrition implications of the interactions between minerals'
- 'Prospects for improving the iron fortification of foods'

This is prima facie evidence that the firm considers nutritional research a priority. The creation of the Nestlé Nutritional Foundation over thirty years ago also suggests that nutritional research has been a long-standing project for Nestlé (Nestlé S.A. 1994b).

While the widespread availability of Nestlé-sponsored scientific research papers confirms the TNC's claim that it supports nutritional research, in practice this research does not appear to be regularly connected to the TNC's product line. In a review of R&D sources in Appendix 4.2, only soybean scientific research was confirmed to be connected to improving the nutrition of a Nestlé product line.[20] Instead, the majority of sources reviewed suggest that Nestlé's global research network focuses on designing products to local tastes, rather than incorporating nutritional research into its products. In fact, many of Nestlé's products (chocolate bars, ice cream and coffee) are 'empty calories' with very little nutritional value (*EuroBusiness* 1996).

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[19]Nestlé sponsors a vast number of publications in the nutritional sciences. In a worldwide database dedicated to covering literature on food and nutrition,172 articles (over a five year period) were found to be sponsored and published directly by the 'Nestlé Nutritional Workshop Series' (U.S. Department of Agriculture 1996). The Workshop series is sponsored by the Nestlé Foundation, which was established in 1966 (Nestlé S.A.1994b:12; Nestlé Foundation 1986). The authors of the Workshop articles are experts in various academic, medical and nutritional fields. In 1993, the 27th Nestlé Nutrition Workshop consisted of papers presented by a range of nutritional experts from: the British Nutrition Foundation; the International Food Policy Institute; food safety groups; and medical doctors (Leatherwood 1993 et al eds.). In 1994, Nestlé established a new Nutritional Center to add to its Foundation's network (Hoare Govett Securities 1995).

[20]The local linkages associated with Nestlé's soybean scientific research is presented in Chapter Five's analysis of the impact of Nestlé's global strategies in LDC communities.

Hence, while Nestlé is an active supporter of independent nutritional research, the firm's activities in this respect more closely resemble the charitable sponsorship of research than an attempt to regularly integrate independent nutritional research findings into the firm's global R&D network. Instead, Nestlé's global R&D network focuses on developing products to local tastes in an effort to complement its global market penetration strategy. Included among the brands regularly adjusted to local tastes are Nescafe's over 200 different varieties (making it one of the most recognized brands worldwide) and Maggi brand noodles (with worldwide varieties including laksa and tom yam flavours in Singapore and tomato and cheese in South Africa) (*International Product Alert* 05Apr96; *Economist* 16Nov96:113; Lum 1996).

GLOBAL CORPORATE POLICY AND STRUCTURE

Nestlé's Mission Statement in Practice

A TNC's corporate policy and structure reflect the spirit and purpose of the organization. As Chairman and CEO of Nestlé for nearly two decades, Helmut Maucher is keenly aware of Nestlé's 'corporate culture'. His directives on everything from product portfolios to management style to advertising strategies have helped to define the TNC's corporate culture (*EuroBusiness* 1996; Maucher 1994b:93). According to Maucher (1994b), Nestlé bases its public perceptions ('corporate image') on its corporate policies and actions ('corporate culture'). This is in contrast to the past, when he states that often a TNC's 'public image' was fabricated and not tied to its actual 'corporate policies'. He comments that under the scrutiny of today's global media, it is increasingly more difficult for TNCs to conceal operations. In short, the global information age has ensured that a company's corporate image is increasingly monitored to determine whether a company does what it says it does, or whether it just uses empty rhetoric.

As previously discussed, Nestlé states that one of its primary goals is "feeding the world and providing food and nutrition for an ever-growing population" (Maucher 1994b:155). This corporate goal is further emphasized by the head of Nestlé's research center:

> In the saturated markets of the industrialized nations, it will be a matter of developing foods with health claims, not least with a view to the prevention of various common illnesses. In the Third World markets, we are adapting to a clientele wanting products with high nutritional density but having little purchasing power. (Nestlé Research Center 1997:8) [21]

However, while Nestlé is undoubtedly penetrating a wide array of global markets, and is supplying an ever increasing product portfolio to these markets through M&As and joint ventures in the developing world (see next section on Global Partnershipping), it is the firm's claim regarding the provision of nutritious products to the growing global population which is more fragile. Despite the substantial evidence that the firm is heavily involved in nutritional research, the fact remains that a large proportion of Nestlé products cannot be considered nutritious staple foods. Moreover, while Nestlé's policy of expansion in the developing world can contribute to feeding growing populations, it can only do so if the 'growing populations' can afford to buy Nestlé products.

Nevertheless, while Nestlé might not have achieved its stated corporate mission of providing the world with nutritious foods, independent and company sources have observed that the firm has started to target 'healthful' local raw materials as ingredients for new Nestlé products. The 'healthy' processed foods have tended to be soya- and milk-based, including: a soybean health product for the Thai market *(Nation* [Thailand] 06Sep94); a health beverage launched for the Latin American regions (*South American Business Information* 26Jul93a);

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[21]Nestlé alludes to the same 'mission statement' time and time again in many of its public documents (e.g. Nestlé S.A. 1997; Nestlé S.A. 1994b; Nestlé U.K. 1995). In addition, an independent source quotes a company officer as saying: "[our mission is] to offer products to consumers worldwide which afford the consumer a wide spectrum and promote health, well being and nutrition. The human body is Nestlé's concern for the future" (Hoare Govett Securities 1995:66).

a nutritionally-enhanced yogurt for South America, Asia and Europe/Eastern Europe (Nestlé Research Center (1997:24); and a soybean meat substitute for India (Montavon 1993).

The provision of several products which have nutrition-based research behind their development is a start in the TNC's pursuit to offer 'nutritious foods' to growing populations. As discussed in the previous section, the firm's actions in research and development at least confirm that it is interested in the question of nutrition. While Nestlé's mission statement cannot be entirely reconciled to its current actions, some might argue that mission statements are goals, not claimed achievements. As will be discussed in Chapter Six, global goals are connected to a TNC's statement of corporate social responsibility; and it is a firm's corporate social responsibility which can most influence the impacts resulting from its activities.

Centralized Authority is Used in Nestlé's Pursuit of Corporate Guidelines

Moving from policy to operations, Nestlé's corporate structure is globally centralized. The firm's headquarters is responsible for coordinating worldwide operations:

> "[h]eadquarters provides know-how, capability, expertise in production, import and export, marketing and organization..., training...investment...and research." (Maucher 1994b:75)

To this end, corporate policy documents on issues as specific as Nestlé's environmental policy, or as general as its overall management style, are distributed to subsidiaries worldwide. Headquarters provides guidance to ensure a 'minimum degree of uniformity' among its subsidiaries in company policies, principles, rules of conduct and strategies (Nestlé S.A.1997:18-19; Nestlé 1998b; Bulauitan 1995; Nestlé S.A. 1994b; Maucher 1994b:76; *Food Institute Report* 15Nov95). Instituting a centralized corporate policy has become easier in the global communications age, in which a TNC, such as Nestlé, is able to assess what is being produced, distributed and sold across the globe at the touch of a button (Maucher 1994b:57).

The existence of centralized corporate policies is confirmed by local sources which observe Nestlé group-wide policies on issues such as the use of local raw materials and standards in training practices, including Nestlé's policy of: using local coffee supplies in LDCs (*Nation* [Thailand] 16Feb96); using local raw materials for processed food products in LDCs (Chanco 1995); pursuing contract growing partnerships and farm technical assistance in LDCs (*Manila Bulletin* 13May950); instituting employee training practice standards and encouraging policies to boost employee moral worldwide (Bulauitan 1995; Carino 1996). These are just a few examples, and considering this evidence it is curious that Nestlé has commented that it is a largely 'decentralized' TNC. By 'decentralized', it refers to the varying degrees of flexibility headquarters grants to worldwide subsidiaries. In addition, it is suggested that the firm is decentralized because its acquired companies display different public images according to location. For example, the Buitoni (Italy), Rowntree (U.K.) and Maggi (Switzerland) subsidiaries of Nestlé have their own long histories and structures (Nestlé U.K. 1997c; Maucher 1994b; Heer 1991).

In truth, Nestlé is only 'decentralized' to the extent that it allows subsidiaries to interpret local business environments. In terms of conforming to 'minimum Nestlé standards', subsidiaries must generally comply (Jitpleecheep and Petsiri 1996; Kohli 1996a; 1996b; Maucher 1994b:150;76; Bulauitan 1995).[22] It appears that the increasing globalization of firm activity has put pressure on Nestlé to centralize planning. Hence, centralized meetings are arranged to give local managers a voice in formulating global corporate policy guidelines (Montavon 1997; Nestlé 1994a; Maucher 1994b:149;152). Nestlé's corporate policy has changed throughout the decades, to the point now where the frequent intermixing of ideas from headquarters and subsidiaries reinforces the fact that Nestlé affiliates do not act as

[22]For instance, to assure Nestlé standards are met, the TNC has claimed that a program of worldwide audits is in place, in which violations of company policy are identified and action taken, including the freezing of salaries, cancellation of bonuses and dismissals (Brabeck-Letmathe 1999:6). Selected examples in this thesis do provide confirming evidence that the TNC's subsidiaries are directed to follow centralized corporate policies (e.g. in raw material purchases and employee training).

'stand-alone' affiliates, but are constituent parts of a globally-integrated and globally-coordinated network (Nestlé Alimentana 1975; 1977; Nestlé U.K. 1995; Nestlé S.A. 1994a; 1997; Nestec S.A. 1998b; also see corporate policy sources in Appendix 4.2).

STRATEGIC GROWTH THROUGH NESTLÉ'S GLOBAL PARTNERSHIPPING

Global Partnershipping was not a predominant part of Nestlé's strategy in the 1960s. Indeed, the 1966 annual report did not devote any space to discussing new acquisitions, and there was no mention of acquisition plans or policy. In the 1976 report, there was brief mention of new acquisitions, but not to the extent they were emphasized ten years later. In the 1986 annual report, not only was an entire page devoted to a discussion of the firm's global acquisitions and its acquisition history, but there was also a regional listing of the names of 162 Nestlé subsidiaries (such a list was not included in the 1966 and 1976 reports).

In the 1996 annual report, the increased importance of Global Partnershipping is demonstrated through a detailed focus per product category on recent mergers, acquisitions and joint ventures. In addition, there is not only a regional listing of affiliates (as done in the 1986 report), but Nestlé also includes a percentage breakdown of ownership for each subsidiary. It is further stressed in the 1996 report that, through a policy of growth by acquisition, Nestlé has built an extensive portfolio of food and beverage products around the world (Nestlé S.A. 1997:6). In the next two sub-sections, this proclaimed growth through Global Partnershipping is assessed as a vehicle for both expanding operations and for procuring inputs for global subsidiaries.

MERGERS, ACQUISITIONS AND JOINT VENTURES EXPAND GLOBAL OPERATIONS

Nestlé describes its merger and acquisition strategy as a means to pursue "the road to globalization" (Maucher 1994b:66). Through my analysis of the TNC's financials, I have calculated that Nestlé is involved in 257 partnerships in 87 countries worldwide.[23] Of this total, approximately 49% of the partnerships are in 65 developing countries. In fact, as per the data compiled in Table 4.2, of 97 new Nestlé partnerships undertaken between 1986 and 1996, 70% have taken place in developing countries. Underpinning the overall increase in the number of Nestlé partnerships worldwide between 1986 and 1996, the growth rate of new partnerships in the developing world rested at 115%, compared to only a 29% growth rate in industrialized countries. As a result, Nestlé's global partnershipping strategy has dramatically increased the developing world's share of Nestlé's total partnerships from just over one-third in 1986 to virtually one-half in 1996. This confirms Nestlé's claim that the developing world is an increasingly important part of its global expansion strategy (Nestlé S.A. 1997:7; Maucher 1994:141).

[23]Nestlé's worldwide partnerships have been calculated through an analysis of the TNC's financial statement, which discloses all worldwide partnerships in which the TNC holds more than a 20% interest (Nestlé S.A. 1997:70). Since Nestlé maintains partnerships in which it does not also own factories, the TNC's geographical presence in partnerships (87 countries) is greater than its geographical presence of factories (79 countries).

TABLE 4.3
THE GROWTH IN NESTLÉ'S GLOBAL PARTNERSHIPPING, 1986-1996 [a]

GLOBAL SUBSIDIARIES/PARTNERSHIPS (subs./part.)	1986	1996	AGGREGATE PERCENTAGE INCREASE 1986-1996 [b]
WORLDWIDE:			
# of worldwide subs./part. - in total # of countries	160 subs./part. - in 63 countries	257 subs./part. - in 87 countries	**61% increase in subs./part.** **- in 38% more countries**
LESS DEVELOPED COUNTRIES (LDCs):			
# of subs./part. - in # of LDCs (as % of all worldwide subs./part.)	59 subs./part. - in 42 LDCs (37% of all subs./part.)	127 subs./part. - in 65 LDCs (49% of all subs./part.)	**115% increase in subs./part.** **- in 55% more LDCs**
INDUSTRIALIZED COUNTRIES (ICs):			
# of subs./part. - in # of ICs (as % of all worldwide subs./part.)	101 subs./part. - in 21 ICs (63% of all subs./part.)	130 subs./part. - in 22 ICs (51% of all subs./part.)	**29% increase in subs./part.** **- in 5% more ICs**

Source: Data compiled and analyzed from: *Nestlé Annual Report 1986*; *Nestlé Management Report 1996*; *Nestlé Management Report 1998*.

[a] Global Partnershipping data was not available in the Nestlé reports reviewed prior to 1986.

[b] Over a two year period, between this thesis' analytical benchmark year of 1996 and data published in Nestlé's 1998 Annual Report, the TNC's total worldwide partnerships increased by 6% (with the developing world enjoying a 17% increase, compared to a decrease in total partnerships in industrial countries of -5%).

In addition to this very convincing quantitative data, local sources further confirm that Nestlé enters new worldwide markets through its aggressive pursuit of acquisitions and joint ventures. A few examples from Appendix 4.2's M&A and JV sources include: Nestlé's JV with the local Filipino company, San Miguel, which enabled the TNC to achieve a wide distribution of its products in the Philippines (Batino 1996); and Nestlé's acquisition of Knee-Lee foods in Taiwan, which enabled the TNC to gain a foothold in the region's frozen foods industry (*Taiwan Business News* 08Mar96).

While acquisitions give Nestlé management complete control of a new company (ie. 100% ownership), joint ventures do not allow for full ownership. Among the variety of

reasons Nestlé pursues joint ventures instead of acquisitions is that many local governments require TNCs to engage in equity partnerships with local companies as a precondition to entering local markets (*Economic Times* [India] 28Apr95; *Middle East Economic Digest* 04Jul94; *Nation* [Thailand] 16Feb96). For example, Nestlé was only able to enter the Chinese market after thirteen years of negotiations because it agreed to a joint venture with a publicly-owned municipal company. Local Chinese government officials drew up the terms of the joint venture, which restricted Nestlé's actions on commercial exploitation, human resources, raw materials and the employment of expatriates (Montavon 1997:14).

Although joint ventures afford TNCs less control than they desire, the arrangement is a vehicle by which TNCs gain entrance into new markets. In the case of the ASEAN Free Trade Agreement (AFTA), Nestlé Malaysia was not only required to participate in joint ventures with local companies, but also to use local raw materials and to export 80% of all production (Lehman Brothers 1993; Rapoport 1994). Because the local cocoa supply did not meet Nestlé standards for one of its products - the 'KitKat' chocolate bar - it was necessary for the TNC to overlook its global production standards in quality. Even though using the local cocoa altered both the taste and texture of the 'KitKat', to take advantage of AFTA Nestlé settled on offering the entire ASEAN region a different quality product than for the rest of the world. This again illustrates Nestlé's pursuit of a flexible global strategy.

Using similar Global Partnershipping arrangements as those used in China and under AFTA, Nestlé has been able to establish additional regional export centers throughout the developing world, including: a joint venture with the Dubai company, Galadari, which allowed Nestlé to expand throughout the entire Arabian peninsula; and the acquisition of a leading biscuit manufacturer in Ecuador which was used as a vehicle for expanding throughout the Andean region (*Saudi Gazette* 15Jun96; Nestlé 1997: 27, 30).

The importance of joint ventures and acquisitions as tools in achieving geographic expansion is especially emphasized in Nestlé's late 1990s annual reports, in which the TNC regularly states that mergers and acquisitions will make it possible to develop new sales channels worldwide (Nestlé S.A. 1997:27; Nestlé S.A. 1998a; Montavon 1997). This is often

achieved by not only acquiring already established local brands, but also by utilizing the newly acquired sales and distribution channels to introduce Nestlé's own product lines into new territories. A case in point is Nestlé's 1995 acquisition of the Israeli company, Osem. Prior to this purchase, Nestlé had a negligible presence in Israel, but it has since been able to use Osem's well-established sales network to distribute its global benchmark products in the region. This Nestlé acquisition strategy is amply confirmed by the prevalence of joint venture and M&A references found in nearly all regions of the developing world (see Appendix 4.2 under Global Partnershipping).

Nestlé not only pursues Global Partnershipping with local firms, but also with other TNCs. Two prominent examples are the joint venture with Coca-Cola for the marketing of cold coffee/tea, and the collaboration with General Mills to market breakfast cereals worldwide (*Supermarketing* 22Nov91; Maucher 1994b:24; Nestlé S.A. 1997).[24] Unlike joint ventures with local firms, Nestlé does not normally maintain a majority interest nor management control in partnerships with other TNCs. Joint ventures with other TNCs are usually held on an equal equity basis, with the purpose of sharing expertise in global marketing and production capabilities. Accordingly, in an effort to penetrate worldwide markets, the purpose of Nestlé's joint venture with General Mills was to combine that company's production expertise in breakfast cereals with Nestlé's globally-recognized brand-names (*Korea Economic Daily* 18Oct95; Nestlé S.A. 1997:6; Heer 1991:508).

Hence, in addition to pursuing Global Partnershipping for geographic expansion, Nestlé uses acquisitions 'as a tool for marketing' brand names (Maucher 1994b:69). The trend has been for Nestlé to acquire food companies with popular brands capable of being introduced into a wide range of local markets (*EIU 16Apr96*; Heer 1991:496). Its 1988 acquisition of Buitoni, the pasta manufacturer, was viewed by Nestlé as a means to promote the Italian way of living around the world (Maucher 1994b:24;67). In addition to Nestlé's

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[24]An early partnership among TNCs was a 1970 joint venture between Unilever (75% stake) and Nestlé (25% stake) in frozen foods. In this early venture, Nestlé accepted a minority stake. However, in 1986 Nestlé decided to sell its position back to Unilever because it wanted to concentrate on partnerships in which it would have an equal or majority stake (Heer 1991:300; Nestlé 1987).

consideration that pasta was a product which had global marketing potential, the acquisition of Buitoni was also claimed to be in line with Nestlé's strategic principle of acquiring new skills and technologies to produce plant-based foods (ibid:24). In short, geographic expansion, product diversification, marketing synergies and transfers of knowledge are the key reasons behind Nestlé's mergers, acquisitions and joint ventures.

Global Partnershipping does not always mean acquiring a percentage ownership in another company. In a partnership agreement with an Indian food processor, Nestlé agreed to purchase the firm's products, not a percentage of its corporate shares. In this arrangement Nestlé packaged and sold the Indian company's high quality Indian foods (dehydrated dosa, vada sambar and potato masala) under the Nestlé brand-name (*Informatics* [India] 17Nov95:11). In this instance, the TNC acquired product diversity, not ownership. As will be demonstrated in the next section, similar types of non-equity partnershipping arrangements are an integral part of Nestlé's worldwide raw material purchasing network.

NON-EQUITY GLOBAL PARTNERSHIPPING USED TO PURCHASE INPUTS

An analysis of Nestlé's financial data has revealed that the TNC spends nearly $24 billion on the purchase of materials for the manufacture of goods (Nestlé S.A. 1997:47). With the exception of a small percentage spent on cosmetics and pharmaceuticals (based on sales figures, less than 4%), most of the inputs purchased by Nestlé are for the production of packaged and processed foods. Materials needed to manufacture processed foods include packaging and food preservatives, but the bulk of material needed is basic foodstuff (ie. coffee beans, raw milk, tea leaves, tomatoes, cocoa, etc.). The millions of tons of raw materials needed are purchased by Nestlé in different locations across the globe.

Nestlé has long claimed that it purchases raw materials directly from local farmers in the developing world (Nestlé Alimentana 1975; Nestlé U.K. 1995; Nestlé S.A. 1994b). However, figures from 1975 indicate that, at that time, the direct purchase of raw materials

from local farmers was largely confined to the procurement of raw milk for the local production of dairy and dietetic products.[25] In my review of Nestlé annual reports since the late 1960s, it was found that the issue of using local raw materials was mentioned more frequently in more recent reports. In fact, available evidence in the mid- to late-1990s confirms that the TNC is at least starting to regularly purchase raw materials such as coffee and tea directly from local farmers (*Manila Bulletin* 13May95; Credit Suisse First Boston 1996:22; Nestlé U.K. 1995; Montavon 1997).

The policy of purchasing raw materials locally is observed by the press in Thailand, which comments that a governmental policy to reduce coffee planting "greatly jeopardizes [Nestlé's] proposed new plant as [the firm's] philosophy is to utilize local raw material to produce and serve local markets" (*Nation* [Thailand]16Feb96). Nestlé's strategy of forming non-equity partnerships with local farmers was the result of a group-wide policy instituted in 1986, in which the TNC began buying green coffee (raw coffee) directly from local farmers in the developing world (Nestlé U.K. 1995:14). Direct local purchases have steadily increased the percentage of green coffee Nestlé buys from farmers in a number of developing countries, including Malaysia, Thailand, Mexico and China (*Manila Bulletin* 13May95; Arasu 1995; Montavon 1997; Nestlé S.A.1994b:4). For instance, in Thailand the TNC's local coffee factories have purchased approximately 86% of the raw coffee needed directly from local growers (*Nation* [Thailand] 16Feb96; Nestlé S.A. 1994b).

Nevertheless, while in some countries the local purchase of green coffee is on the rise, Nestlé documents reveal that the TNC purchases only about 10% of its green coffee supply locally. Furthermore, when Nestlé speaks of purchasing raw materials locally, it does not always mean the purchase of raw materials direct from small- or medium-sized local farmers. In Mexico, Nestlé considers its purchase of green coffee from locally-owned processing

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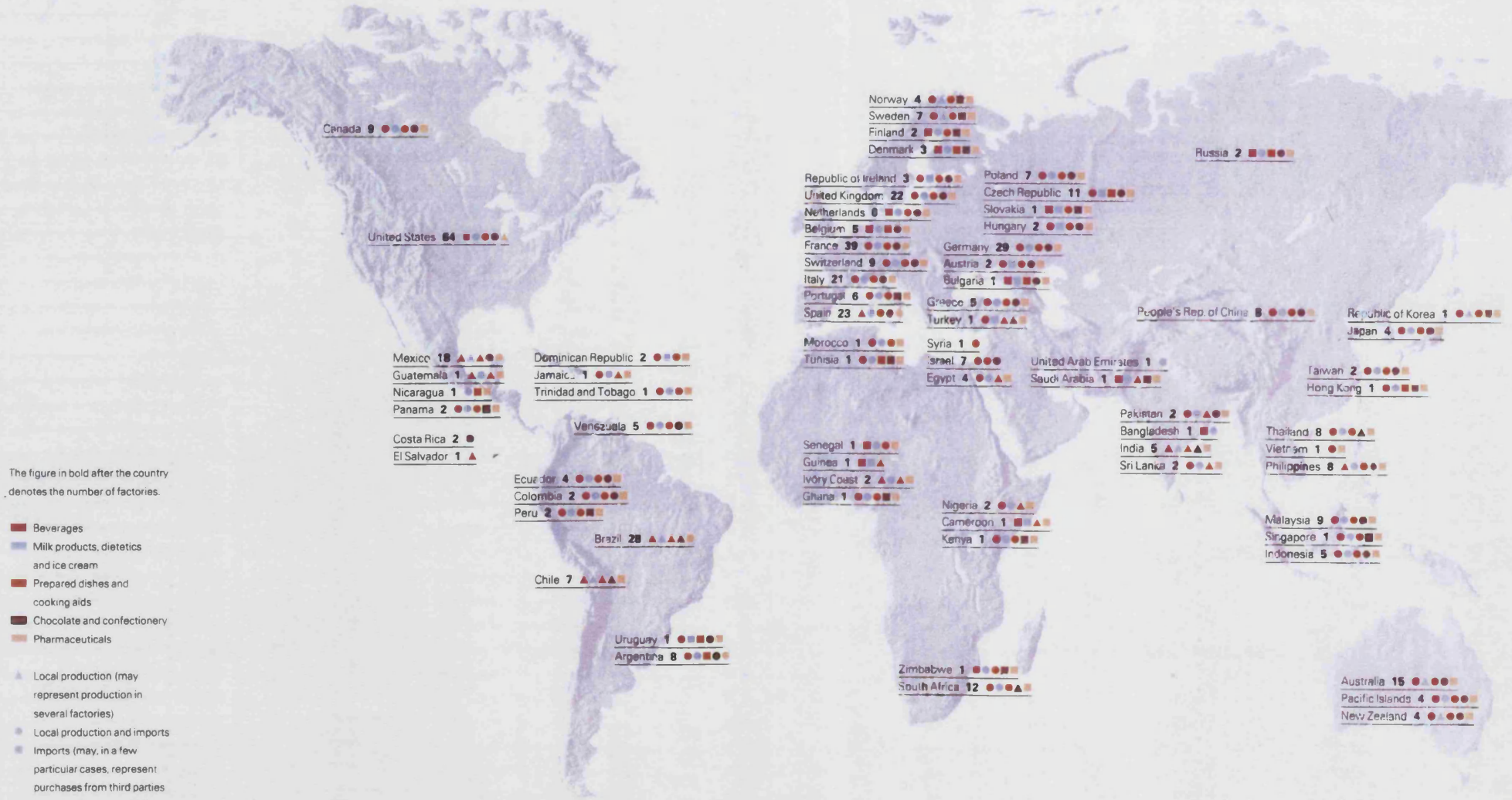
[25]Through a review of archived materials, it has been found that, in the 1970s, the purchase of raw milk accounted for over 80% of Nestlé's directly purchased raw materials in the developing world (Nestlé Alimentana 1966; 1976; Nestlé Alimentana 1975). The reason raw milk has long been purchased directly from local farmers is because it is a highly perishable product, and therefore needs processing immediately. For this reason, unlike other commodities, such as sugar, coffee and tea, there is little option but to obtain raw milk locally, close to production facilities, and not on global commodity markets.

stations as direct local purchasing (Nestlé U.K. 1995:14). While this type of purchasing is not from small farmers, it is important to consider that the raw materials are sourced locally. From the evidence, it appears that sourcing products locally through non-equity partnership agreements is a strategy Nestlé has not yet truly achieved (in fact, the subject is infrequently found in Appendix 4.2's contract farming sources). However, the TNC has indicated that it plans to follow that path in the developing world. The Chairman sums up Nestlé's plans by stating that "*[i]ncreasingly*, the Nestlé Group is developing products in keeping with local tastes, producing them with materials on the spot, and selling them cheaply enough so that most people in the third world can afford them" (emphasis added, Maucher 1994b:25).

The local procurement of raw materials through contracting is only just starting to become an integral part of Nestlé's Global Partnershipping strategy. The TNC's pledge to engage in 'partnerships' with local farmers has helped it gain entrance into a number of developing markets. This is demonstrated in the case of China, where Nestlé was only given access to the Chinese market upon its guarantee to purchase green coffee beans from local farmers (Montavon 1997). Impacts (both positive and negative) associated with this type of non-equity partnership may be found in linkages to technology and skills in agriculture. This is observed in the Farm Technical Assistance programs Nestlé ties to its contract farming activities, in which the TNC advises on local growing, harvesting, farming techniques and machinery (*Manila Bulletin* 13May95; Montavon 1993, 1997; Nestlé S.A. 1994b). This, in turn, is linked to local conditions such as infrastructure development and training. The impact of these linkages varies depending on particular local circumstances. As discussed in the next chapter, not only contract farming, but also other activities in Global Partnershipping, as well as in Global Production and Global Management, have varying effects on local communities.

APPENDIX 4.1: GEOGRAPHIC BREAKDOWN OF NESTLE'S WORLDWIDE MANUFACTURE AND SALE OF PRODUCTS



Source: Reproduced from Nestle S.A. (1997: 40-41)

APPENDIX 4.2 [a]

SOURCES ON NESTLÉ'S ACTIVITIES IN THE DEVELOPING WORLD

ARTICLE TITLE	SOURCE/ DATE	GLOBAL PRODUCTION			GLOBAL MANAGEMENT			GLOBAL PARTNERSHIPPING		
		Mfg.	Dst.	Dsg.	Mkg.	R&D	CP	CF	M&A	JV
ASIA AND SOUTHEAST ASIA										
China: "Nestlé defends discounts on hospital supplies"	*South China Morning Post /10Jul96*				x		x			
Thailand: "Ice cream and canned coffee products figure in Nestlé's expansion"	*Bangkok Post /02Jul96*			x	x	x	x			
Philippines: "Extraordinary percussionist"	*Business World (Philippines) /26Jun96*			x						
Indonesia: "Dairy farming business to gear up for 2005"	*Jakarta Post /24Jun96*		x					x		
Asia: "Food sector's Asia assault falls into too hard basket"	*Australian Financial Review /21Jun96*		x		x				x	
Hong Kong: "Dairy farm to gain control from reshuffle"	*South China Morning Post /18Jun96*						x			
China: "Caffeine market seesaws with China's ins and outs"	*Chemical Marketing Reporter /07Jun96*	x								
Taiwan: "Vitalon most likely to purchase Jin Jili share rights"	*Taiwan Business News /30May96*								x	

[a] This Appendix categorizes sources on Nestlé's activities in the developing world according to the methodological classification developed in this thesis. Additional references on Nestlé and all sources cited in the text of the thesis on Nestlé can be found in the 'Nestlé Bibliography'. The following applies to this table:

(i) An 'x' indicates that the source provides a contextual discussion of the global strategy indicated.

(ii) This Appendix has been divided into sections according to the following developing regions: 'Asia and Southeast Asia'; 'South America and The Caribbean'; 'Central Asia and Eastern Europe'; 'Middle East'; 'Africa'.

(iii) The total number of references found in each category is tallied on the last page of the Appendix.

(iv) The key to abbreviations may be found on the last page of this Appendix.

Appendix continued....

ARTICLE TITLE	SOURCE/ DATE	GLOBAL PRODUCTION			GLOBAL MANAGEMENT			GLOBAL PARTNERSHIPPING		
		Mfg.	Dst.	Dsg.	Mkg.	R&D	CP	CF	M&A	JV
Philippines: "PLDT, SMC top BIR list of corporate taxpayers"	*Business World (Philippines) /23May96*						x			
China: "Brittan hails EU meeting with China as best yet"	*South China Morning Post /19May96*									x
Singapore: "Europe takes a different tack"	*Business Times (Singapore) /18May96*								x	
Thailand: "Nestlé fuels dairy product competition"	*Bangkok Post /16May96*	x	x		x					x
Singapore: "Slowdown but still tops in GNP per capita"	*Straits Times (Singapore) /14May96*		x		x					
Singapore: "Bow Wow Chow - Woof, Woof - creature comforts are a $20 million industry"	*Straits Times (Singapore) /12May96*		x	x						
Philippines: "Survey - The Last Frontier"	*Economist /11May96*		x			x		x		
China: "Shanghai increasingly popular among Taiwanese food manufacturers"	*Taiwan Business News /03May96*	x			x				x	
Philippines: "Focus - improving labor productivity, reorienting labor management ties"	*Business World (Philippines) /02May96*	x				x	x			
Philippines: "It's only money - change of climate, business as usual"	*Business World (Philippines) /02May96*						x			
Hong Kong: "Nestlé fined over milk production"	*South China Morning Post /17Apr96*	x					x	x		
Philippines: "As the 'San Miguel Drama' continues"	*Business World (Philippines) /17Apr96*									x
Philippines: "Nestlé's $45 million ice cream joint venture scoops up"	*EIU /16Apr96*				x					x

ARTICLE TITLE	SOURCE/ DATE	GLOBAL PRODUCTION			GLOBAL MANAGEMENT			GLOBAL PARTNERSHIPPING		
		Mfg.	Dst.	Dsg.	Mkg.	R&D	CP	CF	M&A	JV
India: "Press Digest"	*Reuter News Service /12Apr96*	x			x					
Taiwan: "Pacific Electric wire & cable trading company aims to compete with Tait, Nanlan"	*Taiwan Business News /12Apr96*									x
Burma: "Prakit/FCB eyes IndoChina and Burma"	*Bangkok Post /10Apr96*				x					
Phillippines: "Bulacan Town, Nestlé Embark on Health Plan"	*Business World (Philippines) /09Apr96*				x	x	x			
India: "What economic policies can corporate India expect from a National front-left government?"	*Business Today (India) /07Apr96*									x
Singapore: "Spicy - spice business here hotting up"	*Straits Times (Singapore) /31Mar96*		x	x	x		x			
India: "Nestlé to expand go a unit capacity"	*Informatics (India) /28Mar96*	x			x					
Bangladesh: "'Come and Explore the Potential'"	*South China Morning Post /26Mar96*	x							x	
Philippines: "Positioning in Asia SMC - The making of Rps first TNC"	*Business World (Philippines) 20Mar96*		x	x	x		x			x
India: "Nutrine pact with Nestlé falls through"	*Informatics (India) /15Mar96*									x
India: "Nestlé India denies in stocklists' allegations"	*Economic Times (India) /06Mar96*		x							
India: "Food processors Nestlé, Brittania looking to expand"	*EIU /13Mar96*	x		x					x	
India: "KFC spends 18 months setting up supply network"	*EIU /13Mar96*	x								

ARTICLE TITLE	SOURCE/ DATE	GLOBAL PRODUCTION			GLOBAL MANAGEMENT			GLOBAL PARTNERSHIPPING		
		Mfg.	Dst.	Dsg.	Mkg.	R&D	CP	CF	M&A	JV
Singapore: "Local flavours praised as good R&D innovations"	*Straits Times /10Mar96*	x		x	x	x	x			
Far East: "Why western consumer goods firms will clean up in Asia - washed up?"	*Economist /09Mar96*	x	x			x			x	
Taiwan: "Foreign multinationals optimistic about cross-strait political tensions"	*Taiwan Business News /08Mar96*						x		x	
Taiwan: "Nestlé plans to acquire King Knee-lee foods"	*Taiwan Business News /04Mar96*		x		x				x	
Thailand: "Nestlé reviews policy as government shuts coffee output"	*Nation (Thailand) /16Feb96*	x	x					x		
Hong Kong: "Call to close Hygiene loopholes"	*South China Morning Post /10Feb96*	x					x			
India: "Dairy, meat sectors hostage to market controls"	*EIU /07Feb96*	x						x		x
India: "Processed foods named priority investment sector"	*EIU /07Feb96*		x	x					x	
Hong Kong: "Unions fear for Nestlé workers"	*South China Morning Post /06Feb96*	x					x			
Hong Kong: "Dairy products firm irresponsible"	*South China Morning Post /03Feb96*	x					x			
Hong Kong: "Safety before profit"	*South China Morning Post /03Feb96*	x					x			
Hong Kong: "Dairy products firm blames red tape for unlicensed plant"	*South Morning China Post /02Feb96*	x					x			
Philippines: "No price hikes yet, say major producers"	*Business World (Philippines) /31Jan96*			x	x					

ARTICLE TITLE	SOURCE/ DATE	GLOBAL PRODUCTION			GLOBAL MANAGEMENT			GLOBAL PARTNERSHIPPING		
		Mfg.	Dst.	Dsg.	Mkg.	R&D	CP	CF	M&A	JV
India: "Meeting Challenges"	*South China Morning Post /26Jan96*		x		x					
India: "Milk production in Punjab to rise to 62 Lakh Tons"	*Informatics (India) /23Jan96*	x						x		
Asia: "Food Manufacturers go clean and natural in Asian Markets"	*Business Review Weekly (Australia) /22Jan96*	x		x	x					
Thailand: "Pioneering Thai Tycoon starts yet another venture"	*Reuter News Service /15Jan96*				x				x	x
India: "Watching the competition"	*Informatics (India) /15Jan96*			x	x	x				
China: "For Chinese buyers, trust is the key"	*Market Asia Pacific /05Jan96*		x		x					
India: "Edible oils, biscuits & bread on dereservation list"	*Informatics (India) /05Jan96*	x								
Indonesia: "Investee profiles - Indonesia - the middle class moves in"	*Asian Venture Capital Journal /20Dec95*				x				x	
India: "Now, Maggi Dosas - Indian food fermentation"	*Informatics (India) /17Dec95*	x	x	x	x					x
India: "IFFL enters marketing tie-up with Nestlé"	*Informatics (India) 16Dec95*		x		x					
Philippines: "Magnolia Nestlé - joint venture to merge with Nestlé Philippines"	*Financial Times London /13Dec95*				x		x		x	x
India: "Campco to enter Supari market"	*Informatics /13Dec95*		x		x					x
Philippines: "Nestlé Philippines - A model in itself"	*Business World (Philippines) /13Dec95*	x		x		x	x	x		

ARTICLE TITLE	SOURCE/ DATE	GLOBAL PRODUCTION			GLOBAL MANAGEMENT			GLOBAL PARTNERSHIPPING		
		Mfg.	Dst.	Dsg.	Mkg.	R&D	CP	CF	M&A	JV
Philippines: "Nestlé treats packaging suppliers as important industrial partners"	*Business World (Philippines) /12Dec95*	x		x	x	x	x			x
Philippines: "Sanmig merges ice cream unit with Nestlé"	*Reuter News Service /07Dec95*	x		x			x			x
Philippines: "SMC and Nestlé broaden alliance"	*Business Wire /07Dec95*						x		x	
China: "French investment - China is strategic target for Pechiney"	*Le Figaro (France) /06Dec95*	x				x				x
India: "Nestlé India to lend name to India Food Fermentations Ltd. products"	*Informatics (India) /01Dec95*	x	x		x					x
Indonesia: "Nestlé seeking new sources of coffee"	*Reuter News Service /29Nov95*					x		x		
India: "Nestlé India to lend name to IFFL products"	*Financial Express (India) /29Nov95*		x	x	x					
Philippines: Nestlé Philippines, Inc. - Winning the hearts and minds of its people"	*Business World (Philippines) /29Nov95*			x			x			x
India:"Nestlé India ties-up with Madras based firm"	*Informatics /17Nov95*	x	x	x						
Taiwan: "Nestlé group expands markets in Taiwan"	*Taiwan Business News /14Nov95*	x				x			x	
Singapore: "Divine dessert tips scale for winning chef"	*Straits Times /07Nov95*						x			
South Korea: "First Korean-Swiss technology meetings establish future cooperation"	*Korea Economic Daily /04Nov95*					x				
Indonesia: "Cooperatives to get discount from producers"	*Jakarta Post /02Nov95*	x	x							

ARTICLE TITLE	SOURCE/ DATE	GLOBAL PRODUCTION			GLOBAL MANAGEMENT			GLOBAL PARTNERSHIPPING		
		Mfg.	Dst.	Dsg.	Mkg.	R&D	CP	CF	M&A	JV
Thailand: "Producers vow to freeze prices"	*Bangkok Post /27Oct95*	x	x							
Hong Kong: "Dairy farm international continues to look to Asia for long term expansion"	*Supermarket News /19Oct95*	x					x			
Philippines: "San Miguel eyes FDC site"	*Reuter News Service /18Oct95*	x								
South Korea: "Cereal maker General Mills attempts to catch Kellogg"	*Korea Economic Daily /18Oct95*		x							x
Singapore: "Pitfalls for Western firms in booming Asian food market"	*Reuter News Service /17Oct95*			x	x	x	x			
China: "Nestlé dairy farm Guangzhou - is formed by Nestlé Dairy farming holdings and Guangzhou peoples food to manufacture ice cream products"	*Dairy Markets Weekly /17Oct95*	x								x
"Nestlé India - new vending machines"	*Informatics Dalal Street Journal /10Oct95*				x	x				
China: "Overviews of Shanghai's lesser development zones"	*EIU 04Oct95*						x			x
India: "Nestlé India plans to introduce chocolate vending machines to market its wafer chocolates & waffles"	*Dalal Street Journal (India) /01Oct95*		x		x					
Philippines: "Management challenges and initiatives"	*Business World (Philippines) /26Sep95*				x	x				
Vietnam: "New Daily shows Vietnam's press is on the move"	*Reuter News Service /20Sep95*	x								
India: "Production of Nestlé's pickles to start by Oct. 15"	*Informatics (India) /18Sep95*	x	x	x						

ARTICLE TITLE	SOURCE/ DATE	GLOBAL PRODUCTION			GLOBAL MANAGEMENT			GLOBAL PARTNERSHIPPING		
		Mfg.	Dst.	Dsg.	Mkg.	R&D	CP	CF	M&A	JV
Thailand: "Bids for Amway contract"	*Bangkok Post /15Sep95*				x				x	
Asia: "Consuming Passion for Asia"	*Australian Financial Review /14Sep95*	x	x	x	x	x				
Philippines: "It's only money - future foods - no need to go hungry"	*Business World (Philippines) /31Aug95*			x		x		x		
China: "Nestlé to expand ice-cream output in China"	*Nikkei Weekly (Japan) /28Aug95*	x		x						x
Asia: "Dairies Churn cash as Asia market spreads"	*Nikkei Weekly (Japan) /28Aug95*	x	x	x	x					
China: "Swiss joint venture for Guangdong ice cream plant"	*BBC Monitoring Service /16Aug95*	x							x	x
China: "Nestlé new ice cream venture in China"	*Reuter News Service /11Aug95*	x								x
Philippines: "San Miguel Corporation"	*Reuter News Service /04Aug95*	x	x							
India: "Nestlé India in alliance with Chordia Foods"	*Informatics (India) /04Aug95*	x			x					x
Singapore: "Quek consortium's bid for Pacific Brands Hits snag"	*Straits Times (Singapore) /03Aug95*				x				x	
Thailand: "Nestlé products reorganizes to boost sales"	*Bangkok Post /01Aug95*		x		x		x			
Thailand: "Hungry opposition causes Nestlé to rethink strategy"	*Bangkok Post /01Aug95*				x		x			
China: "Focus on China"	*Food Manufacturing International /27Jul95*	x			x		x			

ARTICLE TITLE	SOURCE/ DATE	GLOBAL PRODUCTION			GLOBAL MANAGEMENT			GLOBAL PARTNERSHIPPING		
		Mfg.	Dst.	Dsg.	Mkg.	R&D	CP	CF	M&A	JV
China: "Ice cream war hots up as sales soar in cities"	*South China Morning Post /13Jul95*	x		x	x					x
India: "TV networks capture consumers spending"	*EIU /12Jul95*				x					
Singapore: "Comparing supermarket prices can save up to S$31"	*Straits Times (Singapore) /11Jul95*			x						
India: "Square Biotech to set up yet another plant"	*Informatics (India) /08Jul95*					x				
Philippines: "San Miguel to close magnolia Nestlé plant"	*Informatics (India) /08Jul95*	x								
India: "Nutrine still in talks with Nestlé, Cadburys"	*Informatics (India) /02Jul95*				x				x	
Burma: "Singapore's Gung-Ho traders"	*Straits Times (Singapore) /18Jun95*			x	x		x			
Taiwan: "How to conquer China (and the world) with instant noodles"	*Economist /17Jun95*		x	x						
India: "Nestlé to acquire majority stake in Nutrine"	*Financial Express (India) /16Jun95*								x	
China: "Danisco - Great expectations attached to campaign in China"	*Chemical Business Newsbase /10Jun95*	x								
India: "Couch potato revolution"	*EIU /01Jun95*				x					
Philippines: "Nestlé offers coffee contract growing"	*Manila Bulletin /13May95*					x		x		
Taiwan: "Food and beverage manufacturers promote sales through direct marketing"	*Taiwan Business News /05May95*				x					
Malaysia: "Nestlé plans RM 80 million capital spending"	*Business Times Malaysia /04May95*	x	x	x						

ARTICLE TITLE	SOURCE/ DATE	GLOBAL PRODUCTION			GLOBAL MANAGEMENT			GLOBAL PARTNERSHIPPING		
		Mfg.	Dst.	Dsg.	Mkg.	R&D	CP	CF	M&A	JV
China: "Chinese consumers - Inscrutable or just hard to find?"	*Economist /29Apr95*		x	x	x					
India: "Nestlé discusses takeover of Campco unit with state government"	*Economic Times (India) /28Apr95*	x					x			
Asia: "ASEAN joint deal 'inside' AFTA rules"	*Bangkok Post /27Apr95*		x							x
India: "MNCs go against the global grain"	*Informatics (India) /25Apr95*			x	x	x				
Singapore: "Dairy Farm to proceed with planned $300 million investment this year"	*Business Times (Singapore) /06Apr95*	x							x	
Vietnam: "Nestlé to produce instant coffee in Vietnam"	*Nikkei Weekly (Japan) /03Apr95*	x								x
Thailand: "CP studies baby food venture with US firm"	*Bangkok Post /03Apr95*	x								x
Bangladesh: "Low cost labour attracts foreign investment"	*South China Morning Post /28Mar95*	x								x
India: "Monozyme India - Profit Enzyme"	*Dalal Street Journal (India) /19Mar95*	x			x	x				
India: "Pepsico proposes RS600 core investment plan"	*Informatics (India) 17Mar95*		x					x		
Bangladesh: "An emerging economy all set to 'roar'"	*South China Morning Post /16Mar95*	x				x				
Malaysia: "Nestlé posts a healthy 10.8% profit..."	*New Strait Times /02Mar95*						x			
India: "Nestlé may buy 'Horlicks' brand from Smithkline Beecham"	*Informatics (India) /24Feb95*				x					
China: "Chinese show their preference for brand name"	*Taiwan Business News 20Feb95*				x					

ARTICLE TITLE	SOURCE/ DATE	GLOBAL PRODUCTION			GLOBAL MANAGEMENT			GLOBAL PARTNERSHIPPING		
		Mfg.	Dst.	Dsg.	Mkg.	R&D	CP	CF	M&A	JV
India: "Buhler to expand in India"	*Informatics (India) /16Feb95*	x				x				
India: "Williamson Magor may enter food processing sector"	*Informatics (India) /16Feb95*				x	x		x	x	
India: "Nestlé eyes Smithkline assets - Indian Paper"	*Reuter News Service /13Feb95*						x		x	
Hong Kong: "Franklins owner has fresh approach"	*Business Review Weekly /13Feb95*									x
India: "Tonite's special - gourmet at home - Nestlé India"	*Informatics (India) 09Feb95*			x	x					
Singapore: "Companies court customers in novel ways - hope is to cultivate loyal customers in tough market"	*Straits Times (Singapore) /09Feb95*				x		x			
Malaysia: "Nestlé to spend more on production, efficiency"	*New Strait Times /03Feb95*	x								
India: "Nestlé spreads its wings"	*Business World (India) /02Feb95*			x	x				x	
China: China and the pacific rime - BTR sees future in glass"	*Sunday Telegraph /29Jan95*									x
Thailand: "Prakit appoints board directors"	*Bangkok Post /26Jan95*						x			
Thailand: "Government refects Nestlé proposal to up wholesale coffee price"	*Bangkok Post /18Jan95*				x		x			
Thailand: "Nestlé veteran to retire..."	*Bangkok Post /18Jan95*						x			
Indonesia: "Nestlé acquisition of interest"	*Regulatory News /12Jan95*								x	
Malaysia: " Milo packs to come in different sizes"	*Star (Malaysia) /07Jan95*			x	x					

ARTICLE TITLE	SOURCE/ DATE	GLOBAL PRODUCTION			GLOBAL MANAGEMENT			GLOBAL PARTNERSHIPPING		
		Mfg.	Dst.	Dsg.	Mkg.	R&D	CP	CF	M&A	JV
Hong Kong: "America wants to change China's Tea habit"	*Reuter News Service /27Dec94*			x	x			x		
Thailand: "Nestlé: This coffee, cereal and milk manufacturer had profit growth of 13% in 1993..."	*Business Review Thailand /Dec94*						x			
Malaysia: "Nestlé plans to export its top product next year"	*Star (Malaysia) /07Dec94*	x	x							
China: "How not to sell 1.2 billion tubes of toothpaste"	*Economist /03Dec94*		x		x		x			
Thailand: "Nestlé has introduced Carnation Cereal Beverage in Thailand"	*Nation (Thailand) /02Dec94*				x					
South Korea: "World's biggest spenders tightened purse strings in '93, but Korean companies bucked the trend"	*Advertising Age /21Nov94*				x					
India: "Cadbury wakes up to challenges to its Raj in India"	*Reuter News Service /02Nov94*	x			x	x				
Thailand: "Nestlé told to drop its prices"	*Nation (Thailand) /21Oct94*			x			x			
Taiwan: "Nestlé, Taiwan in joint venture"	*Reuter News Service /30Sep94*			x						x
Asia: "Euromoney sectoral guide to Asian markets - agriculture and food"	*Reuter News Service /24Sep94*				x			x		
Thailand: "Nestlé relaunches soybean product for health market"	*Nation (Thailand) /06Sep94*				x	x				

ARTICLE TITLE	SOURCE/ DATE	GLOBAL PRODUCTION			GLOBAL MANAGEMENT			GLOBAL PARTNERSHIPPING		
		Mfg.	Dst.	Dsg.	Mkg.	R&D	CP	CF	M&A	JV
Hong Kong: "HKMA/TVB awards for marketing excellence - HI - Calcium product proves enormous consumer winner"	*South China Morning Post /09Sep94*			x	x	x	x			
Taiwan: "MNCs operating in China turn to Taiwan to recruit managers"	*EIU /31Aug94*		x				x			
Singapore: "Carnaudmetalbox to launch S$32 million research"	*Business Times (Singapore) /30Aug94*					x				
China: "Food firms cool in hot China market - Japanese on sideline as global giants plow new ground"	*Nikkei Weekly (Japan) /29Aug94*		x	x	x					
Far East:"Why more suppliers are taking the Far Eastern path to profit"	*Grocer /27Aug94*	x	x							x
North Korea: "American trade delegation interested in North Korea investment"	*Korea Economic Daily /25Aug94*						x			
Philippines: "Nestlé to invest P9 billion in 6 years"	*Manila Bulletin /19Apr94*	x				x				
China: "Ice cream invades Chinese diet"	*Reuter News Service 17Aug94*		x	x	x					
China: "Study identifies preference"	*South China Morning Post /12Aug94*			x	x					
Thailand: "Nestlé to use Thailand as expansion base"	*Nation (Thailand) /11Aug94*					x	x			
China: "Nestlé pledges millions toward Chinese units"	*Journal of Commerce and Commercial /10Aug94*	x								x
Singapore: "Looking north hungrily for a bite of the market"	*Business Times (Singapore) /10Aug94*		x						x	

ARTICLE TITLE	SOURCE/ DATE	GLOBAL PRODUCTION			GLOBAL MANAGEMENT			GLOBAL PARTNERSHIPPING		
		Mfg.	Dst.	Dsg.	Mkg.	R&D	CP	CF	M&A	JV
South Korea: "Small dairy firm builds on Korean opportunities"	*New Zealand Herald /03Aug94*		x		x					
Vietnam: "Mineral water for 'The Masses'"	*Vietnam Investment Review /11Jul94*	x				x				x
Thailand: "An export-based economy"	*Grocer /02Jul94*		x	x		x				
Philippines: "Barricades down at two San Miguel plants"	*Reuter News Service /12Jun94*						x			
Thailand: "Nestlé ad blitz to boost sales"	*Nation (Thailand) /13Jan94*				x					
Thailand: "Nestlé in midst of restructuring itself to sustain growth in environment that is rapidly changing"	*Business Review Thailand /Nov93*			x			x			
India: "Nestlé India"	*Economic Times (India) /31Mar93*						x			
India: "Nestlé SA to raise equity stake in Indian subsidiary"	*Economic Times (India) /17Apr93*						x			x
China: "Nation of tea drinkers, turns coffee into fashionable consumption"	*Wall Street Journal (Eastern) /20Aug93*	x		x	x					
Malaysia: "Nestlé's pretax profit rose 10.4%..."	*Business Times Singapore /27Feb93*						x			
South Korea: "Coca-Cola and Nestlé Plan Worldwide Markets of Joint Venture Coffee Product"	*Supermarketing /22Nov91*			x	x					x

ARTICLE TITLE	SOURCE/ DATE	GLOBAL PRODUCTION			GLOBAL MANAGEMENT			GLOBAL PARTNERSHIPPING		
		Mfg.	Dst.	Dsg.	Mkg.	R&D	CP	CF	M&A	JV
SOUTH AMERICA AND THE CARIBBEAN										
Peru: "Local food firms lose ground to foreign MNCs"	*EIU /10Jul96*	x							x	x
Brazil: "Cocoa-Brazil addicted easily to foreign chocolate"	*Reuter News Service /29Jun96*		x	x	x					
Chile: "Banking, food, beverage update"	*EIU /25Jun96*				x					
Venezuela: Beer, Beverage, Dairy round-up"	*EIU /11Jun96*	x							x	
"Argentina: Strategic Importance"	*Latin Finance /07Jun96*	x	x		x		x		x	
Venezuela: "Nestlé Buys $2.1 million plant in Venezuela"	*Reuter News Service 03Jun96*	x					x		x	
Brazil: "Cocoa - Brazil Nestlé expects bumper Easter"	*Reuter News Service /09Feb96*			x	x					
Brazil: "Wal-Mart Stores - You should know - Nestlé Brazil accused Wal-Mart Stores Inc."	*The Food Institute Report /06Feb96*				x		x			
Brazil: "Brazil salutes cocoa bean in Rio carnival"	*Reuter News Service /25Jan96*						x			
Brazil: "Parmalat extends its market reach"	*Advertising Age /20Nov95*				x					
Mexico: "Nestlé entering Mexican food market"	*The Food Institute Report /15Nov95*				x		x		x	
Mexico: "Nestlé and Nutrasweet form venture in Mexico"	*New York Times National Edition /05Nov93*									x
Peru: "Fair trade - a fair day's pay"	*Guardian (UK) /24Oct95*							x		

ARTICLE TITLE	SOURCE/ DATE	GLOBAL PRODUCTION			GLOBAL MANAGEMENT			GLOBAL PARTNERSHIPPING		
		Mfg.	Dst.	Dsg.	Mkg.	R&D	CP	CF	M&A	JV
El Salvador: "The new revolution in El Salvador - Winning the Peace"	*Economist /30Sep95*	x	x						x	x
Mexico: "Nestlé USA and Nabisco in Ortega deal"	*Agence Europe /14Sep95*				x				x	
Latin America: "Competition increases in Latin American markets"	*Prepared Foods /Jul94*				x	x				
Trinidad and Tobago: "EIU country update"	*EIU /06Jun95*								x	
Brazil: "Coffee producers ban exports to lift prices"	*Independent (UK) /05Jun95*				x			x		
Brazil: "Two Brazilian package makers to unite"	*Plastic News /05Jun95*	x							x	
Argentina: "Argentina attracts Italian companies"	*Il Mondo /02May95*	x							x	
Brazil: "Expansion of fast food outlets throws up opportunities"	*Gazeta Mercantil (Brazil) 06Apr95*	x								
Mexico: "Nestlé-quaker Mexican deal"	*Grocer /24Dec94*				x				x	
Mexico: "Nestlé, Quaker oats in Mexico deal"	*Reuter News Service /16Dec94*	x	x						x	
Brazil: "Nestlé Brazil posts sales of $2 billion turnover"	*South American Business Information /30Nov94*									
Brazil: "Rain in Brazil offers no reprieve for coffee drinkers"	*Reuter News Service /04Nov94*						x	x		
Brazil: "Nestlé says cannot confirm Brazil coffee estimate"	*Reuter News Service /01Nov94*						x	x		
Mexico: "Making cans easy to open"	*Food Engineering /Aug94*	x								

ARTICLE TITLE	SOURCE/ DATE	GLOBAL PRODUCTION			GLOBAL MANAGEMENT			GLOBAL PARTNERSHIPPING		
		Mfg.	Dst.	Dsg.	Mkg.	R&D	CP	CF	M&A	JV
Latin America: "Market research firms, led by Nielsen, expand in Latin America"	*EIU /27Jul94*				x	x				
Brazil: "How Brazil still wins the cup - coffee"	*Marketing Week /22Jul94*							x		
Brazil: "Coffee perks commodities"	*Sunday Telegraph (UK) /17Jul94*							x		
Brazil: "Coffee prices soar as frosts hit Brazil's crop"	*Daily Telegraph /04Jul94*			x			x	x		
Brazil: "Consumer coffee prices increasing due to Brazilian frost"	*Reuter News Service /28Jun94*						x			
Brazil: "J Walter Thompson Brazil was hired to handle ice cream advertising campaign"	*South American Business Information /29Mar94*				x					
Brazil: "Nestlé launched a new health beverages called Supligen"	*South American Business Information /26Jul93*			x	x					
Brazil: "Nestlé launched a mixed chocolate bar in Brazil"	*South American Business Information /26Jul93*			x	x					
Brazil: "Nestlé is launching in the Brazilian market a coconut milk product"	*South American Business Information /26Jul93*		x	x	x					
Brazil: "Nestlé to offer portion size sauce packs"	*South American Business Information /30Mar93*			x	x					
Brazil: "Nestlé to end 1992 with a 16% drop in sales volume to 530,000 tons"	*South American Business Information /25Jan93*	x		x	x		x			
Mexico: "Top 40 Mexican companies in 1990"	*Journal of Commerce and Commercial /03Dec92*				x					

Appendix 4.2 - Sources on Nestlé continued...

ARTICLE TITLE	SOURCE/ DATE	GLOBAL PRODUCTION			GLOBAL MANAGEMENT			GLOBAL PARTNERSHIPPING		
		Mfg.	Dst.	Dsg.	Mkg.	R&D	CP	CF	M&A	JV
CENTRAL ASIA AND EASTERN EUROPE										
Russia: "Nestlé made second step in Russia and launches ice cream production project"	*Kommersant (Russia) 07Jun96*		x							x
Hungary: "Tainted coffee imports declining - Hungary officials"	*Reuter News Service /28Feb95*					x	x			
Czech Republic: "Nestlé Food Prievidza wants to raise its sales by 40% in the Czech Republic this year"	*Ekonomicke-Zpravodajstvi /16Jan95*	x			x	x				
Poland: "East Springs International jointly formed by Nestlé Source International..."	*Points de Vente (France) /01Jun94*									x
Czech Republic: "Nestlé food distributes around 300 sorts of products in the Czech Republic"	*Ekonomicke-Zpravodajstvi (Czech) /24Jan94*		x	x						x
Slovakia: "Nestlé to start producing 10 soups, 4 broths & 5 sauces under Maggi trademark in Prievidza"	*Ekonomicke-Zpravodajstvi (Czech) /23Dec93*	x		x		x				
Poland: "Nestlé absorbs stake in Polish concern"	*Nation Restaurant News /24Jan94*		x							x
Hungary: "Nestlé Hungary will issue up to Ft2 billion in short term notes"	*Financial Times London /21Jan93*						x			

ARTICLE TITLE	SOURCE/ DATE	GLOBAL PRODUCTION			GLOBAL MANAGEMENT			GLOBAL PARTNERSHIPPING		
		Mfg.	Dst.	Dsg.	Mkg.	R&D	CP	CF	M&A	JV
MIDDLE EAST										
Middle East: "Rising demand boosts dairy sector"	*EIU /08Jul96*		x			x				x
Dubai: "Nestlé ice cream plant in Dubai"	*Saudi Gazette /15Jun96*		x		x					x
Middle East: "Dairy sector expands throughout region"	*EIU /22May96*	x	x							x
Dubai: "Nestlé in Dubai ice cream joint venture"	*Reuter News Service /05May96*									x
Dubai: "Nestlé in Dubai ice cream joint venture"	*Reuter News Service /05May96*									x
Saudi Arabia: "Non-fat shipping spree"	*Saudi Gazette /16Apr96*		x	x						
Israel: "CLAL in talks to buy 50% of Israel dairy maker"	*Reuter News Service 18Feb96*									x
Israel: Elite chief seeks to sell stake to Kraft"	*Reuter News Service /05Feb96*		x						x	
Israel: "Israel OSEM sold to unnamed buyer"	*Reuter News Service /29Jan96*								x	
Egypt: "Nestlé will make few changes"	*Africa Economic Digest /04Dec95*						x		x	
Egypt: "Nestlé Egypt acquires Dolce food industries"	*Middle East Economic Digest /27Nov95*			x					x	x
Israel: "Nestlé to tread water"	*Israel Business Today /15Nov95*						x			x

ARTICLE TITLE	SOURCE/ DATE	GLOBAL PRODUCTION			GLOBAL MANAGEMENT			GLOBAL PARTNERSHIPPING		
		Mfg.	Dst.	Dsg.	Mkg.	R&D	CP	CF	M&A	JV
Iraq: "Iraqi TV broadcasts lists of banned and permitted imports"	*BBC Monitoring Service /19Sep95*		x							
Iraq: "Iraq seeks relief from sanctions"	*Middle East Economic Digest /27Mar95*		x		x					
Iran: "EIU news analysis - JVs persevere in unstable climate"	*EIU /09Mar95*									x
Iran: "JVs preserve in unstable climate"	*EIU /09Mar95*	x					x			x
Iran: "Meed special report on Iran - Industry planning to take the quality test"	*Middle East Economic Digest /06Feb95*		x							x
Bahrain: "New Industrial projects to lure investors"	*Middle East Economic Digest /06Feb95*	x				x				
Iran: "FDI plagued by short-term pitfalls"	*EIU /24Feb95*	x					x			x
Iran: "Industry - Planning to take the quality test"	*Middle East Economic Digest /06Feb95*									x
Iran: "EIU news analysis - FDI plagued by short-term pitfalls"	*EIU /24Feb95*	x				x				x
Bahrain: "New industrial projects to lure investors"	*Middle East Economic Digest /06Feb95*								x	
Iran: "Hard times persist as the isolation eases"	*Reuter News Service /19Dec94*									x
Iran: "Hard times persist as the isolation eases"	*Tehran Times /19Dec94*	x			x					
Iran: "Nestlé transfers technology to Iran in a $48 million project"	*Tehran Times /05Dec94*	x				x				

ARTICLE TITLE	SOURCE/ DATE	GLOBAL PRODUCTION			GLOBAL MANAGEMENT			GLOBAL PARTNERSHIPPING		
		Mfg.	Dst.	Dsg.	Mkg.	R&D	CP	CF	M&A	JV
Egypt: Nestlé will make few changes"	*Africa Economic Digest /04Dec95*			x	x		x			
Egypt: Nestlé Egypt acquires Dolce Food Industries"	*Middle East Economic Digest /27Nov95*			x					x	
Egypt: "Nestlé takes over Egyptian food firm"	*Reuter News Service /21Nov95*								x	
Israel: "Israel to propose $25 billion in Mideast projects"	*Reuter News Service /13Oct94*						x		x	
Iran: "Nestlé goes into 50-50 joint venture"	*Middle East Economic Digest /26Sep94*	x	x							x
Iran: "Nestlé to invest in local plant"	*Middle East Economic Digest /04Jul94*	x								x
Iran: Nestlé sets up baby food joint venture with Nowzad"	*Neue Zuercher Zeitung (Swiss) /30Sep94*					x				x
AFRICA										
"South Africa a happy story for Western investors"	*Reuter News Service /11Jul96*								x	
Nigeria: "Press digest - Nigeria"	*Reuter News Service /28Jun96*	x							x	
Nigeria: "Oil and food stocks risk in Nigerian market"	*Reuter News Service /28May96*	x								
South Africa: "O&M Rightford establishes a new harmony"	*Advertising Age /15Apr96*				x					

ARTICLE TITLE	SOURCE/ DATE	GLOBAL PRODUCTION			GLOBAL MANAGEMENT			GLOBAL PARTNERSHIPPING		
		Mfg.	Dst.	Dsg.	Mkg.	R&D	CP	CF	M&A	JV
South Africa: "Nestlé South Africa - Maggi 2-minute noodles..."	*International Product Alert (USA) 15Apr96*			x	x					
Africa: "Africa needs to do more for itself"	*Africa Economic Digest /01Apr96*					x				
Africa: "Ogilvy & Mather begins building African network"	*Euromarketing /26Mar96*				x					
South Africa: "Swiss companies cautious about investment"	*Le Journel De Geneve (Swiss) /18Dec95*		x				x			
Nigeria: "Nigeria's Shell must behave more responsibly"	*Jakarta Post /11Dec95*	x		x	x		x			
Nigeria: "When the people take on an oil giant"	*Independent (UK) /14Nov95*			x	x		x			
South Africa: "Sport in brief"	*Guardian (UK) /14Oct95*						x			
Ghana: "Cocoa makes giant strides"	*Africa Economic Digest /09Oct95*	x						x		
South Africa: "Nestlé South Africa easy meld molding and baking chocolate..."	*International Product Alert (USA) /21Aug95*			x	x					
South Africa: "Nestlé South Africa - Nescafe Cappuccino"	*International Product Alert (USA) /14Aug95*			x	x					
South Africa: "Nestlé South Africa - Maggi Instant stock powder..."	*International Product Alert (USA) /31Jul95*			x	x					
South Africa: "Mandela looks for foreign investors"	*Economist /13May95*	x								
Uganda: "Swedes make major foray into food processing"	*EIU /03May95*	x	x							

ARTICLE TITLE	SOURCE/ DATE	GLOBAL PRODUCTION			GLOBAL MANAGEMENT			GLOBAL PARTNERSHIPPING		
		Mfg.	Dst.	Dsg.	Mkg.	R&D	CP	CF	M&A	JV
South Africa: "Nestlé introduces Milkmaid Cream"	*International Product Alert /19Apr95*			x	x					
Ghana: "Rawlings returns from overseas, comments on meetings in USA, Europe"	*BBC Monitoring Service /21Mar95*						x			
South Africa: "Nestlé group to invest R600 in local operation"	*Business Day 09Mar95*	x			x				x	
Africa: Trade and Investment guide to Africa - Cote D'Ivoire"	*Project and Trade Finance /30Sep94*								x	
Cote D'Ivoire: "Ivorian firm to target Asia with soluble coffee"	*Reuter News Service /14Jul94*	x	x		x					
Algeria: "Snig wins plant contract"	*Agence Europe /21Jun94*	x								
TOTAL REFERENCES IN CATEGORY	**277**	**96**	**64**	**66**	**108**	**44**	**73**	**22**	**50**	**63**

KEY:

Global Production:
Mfg. = Manufacturing **Dst.** = Distribution **Dsg.** = Product Design

Global Management:
Mkg. = Marketing **R&D** = Research and Development **CP** = Corporate Policy

Global Partnershipping:
CF = Contract Farming **M&A** = Mergers and Acquisitions **JV** = Joint Venture

Chapter 5

LINKING GLOBAL PROCESSES TO LOCAL EFFECTS: NESTLÉ IN THE DEVELOPING WORLD

In Chapter Four, the case of Nestlé was applied to this thesis' analytical typology of Global Production, Global Management and Global Partnershipping. Moving forward with the analysis, it is now necessary to apply the case of Nestlé to the matrix of global processes and local linkages developed in Chapter Three. As will be recalled, the matrix conceptually identified thirteen key local linkages between TNC global activity and local communities. In this chapter, evidence on Nestlé's activities in the developing world is integrated into this framework. To this end, over four hundred sources compiled in both the 'Nestlé Bibliography' and Appendix 4.2 have been analyzed to reveal a sampling of local linkages.

Gaining insight into Nestlé's activities in the developing world is important, as the firm has over 200 manufacturing facilities in 57 developing countries (Nestlé S.A. 1999a; Nestlé S.A. 1997). This presence is significant, with Nestlé maintaining at least one manufacturing base in nearly 40% of all developing countries.[1] Its sales reach is even more remarkable, with Nestlé products sold throughout the developing world. While an investigation into the principal direct and indirect linkages from the firm's activities in the developing world will form the crux of this chapter's investigation, first a brief history of Nestlé in the developing world will provide a necessary context and background.

[1]Analysis based on Nestlé's manufacturing presence in the developing world and the total sample base of developing countries listed in Appendix 1.1.

NESTLÉ'S HISTORY IN THE DEVELOPING WORLD

In my historical review of Nestlé documentation it was apparent that the TNC has long regarded its relationship with the developing world as an important issue to address publicly. This is witnessed by the attention given to developing world issues in over thirty years of company documentation. As early as 1967, Nestlé made a point of commenting on how it believed the firm's operations affected local conditions in developing countries:

> [Nestlé's activities in the developing world]...contribute, one way or another, to stepping up agricultural output, lead occasionally to the better utilization and organization of land, provide work for the native population and consequently increase their incomes. Last but not least, factory activity helps to raise the general level of industrial skills in the local labour force. (Nestlé Alimentana 1967:35)

It is obvious that Nestlé would highlight the positive aspects of doing business in any location. The point in this instance is that Nestlé was sensitive to perceptions regarding its activities in the developing world long before it became fashionable for TNCs to do so. While the validity of Nestlé's claims of its impacts in the developing world will be discussed in the sections to follow, it is first necessary to review how Nestlé's relationship with the developing world has evolved over time.

While Nestlé's first manufacturing venture in the developing world was established in Brazil over 75 years ago, it has only been over the last decade that the firm has made it policy to rapidly expand into developing countries (Nestlé Alimentana 1957; 1967; 1975:10; Nestlé S.A. 1997; 1987; 1994a). In the early years, most production in developing countries was dedicated to dairy and dietetic products, in which the primary raw material needed was fresh milk. One reason Nestlé originally established 'stand-alone' affiliates in developing markets (such as Brazil) was to meet a growing 'internal' domestic demand for the firm's products. Nestlé confirms this with any early quote from its archives:

> Once a certain threshold volume of demand has been reached, as in...Brazil for example, Nestlé can decide on the local manufacture of products which were previously imported from its factories in the industrialized countries. (Nestlé Alimentana 1975:34)

Nevertheless, while in the 1960s and 1970s large internal domestic markets enticed Nestlé to establish local production facilities in the developing world, it was also the case that during that period governmental import restrictions forced Nestlé to produce locally (or not sell their products at all) in a number of developing markets (Nestlé Alimentana 1967:20).

Import restrictions were usually enforced due to efforts by developing country governments to pursue 'import-substitution industrialization' (ISI). As discussed in previous chapters, ISI was an incentive for TNCs to establish 'stand-alone' affiliates in the developing world. For example, while Nestlé had been importing condensed milk and infant food into India since the beginning of the 20th century, new government policies in the 1960s and 1970s forced Nestlé to think about producing locally (Montavon 1993:1). The relative power of governments over Nestlé's actions is highlighted even more in terms of guidelines enforced over local ownership requirements. For instance, while local factories were eventually established in developing countries in the 1970s, at the same time, developing world governments also forced Nestlé to forfeit a large percentage of ownership to local shareholders. Nestlé notes in 1976 that such action constituted 'pronounced state interference' in the firm's business in the developing world (Nestlé Alimentana 1977:37).

Due to the constraints some governments imposed on Nestlé in the 1970s, the company became defensive of accusations by the public that the firm's activities in the developing world were "nothing more and nothing less than exploitation" (Heer 1991:333). During this period, a former Chairman of Nestlé, Jean-Constant Corthesy, argued that far from exploiting developing countries, "the innocuous nature of big companies and their scrupulous respect for the law" made them vulnerable to nationalization or dispossession (quoted in Heer 1991:331). Supporting Corthesy's claims, there is evidence today of the ultimate power governments have over TNC operations within their borders. As discussed

in the next section, Nestlé would not be operating in China had the company not complied with a number of preconditions set out by the Chinese government (Montavon 1997; Rapoport 1994).

Further recent accounts of government restrictions on Nestlé's buying and selling practices have been found in countries such as India, Thailand and Iran. In India, the government has regularly imposed restrictions on where and in what quantities Nestlé can obtain raw milk supplies (*Economic Times* [India] 28Apr95; Montavon 1993). In Thailand, the government imposed price freezes on the sale of Nestlé products (*Nation* [Thailand] 21Oct94). In Iran, Nestlé was restricted from entering the market unless minimum standards of local ownership in the company were arranged (*Middle East Economic Digest* 04Jul94). These are typical instances of the 'cost of doing global business'. However, as discussed in Chapter One, just because a TNC is required to operate under local rules of law does not mean that the firm does not pursue global strategies.

Regardless of potential government restrictions, the triad of global strategies discussed in this thesis have consistently explained how continued expansion into the developing world is a global strategy in its own right. The difference is that today, unlike TNC expansion during the 1960s and 1970s, 'complex-integration' strategies are pursued. In the 1960s and 1970s, Nestlé's contribution to local industry was limited to fulfilling an existing demand for certain products through 'stand alone' affiliates (Nestlé Alimentana 1975:34; Heer 1991:332). Nestlé subsidiaries in the 1990s are more clearly representatives of an integrated global firm. In this way, Nestlé has sought to gain a foothold in locations where there is virtually no initial demand for its products (unlike in previous decades where a strong pre-existing demand was a requirement).

For instance, in the early 1990s Nestlé established manufacturing facilities for the production of instant coffee in China, even though there was virtually no initial demand for the product. A notable point about this is that Nestlé's primary concern was "to reinforce [its]..industrial presence in China", not to satisfy an existing demand (*Food Manufacturing International* 27Jul95; Montavon 1997:30). As will be discussed later, throughout the 1990s,

Nestlé has approached China not only with a view to switching tea drinkers to instant coffee, but also to create a demand for Nestlé's other processed food products (O'Donnell 1994; Nestlé S.A. 1998; Montavon 1997).

In addition to its relatively recent strategy of entering markets with little or no demand for its products, it is interesting to note that it was not until the late-1980s that it became regular policy to adjust products introduced into the developing world to local tastes. This is said to be part of Nestlé's evolving policy of 'thinking globally and acting locally' (Nestlé S.A. 1987;1997). During the late-1980s, Nestlé developed a global R&D network which has assisted in facilitating its penetration into LDCs. As examples will later confirm, Nestlé's global R&D network has not only served to adjust global products to local tastes, but has on occasion sought to find various uses for local raw materials. Nestlé claims that this effort represents a global-local approach, which has fueled the TNC's expansion into the developing world by offering local consumers products 'they like at prices they can afford' (Heer 1991:512; Maucher 1994b).

In short, the purpose of Nestlé affiliates in the developing world started to change in the 1980s and 1990s. Not only have newly developed products been introduced into LDCs, but under new global strategies developing countries have come to serve as both global expansion targets and export bases. The developing world is now viewed as an increasingly important part of Nestlé's overall expansion strategy (Nestlé S.A. 1997:7). Moreover, the firm acknowledges that its presence in the developing world is influential and that the impacts from its global strategies are more locally- than nationally-based (Nestlé S.A. 1994b:2). It is to an identification and analysis of Nestlé's global-local linkages in the developing world that we now turn.

LINKAGES THROUGH NESTLÉ'S GLOBAL PARTNERSHIPPING STRATEGIES

Of the range of activities carried out by food processing TNCs, the procurement of raw materials through partnerships with local farmers has among the most far-reaching local effects. The raw materials which Nestlé uses are wide-ranging, including milk, coffee, tea, soya, wheat, rice, cocoa, spices and a variety of fruits and vegetables. Nestlé's regular purchase of these raw materials puts the firm in touch with many different crop farmers on a daily basis. The fact that Nestlé alone purchases about 10%-20% of the world's coffee supply is an example of the magnitude of its raw material acquisitions (Credit Suisse First Boston Ltd. 1996; Nestlé S.A. 1994b).

As discussed in Chapter Four, while Nestlé has long used both verbal and written contract farming agreements to obtain raw milk, it has only recently introduced a corporate 'suggestive' policy of encouraging subsidiaries to buy other raw materials 'direct' from local producers (Nestlé U.K 1995:14). Through direct purchases, the TNC comes into contact with hundreds of thousands of local farmers worldwide. While its 'Farm Technical Assistance Program' has a long history in developing countries, it is only recently that the firm has globally coordinated its estimated 1,000 agricultural advisers to aid in the acquisition of high quality raw materials for the TNC's worldwide subsidiaries (Montavon 1997:5).

From a more micro perspective, the connection between a global food TNC and local farmers is detailed below in two case studies on Nestlé's 'Farm Technical Assistance'. Since milk and coffee are among the raw materials most purchased by Nestlé, the case studies in this section will be based on those raw materials. For each of these raw materials, Nestlé is involved in contract farming (or direct purchasing arrangements) with farmers in developing world communities. As discussed in previous chapters, these agreements specify standards such as product quality, farming method, delivery times and price. In the next two sub-sections, the linkages associated with these contracts (or non-equity partnership arrangements) are identified and assessed for impacts in the case of raw milk in India and in the case of raw coffee in China.

FARM TECHNICAL ASSISTANCE TARGETS
TECHNOLOGY, AGRICULTURE AND RURAL COMMUNITIES: THE CASE OF THE MOGA MILK DISTRICT IN INDIA

The Nestlé factory in the Moga district of India obtains its raw materials through non-equity partnerships in contract farming. When the factory was established during the 1960s Nestlé's farm technical assistance was not widespread.[2] The Moga factory was one of Nestlé's first factories in Asia during a time when the firm had not yet started to pursue its 'aggressive' global expansion strategy. The factory was established in response to a change in government policy which stopped Nestlé from importing into India, leaving it the choice of either producing locally or not selling in India altogether (Montavon 1993).

Originally, as a condensed milk factory, the Moga facility required the supply of large quantities of raw milk. This forced Nestlé to coordinate a 'milk producing region' around the factory's parameter. The region had no dairy farm ranches, but all farmers owned at least one dairy animal as a source for household food. Since farmers concentrated all efforts on growing local food crops (wheat and rice), and given that a commercial outlet for milk did not exist prior to Nestlé's entrance into the region, the farmers had not thought of earning income from their animals (Montavon 1993:17).

To encourage the sale of raw milk in Moga, Nestlé representatives set out to accomplish five main goals (Montavon 1993:18): (i) to gain the confidence of local farmers; (ii) to organize a milk farming system among tens of thousands of local farmers; (iii) to set up a daily collection point where milk fat content could be analyzed and payment assessed; (iv) to encourage surplus milk production; and (v) to provide technical advice to farmers to support an increase in milk production (i.e. greater yields from dairy animals). In accomplishing its goals, Nestlé has to date established a network of 20 collection points (or 'milk roads') covering 580 villages (out of a total of 897 Moga district villages). Under this

[2]While Nestlé had previously sponsored a number of Farm Technical Assistance Programs as early as the 1920s in Brazil, it was not until the 1990s that the programs became widespread and globally organized.

network, Nestlé buys fresh milk directly from over 60,000 mostly small- and average-sized farmers.[3] The Moga district village populations range from the smallest of about one hundred families, to the largest of about a thousand families. Virtually every village in the milk district is supplied with a Nestlé 'dairy', where fresh milk is dropped off. There is an agent in charge of milk collection at each dairy who is paid on commission. The agent opens the dairy twice a day for two hours at a time. At the end of the day the agent takes all the milk to one of the 20 'milk roads', where Nestlé collects the milk. The farmers are paid twice a month based on the quantity and quality of milk submitted (Montavon 1993:18-20).

One fact of Nestlé's operations in Moga is clear, and that is that the TNC has managed to 'create' a milk industry in the region (ibid; *Informatics* [India] 23Jan96). As a result, there has been an increased demand for some jobs requiring higher education. For instance, graduates from the local Agricultural University have been employed by the TNC as farm technical assistants, who receive the necessary guidance and support from the Agricultural Services Department at Nestlé's headquarters. Headquarters transmits research and information from Nestlé's network of global subsidiaries to local technicians, making specialized research available on a local level (Nestlé Research Center 1997; Ong 1995). In addition, Moga technical assistants are sent to Nestlé's headquarters for expert training, and Nestlé Headquarters staff are sent to the Moga district to learn local skills (Montavon 1993:25). Under this scheme, training and educational linkages are observed, in which headquarters staff gain a local perspective and local technicians learn new skills and technologies.

The services provided by Nestlé's Farm Technical Assistance Program are said to be free of charge, except for the wholesale cost of any medicines and material needed. While

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[3]Within the 580 villages which supply Nestlé, over 43% of the milk obtained in Moga comes from the three lowest economic levels of farmers/labourers - the breakdown is as follows (Montavon 1993:28): (i) farm labourers owning no land and one dairy animal supply 3% of Nestlé's total raw milk purchases; (ii) very small farmers owning 2 acres of land and one dairy animal supply 14.7% of Nestlé's purchases; (iii) small farmers owning 2-5 acres of land and two dairy animals supply 25.5% of Nestlé's purchases; (iv) average farmers owning 5-10 acres of land and 3-5 dairy animals supply 33.6% of Nestlé's purchases; (v) large farmers owning over 10 acres of land and 6-10 dairy animals supply 12.8% of Nestlé's purchases; (vi) very large farmers owning over 10 acres of land and over 20 dairy animals supply 10.4% of Nestlé's purchases.

sources have not been found which can confirm Nestlé's assertion that its services are free of charge, it is probable that any amounts charged to local farmers would not constitute a high profit business. The fact is that the primary purpose of farm technical assistance in Moga is the transfer of skills to improve animal welfare and increase raw material supplies (Montavon 1993:21). This is most likely accomplished, as not only has local evidence confirmed an increase in milk production in the region, but it is in Nestlé's interest to improve the quality of milk farmed from local animals (ibid; *Informatics* [India] 23Jan96; *South China Morning Post* 26Jan96).

To ensure high quality supplies, Nestlé has gone into partnership with the local Punjab State Agricultural University to encourage better breeding. This is a very specialized program in which artificial insemination is promoted by offering local farmers semen samples from high breed animals. Nestlé has not indicated how much these samples cost the farmer, noting only that the bottles of liquid nitrogen used for semen sample storage are free of charge. Aside from issues of cost, the fact that Moga farmers are taught how to artificially inseminate dairy animals confirms a linkage via technology transfer (Montavon 1993:22).[4] As discussed in Chapter Three, some scholars would argue that Nestlé's farm technical assistance activities might detrimentally influence local farmers to pursue inappropriate 'Western' techniques (George 1980; Abraham 1991; Johnston 1979). However, as will be discussed below, the evidence in the Moga case appears to support the opposing general view: TNC global technology transfer used to improve the stock of dairy animals enhances the livelihood of local farmers, with little or no risk (Glover and Kusterer 1990; Rama 1985).

A more controversial way Nestlé activities are linked to the rural community is through its sponsorship of debt-financing. In its bid to ensure that the quality and quantity of local raw milk supply meets its global standards, Nestlé has encouraged farmers to borrow

[4]Other Nestlé activities in Moga connected to its Farm Technical Assistance Program include local radio broadcasts and yearly 'open house' lectures on up-to-date farming practices (ibid:26; Ong 1995).

money to improve infrastructure.[5] One result of this program was the installation of high-tech and high-yielding wells in the milk supplying districts of Moga (i.e. traditional brick-walled wells were replaced with steel-tubed wells). Nestlé's motivation in developing this scheme was the belief that new wells would enable farmers to grow animal feed (such as alfalfa or sorghum) all year long, thereby improving the health of dairy animals, and thus ensuring that the TNC's supply of milk would also improve. While Nestlé's scheme targeted milk farmers, residual impacts can be observed on local agriculture (e.g. crop farmers also gained use of the wells for local wheat and rice crops) (ibid; *Informatics* [India] 23Jan96).

Nestlé's success in rural areas depends on a mutually beneficial relationship between firm and farmer. The firm's guarantee of "never refusing a single liter of milk even from the least important farmer in the milk district" is in essence a verbal contract between Nestlé and local farmers in Moga (Montavon 1993:31). This guarantee, coupled with regular payments and continuing technical assistance, has encouraged farmers to actively sell surplus milk to Nestlé. This has ensured the TNC a plentiful supply of milk all year round. This is confirmed by local sources, which note that milk yields in the Moga district have significantly increased. Indeed, the last available figures show that, on average, over 105,000 tons of raw milk was collected from over 60,000 farmers (*Informatics* [India] 23Jan96; Montavon 1993).

As noted in Chapter Three, scholars who link food security to TNC activity might argue that the milk Nestlé buys commercially jeopardizes its use as a food source in the region (Little 1994; Barnet and Cavanagh 1994). However, an examination of the statistics shows that a concern over 'milk security' does not appear to be warranted. In the case of Moga, the vast majority of milk produced in the region is for domestic and food use (i.e. used to make home-made milk, oil and yoghurt). While Nestlé purchased over 105,000 tons of milk, total milk production in the region was over four times that at 470,000 tons. Of that, approximately 320,000 tons was consumed locally as a food source (Montavon 1993:33). Hence, approximately 70% of the total milk produced was used to sustain local life and only

[5]Loans were initially offered directly through Nestlé, but once local communities became familiar with the scheme, Nestlé sought to lessen its risks by transferring negotiations to local banks.

30% was sold commercially. In this case it appears that, contrary to what critics of cash crop farming claim, a TNC's linkage to agriculture does not necessarily negatively impact the local food supply. In addition, Nestlé's presence in the region was proven to substantially increase milk production, which offsets a potential conflict between milk produced for commercial rather than domestic use.

It is estimated that farmers in Moga use about 25% of their land to produce milk, with the remainder left to farm land crops. However, with the continued growth of a milk industry and a corresponding increased demand for raw milk, there is growing pressure for farmers to devote more resources to milk farming (*Informatics* [India] 23Jan96). While Nestlé used to maintain the only dairy factory in Moga, small-scale local competitors have since entered the region. To combat the competition and ensure a steady supply of raw milk, Nestlé pays on average 5-6% more to farmers than its regional competitors (Montavon 1993:31; *Informatics* [India] 23Jan96). Critics would argue that Nestlé's financial enticements to keep the milk market growing are but another example of how a TNC takes resources away from staple food crops to support its activities (e.g. Abraham 1991). Again, however, there is counter evidence which suggests that local governments can play an important part in regulating global capital. This is demonstrated in this case by the Indian government's mandate over Nestlé in dictating where and how much milk the TNC can obtain in the region.[6]

Even though it is obvious that Nestlé is influential in the Moga milk district, the TNC is keen to shield the degree of its presence in the community. For instance, Nestlé indicates that it only purchases 23% of the 'total milk produced' (including that used for domestic food use) in the Moga district. While that calculation is correct, a more accurate analysis would entail calculating Nestlé's percent purchases of 'total *commercial* milk produced'. Under this parameter, it has been determined that Nestlé procures over 70% of all commercial milk

[6]Nestlé was only able to establish a 'milk district' according to specifications set out by the Indian government. While the firm was originally authorized to buy fresh milk from farmers within a fixed 4,250 square mile area, eventually the TNC was restricted by the government to collecting milk from half that area (Montavon 1993:16).

produced. From this, it is obvious that Nestlé has sought to minimize its perceived impact in Moga by choosing to use a data set which would reflect a smaller presence.

Nestlé's attempt to minimize its perceived influence in the region appears not to be because the TNC's activities are necessarily negative, but because it has tried to avert pressure from interest groups which have been critical of the scale of its operations in the developing world (e.g. Baby Milk Action 1996). As discussed in Chapter Three, critics of TNC activity in the developing world point to the relative power companies such as Nestlé have over local communities, due to their purchasing might and their ability to relocate operations (e.g. Little 1994; Barnet and Cavanagh 1994). On the other hand, while TNCs are globally mobile, there is evidence that local communities, such as Moga, reap several benefits through a TNC's presence, including increased raw material production and infrastructure development (e.g. Oman 1989; Glover and Kusterer 1990; Miller 1996). Moreover, although critics would be right in asserting that the local community would be left vulnerable if Nestlé were to move its production site out of Moga, this is not something that is unique to the developing world. A global company acting locally will always have the power to move operations.

In the end, the purpose of Nestlé's non-equity partnershipping in Moga is to manufacture processed foods from raw materials. In pursuing this goal, Nestlé has become an important local employer via contract farming, in which the equivalent of approximately 46,000 full-time workers are paid by the TNC.[7] Local sources suggest that the income earned from Nestlé is used by farmers to support improved farming practices, basic needs, education and leisure activities (EIU 07Feb96a; *Informatics* [India] 28Mar96;). This confirms findings showing that the opportunity to earn more income enables farmers to improve standards of living, including the option of sending children to school rather than using them as subsistence labourers (Glover and Kusterer 1990).[8]

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[7]Full-time salaries are estimated based on minimum legal salaries fixed by the government.

[8]Nestlé has claimed that since its arrival in the Moga region, more children attend primary schools and there is a greater demand for secondary school education. While Nestlé's presence cannot, of course, be directly attributed to the increase in schooling, it has been observed that the extra income farmers earn from activities such as milk

(continued...)

JOINT VENTURE AGREEMENTS WHICH ARE TIED TO THE DEVELOPMENT OF AGRICULTURE: THE CASE OF COFFEE FARMING IN THE YUNNAN PROVINCE IN CHINA

Unlike the procurement of raw milk, green coffee (raw coffee beans) can be obtained on international commodity markets. Fresh milk spoils rapidly, green coffee does not. Hence, while Nestlé has 54 coffee processing factories worldwide, many are located far from the coffee producing countries of the developing world. A majority of coffee factories are located in the industrialized world because that is where most coffee products are consumed. However, as discussed in Chapter Four, under Nestlé's new Global Production strategies goods are increasingly being produced further away from consuming markets. In addition, production for local markets is no longer based on the existence of a large domestic demand. Nestlé's recent entrance into the Chinese market confirms this, as the initial demand for Nestlé's products has been low (Yong 1999; O'Donnell 1994; Montavon 1997:30).[9]

Nestlé markets a number of products in China. Some of these reflect local tastes (e.g. Noodles), but other items, such as Nestlé's global benchmark product, Nescafe instant coffee, are new to the market (Yong 1994). In order to enter China, Nestlé was required by the Chinese government to not only form joint ventures with local entities, but also to purchase all materials locally.[10] Fulfilling the requirement of obtaining raw coffee locally was especially

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[8](...continued)
farming encourages families to send children to school rather than using them as farm labourers (Glover and Kusterer 1990). Indeed, a report sponsored by the ILO (Fyfe 1997) argues that, to reduce child labour, incentives must be found to convince the rural poor that sending children to school is more beneficial than using them as agricultural labourers. No doubt, extra income goes a long way in alleviating concerns that the long-term benefits of schooling will not necessarily interfere with family maintenance.

[9]The first Nestlé factory in China was established in July 1990 in the extreme northeast of the country, and currently produces infant cereal and powdered milk. The second Nestlé factory started production in December 1991 in Dongguan to manufacture instant coffee and powdered creamers. Since 1991, Nestlé has grown considerably in China, with over 10 Nestlé factories spread throughout China's seaboard. While current demand for its products might be low, Nestlé plans to continue expansion in the country (Nikkei Weekly 28Aug95; BBC Monitoring Service 16Aug95; Montavon 1997).

[10]In China, TNCs have often been required to engage in joint ventures with city, province or state agencies (Xinhua News Agency 16Aug95; Montavon 1997). As in the majority of its global partnershipping ventures, Nestlé has maintained management control of its joint ventures in China (typically owning 60% or more of the shares).

difficult, as coffee growing in China was virtually non-existent prior to the 1980s (O'Donnell 1994; Montavon 1997:16). In addition, the firm was restricted by Chinese authorities to obtaining raw materials from designated 'poverty areas'. This severely limited Nestlé's choices, as there were few poverty areas with climate conditions suitable for growing coffee beans. Eventually, the TNC settled on the tropical-humid climate of the Yunnan Province (located on the Laos-Vietnam-Burma borders) as an area where coffee farming would be promoted.[11]

Not only did the Chinese authorities limit the regions where Nestlé could pursue contract farming, but the government also protected local staple crops so that they would not be displaced by Nestlé's activities.[12] Since the lower slopes of the valleys in the Yunnan Province were planted with rice crops, coffee crops were required by law to be planted in the mountains (Montavon 1997:18). The fact that the local government protected staple crops from being displaced by Nestlé's activities again weakens arguments put forward by scholars who assert that TNCs have a dominate influence on local food security (e.g. Little 1994; Barnet and Cavanagh 1994). On the contrary, since coffee terraces needed to be established in the mountains, the prospect of coffee farming was not immediately attractive to local farmers, and it was thus coffee, not staple crops, which were in short supply.

To encourage coffee growing and develop a coffee-growing industry in the region, Nestlé pursued contract farming. The TNC guaranteed to purchase minimum quantities per year which enticed farmers to participate. In return for the security offered by Nestlé's guaranteed minimum purchases, farmers were held to conditions on the quality of the raw materials produced (*Food Manufacturing International* 27Jul95; Boyd 1995; Montavon

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[11]The whole 73 districts and 506 townships of Yunnan Province are designated poverty areas. A poverty area is one in which the average annual income is less than 300 Yuan (or about $35) and per-capita cereal production is less than 300 kg per year (Montavon 1997:18).

[12]When Nestlé first entered China peasant farmers did not own the land they farmed. Crop land was managed by local or regional governments, which specified the nature of crops grown, the surfaces to be planted, and the price of the harvest. Under these circumstances, Nestlé was not in a position to work directly with local farmers, and hence its Chinese joint venture partner initially arranged with local and regional governments for the formation of coffee producing districts (*Dairy Market Weekly* 17Oct95; Nestlé S.A. 1997).

1997). After some initial resistance from Chinese authorities, Nestlé provided farm technical assistance to ensure that the TNC's global standards would be met.[13] A residual benefit to local farmers from this technical assistance is the improvement of the quality and quantity of crop harvests. In addition, a transfer of knowledge supporting 'sustainable agricultural' practices was observed via Nestlé's farm technical assistance, in which the TNC requested that the natural ground cover of indigenous shrubs and trees be left in place to stabilize the soil (Arasu 1995; Campbell 1996; Montavon 1997:36).

Nevertheless, transfers of knowledge are not always 'appropriate'. In Nestlé's bid to support its Global Production strategy of raw material conformity, the firm's technical assistants advised local farmers in designated 'poverty areas' to use an expensive, machine-dependent, post-harvest treatment.[14] The TNC was so intent on convincing farmers to use the 'expensive' method that it extended loans to farmers so that the equipment could be purchased or leased. Some scholars might argue that the initial resistance demonstrated by the Chinese government in asking Nestlé farm technical assistants not to have direct contact with local farmers was meant to safeguard against these types of 'inappropriate' transfers of technology (e.g. Abraham 1991; Johnston 1979).

However, if 'inappropriate technology' is prevented from entering developing countries, then what impact does this have on 'technological advancement'? If global capital requires state-of-the-art equipment to process manufactured goods, then it would seem preferable that the TNC remain in developing countries and encourage the improvement of

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[13]As discussed, Nestlé offers farm technical assistance in conjunction with contract farmers in an effort to ensure raw materials meet the firm's global standards (Rapoport 1994). However, the local Chinese authorities initially considered it unnecessary, believing that government agriculture assistance would be sufficient The end result was that the degree and magnitude of coffee planting fell short of Nestlé's expectations, which jeopardized Nestlé's resolve to remain in the region (Montavon 1997:20). In the absence of a sufficient supply of raw coffee, Nestlé insisted that its farm technical assistance was a necessary precondition to the firm's presence in the region.

[14]Raw coffee goes through a series of post-harvest treatments. The first stage is to separate the beans from the surrounding layers. This is done by either the dry or wet method. The dry method entails laying out the harvest in the sun for two to three weeks to prepare it for de-hulling. The wet method entails running the harvest under a powerful machine of running water to prepare it for de-hulling. The dry technique is the easier and more economical of the two. However, according to Nestlé, the wet method tends to produce better quality coffee (Nestlé U.K. 1995:6).

industry standards, rather than to withdraw to industrialized areas. Local sources from the developing world have confirmed that TNC technology transfer in the form of updated equipment and training techniques is certainly viewed by local communities as an important contribution (*Jakarta Post* 24Jun96; *Tehran Times* 05Dec94; Alexander 1996). With new modern equipment and new standards in processing, Rama (1992) notes that China has increasingly been able to export processed foods. In fact, with Nestlé's entrance into China, several communities now reap the benefit of exporting high value-added products (such as Nescafe) to neighboring regions, which brings in much needed foreign exchange.

The impact of TNC activities in the developing world depends on corporate good practice in local communities. A review of local sources has confirmed that Nestlé provides a number of community development services to small independent farmers in China. For instance, the TNC offers free one-week theoretical and practical courses on farming techniques to local growers in Yunnan and other developing world communities (Montavon 1997:47; *Jakarta Post* 24Jun96; Boyd 1995). This 'good practice' helps Nestlé improve its standing with local farmers and also provides residual benefits to the community (e.g. as reflected in long-term improvements in local farming). The case of Yunnan is an example of how Farm Technical Assistance and other local training programs forge a link between TNCs and rural communities, which can encourage technology transfers in farming practice.

Acquiring Local Firms Influences Local Industry, Technology and Training

Contrary to non-equity partnership agreements (e.g. contract farming) for the procurement of raw materials and inputs, equity mergers, acquisitions and joint ventures are used as tools for global expansion and brand-building. Nestlé's equity partnerships in the developing world are normally a result of joint-venture partnerships rather than straight-out acquisitions (BBC Monitoring Service 16Aug95; Molina 1995; Nestlé S.A. 1997). As demonstrated in the case of Yunnan, and as discussed in Chapter Four, the prevalence of joint

ventures in developing countries is mainly because many developing country governments require that a percentage of shares are initially owned locally. While Nestlé's presence in the developing world is often made possible only after allowing local capital a percentage ownership in its activities, restrictions typically loosen over time and the TNC is eventually able to buy-out its local partners (*Middle East Economic Digest* 26Sept94; *Informatics* [India] 17Nov95; Montavon 1993). This is how joint venture agreements turn into wholly-owned interests. Nevertheless, regardless of whether Nestlé owns 100% or 50% of a local firm, similar linkages to the local community are observed.

Local views on a TNC's impact are important to consider. The Tehran Times remarked that Nestlé's partnership with a local firm to produce baby food was an instance in which "Nestlé's advanced technology...has [been] allowed for the first time to be transferred" (*Tehran Times* 5Dec94). While it is unlikely that Nestlé had never before transferred its technology, the Iranian press viewed the possibility of technology transfer as important. Other linkages noted by the local press included the prospects that jobs would be created and that Nestlé would help generate an export economy.

While the Iranian local press generally viewed Nestlé's local presence as positive, there is evidence that TNC Global Partnershipping is also responsible for a number of negative impacts on local manufacturing. For instance, the expansion of Nestlé, among other TNCs, in Peru is apparently pricing small competitors out of several food sectors (EIU 10July96). A similar strain on local industry is present in Malaysia, where Nestlé's 51% interest in a local subsidiary has facilitated its capture of over 50% of the packaged dairy foods market (offering over 370 different product lines) and nearly 90% of the instant coffee market (*New Straits Times* 03Feb95). Nestlé's monopoly over the instant coffee market is so strong that there are no rival local manufacturers of the product in Malaysia. Local developing world sources have suggested that the survival of many local firms rests on forming joint venture partnerships with TNCs (*Star* [Malaysia] 07Jan95; *Business World* [Philippines] 02May96; *Informatics* [India] 01Dec95; 04Aug95). Short of this, local firms are surviving by becoming more competitive

and simulating TNC strategies to strengthen both local and global market positions (*South China Morning Post* 26Jan96; EIU 10Jul96; Metcalfe 1996).

An example of a local firm which has tried to use TNC Global Partnershipping to its advantage is the Philippines firm, San Miguel. Through its various partnerships with Nestlé, this local firm has expanded its global market share and strengthened its local market position. While it has engaged in a number of joint ventures in certain products with Nestlé, the local firm has managed to maintain its status as a local Filipino company run by a local family (Metcalfe 1996). San Miguel's actions have confirmed that if local firms retain a degree of control it is possible to use a TNC's know-how to strengthen their positions in the marketplace. By insisting that it maintain positions on the boards of its joint-ventures with Nestlé, San Miguel was not subsumed by the TNC, but actually grew (Molina 1995). It has been observed that these types of joint ventures teach local firms to emulate the strategies used by their TNC partners (ILO 1991). Eventually, by emulating Nestlé's global strategies, San Miguel independently entered dozens of new worldwide markets in the past decade (Metcalfe 1996; Molina 1995).

Unlike joint ventures, which afford local companies some control, acquisitions take power away from local executives and reduce local ownership. As discussed previously, when Nestlé purchased 100% of a Taiwanese frozen food manufacturer, a substantial structural change was believed to have occurred in Taiwan's frozen foods sector (*Taiwan Business News* 4Mar96). This was because the combination of Nestlé's global distribution channels and the strong reputation of the acquired firm's brands pushed smaller firms out of business. In this case, Nestlé's acquisition strategy contributed to the consolidation of the local frozen food industry. In short, equity stake Global Partnershipping, whether by joint venture or acquisition, will invariably impact local industry.

LINKAGES VIA NESTLÉ'S GLOBAL PRODUCTION NETWORK

Nestlé's worldwide production network has substantially increased the firm's capabilities in the developing world (recall Chapter Four). The effect that the firm's manufacturing has on not only employees, but also local firms and the community, is substantial. In the first part of this section, direct local linkages from Nestlé's Global Production strategies are evaluated. In the second part, the effect of the end product (the processed food) on food security is addressed.

PRODUCTION IS LINKED TO EMPLOYMENT, LOCAL INCOMES, LABOUR CONDITIONS, LOCAL FIRMS AND TRAINING

Nestlé's factories in the developing world are either built from scratch, purchased outright, or acquired through Global Partnershipping. In countries such as China, where industrial infrastructure is largely lacking, Nestlé often builds its factories from scratch (Montavon 1997:9). As noted, since 1991 nearly eleven Nestlé factories have been put into operation in China, producing milk products, baby foods, instant coffee, ice creams, culinary specialties, refrigerated products, mineral waters, chocolate and confectionery products. Nestlé describes this as "an impressive industrial capacity...to offer the Chinese consumer a wide range of Nestlé products" (ibid:4). The question in terms of production is not only how these end products impact consumer choices (as discussed in the next section), but also how this industrial capability impacts the local community.

As is the case in industrialized countries, local manufacturing in the developing world is perceived as an immediate and positive contribution to local economies. The obvious reason for this is that factories employ and train local people and generate work for local firms. Nestlé directly employees over 225,000 people worldwide, making it the 28th largest employer in the world (*Fortune* 1998:F-1). These employment figures do not include the

massive amounts of indirect employment the firm generates. To start off, one need only point to the backward linkages generated through the hundreds of thousands of farmers worldwide who supply Nestlé with the millions of tons of raw materials needed. Additional linkages are formed with local firms which not only supply Nestlé with packaging and other manufacturer inputs, but also distribution services.

Taking the Moga dairy products factory in India as an example, it is recorded that Nestlé supplies 1,670 direct factory/management jobs and over 500 indirect jobs to local firms and contractors. Indirect hired services include using independent firms to collect raw milk and provide mechanical and electrical support for the factory. Contracts are also awarded to local firms for the supply of packaging (including cardboard, tin cans, sachets and labels) (Montavon 1993:3;36; Rama 1992). Even considering all of the above higher value-added supplier linkages, the most substantial indirect employment generated in the case of the Moga dairy products factory is the over 60,000 milk farmers who supply Nestlé with raw milk. It has been observed that when the families of all those directly or indirectly employed by Nestlé are counted, over 400,000 men, women and children in the Moga community are connected to Nestlé (ibid).[15]

Far fewer people are needed to work and manage a food processing factory than are required to grow raw materials to supply the factory. This is confirmed in the case of the Philippines, where Nestlé factories employ about 3,500 local people and 248 indirect suppliers, but indirectly employ over 18,533 coffee farmers (Bulauitan 1995). Case studies of the linkages and potential impact Nestlé has on farmers and local rural communities have been discussed above under Global Partnershipping. Unlike farming, food manufacturing depends to a lesser degree on labour intensity and to a greater extent on mechanization. Thus,

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[15]Extrapolating from the Moga numbers, Nestlé's Global Production network stretches to millions of employees, service contractors and farmers worldwide. Based on my estimates of available data, the Moga factory accounts for less than 1% of Nestlé's total direct employment (*Fortune* 1998; Montavon 1993; Nestlé S.A. 1997). Hence, the 77,000 people employed directly and indirectly in the Moga district represent a benchmark figure for calculating the remaining 99% of Nestlé employees and contractors worldwide. However, since most of Moga's indirect employment is linked to dairy farmers, the case is not entirely comparable to the much lower number of connections Nestlé has with crop farmers (i.e. coffee, cocoa, vegetables) (Nestlé S.A. 1994b). Taking this into account, conservative estimates reveal that the total number of direct and indirect employment generated worldwide by Nestlé's Global Production Network is likely to be in the millions.

fewer jobs are generated and fewer local people benefit from Nestlé's factory presence than from the firm's raw material purchases.

Nevertheless, while linkages from food processing are most pronounced through the supply of raw materials, there are also a number of general spill-over effects from the manufacturing presence of food TNCs. For instance, the local press in the Philippines views Nestlé as having developed a positive "model of labour-management relations" (Carino 1996). As in much of the Philippines, Nestlé was having labour strike difficulties in the late 1980s. This was viewed as "a surprising fact since the firm has one of the highest pay rates in the [Philippines] food industry" (ibid). To encourage good relations between management and labour, Nestlé set out to improve job satisfaction. The President of Nestlé Philippines comments that the creation of "task forces, quality circles and committees gave workers a sense of empowerment ...and allowed them to make immediate decisions in the factory" (ibid).[16] Nestlé's claim to success has been confirmed by various local commendations, including awards from the Department of Labour and Employment and the Personnel Management Association of the Philippines (*Business World* [Philippines] 29Nov95). LDC sources have observed that Nestlé is increasingly viewed as an important model from which local firms should learn (e.g. Bulauitan 1995:7; Carino 1996).

In addition to direct effects on employees, Nestlé's manufacturing linkages with various suppliers has encouraged competition and efficiency which has spread to related local industries. For instance, two local packaging companies in Brazil merged in an effort to better supply Nestlé and other TNCs with materials (Higgs 1995). The potential influence Nestlé has over local suppliers throughout the developing world cannot be underestimated. The simple fact that the Nestlé subsidiary in the Philippines makes annual purchases of 17,000 tons of tin plate, 20,000 tons of paper, 8,000 tons of glass, and 7,000 tons of laminates confirms the substantial influence the TNC has over local packaging industries (Molina 1995).

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[16]The training implemented at Nestlé Philippines is similar to what has been described as 'quality control circles' and 'total quality management' programs, which, among other things, introduce workers to multiple skills, in-depth training, and provide a greater sense of responsibility and motivation among workers (ILO 1998:83).

Nestlé requires a very high standard of packaging and encourages local suppliers to produce packaging which complies with environmental and safety standards (i.e. recyclable and tamper proof packaging) (Molina 1995). To help local companies meet these standards, Roelof Keus, an executive Vice-President of the Technical Division at Nestlé Philippines, comments that it is Nestlé's responsibility as a user of packaging to assist suppliers in obtaining the latest in new and innovative technologies (Nestlé Research Center 1997; Molina 1995). Nestlé's need for high quality packaging has been an impetus which has encouraged local suppliers to update equipment and technologies (Jitpleecheep and Petsiri 1996; Carino 1996; *Informatics* [India] 15Jan96).

The evidence suggests that not only does technology transfer benefit local industry, but also that state-of-the-art working conditions transfer skills to workers (Bulauitan 1995). According to Nestlé, its up-to-date technology and superior working conditions attract the 'best' local staff (Nestlé U.K. 1993:52). In Singapore, the view is that "[f]oreign firms, with a more demanding, task-oriented work culture...pay well for the bright and driven" (*Straits Times* 18June95). As a result, it is argued that 'the younger generation' are encouraged to pursue additional education in order to qualify for positions at TNCs such as Nestlé. In brief, the above examples suggest that Nestlé factories can bring a number of positive externalities to local industry and employment. The next question is how Nestlé's food products impact the local communities in which they are consumed.

FOOD SECURITY, EXPORTING, IMPORTING AND NESTLÉ'S PROCESSED FOODS

As discussed in Chapter Four, it is part of Nestlé's Global Production strategy to increasingly manufacture food based on indigenous raw material in the developing world. In Nestlé's view "[t]his makes a positive contribution towards the process of increasing domestic production and reducing the need for imports in the [developing] countries" (Nestlé S.A.1994b:14). The case of the Nestlé Samalkha factory in India is evidence of Nestlé's effort

to produce food designed specifically for local consumers. In operation since 1993, this factory was created exclusively to manufacture products based on the local raw material of soya (Montavon 1993:64). Nestlé researchers found the high nutritional value of soya merited its use in the developing world in place of the expensive, and hard to obtain, local raw materials of meat and milk. As confirmed by a review of over ten years of food and agriculture research abstracts (U.S. Department of Agriculture 1996; 1998), Nestlé has used its vast research and development network to produce a 'substitute' for milk and meat products which could be used along with rice or wheat to provide a product which is high in protein.

There are three 'substitute' products manufactured in the Samalkha factory - 'Soyex', 'Cerelac-Soya', and 'Bonus' (Montavon 1993:65). 'Soyex' is made in the form of small, white, meat-like chunks and is designed to be the protein base of meals. 'Cerelac-Soya' is a weaning food made for infants and small babies and is based on soya instead of cow's milk. 'Bonus' is a soya powder used to make a drink comparable to milk. Nestlé claims that "[t]hese new products open up new horizons in finding solutions to the problem of food availability in developing countries" (ibid:66). The nutritional value of soya is confirmed by independent scientific research which shows that an increased consumption of soya would improve local diets in the developing world (*Nation* [Thailand] 06Sep94; U.S. Department of Agriculture 1996; 1998).

The Samalkha factory is a very unique example. The fact is that Nestlé's most widely distributed foods are products sold for the global, not local, markets. Unlike 'Soyex', many of Nestlé's worldwide foods (e.g. instant coffee and chocolate bars) do not contribute to local nutrition and food availability. On the contrary, a product such as instant coffee encourages the consumption of a 'luxury' food with little, if any, nutritional value. Nestlé defends itself against the empty calories argument by stating that the TNC does not only provide 'functional' nutritional foods, but also products for enjoyment (*EuroBusiness* 1996). The issue of product availability suggests that, at best, Nestlé products contribute to consumer choice and nutrition, and at worst, consumers are encouraged to purchase 'luxury' products.

Aside from impacts through the design of products (i.e. nutritional or luxury), Nestlé's strategy of exporting locally-produced foods is beneficial to many developing countries. For instance, Nestlé's powdered coconut milk was originally produced locally for the Sri Lankan market, but was eventually exported to Brazil and other markets around the world (*Folha de Sao Paulo* 02Jul93; *South American Business Information* 26Jul93c; Nestlé 1994:14). Likewise, instant noodles developed in Asian countries are now exported to Central America, South America and Africa (*Economist* 17Jun95; Nestlé S.A. 1994b:14). Not only does the export of products earn developing countries foreign exchange, but the use of local raw materials supports the local agricultural sector (*Star* [Malaysia] 07Jan95).

In the 1990s, Nestlé subsidiaries in developing countries have increasingly come to export locally manufactured products to both regional and global markets. For example, the Nestlé subsidiary in Malaysia currently exports approximately 10% of its production to over 40 countries and expects to increase this by 5-7% annually (*Business Times* [Malaysia] 4May95). In the end, the global sale of Nestlé's products - whether produced locally, exported or imported - depends heavily on marketing efforts.

LINKAGES FROM NESTLÉ'S GLOBAL MANAGEMENT EFFORTS

Nestlé's Global Management of marketing, R&D and corporate policy has generated an integrated network of ideas among its worldwide subsidiaries. Through global marketing, a unified Nestlé image is portrayed for many of its products. However, as discussed in Chapter Four, this does not mean that products are necessarily standardized. Through Nestlé's vast research and development network, different varieties of a single product are created on a global scale.

R&D is used not only as a marketing tool, but also as a means to fulfill corporate goals. As discussed in Chapter Four, evidence has confirmed that the TNC does link R&D

to its global corporate policy of producing some new nutritious products. Corporate statements and policies have not only been identified in relation to nutritional research, but also to global environmental policies and general 'corporate social responsibility'. In the next three sub-sections, Nestlé's R&D, marketing, and corporate policy are linked to observable impacts in the developing world.

PRODUCT INNOVATION THROUGH R&D IS LINKED TO NUTRITION AND EDUCATION

Product innovation is an essential part of Nestlé's research and development network. It has been found that nutrition, quality, convenience and freshness are key criteria in the production of Nestlé's processed foods (*International Product Alert* 15Apr96; *South American Business Information* 26Jul93a; Maucher 1994b:30). Nestlé uses its global research facilities to adjust products to local tastes throughout the developing world. In Singapore, the firm's effort to "suit Asian taste buds" has been 'praised as a good R&D innovation' by the Singapore Minister for Trade (Tan 1996). Nestlé's R&D centre in Singapore employs approximately 100 local chemists and technicians who concentrate on developing Asian food products such as sharksfin soup, briyani rice mix and ikan bilis stock cubes for the Asian-Pacific region and, eventually, other areas of the world (ibid). In its effort to satisfy local tastes, Nestlé's R&D laboratories have increasingly come to depend on a network of globally-integrated ideas in food science (Nestlé Research Centre 1997).

Evidence of Nestlé's claim that it seeks to produce a selection of products of good nutritional standing is mixed. On the one hand, as discussed in Chapter Four, under the direction of the Nestlé Foundation, projects are pursued in areas related to nutritional studies. However, a review of Nestlé Nutritional Workshop publications shows that its sponsorship of papers is not often directly connected to the firm's product development. Instead, indirect linkages are observed, such that while papers sponsored by Nestlé do not mention Nestlé

products directly, there is some evidence that the research does indirectly influence the firm's product development.

For instance, Nestlé sponsored a study on 'soy protein, phytate and iron absorption in humans' (Hurrell 1992). The study measured how to maximize the iron absorption rate from consuming soy protein. It was found that iron absorption was greater when the composition of the soya protein was chemically altered. This study can be indirectly connected to Nestlé's interest in developing new soya-based products. Evidence that the firm has supported independent research on the nutritional effects of soya is an example of the types of basic and applied research Nestlé pursues.[17] As will be recalled, the soybean factory in Samalkha (India) was built to manufacture soya products. The firm continued to research the effects of soya and improve the nutritional value of the products produced at Samalkha even after they were introduced into the market (as confirmed by abstracts from the US Department of Agriculture 1998; Montavon 1993).

While R&D can affect the nutritional value of foods, Nestlé products will obviously only affect nutrition if they are consumed. Another manner in which the TNC has attempted to impact nutrition is through the controversial distribution of nutritional awareness pamphlets (Jitpleecheep 1995b; Nestlé 1994b:12). Since the pamphlets are targeted at low literacy areas, they rely heavily on picture illustrations in an attempt to demonstrate what Nestlé deems to be important nutritional information. Even more questionably, Nestlé also sponsors group discussions for mothers in the developing world on child nutrition and health. There is clearly a dual purpose to both these 'informational' seminars and literature, as they are also a means of promoting Nestlé products through free samples. Critics argue that free samples should not be given when associated with 'educational forums' or public institutions such as hospitals. However, the apparent conflict of interest in Nestlé's supplying free samples with

[17] A criticism launched against Nestlé's support of nutritional and food research is that the sponsorship might affect the researchers' conclusions. For instance, Nestlé's donation to the British Pediatric Association was deemed suspicious, as it was eventually learnt that the donation was earmarked as anonymous (Mihill 1994). Certainly, consumer interest groups (i.e. Baby Milk Action) play an important role in monitoring 'anonymous' TNC research grants. With the appropriate monitoring of possible conflicts of interest, food TNC-sponsored research can play a significant role in nutritional research - not least because of the increase in research grants.

educational literature has not been attacked by the local press in terms of the quality or integrity of the nutritional information supplied by the TNC (Saini 1995; Jitpleecheep 1995b). Nevertheless, although Nestlé seminars do inform mothers on nutrition, the fact is that free samples act more as marketing, rather than educational, tools.

The firm defends its actions in providing free samples by stating that the introduction of products into the marketplace depends not only on successful product development, but also on consumer reactions as measured through free samples. In the case of Nestlé's soya-based products, the following was observed:

> consumer acceptance of the new product fell short of hopes. So it was back to the drawing boards, with more effort on the marketing approach, as well as in research on the composition of the product and on its tastes and texture. (Montavon 1993:65)

After an intensive research/marketing effort (including the distribution of free samples) the soya products were accepted in markets across the developing world (including the Philippines, Brazil, Mexico, Malaysia, Singapore, Thailand, Indonesia and China) (*Nation* [Thailand] 06Sep94; *South American Business Information* 26Jul93; Montavon 1993; Nestlé S.A. 1994b). Nestlé was so successful in promoting a soya infant food that local doctors in India recommended it over other competing products (*Informatics* [India] 15Jan96). While all potential conflicts of interest must be monitored, an important fact remains that the nutritional integrity of Nestlé products has not generally been called into question (ibid; Sethi 1994; Heer 1991; *Nation* [Thailand] 06Sep94). While the development of products through R&D gives local consumers new product choices, as will be discussed in the next section, it is Nestlé's marketing efforts which can directly affect consumption.

MARKETING PRACTICES ARE LINKED TO CONSUMPTION AND NUTRITION: THE CASE OF THE INFANT FORMULA CONTROVERSY

Questions over the local impact of Nestlé's marketing practices are clearly demonstrated in the case of the 'infant formula controversy'. While the 'infant formula controversy' started in the early 1970s, it remains a heated topic of discussion even today. Public action and interest groups continue to protest against the marketing of infant formula in the developing world. The International Baby Food Action Network (IBFAN) has coordinated an ongoing campaign to convince consumers to boycott all Nestlé products. It alleges that Nestlé does not comply with the 1981 World Health Organization's (WHO's) marketing code for the sale of infant formula in the developing world. As discussed in previous chapters, the infant formula controversy arose from the claim that, since some mothers in the developing world have a tendency to prepare infant formula incorrectly, by either over-diluting it or by using polluted water, the product is thought to endanger the health of newborns.

Instead of 'Baby Food Action Groups' focusing their efforts on educating mothers in the developing world on the dangers of polluted water, or trying to help parts of the developing world obtain better water supplies, the spotlight is cast on Nestlé's marketing practices.[18] The history behind the infant formula controversy is long and detailed (Sethi 1994).[19] While the case of the infant formula controversy brings to the table questions over

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[18]While the International Baby Food Action Network does acknowledge that there are other infant formula manufacturers besides Nestlé, the focus of their attention is on the largest 'baby milk company', Nestlé (Baby Milk Action, 1996b).

[19] The infant formula controversy arose in the early 1970s in the aftermath of a meeting of the United Nations' 'Protein Advisory Group' (PAG). The PAG was established to coordinate nutritional research from the United Nations agencies. The inaugural session, held in Bogota in November 1970, was devoted to the issue of the worldwide decline in breast-feeding. On the agenda was the question of whether the baby food industry, through its marketing of infant formula, caused the decline of breast-feeding (Sethi 1994; Heer 1991). A general policy statement was published concluding that: *"[while] it is certainly important to avoid everything that would accelerate the trend away from breast-feeding; at the same time, it is essential to make formulas, food, and instructions available to those mothers who do not breast-feed for various reasons"* (WHO/UNICEF 1979; Heer 1991:415). Not all participants agreed with this statement. In particular, Dr. Derrick B. Jelliffe loudly opposed the conclusions and called for "some other group...to take a more aggressive...stance" (Heer 1991:415; Newton 1998).

Due to Dr. Jelliffe's opposition, a series of articles appeared questioning the marketing practices of infant formula manufacturers. Supported by media attention, a book entitled *The Baby Killer* (Muller 1975) was

(continued...)

the effect of public advocacy campaigns on corporate policies, this is not the main focus here (see Sethi 1994). This section is concerned with the local linkages connected to Nestlé's marketing efforts in the developing world. Hence, the discussion of Nestlé and infant formula will be centered on an analysis of the TNC's marketing efforts.[20]

The marketing practice which was, and continues to be, most scrutinized is Nestlé's advertising in hospitals. The most controversial aspect of this practice is the accusation that Nestlé has used sales personnel dressed in nurses uniforms to demonstrate the product. Nestlé has denied these allegations (*South China Morning Post* 10Jul96; Sethi 1994:47). If such a practice is followed, it obviously constitutes false advertising. Infant formula is not a medical product, but a food. Under pressure from these allegations, manufacturers in the industry have agreed that advertising infant formula should not involve creating medical impressions,

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[19](...continued)
eventually published by a nonprofit activist group, War on Want. Nestlé was targeted in *The Baby Killer* not only because it was the largest worldwide manufacturer of infant formula, but also because, prior to writing the book, the author was given free access to do research at Nestlé's headquarters, and hence Nestlé set itself up as the subject of Muller's research (Sethi 1994:45;53). To Nestlé's surprise, an extremely harsh picture of the firm's marketing practices was portrayed. Once the book was translated into German, Nestlé decided to take legal action and filed a libel suit. The court battle fueled further press interest and the 'infant formula controversy' was born. On July 4, 1977 the 'Infant Formula Action Coalition' announced a consumer boycott of all Nestlé products sold in the U.S., which was officially lifted in 1984. As confirmed in my analysis of Nestlé's financials, the boycott certainly did not succeed in decreasing Nestlé's sale of 'Infant and Dietetic Products' - during the boycott years (between 1976-1983) the product category enjoyed a 70% increase in revenues (Nestlé Alimentana. 1977; Nestlé S.A. 1987).

[20] As further background, in the face of the PAG conference, the baby food industry enacted a series of voluntary codes for the marketing of infant formula. These codes, enacted in 1975, included guidelines on packaging, free samples and labeling. After continued pressure from interest groups, a US Senator (Senator Kennedy) requested that the World Health Organization put the industry's voluntary guidelines into an official WHO code (Sethi 1994; Heer 1991). While an international conference was held in 1981 to develop a mandatory WHO code, only 10 countries (8% of WHO) enacted the code, and none of these were developing countries (Sethi 1994:326-332). In fact, the local authorities in the developing world were aware of the problems associated with the improper preparation of infant formula, but they preferred to handle the problem in their own way (ibid: 277-80). In the end, Nestlé was (and continues to be) convinced that it adheres to the WHO code, but it could not (and cannot) convince the public activists (ibid:287; Newton 1998).

Prior to the controversy, there is evidence that Nestlé did adhere to a self-imposed code in its marketing of infant formula. For instance, the company's founder, Henri Nestlé, indicated over a century ago in a 'Mothers Guide' that "Breast milk will always be the most natural food during the first months [of life], and every mother who can should breast-feed her baby herself" (Heer 1991:412; Newton 1998). Further evidence of this was found in 1968 (prior to the controversy), when a Nestlé Nigerian advertisement showed a picture of a mother breast-feeding, with the words - "*BREAST-FEED BABY...but when you supplement your breast-feeding, use a really good brand powdered milk*" (advertisement reproduced in Heer 1991:418). Moreover, the problem of infant nutrition cannot be blamed solely on the inadequate use of infant formula. As countless medical professionals and the WHO comment, infant malnutrition is part of a wider problem of illiteracy, poverty, lack of medical care, poor water supply and social inequality (WHO/UNICEF 1979; Newton 1998; Sethi 1994).

and should in the first instance encourage breast-feeding (Sethi 1994:6; Newton 1998). Interest groups continuously monitor TNC actions to make sure they keep their word regarding such marketing practices (e.g. Baby Milk Action 1996b).

Another aspect of Nestlé's advertising of infant formula which is intensely scrutinized is the provision of free infant formula samples to local hospitals and health care workers (Sethi 1994; Baby Milk Action 1996b; *South China Morning Post* 10Jul96). This practice, it is argued, convinces mothers to use infant formula because of its association with the hospital. Part of the WHO code bans manufacturers from providing free or subsidized supplies in 'health care systems'. 'Baby Milk Action Groups', which are based in the industrialized world, continue to accuse Nestlé of violating the WHO code and arrange annual protests at Nestlé offices to show their disapproval (Erlichman 1994; *Irish Times* 08Dec94).

The action groups stop short of calling for the complete disbandment of the infant formula industry.[21] This is primarily because infant formula is an essential product for both orphaned babies and mothers who choose not to breast-feed (whether this is because mothers work outside of the home, or they are sick and unable to breast-feed, or it is simply their free choice). The point is that infant formula is not only an essential replacement product when breast-feeding is not an option, but it also improves standards of living by providing consumer choice. Controversy over advertising styles is not unique to the food industry and infant formula. In the tobacco industry, there is intense criticism that advertising targets children.

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[21] Baby Milk Action Groups fight "to ensure a mother's right to choose, free from commercial pressures" (Baby Milk Action 1996a; 1996b). As discussed below, while TNC marketing is an activity which needs to be monitored, the belief that adult individuals need to be protected from their own choices is an extreme view. For instance, Baby Milk Action Groups assume mothers in the developing world cannot make their own correct consumption choices. It has been suggested by Baby Milk Action Groups that baby formula only be available in the developing world through prescription. Any such action would limit the choices available to developing world mothers.

The question that needs to be posed to the activists is: why should mothers from the industrialized world be entitled to freedom of consumer choice and mothers from the developing world not be provided with the same luxury? The activist groups spend their time organizing boycotts and demonstrations at Nestlé offices. If the ultimate concern is monitoring the core elements in securing infant nutrition and well-being, more fruitful endeavors would involve finding ways to help alleviate the serious threats to infants in the developing world (i.e. issues of clean water, medical care and hygiene). Mothers in the developing world have a choice of whether or not to buy a product, but they do not have a choice in using clean water or medical care if these services are not available. Thus, instead of the Baby Milk Action group raising money through 'Baby Action' merchandise to fund boycott campaigns at Nestlé offices in the industrialized world, the money might be put to better use to support the improvement of social conditions in local communities in the developing world.

In the case of tobacco, the very nature of the product is in question. The difference is that while tobacco is generally agreed to cause cancer, infant formula is widely held by even the critics to be of good nutritional content (WHO/UNICEF 1979; Sethi 1994:113; Heer 1991:412).

This is not to argue that firms should not be held accountable for their advertising campaigns. There are governmental and independent bodies in both the industrialized and developing worlds which provide precise and binding guidelines on the marketing and sale of goods (Skaria 1996; *Middle East Economic Digest* 06Feb95; Baby Milk Action 1996a:4). Nestlé's global advertising policies for its infant formula continue to come under intense scrutiny, which helps to ensure that Nestlé abides by the WHO guidelines.[22] Due to the linkage of infant formula with newborn nutrition, the product will understandably maintain a heightened profile amongst consumer organizations. Nevertheless, since infant formula is certainly not the only product which might impact consumer nutrition, it is also necessary to monitor the local linkages from Nestlé's other processed food products.

BEYOND INFANT FORMULA: LINKAGES FROM NESTLÉ'S MARKETING OF OTHER PRODUCTS

The primary purpose of advertising is obviously to influence consumption decisions. In the case of the local ice cream market in Beijing, advertisements by Nestlé (and other TNCs) are believed to be responsible for doubling ice cream consumption within a three year period (Lobo 1995). The local press believes that Nestlé "[n]ot only...introduced a new taste and brand consciousness to the ice cream market, but ha[s] also convinced the consumer...[to

[22]Due to continuing pressure for Nestlé to abide by the WHO code, the TNC has recently instated a new process to monitor its worldwide subsidiaries. Nestlé has asked governments to actively assess its subsidiaries' compliance with the WHO code and to report any violations both to the company itself and to the appropriate government officials. In response, Nestlé has received assessments from 54 governments which have indicated that the TNC's subsidiaries are following the WHO code and 1 government (the identity of which was not revealed) which believed that a Nestlé subsidiary was in violation of the code (Nestlé S.A. 1999b). While the TNC has forwarded its findings to the Director General of the World Health Organization, since the self-monitoring program is in its very early stages it is not yet possible to determine whether violations which are uncovered are remedied.

pay] more for quality" (ibid). Nestlé's marketing success depends not only on offering consumers in the developing world expensive luxury products (e.g. ice cream), but also on offering cheaper goods (e.g. powdered milk) which consumers with less disposable income can afford (Yong 1994; *Economist* 1993b).

Nestlé's strategy of offering both expensive and cost-effective items is a policy supported by headquarters and carried through by its worldwide subsidiaries. As the President of the Nestlé subsidiary in the Philippines comments:

> [w]hat we aim for is to assure continued customer satisfaction by providing consumers with the highest-quality food products that offer nutrition and convenience at the least possible price. (Bulautin 1995:7)

The marketing of products 'at the least possible price' is also a policy followed by Nestlé Thailand in its targeting of rural communities. Under a program called the 'Drive to Rural', Nestlé products are promoted and made available to a large number of rural outlets throughout Thailand (Jitpleecheep 1995a). A marketing drive like this leads to a greater variety of products for people in rural communities. This, in turn, familiarizes a wide sampling of consumers in the developing world to Nestlé and its global brand-named products (Tan 1996; *South China Morning Post* 12Aug94).

As the case of infant formula has confirmed, Nestlé's advertising is said to be responsible for changing local eating habits. For instance, within a two year period, Nestlé was able to convince consumers in Hong Kong that it was important to drink calcium fortified fresh milk (Finlay 1994). Prior to Nestlé's promotion of a new fresh milk product called 'Hi-Calcium', there were only two other types of milk on sale in the local market, skimmed and full fat. Part of the 'Hi-Calcium' promotion was to increase consumer awareness of the bone disease, osteoporosis. As confirmed by the local press, before the Nestlé campaign there was a lack of awareness among the public about osteoporosis (ibid).

With the end goal of selling more milk, Nestlé sponsored University research on osteoporosis to raise awareness about the importance of calcium in diets. In addition to

sponsoring research on the disease, the TNC launched a 'pan-media' advertising campaign to push the message that 'Hi-Calcium' "helps keep you stronger for longer" (Finlay 1994:1). Part of its campaign involved delivering over 1,800 packets of information to local doctors and dieticians, and hiring qualified nutritionists to speak at public events, such as food fairs. The marketing campaign was deemed a success when it was found that not only did the product attract 'brand switchers', but also new customers. Nestlé's efforts eventually resulted in a 73% growth in the liquid milk market. According to the Hong Kong Management Association, "[Nestlé] focused in on the...very pertinent concerns about osteoporosis, and launched a very straight forward, targeted campaign to address that worry" (ibid). The case of the Hong Kong milk industry demonstrates that global expertise in marketing may not only affect consumption, but might also influence perceptions on nutrition and well-being.

While there is obvious room for error in linking advertising to health issues, if the marketing connection is truthful and medically correct it can be beneficial to the local community. Medical professionals would generally agree that consuming milk improves calcium intake. Thus, if accurately portrayed, promoting milk as a prevention to osteoporosis can be beneficial to nutritional awareness, consumption and education. In cases where Nestlé has linked its advertising to health issues, the nutritional content of its products (e.g. milk; infant formula) has not generally been at issue (Finlay 1994; Jitpleecheep 1996; *Neue Zuercher Zeitung* 30Sept94). Even so, nutritional campaigns in the hands of corporations with vested interests certainly needs to be monitored.

It is clear that local regulators have an important role in monitoring TNC activities. As Nestlé's Chairman has conceded, governments must regulate corporate marketing so that "no harmful additives are included in a product, that the label is correct, and that...[consumers] are provided with proper information" (Maucher 1994b:37). In addition to acknowledging the need for regulation, there is evidence that Nestlé works with local governments to promote health campaigns. For example, the Pulilan local government in the Philippines embarked on an intensive health program with Nestlé to promote nutritional

awareness among pregnant mothers and children (*Business World* [Philippines] April 9, 1996). The program was divided into three parts: (i) health education; (ii) free medical and dental services; and (iii) supplemental feeding for malnourished pre-schoolers. As part of the program, with governmental blessing, Nestlé supplied free products and educational materials to local communities. The irony of Nestlé's role in this program is that, contrary to the claims of Baby Milk Action Groups in the industrialized world, the Pulilan local government viewed Nestlé's provision of free samples and educational materials as beneficial.[23]

There is clear evidence that Nestlé, along with other TNCs, must abide by various governmental regulations throughout the developing world to safeguard against false advertising. For example, in order to prepare for "the commercialization of [Nestlé]...products", the Nestlé subsidiary in New Delhi needed to obtain government authorization (*Economic Times* [India] 28Apr95; Montavon 1993:67). In addition, because Nestlé is a world recognized TNC, the firm's activities are monitored on a global level by international institutions (ILO1991). In short, Nestlé (and other TNCs) are expected to operate according to the highest ethical standards, and they are monitored to that effect (*South China Morning Post* 03Feb96; *Guardian* 1995; Cooper 1995). It is to the linkages associated with Nestlé's global corporate policies that we next turn.

[23]Nestlé has been involved in similar 'health education' programs in a number of developing nations. For instance, in Mexico, the Health Ministry has observed that Nestlé has been 'an extraordinary partner' in programs in breast-feeding and perinatal health. Similarly, in Chile, Nestlé has received acclaim through governmental awards for its participation in 'health education' programs (Brabeck-Letmathe 1999). The fact that governments are connected to these types of Nestlé-sponsored activities not only demonstrates that Nestlé's activities are actively monitored, but also that governments do find it useful to form partnerships with TNCs to fund local programs.

CORPORATE POLICIES ARE LINKED TO ENERGY, THE ENVIRONMENT, AND EMPLOYEES

An evaluation of a firm's corporate policies and culture provides a great deal of insight into its philosophy on corporate social responsibility. In Sethi's (1994:28) view:

> the success [and corporate social responsibility] of a corporation is determined in direct proportion to its ability to secure public needs. Profits are a reward for doing a job well done.

It is interesting to judge Nestlé's actions during the infant formula controversy against Sethi's standards of corporate social responsibility. While during the height of the infant formula controversy Nestlé's revenue from infant formula and other dietetic products amounted to less than 8% of total sales, it remained a profitable sector of the TNC's business, and the continued sale of the product obviously satisfied a public need/want. These are key reasons why the firm continues to sell infant formula. However, another very important factor is that infant formula was invented by the TNC's founder (Henri Nestlé) and, as a result, the product is linked to the firm's corporate identity and culture.

As discussed in Chapter Four, Nestlé's corporate culture is reflected not only in its product portfolio, but also in its policies and procedures. In turn, an evaluation of the TNC's policies and procedures sheds light on its standards of operations and its perceptions of corporate social responsibility. For instance, one of Nestlé's worldwide initiatives on the environment supports the International Chamber of Commerce's 'Business Charter for Sustainable Development' (Nestlé S.A. 1994b:10). Under this policy, Nestlé encourages its affiliates to improve their environmental performance through initiatives on recycling and waste minimization. This policy is confirmed by a number of documented cases of waste and water treatment policies at Nestlé factories. Water treatment plants at the Nestlé factory in Santiago (Chile) were the first ever to be built by a food company in the country (*Prepared*

Foods 1994; Nestlé S.A. 1994b). In this instance, there was not a government initiative mandating Nestlé's action. On the other hand, in Nanjangud (India) the local government specifically requested that no waste water, even after purification, be returned to the nearby river to honour local religious standards on water purification (Montavon 1993:53).[24]

Similar initiatives have been launched in areas of energy policy. In its drive to minimize energy costs, Nestlé has instituted group-wide conservation policies. Using the Nanjangud (India) instant coffee plant as an example, the firm has reduced its use of coal by burning waste residue from the coffee extraction process (Montavon 1993:53). Coffee bean waste is mixed with coconut shells, and the resulting mixture is used to fuel high-tech boilers, which achieves energy savings (e.g. the factory's use of coal fell by more than 50%). While the primary reason Nestlé pursues these conservation strategies is no doubt cost savings, its global policy on energy also benefits local environments. This is in contrast to local firms which are often not able to finance research into energy efficiency. In addition, local firms are certainly not monitored by environmental action groups to the same extent as TNCs and are, therefore, less likely to be pressured into pursing 'politically correct' policies (*South China Morning Post* 03Feb96; *Guardian* 1995).

Trickle down impacts from Nestlé's global policies and initiatives on energy conservation can be observed. For example, Nestlé has encouraged its subsidiaries to conserve on packaging in manufacturing processes (saving the firm more than 107,500 tons of packaging worldwide between 1991 and 1996) (Nestlé S.A. 1997:18). Although Nestlé's intended goal of using more efficient packaging was cost savings, an indirect impact from innovative packaging technology is the alleviation of refuse disposal problems in the developing world, where landfills are frequently at maximum capacity (e.g. in Brazil 90% of household waste is disposed in landfills, with little or no recycling activity) (Molina 1996; *Star*

[24]While these are examples of the positive linkages of Nestlé's corporate policy on the environment, counter examples of negative impacts from Nestlé not pursuing its environmental initiatives have not been found in the local sources reviewed.

[Malaysia] 07Jan95; *South American Business Information* 30Mar93). In order to achieve its packaging initiative, Nestlé tapped into its global R&D network to find new ways to package foods safely with a minimum amount of materials. Again, this type of research agenda is often too expensive for Nestlé's local counterparts (Higgs 1995).[25]

In addition to group-wide, environmental-related policies, Nestlé corporate guidelines also outline minimum operating standards. As discussed in Chapter Four, Nestlé's headquarters places a great deal of emphasis on its 'corporate culture', with the result that affiliates are encouraged to cultivate the 'Nestlé Spirit' in their local settings (Nestlé S.A. 1997:19). In Thailand, the Nestlé subsidiary describes its 'Nestlé Spirit' as the pursuit of 'business excellence' (Jitpleecheep and Petsiri 1996). In the Philippines, the Nestlé subsidiary defines its 'corporate philosophy' as a commitment to its employees, consumers, shareholders and society in general (*Business World* [Philippines] 29Nov95).

The idea of a group-wide corporate culture can influence the treatment of Nestlé's employees worldwide. Local manifestations may be observed in the case of Nestlé Philippines, where employees are encouraged to work in teams to promote a sense of 'empowerment' and job satisfaction (Carino 1996). This, it is believed, builds a corporate culture and reinforces a 'family spirit'. For instance, the local press in the Phillippines has learnt that Nestlé sponsors employee seminars on topics ranging from managing lifestyles to teamwork (*Business World* [Philippines] 29Nov95). In its effort to cultivate a corporate culture, Nestlé Philippines has been identified as a model for employee training by both the local press and trade unions (ibid). Winning local awards and gaining local recognition can indirectly promote transfers of managerial skill and know-how to local competitors (and to other TNC affiliates).

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[25]The ILO (1998:126) comments that the environmental research conducted by large firms (such as Nestlé) is an expensive method to "try and convert environmental solutions into profitable economic initiatives". It is further observed that if the same standards required of (or followed by) large firms are applied to small firms, it is likely that smaller companies would be placed beyond their 'financial capacity' and, as a result, could very well be forced out of the market.

Nevertheless, as discussed in the comparative case studies in Chapter Six, only publicized corporate policies can be observed and monitored, not 'behind-the-scenes' directives. As later observed, it is 'corporate transparency' which best defines a TNC's pursuit of corporate social responsibility as conducive to either a 'stakeholder' or 'shareholder' perspective. In contrast to Philip Morris and, to a lesser extent, Unilever, the next chapter finds that Nestlé is comparatively more likely to follow its global 'transparency' policy by making itself available to the general public and by providing information about its activities (Nestlé 1997:19).

SUMMARY REMARKS ON THE NESTLÉ CASE STUDY ANALYSIS

The case of Nestlé has now been applied to this thesis' matrix of Global Processes and Local Linkages. While in Chapter Four Nestlé's global strategies were analyzed against the typology of Global Production, Global Management and Global Partnershipping, in this chapter the existence of local linkages was assessed. When studying a company the size, complexity and global scope of Nestlé, it is obviously impossible to observe and record the infinite number of global-local linkages and impacts which occur in virtually every corner of the developing world. However, by analyzing general trends, supported by specific examples and case studies, insight is gained into the observable linkages which do in fact exist at a broad level, an endeavour aided by the conceptual frameworks developed in Chapters Two and Three.

To put the Nestlé findings into perspective, evidence is gathered and evaluated in Chapter Six on the next two largest food processing TNCs, Unilever and Philip Morris. It is only after this comparative analysis that a more conclusive summary can be put forward on the global processes and local effects of TNCs within the food processing industry.

Chapter 6

COMPARING UNILEVER AND PHILIP MORRIS TO NESTLÉ: EVIDENCE OF SIMILAR GLOBAL PROCESSES, SUGGESTIONS OF POSSIBLE VARIABLE LOCAL EFFECTS

Nestlé, Unilever and Philip Morris are the three largest TNCs within the food processing industry. Questions abound over whether the case of Nestlé is unique or whether the global strategies it pursues can be observed within other TNCs in the industry. If there are substantial similarities between food TNCs, generalizations regarding the globalization of the industry can be made. However, if noticeable differences exist, not only is globalization within the industry variable, but local impacts will certainly vary. Having applied the case of Nestlé to the criteria of global processes and local effects developed within this thesis, the next question is whether other food processing TNCs follow similar patterns.

The cases of Unilever and Philip Morris will now be reviewed against the benchmark case of Nestlé to reveal a broader picture of 'global processes' and 'local effects'. As in the chapters dedicated to Nestlé, not only are internal company documents consulted, but hundreds of local developing world sources on both Unilever (see Appendix 6.1) and Philip Morris (see Appendix 6.2) have been analyzed. Dedicated company bibliographies also provide good standards of comparison of the internal and public company documentation available.[1] Using this evidence, this chapter provides a comparative analysis of the three largest TNCs in the food processing industry.

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[1]As in the case of Nestlé, Unilever and Philip Morris sources are divided into the following distinct sections:
(i) The 'Unilever Bibliography'* and 'Philip Morris Bibliography'* include all sources cited by or about Unilever and Philip Morris, respectively. Documentation consists of company public and internal documents (including company archives), academic sources on the TNCs, and more specialized worldwide newspaper, magazine and interview sources (including those translated from local languages);
(ii) Appendices 6.1 (on Unilever) and 6.2 (on Philip Morris) are tables which categorize sources about each TNC's activities in the developing world into this thesis' analytical framework. Sources in the Appendices include worldwide references reviewed on Unilever and Philip Morris, but not necessarily cited in each TNC's respective Bibliography.
*[Please Note: due to the electronic retrieval of some references (via on-line databases/CD-ROMS, including Reuters, F&S Predicasts, World Magazine Bank, Investext, Data Monitor and Agricola), author names were not always attributed, and as a result many are cited in the Bibliographies under the actual publication name. The references cited in this chapter on Unilever and Philip Morris may be found in each TNC's respective Bibliography, with further references found in the 'General Bibliography' and the 'Nestlé Bibliography'.]

DISTINCTIVE STRUCTURES, BUT SIMILAR HISTORIES: COMPARING UNILEVER AND PHILIP MORRIS TO NESTLÉ

A distinguishing factor between the three largest TNCs in the global food processing industry is the size of each firm's food-related activities. According to revenue attributed to food operations, Nestlé is the largest, followed by Philip Morris and then Unilever. Nestlé's food-related revenues are 72% greater than Unilever's and 45% greater than Philip Morris'.[2] As observed from an analysis of financial data in Table 6.1, Unilever and Philip Morris earn a large percentage of total company sales outside of the food industry. Hence, while Nestlé maintains the largest portion of revenue dedicated to global processed foods, by total revenue Philip Morris is the largest of the three TNCs, followed by Unilever and then Nestlé. While Philip Morris' entire 'other' revenue category is derived from worldwide tobacco sales, Unilever's 'other' revenue is primarily in household and personal care products. The 'other' revenue categories for Unilever and Philip Morris account for approximately 50% of each TNC's total revenue, which constitutes a substantial presence in industries unrelated to processed and packaged foods.

[2]Using the year of Philip Morris' major acquisition of Kraft Foods (discussed below) as a starting point of analysis, in each fiscal year after 1988 financial data reveals that revenue attributed to food operations have consistently shown Nestlé to be the largest food processing TNC, followed by Philip Morris and then Unilever. The next largest competitors to Nestlé (Switzerland), Unilever (U.K.) and Philip Morris (U.S.A.) are: Diageo (UK), ConAgra (USA), Sara Lee (USA) and RJR Nabisco (USA). According to the annual reports of these competing firms, sales attributed to the food business fall well below Unilever (the smallest of the 'big three'). For instance, the next largest competitor in food (Diageo) maintains sales revenue in processed and packaged foods just under $19 billion - a full 30% less than Unilever's food-related revenue (*Diageo Annual Report* 1998; *Sara Lee Annual Report* 1998; *ConAgra Annual Report* 1998; *RJR Nabisco* 1998; *Fortune* 1995; 1998; *Nestlé Management Report* 1997; *Philip Morris Annual Report* 1997; *Unilever Charts 1987-1997*).

TABLE 6.1
GLOBAL PRODUCT CATEGORY FINANCIAL BREAKDOWN [a]
($US IN 000,000's)

PRODUCT CATEGORY	NESTLÉ	UNILEVER	PHILIP MORRIS
REVENUE BY PRODUCT CATEGORY:			
Food Products (% of total revenue)	**$ 46,805 (96%)**	**$ 27,179 (52%)**	**$ 32,277 (47%)**
Other [b] (% of total revenue)	1,977 (4%)	25,142 (48%)	36,927 (53%)
Total Revenues	$ 48,782	$ 52,321	$ 69,204
OPERATING PROFIT (O.P.) BY PRODUCT CATEGORY:			
Food Products (% of total o.p.)	**$ 4,279 (91%)**	**$ 2,140 (44%)**	**$ 3,799 (31%)**
Other [b] (% of total o.p.)	448 (9%)	2,701 (56%)	8,455 (69%)
Total Operating Profit	$ 4,727	$ 4,841	$ 12,254
OPERATING MARGINS (O.P./REVENUE):			
Food Products - % Profit Margin	**9%**	**8%**	**12%**
Other Products - % Profit Margin	23%	11%	23%
Overall Profit Margin	10%	9%	18%

Source: Data compiled and analyzed from *Nestlé Management Report* (1997); *Unilever Annual Accounts* (1997); *Philip Morris Annual Report* (1997).

[a] To provide this analysis, Nestlé's and Unilever's financials were converted to $US from Swiss Franc (Fr.) and British Pounds (£), respectively. The exchange rates for the relevant years of data are as follows: (i) Nestlé: 1.24 Fr. = $1 (*Nestlé Management Report* 1997:66); (ii) Unilever: £1 = $1.556 (historical financial data from *Unilever* PLC 1998b:2).

[b] 'Other' sector products for each TNC are as follows: (i) Nestlé - Pharmaceuticals and Cosmetics (ii) Unilever - Detergents, Personal Products and Specialty Chemicals (later sold in 1997); (iii) Philip Morris - Tobacco.

Not only do Philip Morris and Unilever earn approximately 50% of revenue from 'other' product categories, but it is interesting to note that the Operating Margins for 'other' products are significantly higher than in the processed foods category. Even Nestlé's minor operations in pharmaceuticals and cosmetics earn an Operating Margin of 23%, as opposed to a 9% margin in the foods category. Highlighting product category differences, a striking observation in the case of Philip Morris is that while the TNC earns nearly 50% of its revenue from processed foods, the category accounts for only 31% of the company's Operating Profit. Hence, Philip Morris depends on its worldwide tobacco business to earn it a staggering 69% of the company's profits.

According to the financials of Nestlé, Unilever and Philip Morris, it is clear that processed food products are not as profitable as other packaged consumer goods. While Unilever and Philip Morris maintain substantial activities outside of the food sector, to make relevant comparisons with Nestlé the analysis in this chapter will concentrate on each TNC's food-related operations. However, although Philip Morris' tobacco business and Unilever's household products sector will not be discussed in detail, global synergies in firm activity between each TNC's food operations and 'other' product categories will be highlighted. Moreover, since the 'other' product categories of both Unilever and Philip Morris are connected to each firm's long history, a brief discussion is necessary of the role these 'other' sectors have had on the global expansion of these TNCs.

Of the 'big three', Philip Morris has the shortest history in the food processing sector. While the company has roots in the tobacco business dating from 1847, it was not until the mid-1980s that it diversified into processed foods (Martin 1992).[3] In the 1970s, Philip Morris was primarily known for tobacco products in the U.S., with its Marlboro brand cigarette a market leader. During this decade, the controversy over the effect of cigarettes on health became widespread in the United States, which initiated the beginning of a continuous decrease in cigarette sales. This prompted Philip Morris to diversify into the food processing sector, which began in 1985 with its acquisition of the General Foods Corporation (Martin 1992). While the food and tobacco sectors are quite distinctive product groups, they share many of the same manufacturing processes. For instance, both sectors depend on agricultural raw materials and are packaged and branded consumer goods. To Philip Morris, the fact that processed foods was a 'branded' sector made it attractive, as it was thought to be not only an avenue to product diversification but also to global growth (Moreau 1992).

Through Global Partnershipping, within the past fifteen years Philip Morris has become the second largest food TNC worldwide. Since its 1985 acquisition of General

[3] 'Philip Morris' is the name of a British merchant who opened a tobacco shop in London in 1847. Mr. Morris moved his business to the United States and by 1935 the 'Philip Morris Company' had become the fourth largest manufacturer of tobacco products in the country (Martin 1992).

Foods, notable Philip Morris acquisitions include the U.S.-based Kraft Foods (1988) and the European confectionary firm, Jacobs Suchard (1990) (Kraft Foods Archives Dept. 1997; Kraft Jacobs Suchard 1995). These major acquisitions provided the springboard to Philip Morris' aggressive acquisition of worldwide food brands. In terms of Philip Morris' food business, it is the TNC's three largest subsidiaries - (i) 'General Foods', (ii) 'Kraft', and (iii) 'Jacob's Suchard' - which have long histories in the food sector.[4] As discussed later, due to Philip Morris' long history in the tobacco industry and short experience in the food business, its global operations are steadfastly divided between food and non-food sectors.

Like Philip Morris, Unilever has a long history outside the food industry. While Unilever's founding product was household soap, it was not long after the firm's inception that it diversified into processed foods. Unilever's core products - margarine and soap - date back to the late 19th and early 20th centuries, respectively. Originally, William Lever established a soap factory in the United Kingdom as part of the family grocery business. In the war-time atmosphere of 1914, the British government asked if Lever would produce margarine to guard against potential shortages. For Mr. Lever, the production of margarine was a business perfectly compatible with the soap business, in that both products required oils and fats as raw material inputs (Troester 1993; Wilson 1970). Eventually, in 1929 Lever Brothers merged with a group of competing Dutch firms known as 'Margarine Union Limited'. From this early date, the newly formed 'Unilever Limited' operated under two parent companies - Unilever PLC (United Kingdom) and Unilever N.V. (Netherlands) (Troester 1993). Under an 'equalization agreement' the two companies effectively operate as a single corporation, run by identical boards of directors in which the chairman of each

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[4]The 'General Foods Company' is primarily the amalgamation of two famous US brand names ('Post' and 'Birdseye') with long histories. In 1890, the 'Postum Company', owned by Charles W. Post, sold a cereal beverage aimed at replacing morning coffee. In 1929 the Postum Company acquired 'General Foods', a firm owned by Clarence Birdseye which manufactured frozen vegetables. Kraft, on the other hand, dates back to 1903, when James L. Kraft started a wholesale cheese distribution business (Jacobson 1994). Likewise, 'Jacobs Suchard' has a long history and is the result of mergers between 1970 and 1982 of the following three confectionery businesses - The Suchard Company (established 1825 Switzerland), The Tobler Company (established 1867 Switzerland), The Jacobs Coffee Company (established 1896 Germany) (Mirabile eds. 1990a). Prior to being acquired by Philip Morris in the late 1980s/early 1990s, General Foods, Kraft Foods and Jacobs Suchard each expanded in their own right through key acquisitions.

automatically becomes the vice-chairman of the other (Unilever PLC 1997d).[5] Furthermore, under the 'equalization' agreement, each Unilever parent company divides profits equally between the shareholders of both countries.

Therefore, like Nestlé, both Unilever and Philip Morris have long histories dating back more than 100 years. The interesting fact is that all three TNCs have vigorously maintained the products originally conceived by their founding fathers: Nestlé remains inextricably linked to 'infant formula' (developed by Henri Nestlé); Philip Morris' food subsidiaries remain linked to original products such as Kraft cheeses and Jacobs Suchard's coffee and chocolates; and Unilever remains best known for its original products in soaps and margarines. The remarkably long and similar histories of these TNCs suggests that the growth of these global giants required over a century of expansion within a changing global economy. As discussed in the next section, each TNC expanded first through the establishment of 'stand-alone' affiliates and more recently through the 'complex integration' of global operations. A number of similar processes pursued by these TNCs have increasingly come to represent the globalization of the food processing industry.

SIMILAR TNC GLOBAL PROCESSES PROMOTE THE GLOBALIZATION OF THE FOOD PROCESSING INDUSTRY

Throughout this thesis, TNC operations have been broken down into separate and distinct areas. Three key TNC global strategies - Global Production, Global Management and Global Partnershipping - have been identified as representing food TNC global processes. These criteria will be used in this section to assess how the food processing industry is

[5]Hence, there have always been two acting chairmen of Unilever. In 1998, they were Niall FitzGerald of Unilever PLC and Morris Tabaksblat of Unilever N.V. (Unilever 1998a)

globalizing and how the industry's three biggest players support similar processes of globalization.

GLOBAL EXPANSION OF THE FOOD PROCESSING INDUSTRY THROUGH GLOBAL PARTNERSHIPPING

Nestlé, Unilever and Philip Morris each use M&As and joint ventures as tools for global expansion. As discussed in the case of Nestlé, Global Partnershipping has been used to not only acquire local companies worldwide, but to also build its global brand portfolio. My historical review of each TNC's annual reports since 1966 reveals that the firms have followed similar expansion paths. For Nestlé, Global Partnershipping through M&As and joint ventures became most pronounced from the mid-1980s. A similar path is observed in the case of Unilever, in which prior to the firm's 1986 annual report there was very little emphasis on the use of Global Partnershipping (Unilever PLC 1967; 1977; 1987a). This rapidly started to change, and by 1997 Unilever had come to concentrate so heavily on Global Partnershipping that the firm provided charts mapping its recent history in M&As and joint ventures (Unilever PLC1998b).

While Philip Morris' pursuit of Global Partnershipping in the 1990s has largely mirrored the paths that Nestlé and Unilever have followed, it is important to note that Philip Morris' use of Global Partnershipping was also the manner through which it *became a food TNC*. Within a five-year period in the late 1980s, the acquisition of 'General Foods', 'Kraft' and 'Jacobs Suchard' provided Philip Morris with a food sector portfolio of approximately $26 billion, making it one of the top three TNCs in the global food industry.[6] A review of the histories of Philip Morris' three major food arms shows that, as with Nestlé and Unilever, the pursuit of Global Partnershipping became most pronounced for each subsidiary in the late

[6]Based on an analysis of available financial data, the approximate total revenue Philip Morris 'acquired' in the food sector between 1985-1990 is as follows: (i) General Foods in 1985 - $10 billion; (ii) Kraft Inc. in 1988 - $9 billion; (iii) Jacobs Suchard in 1990 - $7 billion (Kraft Inc.1987; Philip Morris Companies Inc. 1988;1997c; Mirabile 1990a; *General Foods Annual Report* 1983; *Jacobs Suchard Annual Report* 1988).

1980s. For instance, prior to Kraft's merger with Philip Morris in 1988, Kraft's annual reports rarely focused on Global Partnershipping as a predominant firm strategy (Kraft Inc. 1987; 1977; National Dairy Products Corp. 1967 - Kraft's name in 1966). However, by 1987 Kraft started to acknowledge that M&As and joint ventures were a key part of the firm's future global expansion (Kraft Inc. 1987:4).

The importance of Global Partnershipping to the big three food TNCs over the past fifteen years suggests that a changing global economy has fostered the development of new TNC global processes. M&As and JV's are not only the vehicles through which TNCs are achieving global expansion, but they are also the medium through which global standards are being spread. All three TNCs have noted that basic standards of operations are introduced to newly-acquired local firms. As discussed in Chapter Three, Oman and Rama (1989) have noted that TNCs provide local firms with well known trademarks, technology and state-of-the-art equipment. The evidence from local sources confirms that Global Partnershipping activities nurture technology transfer (*Hong Kong Standard* 22March95; Connors 1993; *Moskovkie-Novosti* 15May96; *Korea Economic Daily* 16Dec95). For example, the local press in India acknowledges that through M&As and JVs Philip Morris has introduced its newly acquired local subsidiaries to the latest technology, which enables the storage of semi-cooked food in non-refrigerated conditions (*Informatics* [India]12Jun96).

In addition to technology transfer, Global Partnershipping fosters the globalization of food products. While it is true that food processing TNCs adjust products to local tastes, different variations of global benchmark products are introduced into nearly all markets (*Asian Wall Street Journal* 20Nov95; *Hong Kong Standard* 22March95; *PRN Newswire* 29Apr93; *Daily Mail* [China] 23Mar94; also see product design and JV references in Appendices 6.1 and 6.2). This is illustrated in the case of Unilever's joint venture with a Korean food company (Dong Bang), where one aim was to introduce the local firm to products with global appeal (such as pasta and pizza sauces), while adjusting the products to local tastes (*Korea Economic Daily* 16Dec95). A similar example is found in the case of Philip Morris, where a joint venture in China introduced 'western' dairy products with local

flavouring (Connors 1993). In addition, local sources have suggested that M&As and JVs with TNCs have forced local firms to produce higher quality products (Oram 1994; *EIU* 22Aug94; *Economist* 09Mar96; *Korea Economic Daily* 16Dec95; *Business Weekly* [China] 22Nov95; *South American Business Information* 29Jun93).

The impact Nestlé, Unilever and Philip Morris have in the developing world depends in part on the presence of each TNC in developing regions. Table 6.2 presents my summary findings of the big three food TNCs' global subsidiaries and partnerships, in which it is observed that Nestlé has the greatest presence in the developing world. In total, Nestlé maintains 257 subsidiaries/partnerships in 87 countries, of which 127 are found in 65 LDCs. Philip Morris' presence pales in comparison, where out of a total of 202 subsidiaries/partnerships worldwide, only 52 are found in 31 LDCs. Unilever falls in the middle, with 215 worldwide subsidiaries/partnerships, of which 81 are found in 50 LDCs. Hence, not only is Nestlé present in the most number of LDCs, but the TNC maintains 49% of its total subsidiaries and partnerships in the developing world, compared to 38% for Unilever and a mere 26% for Philip Morris. Furthermore, it has been found that Nestlé has nearly four times as many food-related subsidiaries and partnerships in the developing world as Philip Morris, and more than twice as many as Unilever. This suggests that the TNCs have targeted different geographic areas in their Global Partnershipping strategies.

TABLE 6.2
GLOBAL SUBSIDIARIES AND PARTNERSHIPS [a]

GLOBAL SUBSIDIARIES/PARTNERSHIPS (subs../part.)	NESTLÉ	UNILEVER	PHILIP MORRIS
WORLDWIDE:			
# of worldwide subs./part. - in total # of countries	257 subs./part. - in 87 countries	215 subs./part. [b] - in 70 countries	202 subs./part. - in 51 countries
of which: - **# subs./part. in food (%)** - # subs./part.in other (%)	of which: **218 in food (85%)** 39 in other (15%)	of which: **104 in food (48%)** 111 in other (52%)	of which: **123 in food (61%)** 79 in other (39%)
LESS DEVELOPED COUNTRIES (LDCs):			
# of subs./part. in # of LDCs (as % of all worldwide subs./part.)	127 subs./part in 65 LDCs (49% of all subs./part.)	81 subs./part in 50 LDCs (38% of all subs./part.)	52 subs./part in 31 LDCs (26% of all subs./part.)
of which: - **# LDC subs./part. in food(%)** - # LDC subs./part in other(%)	of which: **117 subs./part in food (92%)** 10 subs./part. in other (8%)	of which: **48 subs.part. in food (59%)** 33 subs./part. in other (41%)	of which: **32 subs./part. in food(62%)** 20 subs./part. in other (38%)
INDUSTRIALIZED COUNTRIES (ICs):			
# of subs./part. in # of ICs (as % of worldwide subs./part.)	130 subs./part. in 22 ICs (51% of all subs./part.)	134 subs./part. in 20 ICs (62% of all subs./part.)	150 subs./part. in 20 ICs (74% of all subs/part).
of which: - **# IC subs./part in food (%)** - # IC subs./part in other (%)	of which: **101 subs/part in food(78%)** [c] 29 subs./part in other (22%)	of which: **56 subs./part. in food (42%)** 78 subs./part in other (58%)	of which: **91 subs./part in food(61%)** [c] 59 subs./part in other (39%)

Source: Data compiled and analyzed from: Nestlé S.A. 1997:70-72; Nestlé U.K. 1995; Unilever PLC 1997a:25-28;1997b; 1997c; Philip Morris Companies Inc. 1997b: 1995:exhibit 21; 1997c.

[a] This table consists of each TNC's worldwide minority and majority joint ventures and 100% owned subsidiaries. Each firm does not provide data on some joint ventures, in which positions of less than a 20% equity holding are not generally included. Moreover, it should be noted that the total number of subsidiaries/partnerships varies from the total number of manufacturing facilities each TNC holds. As detailed in Table 6.3 below, with the exception of Philip Morris, the number of manufacturing facilities held by each TNC is roughly double the total number of subsidiaries/partnerships held. This reflects the fact that most subsidiaries/partnerships maintain more than one manufacturing facility.

[b] Unilever has indicated that the firm maintains an interest in 500 'operating companies' (ie. *Unilever Environment Report* 1996:3;1998:6). However, in the *Unilever Annual Accounts*, there are only 215 subsidiary/partnership listed in a total of 70 countries (Unilever PLC 1997:25). It is likely that what is meant by '500 operation companies' is the approximately '500 manufacturing facilities' owned by 215 subsidiary/partnership worldwide (see Table 6.3).

[c] While Nestlé and Philip Morris maintain a roughly similar number of food subsidiary/partnerships in ICs, as observed later in Table 6.3, Philip Morris only maintains 31% of Nestlé's total food-related manufacturing facilities in the region. This is because contrary to the industry norm, Philip Morris appears to typically maintain only one manufacturing facility per each IC subsidiary/partnership, but Nestlé consistently maintains several factories for each of its subsidiaries/partnerships.

The current geographic presence of the big three food TNCs appears to be connected to each firm's history. Nestlé and Unilever both have much longer histories in the developing world than Philip Morris' food divisions.[7] Nevertheless, regardless of past histories, the developing world was not considered a serious growth market for any of the TNCs until the 1990s. As observed with Nestlé, the expansion of Unilever and Philip Morris in the developing world prior to the 1980s was based primarily on the search for a few large domestic markets (Unilever 1977; 1987b; 1997b; Fieldhouse 1978:11; Kraft 1977; 1986). This is highlighted by the fact that Unilever's 1986 annual report barely mentions firm activities in the developing world, whereas its annual report ten years later stresses the importance of developing markets:

> "[d]eveloping and emerging markets account for a very large proportion of the world's population and, increasingly, its spending power presents excellent opportunities..." (Unilever 1997b:4)

In support of this statement, my analysis of available data has revealed that Unilever's revenue in the developing world has increased by at least 50% over the past ten years (Unilever 1987b; 1997a).[8]

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[7] Nestlé's history in the developing world was discussed in Chapters Four and Five. Like Nestlé, Unilever has had a presence in the developing world for some time. Originally, Unilever's expansion plans focused on the African continent. In 1911 the company built a soap manufacturing plant in South Africa and slowly expanded operations to other parts of Africa (Unilever 1998c). As discussed later, Unilever's early presence in Africa was due in part to vertical integration, in which the firm sought to produce its own raw materials through plantation ownership. In 1976, Unilever earned nearly 30% of its total revenue from plantations and related activities (Unilever 1977:48). However, within the last twenty years the company has progressively divested its interests in plantations, in which just over 2% of profits are currently attributed to plantation interests (Unilever's changing interest in plantation ownership is further discussed later in this chapter) (Unilever 1997a:11).

Contrary to the cases of Unilever and Nestlé, Philip Morris has had little historical exposure in developing countries. While Philip Morris' acquired food subsidiaries (Kraft and General Foods) have long histories, prior to 1980 each focused expansion on the large internal US domestic market, with Jacobs Suchard expanding primarily in Europe (National Dairy Products 1967; Kraft Inc. 1977; Kraft Inc. 1987; Mirabile ed. 1990a). For instance, according to figures available in Kraft's 1976 annual report, the firm was only present in four developing nations (Kraft Inc. 1977:14).

[8] Since Unilever breaks down its gross revenues according to geographical area, it was possible to assess the increased activity for three developing regions (as per Unilever - 'Africa and Middle East', 'Asia and Pacific' and 'Latin America'). However, since Unilever includes the industrialized countries of Japan, New Zealand and (continued...)

In short, company public and internal documentation has confirmed that, like Nestle, Unilever and Philip Morris have come to depend on Global Partnershipping to expand operations in the developing world. This is reinforced not only by quantitative data, but by hundreds of independent local sources reviewed on each firm's M&As and joint ventures (see Global Partnershipping references in Appendices 6.1 and Appendix 6.2). The food TNC's use of Global Partnershipping is just one aspect of the globalization of the food sector. As discussed in the next section, evidence gathered also confirms that food processing TNCs use similar strategies in Global Production and Global Management.

GLOBAL STANDARDS EXIST AMONG FOOD PROCESSING TNCS THROUGH GLOBAL PRODUCTION AND GLOBAL MANAGEMENT

As discussed previously, Global Production strategies vary between industries. Global Production in food processing is represented, in part, by the worldwide disbursement of manufacturing facilities to supply local and regional markets. A food TNC subsidiary or partnership typically maintains several factories. Table 6.3 presents my summary of the number of manufacturing facilities Nestlé, Unilever and Philip Morris are estimated to maintain worldwide. A comparison of Table 6.3 with Table 6.2 reveals that both Unilever and Nestlé maintain far more manufacturing facilities than subsidiaries and partnerships.

[8](...continued)
Australia in its 'Asia and Pacific' categorization, assessments of revenue from developing countries in this region can only be an approximation. Nestlé and Philip Morris do not breakdown revenues by developing/industrialized geographic areas, and hence a similar assessment of revenue by area is not possible with currently available documentation.

TABLE 6.3
GLOBAL MANUFACTURING FACILITIES

GLOBAL MANUFACTURING FACILITIES	NESTLÉ	UNILEVER	PHILIP MORRIS
WORLDWIDE:			
# of worldwide mfg. facilities	489 mfg. facilities	428 mfg. facilities	226 mfg. facilities
of which: **- estimated mfg. in food (%)** - estimated mfg. in other (%)	of which: **488 in food (99.8%)** 1 in other (0.2%)	of which: **304 in food (71%)** 124 in other (29%)	of which: **138 in food (61%) [c]** 88 in other (39%) [c]
LESS DEVELOPED COUNTRIES (LDCs):			
# of LDC mfg. facilities (% of all mfg. facilities)	200 mfg. facilities (equals 41% of all mfg.)	163 mfg. facilities [a] (equals 38% of all mfg.)	80 mfg. facilities (equals 35% of all mfg.)
of which: **- estimated mfg. in food (%)** - estimated mfg. in other (%)	of which: **200 in food (100%)** 0 in other (0%)	of which: **116 in food (71%) [b]** 47 in other (29%) [b]	of which: **50 in food (62%) [c]** 30 in other (38%) [c]
INDUSTRIALIZED COUNTRIES (ICs):			
# of IC mfg. facilities (% of all mfg. facilities)	289 mfg facilities (equals 59% of all mfg.)	265 mfg. facilities [a] (equals 62% of all mfg.)	146 mfg. facilities (equals 65% of all mfg.)
of which: **- estimated mfg. in food (%)** - estimated mfg. in other (%)	of which: **288 in food (99.7%)** 1 in other (0.3%)	of which: **188 in food (71%) [b]** 77 in other (29%) [b]	of which: **89 in food (61%) [c]** 57 in other (39%) [c]

Source: Data compiled and analyzed from: Nestlé S.A. 1997:39; Nestlé U.K. 1997a; Unilever PLC 1997a; 1997b; Unilever Environment Group 1998:16-33; Philip Morris Companies Inc. 1997b; 1997c; 1998b: pull-out map.

[a] A breakdown between LDC and IC manufacturing facilities was not given by Unilever. Therefore, estimates are based on Table 6.2's percentage breakdown of Unilever's actual number of subsidiary/partnerships in LDCs and ICs (38% and 62%, respectively).

[b] In the absence of confirming data, the figures given for Unilever's manufacturing facilities in IC and LDC 'food' and 'other' sectors are estimates based on the actual percentage breakdown calculated for the total number of Unilever's worldwide manufacturing facilities in 'food' (71%) and 'other' (29%) sectors.

[c] A breakdown between 'food' and 'other' manufacturing facilities was not given by Philip Morris. Therefore, estimates are based on Table 6.2's percentage breakdown of Philip Morris' actual number of 'food' and 'other' subsidiary/partnerships for Worldwide, LDC and IC categories.

By and large, food processing TNCs establish numerous factories per subsidiary, thereby supporting the global spread of manufacturing outlets. Manufacturing output in the food processing industry appears to be more globally dispersed than in other packaged

consumer goods industries. For instance, even though Unilever's revenue in 'household products' is roughly the same as its 'food' revenue, its worldwide food-based factories are more than double the number of its household-based factories (see Tables 6.1 and 6.3). Moreover, even though revenues from each of Philip Morris' product sectors are comparable, its food manufacturing facilities far outnumber its tobacco factories. This suggests that the global food processing industry is more dependent on establishing numerous production bases worldwide than other packaged consumer goods industries.

The need to establish manufacturing facilities worldwide is due in part to the food TNC's strategy of localizing tastes. As noted in Chapter Two, contrary to Levitt's (1983b) view that product standardization is a prerequisite to the pursuit of a global strategy, Douglas and Wind observe that in some industries manufacturing standardization "is likely to result in products which are over-designed and overpriced for some markets and under designed and underpriced for others" (Douglas and Wind 1987:22). This is why food processing TNCs put a great deal of effort into designing products to local tastes, but at the same time seek to standardize key ingredients and processes to achieve a 'mixed global strategy' in production. Not only was this confirmed by the case of Nestlé, but there is sufficient evidence that both Unilever and Philip Morris mix global standardization with local adjustment (Osborne 1994; *Hong Kong Standard* 22March95; *Korea Economic Daily* 29Mar93; *Wall Street Journal* [Eastern] 12Sep94; 18Sep95; *South American Business Information* 10Mar94; *Advertising Age* 19Jul93; see also product design references in Appendices 6.1 and 6.2).

For instance, the vice president of Unilever's Africa Business Group notes that "the key to achieving global growth...is to offer the consumer something that meets their needs and is affordable" (Broadbent 1998b). This is why specially-made single 250ml portions of cooking oil are offered in the region. Unilever describes this as proof that it acts like a 'multi-local multinational', since the specific needs of local people are considered using the firm's global experience (Unilever 1998c:2; 1997b:1). A previous chairman of Unilever, Michael Perry, has noted that deregulation in the worldwide economy since the 1980s has encouraged

Unilever to purposefully globalize operations (Perry 1995:6). He comments that whereas manufacturing used to be based on the 'replication' of manufacturing and distribution facilities country-by-country (e.g.'stand-alone affiliates), today these processes are globally-centralized (e.g. complex-integration).

Similar evidence of a mixed global strategy is found in the case of Philip Morris. A company Director has commented that the firm's efforts in Latin America represent "a case of thinking globally but adapting locally" (*Philip Morris Globe* 1998g:3). A mixed global strategy is demonstrated by the firm's effort to streamline production by standardizing product formulation and packaging, but at the same time adapting products to local conditions (*Philip Morris Globe* 1998k). According to a Philip Morris managing director, and as confirmed by local sources, the strategy is to adjust popular global products to make them more affordable for developing world consumers by reducing the size of the product (*Informatics* [India]12Jun96; Osborne 1994; *South Korea Economic Daily* 29Mar93; *Wall Street Journal* [Eastern] 12Sep94). For instance, to accommodate the need for cheaper products, the 'Milka' brand chocolate product is sold in Latin America, China and other developing countries at half the size it is sold in industrialized countries (Connors 1993; *Philip Morris Globe* 1998g:1).

Not only do the big three food TNCs exhibit similar production strategies, but local sources confirm that similar processes in Global Management are an industry standard. There is evidence which suggests that Unilever and Philip Morris do follow Global Management practices similar to Nestlé (Jitpleecheep and Kothanapani 1995; *Star* [Malaysia] 20May95; *Business Weekly* [China] 23Oct93; *South China Morning Post* 27Sep92; also see Global Management references in Appendices 6.1 and 6.2). Due to the tendency to form group-wide policies, Global Management strategies are perhaps the clearest indication of global processes at work within the food processing industry. However, just as with Global Production, Global Management involves the careful intermixing of global policies with local circumstances. This is highlighted in each TNC's description of its operations.

The slogan for Philip Morris' food subsidiary, Kraft Jacobs Suchard (KJS), is "We satisfy the tastes of life locally and globally". This slogan demonstrates the importance the TNC attaches to both global and local perceptions, in which offering the consumer both local and global brands yields a larger, more diverse, product portfolio (Kraft Jacobs Suchard 1995:8). A mixed global strategy of both adjusting products to local tastes and sharing marketing practices among subsidiaries helps the TNC achieve both local and global expertise. For instance, a standardized marketing campaign was used to sell 'Tang' soft drink powder, but the product was altered to local tastes in Turkey, Romania, Egypt and throughout Latin America (*Philip Morris Globe* 1998i). Local sources confirm that Philip Morris and its subsidiaries regularly share ideas in worldwide marketing campaigns (e.g. *Food Institute Report* 16Feb96; Weiling 1995; *PRN Newswire* 29Apr93).

Due to the intermixing of global and local expertise, a Unilever chairman has commented that there is a natural tendency to get confused over TNC marketing strategies in the food processing industry (Perry 1992:5). Food TNCs acknowledge that while worldwide markets have increasingly come to share a variety of common tastes and interests, different cultural nuances and local requirements need to be addressed. For Perry, the key is to "take a well known product concept, grasp its universality, and apply it everywhere" (ibid:10). However, in addition to adjusting global brands to local tastes, food processing TNCs market products which are cheaper for developing world consumers to purchase. For example, Unilever offers its global 'Magnum' brand ice-cream bar in China alongside a much cheaper, locally-inspired, ice-pop (Oram 1994). While food TNCs have invested in building distribution networks in the developing world, due to lower value-added products it has been observed that TNCs are having difficulty turning a profit from many of the ventures (Maitra, D. 1996; *Business Today* [India] 07Apr96; *Economist* 09Mar96; *Business Weekly* [China] 02Jan94). Nevertheless, the continued marketing of well-known brands in the developing world is contributing to the globalization of certain processed foods (e.g. as discussed previously, Toblerone, Nescafe, Magnum).

The corporate structure of a food TNC is designed to optimize the pursuit of both global and local strategies in operations. Proof of this is found in the tendency of food TNCs to divide operations into both 'geographic areas' and 'product categories'. The need to use both geographic and product distinctions is related to the idea of 'thinking globally' (product categories), but 'acting locally' (geographic regions). During the past fifteen years, food TNCs have moved away from giving geographic managers ultimate power in subsidiary operations. Today, global product managers set the global corporate strategy for each product category. Geographic managers simply apply global directives to local circumstance (Unilever N.V. and Unilever PLC 1996; Philip Morris Companies, Inc. 1997; Nestlé S.A. 1997). As demonstrated in Table 6.4, all three TNCs have roughly similar global firm structures which are comprised of both product and regional area groups.

TABLE 6.4
TNC GLOBAL FIRM STRUCTURE

NESTLÉ	UNILEVER	PHILIP MORRIS [a]
Eight 'Strategic Business Units' manage the entire product portfolio. The Strategic Business Units include an 'Ice Cream Division' and a 'Nutrition Strategic Business Division'. In addition, General Managers are in charge of three strategic geographic areas, including: Asia/Pacific/Africa; Europe; Americas.	The Food Executive Committee is one of six 'executive committees' responsible for corporate strategic leadership. The food executive committee oversees nine 'business groups' which are divided among three key food categories and six geographic areas (Africa; Central Asia & Middle East; Central & Eastern Europe; Latin America; North East Asia; South East Asia & Austrailia). The industrialized areas are controlled by the food category business units.	Philip Morris's tobacco and food businesses are generally governed separately. The food business is divided into 'North American Food' (Kraft Foods Inc.) and 'International Foods' (Kraft Foods International). Kraft Foods International controls food marketing in Europe, Asia and the Middle East. However, Latin American food operations are part of Philip Morris International.
-(Nestlé S.A.. 1997)	-(Unilever NV and Unilever PLC 1996)	-(Philip Morris Companies Inc. 1997c)

[a] Philip Morris has provided the least insight into its internal global product categories. In interviews with Philip Morris and its food processing subsidiary, Kraft, it was revealed that global strategic food product categories do exist, but that the information is for internal use only. As discussed later in this chapter, Philip Morris' reluctance to give out company information is directly related to the TNC's tendency to follow a 'shareholder' rather than 'stakeholder' perspective

In short, using Nestlé as a benchmark, comparable evidence has been found to support Unilever's and Philip Morris' pursuit of similar global strategies. In addition to the information provided in this comparative chapter, Appendices 6.3 and 6.4 provide telling snapshots through source quotes of Unilever's and Philip Morris' global processes. As per this thesis' analytical framework, each source quote was reviewed for contextual discussions of Global Production, Global Management and Global Partnershipping (and coded to that effect). The source quotes further stress the similarity of these TNCs to the Nestlé case.

By using similar strategies in Global Partnershipping, Global Production and Global Management, food processing transnationals have set global standards in industry operations. In the competition for global market share, it has become necessary to combine the flexible local adjustment of production, marketing and product design to varying degrees of global standardization. All three TNCs have used these global processes to expand operations in developing and emerging markets. Local sources confirm company claims that Unilever and Nestlé are more aggressive in the developing world than Philip Morris, which has instead targeted the emerging markets of Eastern Europe. In attempting to increase their global market share, food processing TNCs have put into motion processes which have come to represent global industry standards in competition. As discussed in the next section, differing TNC corporate policies suggest that similar global strategies may possibly have variable local effects in the developing world.

DIFFERENT TNC CORPORATE POLICIES SUGGEST POSSIBLE VARIABLE LOCAL EFFECTS IN THE DEVELOPING WORLD

The linkages between TNC global strategy and local impacts were identified in Chapter Three's construction of a matrix listing thirteen key potential linkages from TNC operations (recall Table 3.1). Using the case of Nestlé, Chapter Five provided an analysis of observable impacts from the largest food processing TNC in the developing world. In both Chapter Three and Chapter Five, it was concluded that impacts will invariably differ depending on local circumstance. The only TNC global process linked to all thirteen local effects was that of 'corporate policy'. While 'corporate policy' is a TNC strategy in its own right, it also influences all other TNC operations. For instance, corporate policies are formulated on: (i) JVs and M&As (Global Partnershipping); (ii) manufacturing, distribution and product design (Global Production); and (iii) marketing, R&D and corporate culture (Global Management).

In this section, rather than using the cases of Unilever and Philip Morris to restate linkages which were already identified in the Nestlé case, a comparative analysis of how the corporate policies of the big three food TNCs influence impacts in the developing world will be the focus. While actual linkages are largely the same (e.g. R&D is linked to technology transfers, JVs are linked to local firms, manufacturing is linked to employment, etc.), the impacts from these linkages vary depending on corporate policy.

TNC Corporate Policy Can Influence How Global Processes Impact Local Conditions

Nestlé, Unilever and Philip Morris all proclaim to have distinct corporate cultures. In internal and public company documentation each TNC has highlighted what is meant by its corporate culture. While similar global processes are pursued by the TNCs in most activities, there is a noticeable difference in focus and sentiment between corporate goals and

purposes. The evidence suggests that TNC stated goals are not just rhetoric, but true manifestations of what they seek to accomplish. More importantly, statements of TNC corporate purpose disclose not only firm intentions, but also potential local impacts.

While Nestlé, Unilever and Philip Morris all maintain global R&D centres, both internal directives and interactions with the public differ among the TNCs. As previously discussed, Nestlé's claim that it focuses on nutrition research was confirmed by the breadth of publications found to be sponsored by the TNC in that area of study (U.S. Department of Agriculture 1996; 1998 - Nestlé sponsored research abstracts searched over a ten-year period). Likewise, Unilever frequently mentions its R&D programs in internal and public company documentation, but rather than nutritional research it claims to focus on manufacturing technology, bioscience, physical sciences, and chemical studies (Unilever Research and Engineering Division 1995; Tierney 1998b; Unilever Research and Engineering Division 1995). In an extensive search of Unilever-sponsored R&D over a ten year period, it was found that published research did in fact match the TNC's stated areas of R&D (U.S. Department of Agriculture 1998 abstracts; Slater 1988; Verrips 1991a). The research division of Hoare Govett Securities has come to a similar conclusion, observing that Unilever's R&D shows a lower emphasis on nutrition and a greater emphasis on emulsion science, flavour enhancement, plant breeding and manufacturing efficiency (Hoare Govett Securities 1995:34).

On the contrary, Philip Morris and its food subsidiaries comment very little about any type of firm research. Unlike Unilever and Nestlé, Philip Morris does not mention its R&D capabilities at all in its annual reports and virtually no mention of R&D is found in other internal and public company documentation. A review of the U.S. Department of Agriculture's (1998) database of worldwide research abstracts in food science confirms that Philip Morris and its subsidiaries publish very little research. Unlike Unilever and Nestlé,

much of the papers Philip Morris sponsors and releases into the public domain are general information brochures, not scientific research.[9]

One of the most significant differences between the big three food TNCs in terms of R&D is Philip Morris' secrecy. Not only does Philip Morris scarcely sponsor and publish research papers, but it mentions nothing about the location and focus of its research facilities. In the case of both Nestlé and Unilever, it has been determined that globally disbursed research facilities have contributed to the production of food products based on local raw materials and conditions (e.g. Tan 1996; Tierney 1998b, respectively). Nestlé's production of specialized soya products in India represents the benefit R&D directives can have on local communities. Similarly, Unilever has used R&D to develop seed varieties to suit specific local climate conditions. In the case of both Nestlé and Unilever, local benefits have been observed to accrue from each TNC's R&D efforts (*Middle East Economic Digest* 06Feb95; *Asian Venture Capital* 01Nov95; *Unilever Magazine* 1998a:33).

The case of Philip Morris provides no similar evidence of connecting R&D to local needs. While it is true that Philip Morris does adjust products to local tastes, this constitutes product design research, not real scientific inquiry. When interviewed about the perceived secrecy of Philip Morris' R&D efforts, a company officer replied that secrecy enables the company to maintain a competitive advantage. This is not to say that Unilever and Nestlé reveal all of their research findings, but that the evidence suggests they are more 'transparent' in their dedication to applying global R&D to local circumstances than is Philip Morris (Tan 1996; Tierney 1998b). In fact, Philip Morris is significantly less committed to R&D than its competitors. In regard to food-related activity, an analysis of financial data for each TNC reveals that both Nestlé and Unilever are estimated to spend over 1% of revenues on R&D,

[9]This is demonstrated by the weak content of many of Philip Morris' published research papers; titles include: "Healthful eating: the food industry's role" and "A matter of balance: easy steps for good nutrition" (McVicker 1994; U.S. Department of Agriculture 1996; 1998 - Philip Morris sponsored research searched over a ten-year period). On the other hand, Unilever's publicly available research, like Nestlé's, often includes serious scientific papers; titles include: "Fat and Obesity" and "Localisation of starch granules in developing tomato fruit" (U.S. Department of Agriculture 1996; 1998 - Unilever sponsored research abstracts searched over a ten-year period).

but Philip Morris spends roughly half that (Unilever 1997b: Nestlé S.A. 1997; Philip Morris Companies Inc. 1997c).[10]

Corporate policy on global manufacturing also differs among the big three food TNCs. Among the most significant effects are those from policies on the purchase of local raw materials and inputs. While evidence of Unilever's and Philip Morris' efforts in contract farming is comparatively scarce, it is confirmed that, like Nestlé, they do pursue contract farming. Unilever buys "key crops, such as spinach and peas, from farmers who work under contract and follow guidelines" (Unilever Environment Group 1998:18).[11] There is evidence that Philip Morris pursues contract farming, but it has also been found that some farming projects are funded through third party agencies (*Business Times* [Singapore] 11Aug94; Philip Morris Companies Inc.1998c; *Philip Morris Globe* 1998m). Nevertheless, while all three TNCs pursue contract farming, individual corporate policies influence the effect firm-sponsored contract farming has on local communities.

Philip Morris and Unilever publicly promote the idea of contract farming as an activity which confirms each TNC's pursuit of environmentally-friendly farming practices. By using contract farming as a key point of discussion in their respective 'environment reports', it

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[10]Estimates of food-related R&D spending are based on total expenditures reported in each TNC's annual report, with adjustments made to account for the significant R&D expenditures both Unilever and Philip Morris devote to 'personal care products' and 'tobacco', respectively.

[11] Contrary to Nestlé and Philip Morris, Unilever owns and operates a few raw material plantations. As previously discussed, its current interest in plantations is only about 2% of its total operating profits (Unilever 1997a; Unilever 1997b:38). Unilever entered the plantation business in 1914 and gradually acquired further plantations, primarily in Africa (Fieldhouse 1978:62:448). Originally, the plantations were viewed to be a form of 'vertical integration' in which the firm sought to safeguard against the danger of worldwide shortages in raw materials. Fieldhouse (1978:451) comments that another reason may have been Mr. Lever's "romantic enthusiasm for the idea of developing the tropics". No matter what the reason, Fieldhouse observes that because the activity is generally not profitable, the plantations business has been an embarrassment to Unilever (ibid:450:465:552). A possible reason why Unilever holds on to its largely unprofitable interests in plantations is the historical significance they have within the company.

Currently, the firm purchases most of its raw materials from third party sources (Unilever 1997b: Unilever Environment Group 1998:18). In fact, the plantations do not generally supply Unilever's food processing business with raw materials, but instead sell crops to third parties (Unilever 1997b; 1998c). Not only are plantations such a small part of Unilever's business that only limited observations on that activity can be made at best, but since Nestlé and Philip Morris do not own plantations a general comparative analysis of food processing TNC sponsored plantations cannot be made. In general, in today's global economy, one reason a TNC such as Unilever need not depend on its plantation business is because, as discussed in previous chapters, in the age of Global Partnershipping, contract farming arrangements provide an effective and relatively risk-free manner in which to obtain raw materials worldwide.

appears that both TNCs are more interested in gaining the acceptance of environmental consumer groups than in seriously addressing the numerous ways contract farming affects local communities. It is certainly true that environmental awareness, as enforced in contract farming agreements, is an important step to achieving 'sustainable agriculture'. Nevertheless, as demonstrated in the case of Nestlé, non-equity partnershipping through contract farming is linked to many potential local impacts which TNCs need to address. In a comprehensive search and review of company sources, very little besides environmentally-related issues is mentioned by Unilever and Philip Morris of possible impacts from contract farming activities. In contrast, Nestlé demonstrates an awareness of the connection between contract farming and local impacts through dedicated publications to that effect. And as a result, the TNC is automatically put under the healthy scrutiny of global interest groups to prove that its words match its actions.

Nestlé's corporate policy of encouraging worldwide subsidiaries to pursue contract farming underlines the firm's stated intention of making a contribution to local communities (Nestlé S.A. 1994b; Nestlé U.K. 1997a). On the contrary, Unilever and Philip Morris do not have similar corporate policies to encourage contract farming among subsidiaries. This is confirmed not only by the relative absence of the mention of contract farming in documentation, but also by the lack of substantive local sources found on contract farming for Unilever and Philip Morris. For example, there were three times fewer local sources found on contract farming for Philip Morris than for Nestlé, with Unilever sources less than half those of Nestlé's (see the 'total sources' compiled in the 'contract farming' category for each TNC in Appendices 4.2, 6.1, and 6.2).

In addition to corporate policies on contract farming and R&D, food processing TNCs have been known to globally distribute guidelines on working conditions, supplier links, distribution channels and general standards of operations. Through my review of both company and independent sources, it was found that both Nestlé and Unilever have made corporate policies targeted at developing country operations a priority, but Philip Morris has not. From interviews and dedicated company research papers, it is clear that Nestlé is the

most conscious about its developing country operations. While Unilever occasionally discusses the topic, unlike Nestlé it does not generally have dedicated company literature on its developing world operations. An exception is a short six page brochure given out to governments and regional businesses on its African operations (Unilever 1998c).[12] Aside from this, as cited in this chapter, the most frequent references on Unilever's LDC operations are found in the company's globally distributed internal company publication, *Unilever Magazine* (e.g. Broadbent 1998b; Conlon 1997b; Fraser 1997; 1996).

While local language brochures were uncovered for Philip Morris' Latin American subsidiary in Brazil (Philip Morris Brasil 1998a; 1998b; 1998c), the TNC did not have any internal or public literature dedicated to discussing its developing world operations. In addition, as compared to Unilever, there was less mentioned in the internal company newspaper - *The Philip Morris Globe* - about LDC operations. As elaborated on below, discussions of LDC operations in *The Philip Morris Globe* were almost entirely focused on environmental issues and charitable contributions (e.g. *Philip Morris Globe* 1997d;1998a; 1998f). On the other hand, Nestlé's internal company newspapers -*The Nestlé Gazette* and *The Nestlé News* - did not discuss the firm's developing country operations in detail, as this was left to literature specifically developed for that purpose.

In short, from an analysis of company literature dedicated to the issue of the developing world, it can be inferred that Nestlé is the most aware of how global firm activity

[12]Unilever's *Looking to the future in Africa* brochure is a scant overview of different aspects of its operations in Africa (Unilever 1998c). This is in contrast to Nestlé's substantial literature on its operations in the developing world, including: *Nestlé in the developing countries* (Nestlé Alimentana 1975); *A Partnership for Fair Trade* (Nestlé U.K. 1995); *Nestlé in India, 1962-1992* (Montavon 1993); *Nestlé in China - Nestlé technical assistance in agriculture and the development of coffee growing* (Montavon 1997); *Nestlé and the Developing World: Working Together* (Nestlé S.A. 1994b).

impacts LDC communities.[13] As observed in Table 6.5, excerpts demonstrate how each TNC represents its involvement in the developing world:

TABLE 6.5
TNC ASSESSMENTS OF FOOD OPERATIONS IN LDCS

NESTLÉ	UNILEVER	PHILIP MORRIS
"[I]n the developing world, where Nestlé has been established for over 70 years, we have always remained sensitive to the cultures and environments in every country in which we operate and are proud of the significant contributions we have made to local economies and communities through the creation of jobs and purchase of local raw materials."	"Our food operations are more heavily concentrated in Europe and North America and so have not shared to the same extent in the growth in the developing and emerging markets. [W]e have put particular emphasis in the meantime on growth in developing and emerging markets."	"Kraft Foods International manufactures and markets a wide variety of...products in Europe, with distribution to the Middle East and Africa. In [the] Asia/Pacific region, select grocery products are produced. In Latin America affiliates ...market a wide variety of food products. In 1997 approximately 80% of revenues for the international food business were derived from sales made in Europe."
-(Nestlé, U.K. 1997a:3)	-(Unilever PLC 1997b:2-3)	-(Philip Morris Companies Inc. 1997b:11)

The interaction between TNCs and local communities in the developing world is obviously influenced by the degree of each firm's penetration. It is estimated that only 7% of Philip Morris' food business is in the developing world.[14] This is in contrast to both Unilever and Nestlé, for which my estimates from financial data reveal that developing world

[13]Nestlé is the only one of the big three food TNCs which has detailed corporate policies in the developing world. Nestlé's five main principles in LDCs are: (i) to create local jobs and stimulate the economy, paying fair wages to employees and fair prices to farmers and other suppliers; (ii) to use local raw materials and resources to help develop indigenous industries and agriculture; (iii) to be sensitive to the culture and environment of developing countries; (iv) to encourage scientific and technical advances which benefit the people of the developing world; (v) to help developing countries to earn foreign exchange by trading internationally (Nestlé U.K. 1997a:26). Through examples, the evidence provided in Chapters Four and Five evaluated a number of these Nestlé-stated goals.

[14]Philip Morris divides its total revenue of $32 billion in the food business into two main areas: (i) North America; and (ii) International. Philip Morris has indicated that 80% of its 'international food business' is in Europe (*10-K Report* 1997:11- Philip Morris 1997b). This would mean that out of a total 'international food revenue' of $11.5 billion, $9.2 billion is in European industrialized countries (some operations may be in Eastern Europe). This leaves $2.3 billion food revenues for operations in LDCs, Australia, New Zealand, Japan and Israel. Based on this information, it is roughly estimated that about 7% of Philip Morris' food revenue is in developing nations.

operations account for roughly 30% of each firm's revenue.[15] Considering that developing countries account for approximately 16% of the world's GDP (UNDP 1994:181, 205), the estimated 30% of total revenues both Nestlé and Unilever earn from LDCs demonstrates each TNC's commitment to developing world markets. On the contrary, Philip Morris' demonstrated reluctance to enter more 'risky' developing markets in Asia and Africa highlights the company's strategy of pursuing markets with higher levels of development (e.g. its subsidiary/partnership expansion is most pronounced in Eastern Europe). Given the varying levels of economic development between LDCs, as discussed in the next section, the socially responsible TNC adjusts corporate policies to accommodate local conditions.

CORPORATE SOCIAL RESPONSIBILITY DISTINGUISHES TNCS WITHIN THE GLOBAL FOOD PROCESSING INDUSTRY

Information gathered on each TNC provides evidence as to whether the firms follow a 'shareholder' or 'stakeholder' perspective. As discussed in Chapter Three, to the 'shareholder' corporation, achieving a maximum return to shareholders is the firm's overriding priority (Friedman 1983). On the other hand, a 'stakeholder' corporation more carefully considers how its actions impact not only shareholders but also third party individuals, groups and entities in society (Simon et al. 1993). TNCs often list corporate

[15]The big three food TNCs divide worldwide revenues under different geographic breakdowns. Nestlé does not break company revenue down into that earned from industrialized and developing nations. Instead, Nestlé uses the following geographic breakdown of revenue: (i) Europe 46%; (ii) North and South America 35%; and (iii) Rest of the World 19%. This information, coupled with supporting data for Nestlé's total number of LDC subsidiaries/partnerships and manufacturing facilities in each region (see Appendix 4.1), suggests that with 'adjustments for lower earning ratios'*, at least 30% of Nestlé's revenue is earned in the developing world. Likewise, Unilever uses the following breakdown: (i) Europe 49%; (ii) North America 21%; (iii) Africa and Middle East 6%; (iv) Asia and Pacific 14%; (v) Latin America 10%. Based on this information, along with data compiled in Tables 6.2 and 6.3, it has been extrapolated that with 'adjustments for lower earning ratios'*, approximately 30% of Unilever's revenue is earned in developing countries.
[* 'Adjustments for lower earning ratios' were made between the revenue estimated to be earned per IC factory and that earned per LDC factory. In general, due to lower LDC currency values vis-a-vis Western currencies, each developing world factory is estimated to earn, on average, 15% less revenue than their IC counterparts].

purposes and goals in company literature. Table 6.6 provides an example of how each TNC views its corporate social responsibility:

TABLE 6.6
TNC STATEMENTS OF CORPORATE SOCIAL RESPONSIBILITY

NESTLÉ	UNILEVER	PHILIP MORRIS
"We have a number of important business principles which we strongly believe in, one of which is the importance we attach to building strong links with the communities in which we operate. We...make every effort to minimize any negative impact of our operations on the local, national and indeed global environment."	"Our deep roots in local cultures and markets around the world are our unparalleled inheritance and the foundation for our future growth. We will bring our wealth of knowledge and international experience to the service of the local consumer...We believe that to succeed requires the highest standards of corporate behaviour towards our employees, consumers and the societies and world in which we live."	"In 1996, we continue to lead in selected fields of corporate citizenship, particularly in communities where our employees live and work... [This includes a] grant to help New York's City Meals-on-Wheels, ... our grant to ... expand regional minority teacher[s], ... corporate support of the arts, [and] ... protect[ion] of the environment, ... including reductions in ... energy use."
-(Nestlé U.K. 1997a:3)	-(Unilever 1997b: Cover).	-(Philip Morris Companies Inc. 1997c:56)

The quotes presented in Table 6.6 are the best representations of stated views on corporate social responsibility found within each TNC's distinctive bibliography. The most striking difference between the three is that, while Nestlé and Unilever clearly acknowledge commitments to society in general, Philip Morris focuses most of its statement on highlighting the firm's charitable contributions.

While Philip Morris publishes a booklet dedicated to outlining the firm's 'principles and commitments', its discussion of corporate social responsibility is rudimentary. Philip Morris links corporate social responsibility to a laundry list of contributions the company prides itself on making (Philip Morris Companies Inc.1995a:7; 1997d; 1997e; 1997f; 1998a). The TNC speaks repeatedly about contributions in education and the arts - areas which have nothing to do with the firm's actual business expertise. While there are local sources which

confirm that Philip Morris supports both sporting events and the arts, one is hard pressed to label these as charitable contributions, as event sponsorship is basically a manner of advertisement.[16]

The brochures and pamphlets published on Philip Morris' contributions also appear to be marketing tools. For example, in a brochure entitled 'Hunger & Nutrition' (Philip Morris Companies Inc. 1997g), a photo of the company's Chairman, Geoffery Bible, is provided under the caption, "Philip Morris Chairman...delivers bags of food to homebound elderly individuals as part of the 'Philip Morris Cares' program" (ibid:5). The brochure is scant, with very little information, but much marketing fanfare is devoted to programs which give very little back in comparison to Philip Morris' total revenues. Not only are the nature of the firm's charitable contributions questionable, but Philip Morris speaks so much about its contributions that one would think they constitute a respectable portion of the TNC's worldwide revenue. This is not the case, as a mere $9 million in cash grants were distributed against total worldwide revenues of over $69 billion (Philip Morris 1997c:56,30). Based on revenues, this constitutes a meager one hundredth of one percent budget for charitable contributions.

A more worrying aspect of Philip Morris' apparent self-adulation of its philanthropy is that the firm links the amount of taxes it pays to discussions of its charitable contributions (Philip Morris Companies Inc. 1997d; *Philip Morris Globe* 1998c). There is something inherently mistrustful in the TNC's frequent claim that it is "among the largest corporate taxpayers in each country in which it operates" (*Philip Morris Globe* 1998c). The firm comments that "it has been able to make a dramatic impact on local economies of virtually all the countries where...[it does] business", but it links this to the amount of tax the company pays, and even offers a meaningless statistic comparing Philip Morris' tax payments to World

[16]There is evidence of Philip Morris' global directive on the sponsorship of the arts. Contributions to the arts are supported by various Philip Morris subsidiaries, in which each subsidiary "decides its own main focus in arts sponsorship" (Kraft Jacobs Suchard 1995:37). In the developing world, Philip Morris subsidiary contributions include the sponsorship of the Chinese professional soccer league, and a donation to an arts library in China (*Hong Kong Standard* 14Apr94; Xinhaua News Agency Bulletin 16Nov94).

Bank outflows (ibid:8). Neither Nestlé's nor Unilever's company literature promote the fact that they are taxpayers. This is most likely due to the simple fact that taxes are not an act of philanthropy, but a legal requirement TNCs must fulfill in order to exist and operate. The fact that Philip Morris promotes paying tax as an example of good corporate citizenship suggests that the firm seeks to do the very minimum in order to fulfill its legal requirements, thereby more closely following a 'shareholder' perspective.

On the other hand, sources suggest that Nestlé and Unilever do not simply equate corporate social responsibility with charitable contributions and paying taxes, but instead consider TNC social responsibility an inherent part of everyday firm operations. Clear representations are made by both firms on possible mutual benefits that can be derived between TNC activities and the societies in which they operate (e.g. Broadbent 1998a; Oliver 1998; Nestlé U.K. 1997a; Maucher 1994b). In fact, local sources confirm that, like Nestlé, Unilever actively adjusts global firm operations to specific local circumstances. For instance, in M&As and JVs Unilever has made it corporate policy to "train and develop local personnel with the ultimate aim of replacing expatriates with local management" (*Business Wire* 03Mar95; also see Oliver 1998; Heron 1991). As discussed in Chapter Three, Moss-Kanter (1991) found that TNC global managers do believe they have a social responsibility in areas such as education and training. Unilever's policy of using local personnel is an example of the TNC's effort to 'think global and act local'. In fact, a director in Unilever's foods division hosted a conference at the World Bank on the topic of 'how global knowledge impacts local culture' (Conlon 1998b). Acknowledging the connection between the 'global' and 'local' demonstrates an awareness of the need to act in a socially responsible manner.

Uncovering a TNC's stated aims and goals lends insight into the corporation's priorities. The excerpts given in Table 6.7 represent the varying foci between the three TNCs:

TABLE 6.7
INDICATIVE QUOTES OF TNC STATED AIMS AND GOALS

NESTLÉ	UNILEVER	PHILIP MORRIS
TNC AIMS AND GOALS IN PUBLICATIONS		
"Dedicated ***to producing the very best in food and drink***, Nestlé's scientific expertise has gained an international reputation. The Group as a whole has probably done more than any other company to bring a wide choice of quality foods to people around the world."	"Unilever's companies invest heavily each year in detailed market research ***to establish the precise requirements and future needs of consumers***. [T]he challenge is to provide products which will meet them. The success of this process is ensured by market research, marketing, product development and research..."	"We have the brands, marketing skills and infrastructure to keep growing our businesses as we keep doing everything we believe appropriate ***to increase value for...our shareholders***."
-(emphasis added, Nestlé U.K. 1997a:5)	-(emphasis added, Unilever PLC 1995a:1)	-(emphasis added, Philip Morris Companies Inc. 1997c:5)
STATED AIMS AND GOALS IN CHAIRMAN LETTERS		
"***[O]ur efforts [are] aimed*** at widening our geographic presence and improving our position in several strategic sectors. [We] are committed to a long term perspective."	"***[O]ur objective*** is the creation of value through sustainable growth. Our strategy remains to focus on a portfolio of product categories and geographic regions which together offer the best prospect of achieving that objective."	"I [the Chairman] am pleased to report that in 1997 we continued to achieve ***our twin goals***: to increase earnings by growing our businesses, and to increase shareholder value."
-(emphasis added, Nestlé S.A. 1997:2)	-(emphasis added, Unilever PLC 1997b:2)	-(emphasis added, Philip Morris Companies Inc. 1997c:2)

A 'Chairman's Letter' is always included in a TNC's annual report. The letters are obviously addressed to the firm's shareholders, yet the Chairmen of Nestlé and Unilever do not mention a single world about shareholder value in the body of their letters (Nestlé S.A. 1997; Unilever

PLC 1997b). Instead, the letters are focused on the long-term goals, objectives and priorities of the TNCs as set out by the Chairmen. This is in contrast to Philip Morris, where an entire section of the Chairman's letter is titled 'returns to shareholders' (Philip Morris 1997c:2).

This is not to say that Nestlé and Unilever view shareholders as unimportant, but that they appear to focus on a long-term perspective, not short-term shareholder gain. Like Nestlé's chairman, one of Unilever's co-chairmen, Morris Tabaksblat, observes that companies need to be "socially responsible...because they do not operate separately from society but are interwoven with it in its every fibre" (quoted in Broadbent 1998a). Tabaksblat argues that companies are not just accountable to shareholders, but to consumers, employees, suppliers, customers and governments around the world (ibid). While a TNC's statement of commitment to the concept of social responsibility is not proof of action, it is a statement of intention.

Local sources confirm that both Nestlé and Unilever support independent local community development programs associated with their business activities. For instance, Nestlé has been involved in a nutrition education plan in a rural community in the Philippines (*Business* World [Philippines] 09Apr96). Similarly, there is mention of a Unilever nutrition program in South Africa and rural development programs in India and Brazil (Broadbent 1998a; Reuters News Service 24Jun96). Contrary to the case of Philip Morris, these types of charitable programs are more closely related to both Unilever's and Nestlé's areas of business expertise. As a result, there is a greater opportunity for real transfers of knowledge between the TNC and local communities. However, participation in community development programs is just one small representation of corporate social responsibility. TNCs are not non-profit charitable entities. Their purpose is to create value through physical product. It is the responsibility demonstrated to stakeholders in the *normal course of business* which truly identifies the socially responsible corporation.

Since impacts from a TNC's normal course of business are so important to consider, measurements of social responsibility start with assessments of the extent to which accurate company-sponsored information is available to the public. Regularly available information includes annual reports, but also internal documents or information as needed by concerned parties. As detailed within the body of this thesis, a varying number of internal company documents were obtained for all three TNCs (see the individual company bibliographies). However, the ease in obtaining documents varied between the TNCs. The most accessible of the three was Nestlé, followed by Unilever, with Philip Morris trailing far behind.[17] The most significant difference between each TNC's documentation was the quality and content of information supplied. A basic example is the contrast between the annual reports of the big three TNCs. Whereas Philip Morris provided the bare minimum of information, Nestlé and Unilever went into a substantial amount of detail in their annual reports (Nestlé S.A. 1997; Unilever 1997b; Philip Morris Companies Inc. 1997c).[18]

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[17]In the course of this research, Nestlé provided on request documents regarding its worldwide operations. Gathering information on Unilever was slightly more difficult than for Nestlé, but in the end the TNC provided internal documentation on its worldwide operations. Obtaining information from Philip Morris was more difficult, with attempt after attempt meeting with no response. Philip Morris' food subsidiary, Kraft, offered nearly no internal information on its worldwide food operations (except one booklet from Kraft Jacobs Suchard). While the archives department at Kraft reluctantly tried to satisfy some research requests, the information supplied was scant. Eventually, a newly transferred director at Philip Morris' 'Worldwide Regulatory Affairs' department provided internal company documents on the TNC's global operations. However, as discussed above, the quality of information obtained from Philip Morris/Kraft paled in comparison to that provided by Nestlé and Unilever.

[18]The annual reports of Nestlé, Unilever and Philip Morris can be distinguished based on both the quality and quantity of information supplied. While all of the TNCs include a 'general business review', in contrast to Philip Morris, Nestlé and Unilever go into detail about worldwide operations. For instance, topic headings in each TNC's annual report are as follows:

•**Nestlé discusses 10 main topics:** (i) products within five key product groups; (ii) geographic areas of concentration; (iii) total number of factories in total number of countries: (iv) environmental policy; (v) biotechnology; (vi) corporate 'transparency' in giving information; (vii) recruitment and training; (viii) principles of management; (ix) a listing of partnerships and subsidiaries; and (x) firm history;

•**Unilever discusses 12 main topics:** (i) corporate purpose; (ii) geographic areas of operations; (iii) regional summaries; (iv) technology and innovation; (v) information technology; (vi) environmental responsibility; (vii)standards on employee treatment; (viii) products and sub-products; (ix) organization and corporate governance; (x) legal structure; (xi) a listing of partnerships and subsidiaries; and (xii) firm history.

•**Philip Morris summarizes 2 broad areas:** (i) broad product groups (ie. tobacco and food); and (ii) charitable contributions.

Some would argue that the information compiled in a TNC's annual report is selective and thus not a wholly accurate statement of operations. While it is true that all company-sponsored information should be assessed with a critical eye, any information given is a means by which to hold TNCs accountable for their actions. The more information a TNC makes available to the public, the more accountable the TNC is for its actions and, hence, there is a greater probability of socially responsible corporate behaviour. In fact, it was only because Nestlé opened its internal archives to a reporter to disclose all its information on infant formula in the developing countries that the issue became a controversy in the 1970s (Sethi 1994; Heer 1991). Hence, because Nestlé opened its doors, it was held publicly accountable by global action groups for its operations in the developing world (see Chapters Four and Five).

On the other hand, Philip Morris forwards very little information on any of its operations. In fact, for Philip Morris, the alleged concealment of nicotine research has recently been the subject of U.S. litigation in the tobacco industry (Marshall 1999). But since Philip Morris' tobacco business is virtually separate from its food arm (Kraft Foods), it is curious why there is not greater information given on the TNC's food operations. Perhaps this is because its experience in the tobacco industry has influenced the TNC to hold its food subsidiaries to the same degree of secrecy.[19] Whatever the reason, unlike Nestlé and Unilever, Philip Morris publications read more like marketing brochures than information which can be used to hold the TNC accountable for impacts from worldwide operations.

A good basis for assessing the quality of information available from each TNC is through a comparison of special company reports. Philip Morris provides very little information in its 'environment report', which is basically a listing of nine rather vague

[19]Some scholars argue that the actions of TNCs (such as Philip Morris' perceived secrecy in comparison to Nestlé and Unilever) are distinct characteristics learned from their home environments (Dicken 1998; Pauly and Reich 1997). Dicken (1998:196) observes that TNC actions can be closely tied to its 'geographical origins', in which "the cognitive, cultural, social, political and economic characteristics of the national home base plays a dominant part" on the firm's behaviour. While it is interesting to identify the potential cultural differences between TNCs, in the absence of a sufficient case study base of TNCs from similar geographic areas, a more generic means of distinguishing TNC behaviour is through assessments of corporate social responsibility, and by measuring whether a TNC more closely pursues a 'shareholder' or 'stakeholder' perspective (as detailed in this Chapter).

environmental principles. Intermixed in the report is a laundry list of awards and certificates obtained by its subsidiaries (Philip Morris Companies Inc. 1998c:4).[20] This is in contrast to Nestlé, for which awards are highlighted to a greater degree in independent local sources than in company-sponsored documentation (e.g. *Business World* [Philippines] 29Nov95; 13Dec95; Carino 1996; Tan 1996; Molina 1995). The Unilever and Philip Morris environment reports continuously mention how practices such as saving energy and packaging reduction render each TNC environmentally-responsible. However, there is not an acknowledgment that these activities are also practical cost-saving measures. Contrary to both Philip Morris and Unilever, Nestlé frequently acknowledges that corporate energy savings policies have dual benefits to both the environment and the company (e.g. Nestlé S.A. 1998a:16; 1997:18; Montavon 1993; 1997).

While Unilever is not as straightforward as Nestlé in observing that some environmental actions are also beneficial to the company, unlike Philip Morris' report, a serious attempt is made to measure how the company can become more environmentally-responsible (Unilever Environment Group 1998). This is demonstrated not least by Unilever's policy of using an independent environmental consultancy group to verify its report. Contrary to Philip Morris, Unilever goes into detail regarding how its operations affect the environment. This is done by systematically assessing how its business operations, from

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[20] Philip Morris' stated environmental principles are as follows (Philip Morris 1998a): (i) to conduct operations both in accordance with the law and through voluntary initiatives; (ii) to reduce waste and conserve energy; (iii)to use environmentally friendly packaging; (iv) to conduct R&D in the environment; (v) to use environmental responsibility at work; (vi) to work with government and interest groups on the environment; (vii) to provide consumers with environmental information; (viii) to ensure operating procedures are in place to implement (i) through (vii) above; and (ix) to reevaluate the principles from time to time.

There is nothing ground-breaking in Philip Morris' environmental principles and the company acknowledges that environmental principles will only be followed 'when practicable'. Philip Morris' lack of seriousness in achieving its environmental principles is highlighted by the fact that it has only pursued a 'pilot' scheme for three of its factories to qualify for ISO 14001 (the International Organization for Standardization 14001) environmental certification (ibid:4). In contrast, Unilever has pursued ISO 14001 for thirteen of its factories (mostly food facilities), with expected certification of forty-five food facilities and all European detergents facilities (Unilever Environment Group 1998). In other words, Unilever is actively pursuing its environmental goals, whereas Philip Morris is only pursuing 'pilot' schemes, where 'practicable'.

start to finish, might impact local environmental conditions.[21] Moreover, Unilever provides several appendices which explain the methodology behind its environmental program. The more detailed information and methodology given in the Unilever report distinguishes it from Philip Morris' rather vague attempt to market itself as addressing issues of the environment.

In essence, environmental reports explain TNC global strategies on the environment and give some insight into how firm activities impact local environmental conditions. In Chapters Four and Five, Nestlé's environmental impact was broken down and discussed in terms of effects from Global Production, Global Management and Global Partnershipping. In the Nestlé analysis it was found that communities in the developing world do not always prioritize environmental issues, nor are small local companies the focus of global interest groups. On the contrary, by virtue of the fact that TNCs are global players, they are held accountable by global consumer action groups. This is why many TNCs have produced publicly-distributed environmental reports. In many ways, the prevalence of TNC environmental reports is a reflection of TNC efforts to respond to interest groups and placate public opinion on a fashionable, but important, topic.

In fact, interest groups levy a healthy degree of public accountability on TNCs.[22] However, while interest groups might on occasion be successful at changing TNC behaviour, it does not always mean that the interest groups are on the right side of an issue. The most recent example of interest groups holding TNCs accountable in the food industry is the case of genetic engineering. As discussed in previous chapters, these groups have successfully

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[21]Unilever uses the concept of 'life cycle analysis' to assess how the manufacture of different products impact conditions. Three key stages are addressed: (i) production of the raw material; (ii) manufacture and distribution of the goods; (iii) consumption of products (Unilever Environment Group 1998). Assessments of potential environmental impacts are on a product-by-product basis, which highlights the differences in manufacturing processes between products (e.g. manufacturing ice-cream and tea have different environmental impacts).

[22]TNCs are not only held accountable to well-funded and popular global interest groups such as 'Baby Action Group', 'Greenpeace' or 'Friends of the Earth'. It has been found that groups representing developing world communities have begun to coordinate activities to monitor TNC operations. For example, various indigenous tribes and communities in the Amazon and the Philippines have formed alliances to protect local interests (ie. 'the Confederation of Indigenous Nationalities of Ecuador' and 'the Cordillera Peoples' Alliance', respectively) (*The Economist* 20Jul96 - 'The fun of being a multinational'). No doubt, these small groups do eventually find allies in the well-funded global action groups of the industrialized nations.

gained enough popular support to influence food retailers and manufacturers (including Nestlé and Unilever) to ban genetically-modified material from many processed food products (see Chapter Two). While the public jury is still out regarding the fate of GM foods, evidence from the scientific community suggests that complete abandonment would be a step backward in food science (see Chapter Three). Nevertheless, whether interest groups are on the right or wrong side of an issue, the threat of a globally organized consumer boycott is sufficient pressure to influence TNCs to alter their operations.[23]

Due to their global public profiles, it is easier to hold TNCs accountable for local impacts than smaller businesses which maintain lower public profiles. This is also the case in terms of a TNC's relationship with national governments. Both company and independent sources confirm that each of the big three TNCs are involved in community development programs due to governmental requirements. For example, Philip Morris was required by the Brazilian government to fund a literacy program in local rural communities (*Philip Morris Globe* 1998e:3); Unilever was required by the Malaysian government to build houses for underprivileged children (Tierney 1998c:39); and Nestlé was obliged to team up with the Filipino government to provide lunch meals for rural school children (*Business World*

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[23] In other industries, there are similar examples of pressure groups influencing TNC operations. One example is the case of the Brent Spar oil platform, where the TNC oil giant, Shell, planned to dispose of its oil platform in the deep sea. Environmental groups (i.e. Greenpeace) were convinced this would be damaging to the environment and managed to gain global consumer support to condemn the action. Under pressure from a global consumer boycott, Shell was forced to reverse its decision and to dispose of the oil platform on land. While global pressure groups were successful in altering Shell's actions, independent scientists have serious doubts over whether dismantling the platform on land was actually safer than disposal at sea. Scientists have argued that the damage done to the marine environment by sunken structures is small compared to the impacts on land animals from platforms which are towed ashore. In short, platforms dismantled on land, it is argued, might break apart and cause a great deal more environmental havoc than if the platform had been left far out to sea (Huxham and Sumner 1999; *The Economist* 20Jul96 - 'Still Sparring').

If, in fact, it is proven that sea disposal would have been more prudent, it becomes clear that more detailed and accurate information needs to be within the public's reach. One problem with action groups is that ideology sometimes blurs the facts (ie. the assumption that TNCs will automatically choose the most damaging path). For instance, a previous director of 'Friends of the Earth', Jonathon Porritt, claims that the group "had become prone on occasions not so much to distortion of the truth, but to rather exaggerated interpretations of the truth" (quoted in Brown 1998). Porritt observes that TNCs do not only do things wrong, but in an expanding global economic environment have increasingly got things right. Hence, he suggests that rather than being enemies, TNCs and action groups need to work together to solve problems. In fact, a current campaigner of 'Friends of the Earth' has recently acknowledged that "people are realizing that...multinationals have a soft underbelly" (*The Economist* 20Jul96 - 'The fun of being a multinational'). As discussed above, the extent to which TNCs are willing to seriously evaluate how operations affect local conditions and work with outside groups depends to a large extent on whether they hold a 'stakeholder', as opposed to a 'shareholder', view.

[Philippines] 09April96). Hence, as facilitators of global processes, TNCs are monitored by various public institutions which may force TNCs to positively contribute to the societies in which they operate.

Nevertheless, even in the face of public and governmental accountability, TNCs have the ultimate power of deciding how to interpret and pursue corporate social responsibility. Philip Morris is keen to point to its scant booklet outlining its environmental standards as proof that it is acting socially responsibly (Philip Morris Companies Inc. 1998a:1). However, not only has there been very little evidence of Philip Morris' seriousness on environmental issues, but environmental concerns are just one small area of a TNC's operations. Instead, corporate social responsibility must be applied across the board.

As demonstrated throughout this thesis, TNC global processes are manifested in Global Production, Global Management and Global Partnershipping strategies. Remarkably, these strategies are largely similar among food processing transnationals, which suggests that there is an overall globalization of the food processing industry. The evidence also suggests that TNC notions of corporate social responsibility can distinguish the impact global processes have on local conditions. All TNCs have global corporate policies, but if these policies favour the 'shareholders' and disregard the 'stakeholders', low priority will be given to considering the local impacts from operations, making it even more likely that their activities may adversely affect local communities. Judging by this standard, one might surmise that these communities would better welcome the presence of more stakeholder-focused TNCs, such as Nestlé and Unilever, than a comparatively shareholder-focused TNC, such as Philip Morris. Hence, in terms of local effects, the most significant component of a TNC's global strategy is its overall sense of corporate social responsibility, as it is this aspect which most powerfully influences how global operations are interpreted locally.

APPENDIX 6.1 [a]

SOURCES ON UNILEVER'S ACTIVITIES IN THE DEVELOPING WORLD

ARTICLE TITLE	SOURCE/ DATE	GLOBAL PRODUCTION			GLOBAL MANAGEMENT			GLOBAL PARTNERSHIPPING		
		Mfg.	Dst.	Dsg.	Mkg.	R&D	CP	CF	M&A	JV
ASIA										
"India Hindulever approves merger plan"	*Reuter News Service /29Jun96*								x	
India: "Unilever firms wrapping up biggest Indian merger"	*Reuter News Service /28Jun96*						x		x	
India - "Merger in Tune with Unilever Strategy"	*Informatics (India) /23Apr96*				x		x			
India: "Incumbents safe following Unilever merger in India"	*Advertising Age /23Apr96*				x				x	
"India Unilever merger to spur sales growth"	*Reuter News Service /23Apr96*		x	x	x		x		x	
India: "Two Unilever firms in India to form colossus"	*Reuter News Service /19Apr96*				x					x
India: "Why Hindustan Unilever should brook(e) a bond"	*Business Today (India) /07Apr96*	x		x	x		x		x	
Asia: "Why Western consumer goods firms will clean up in Asia - Washed up?"	*Economist /09Mar96*			x	x		x			x

[a] This Appendix categorizes sources on Unilever's activities in the developing world according to the methodological classification developed in this thesis. Additional references on Unilever and all sources cited in the text of the thesis on Unilever can be found in the 'Unilever Bibliography'. The following applies to this table:

(i) An 'x' indicates that the source provides a contextual discussion of the global strategy indicated.
(ii) This Appendix has been divided into sections according to the following developing regions: 'Asia'; 'Southeast Asia'; 'South America'; 'The Caribbean'; 'Central Asia and Eastern Europe'; 'Middle East'; 'Africa'.
(iii) The total number of references found in each category is tallied on the last page of the Appendix.
(iv) The key to abbreviations may be found on the last page of this Appendix.

Appendix continued....

ARTICLE TITLE	SOURCE/ DATE	GLOBAL PRODUCTION			GLOBAL MANAGEMENT			GLOBAL PARTNERSHIPPING		
		Mfg.	Dst.	Dsg.	Mkg.	R&D	CP	CF	M&A	JV
India: "Processed foods named priority investment"	*EIU /07Feb96*	x	x	x	x				x	x
India: "Hindustan Lever to hive off personal product business"	*Informatics Economic Times (India) /28Dec95*						x			
India: "Hindustan Lever - takeover route pays"	*Dalal Street Journal (India) /13Sep95*	x			x					x
India: "New Lever Bothers chief to maintain tempo of growth"	*Bangkok Post /19Aug95*			x	x					
India: "Press Digest - Indian newspapers"	*Reuter News Service /17Jun95*									x
India: "Unilever India unit digests acquisitions"	*Reuter News Service /22Jun95*	x	x		x				x	
Asia: "Asians give west food for thought"	*The Times (UK) /11May95*		x	x	x					
Sri-Lanka: "P&O in $250 million bid to develop Lanka port"	*Reuter News Service /08Mar95*	x								
"Unilever's India subsidiary plans new tea ventures"	*Reuter News Service /28Feb95*		x	x			x	x		x
India: "Globe-trotting ends with Unilever deals in India and Spain"	*The Times /29Dec94*				x				x	x
Pakistan: "Gateway to Asia opens wider"	*The Times (UK) /29Nov94*					x			x	x

Appendix 6.1 - Sources on Unilever continued...

ARTICLE TITLE	SOURCE/ DATE	GLOBAL PRODUCTION			GLOBAL MANAGEMENT			GLOBAL PARTNERSHIPPING		
		Mfg.	Dst.	Dsg.	Mkg.	R&D	CP	CF	M&A	JV
SOUTHEAST ASIA										
South Korea: "Unilever picks Korean agencies"	*Adweek (USA) /25Jun96*				x					
Malaysia: "Record sales of RM521 million for the year 1995"	*New Straits Times (Malaysia) /13Jun96*						x			
Philippines: "Are Filipino workers second-rate?"	*Business World (Philippines) /01May96*	x		x	x	x	x			
Vietnam: "Agri-foods Unilever"	*Agence Europe (Belgium) /18Apr96*	x								
China: "Dinosaurs and Teenagers"	*Economist /09Mar96*	x			x		x			x
China: "Unilever sets China detergents venture"	*Reuter News Service /17Jan96*								x	x
China: "Unilever forms eleventh Chinese Venture"	*Het Financieele Dagblad (Holland) /18Jan96*									x
South Korea: "Dutch experience and know-how play a large role in Korea"	*Korea Economic Daily /16Dec95*		x	x	x					x
Taiwan: "Group expands markets in Taiwan"	*Taiwan Business News /14Nov95*				x				x	x
"Laos - Investing in 'A country just born'"	*Asian Venture Capital Journal /01Nov95*		x					x		
China: "American bulls in the China shops"	*Investor Relations (USA) /01Nov95*	x		x			x			x
China: "Unilever sponsors bazaar"	*Shanghai Star /10Oct95*						x			x
South Korea: "Global trade agreements drive reform"	*EIU /22Jun95*		x		x					

Appendix 6.1 - Sources on Unilever continued...

ARTICLE TITLE	SOURCE/ DATE	GLOBAL PRODUCTION			GLOBAL MANAGEMENT			GLOBAL PARTNERSHIPPING		
		Mfg.	Dst.	Dsg.	Mkg.	R&D	CP	CF	M&A	JV
China: "How to conquer China (and the world) with instant noodles"	*Economist /17Jun95*			x						
Malaysia: "Unilever...intends to become top and hopes to caputure 40% market share through aggressive promotions"	*Star (Malaysia) /20May95*			x	x					
Philippines: "Unilever Philippines...sets up hygiene College to provide training programs"	*Manila Bulletin /15May95*				x	x				
Philippines: "Unilever plans ice-cream venture with purefoods"	*Het Financieele Dagblad (Holland) /08Mar95*									x
Vietnam: "Unilever launching vietnames ventures"	*Het Financieele Dagblad (Holland) /04Mar95*	x			x					x
Vietnam: "Unilever enters Vietnam market with two joint ventures"	*Business Wire /03Mar95*				x		x			
China: "How not to sell 1.2 billion tubes of toothpaste"	*Economist /03Dec94*	x		x	x		x			x
South Korea: "World biggest spenders tightened pursestrings in '93, but Korean companies bucked the trend"	*Advertising Age (USA) /21Nov94*				x					
China: "Unilever's plans in China"	*Chemie Actualities (France) /31Oct94*	x							x	
Malaysia "Unilever projects rise in sales"	*New Strait Times (Malaysia) /04Aug94*	x			x	x				
Philippines: "Unilever Philippines accounces program which aims at educationg..."	*Manila Bulletin /01Jul94*				x	x				

Appendix 6.1 - Sources on Unilever continued...

ARTICLE TITLE	SOURCE/ DATE	GLOBAL PRODUCTION			GLOBAL MANAGEMENT			GLOBAL PARTNERSHIPPING		
		Mfg.	Dst.	Dsg.	Mkg.	R&D	CP	CF	M&A	JV
China: "Unilever aims to be 'Great Walls' of China"	*Daily Mail (China) /23May94*	x	x	x	x		x			x
Philippines: "Unilever Philippines capture 34% of the total domestic market"	*Manila Bulletin /18Apr94*	x	x		x					
Philippines: "Unilever, PT&T tie-up"	*Manila Bulletin /12Feb94*				x					
China: "Unilever to open Shanghai plant in joint venture"	*Household and Personal Products Industry /01Jul93*								x	
China: "Unilever has started new ventures in China"	*Wall Street Journal (Europe) /13May93*									x
SOUTH AMERICA										
Peru: "Local food firms lose ground to foreign MNCs "	*EIU /10Jul96*	x							x	x
El Salvador: "Unilever acquires soap maker"	*Carribean Update (USA) /08Jul96*		x		x				x	
Chile: "Banking, Food, Beverage update"	*EIU /25Jun96*	x							x	x
Peru: "Beginning to Bear"	*Latin Finance /07Jun96*							x	x	
Argentina: "Strategic importance"	*Latin Finance /01Jun96*	x	x	x		x			x	x
Argentina: "Local conglomerates restructure, divest"	*EIU /04Jun96*								x	
"Mexico seeks Irish business"	*Irish Times /24May96*	x	x							

Appendix 6.1 - Sources on Unilever continued...

ARTICLE TITLE	SOURCE/ DATE	GLOBAL PRODUCTION			GLOBAL MANAGEMENT			GLOBAL PARTNERSHIPPING		
		Mfg.	Dst.	Dsg.	Mkg.	R&D	CP	CF	M&A	JV
El Salvador: "Unilever acquires all shares of El Salvador soap manufacturer"	*Business Wire /14May96*		x		x					x
Mexico: "Mypsa strikes (edible) oil bottle maker in Mexico..."	*Plastic News /29Apr96*	x				x				
Panama: "Unilever buys Panama frim"	*EuroFood /27Mar96*	x			x				x	
Chile: "Unilever buys food concern"	*Lagniappe Letter (France) /22Mar96*	x							x	
Brazil: "Unilever hives off oil mills"	*Het Financieele Dagblad /22Mar96*						x		x	
Latin America: "Unilever PLC disposal"	*Regulatory News Service /21Mar96*			x			x		x	
Latin America: "Groups sell multinational marketers on gauging consumer buying habits"	*Advertising Age /11Mar96*			x	x					
Latin America: "Agency attention shifts south; networks rush to Latin America for rapid growth opportunities"	*Advertising Age /11Mar96*				x	x	x			
Chile: "Mattel opens plant; Unilever buys Malloa"	*EIU /05Mar96*								x	
Latin America: "Unilever doubles its turnover in indusrial detergents by buying diversey from Molson"	*Chimji Actualites /16Feb96*									x
Chile: "Unilever to acquire Chilean tomato business"	*Regulatory News /15Feb96*	x		x	x				x	
Chile: "Unilever buys Chilean firm Malloa"	*Reuter News Service /14Feb96*						x		x	
Panama; "Unilever takes stake in compaceites"	*Agence Europe /24Jan96*	x		x						x

Appendix 6.1 - Sources on Unilever continued...

ARTICLE TITLE	SOURCE/ DATE	GLOBAL PRODUCTION			GLOBAL MANAGEMENT			GLOBAL PARTNERSHIPPING		
		Mfg.	Dst.	Dsg.	Mkg.	R&D	CP	CF	M&A	JV
Latin America: "Top Global Marketers..."	*Crain Communications /20Nov95*				x					
Latin America: "Lure of overseas markets"	*Grocer /18Nov95*				x		x		x	
Latin America: "Producers, MNCs to dominate agricultural sector"	*EIU /31Oct95*							x		
Argentina: "Boswessanen spins off Argentiian Drinks"	*Het Financicale Dagblad (Dutch) /11Oct95*								x	
Latin America: "Unilever develops activities in Latin America"	*Agence Europe /06Sep95*	x			x				x	
Argentina: "Wal-Mart's Argentine rivials cry foul"	*Advertising Age /04Sep95*		x							
Peru: "Unilever moves back into Peru with 50.1% stake in Industrias Pacocha"	*Multinational Service /15Aug95*				x		x			x
Brazil: "Two Brazilian package makers to unite"	*Plastics News /05Jun95*	x							x	x
Peru: "Unilever to acquire majority of IPSA voting rights"	*Agence Europe /29Apr95*									x
Argentina: "M&A activity steps up as launch of customs union nears"	*EIU /27Sep94*	x							x	
Venezuela: "Adolfo Camacho -Mavesa"	*Advertising Age /15Aug94*			x	x				x	
"Latin America reforms - two steps forward - one step back"	*EIU /25Jul94*								x	
Argentina: "Advertising age special report"	*Advertising Age /18Jul94*				x					

ARTICLE TITLE	SOURCE/ DATE	GLOBAL PRODUCTION			GLOBAL MANAGEMENT			GLOBAL PARTNERSHIPPING		
		Mfg.	Dst.	Dsg.	Mkg.	R&D	CP	CF	M&A	JV
Argentina: "Unilever acquires Argentine firm"	*Het Financielle Dagblad /28Jun94*	x					x		x	
Brazil: "Unilever Brazil launching of powder detergent drive Ultra"	*South American Business Information /01Mar94*			x	x					
"Unilever Argentina invested US$100 million to purchase new machinery and to produce own package"	*South American Business Information /01Mar94*	x		x					x	
THE CARIBBEAN										
Cuba: "US sanctions may slow Cuba investment"	*Reuter News Service /13Mar96*									x
Cuba: "Britain enthusiastic about business outlook"	*Reuter News Service /08Feb95*									x
Cuba: "Castro beckons, MNCs respond"	*EIU /31Jan95*		x							x
Cuba: "Unilever to market in Cuba"	*HAPPIn (USA) /20Nov94*	x								
"British firms join minister in Cuba talks"	*Daily Telegraph /22Sept94*									x
Cuba: "USA-Cuba tensions heighten; non-US investors say risk is worth rewards"	*EIU /22Aug94*	x				x				x
"Cuba investment - Latin American companies moving in"	*EIU /05Aug94*	x				x				x
Cuba: "Unilever agreement with Cuban detergents and toiletries operaion"	*Chemical Business Newsbase (UK) /24Jul94*	x					x			x

ARTICLE TITLE	SOURCE/ DATE	GLOBAL PRODUCTION			GLOBAL MANAGEMENT			GLOBAL PARTNERSHIPPING		
		Mfg.	Dst.	Dsg.	Mkg.	R&D	CP	CF	M&A	JV
"Unilever in Cuban joint venture"	*Chemical Business Newsbase (UK) /01Jul94*	x			x					x
Cuba: "Unilever's soap powder deal comes to rescue of hygiene-conscious Cubans"	*Guardian (UK) /25Jun94*	x		x	x	x				x
"Cuba goes fishing for foreign investment"	*Economist /25Jun94*	x				x				
"Unilever in Cuba"	*Het Financieele Dagblad /25Jun94*	x			x					x
"Unilever declines to comment on Cuba deal'	*Reuter News Service /13Jun94*						x			x
Cuba: "Unilever grabs P&G business"	*Sunday Times /12Jun94*									x
CENTRAL ASIA AND EASTERN EUROPE										
Kazahstan: "New Developments in aviation, food, textiles"	*EIU /03Apr96*	x						x		
Balkans: "Unilever Export to close down unit for Eastern Europe and the Balkans..."	*Handelsblad (Netherlands) /14May96*					x				
Kazahstan: "The waiting game"	*Central European /01Jun95*							x	x	
Eastern Europe: "Unilever faces off with P&G in European soap wars"	*Chemical Week /25Jan95*						x			
Uzbekistan: "BAT's silk road gambel"	*Sunday Telegraph /01Jan95*	x						x	x	
Kazakhstan: "Doors open to Brits as states sell assets"	*Construction News /10Nov94*	x				x				

ARTICLE TITLE	SOURCE/ DATE	GLOBAL PRODUCTION			GLOBAL MANAGEMENT			GLOBAL PARTNERSHIPPING		
		Mfg.	Dst.	Dsg.	Mkg.	R&D	CP	CF	M&A	JV
Kazakhstan: "Unilever in margarine factory acquistion deal"	*Grocer /09Jul94*					x	x	x		
Kazakhstan: "Unilever Acquires two margarine companies in Kazakhstan"	*Regulatory News Service /06Jun94*	x				x		x		
Kazakhstan: "Unilever acquires two margarine companies in Kazakhstan"	*Business Wire /06Jun94*			x		x			x	
Czech Republic: "Unilever praises acquistion of PTZ"	*Mlada-Fronta (Czech Republic) /22Oct93*	x		x	x				x	
Czech Republic: "Lower yield, greater guarantee"	*Tydenik-Obchodu-a-Podnikani (Czech) /30June93*	x							x	
MIDDLE EAST										
Oman: "Colombo seeks Omani investment"	*Times of Oman /28Mar96*						x			x
"Witco will sell its 60% stake in this Isreal-based detergents mfg. to Unilever"	*Presse (Isreal) /08Apr96*								x	
Saudi Arabia: "Dental caries high among Saudis"	*Saudi Gazette /26Sep95*				x					
Iran: "Meed special report on Iran - Agriculture - Farmers look for foreign markets"	*Middle East Economic Digest /06Feb95*	x	x	x				x		x
Sharjah: "Bid to dump pork on Muslim states bared"	*Times of Oman /25Jun94*		x	x	x					

Appendix 6.1 - Sources on Unilever continued...

ARTICLE TITLE	SOURCE/ DATE	GLOBAL PRODUCTION			GLOBAL MANAGEMENT			GLOBAL PARTNERSHIPPING		
		Mfg.	Dst.	Dsg.	Mkg.	R&D	CP	CF	M&A	JV
Saudi Arabia: "Wall's wants Gulf to scream for ice cream"	*Advertising Age /19Jul93*		x	x	x					
AFRICA										
Ghana: "Unilever Ghana Refocuses and Reinvests"	*Reuter News Service /24June96*	x		x			x	x		
Africa: "The Scramble for Africa"	*SundayTelegraph /05May96*		x							
South Africa: "Advertisers aim to capture new South Africa spirit"	*Reuter News Service /27Mar96*				x				x	
Nigeria: "Unilever returns to core competence"	*Economist Intelligence Unit (EIU)/02Dec95*						x		x	
Ghana: "Fishing for Gold in Ghana"	*Grocer /04Nov95*		x	x	x				x	x
Zambia: "Unilever swallows 70% of oil firm"	*Reuter News Service /03Oct95*								x	
"Kenya - Country Update"	*EIU /24Mar95*	x						x		
"Zimbabwe:Unilever and Heinz bid for state food company"	*EIU /07Mar95*									x

Appendix 6.1 - Sources on Unilever continued...

ARTICLE TITLE	SOURCE/ DATE	GLOBAL PRODUCTION			GLOBAL MANAGEMENT			GLOBAL PARTNERSHIPPING		
		Mfg.	Dst.	Dsg.	Mkg.	R&D	CP	CF	M&A	JV
"Africa - UK manufacturers desert the region"	*EIU /03Mar95*	x								
"Kenya-Harsh Medicine, but it works"	*Economist /26Nov94*	x								
TOTAL REFERENCES IN CATEGORY	**125**	**48**	**21**	**30**	**51**	**17**	**29**	**12**	**45**	**44**

KEY:

Global Production:
Mfg. = Manufacturing **Dst.** = Distribution **Dsg.** = Product Design

Global Management:
Mkg. = Marketing **R&D** = Research and Development **CP** = Corporate Policy

Global Partnershipping:
CF = Contract Farming **M&A** = Mergers and Acquistions **JV** = Joint Venture

APPENDIX 6.2 [a]

SOURCES ON PHILIP MORRIS' ACTIVITIES IN THE DEVELOPING WORLD

ARTICLE TITLE	SOURCE/ DATE	GLOBAL PRODUCTION			GLOBAL MANAGEMENT			GLOBAL PARTNERSHIPPING		
		Mfg.	Dst.	Dsg.	Mkg.	R&D	CP	CF	M&A	JV
ASIA AND SOUTHEAST ASIA										
Singapore: "No frills brand of peanut butter recalled"	*Straits Times /29Jiun96*			x			x			
India: "Philip Morris to shift to agro-products"	*Informatics (India) /12Jun 96*	x	x	x		x				x
China: "Kraft foods - Kraft acts to boost profitability"	*The Food Institute Report /16Feb96*	x		x	x		x		x	x
"Kraft Foods International to double investment in China over next five years, as it tries to grab a piece"	*Wall Street Journal (Eastern) /22Nov95*				x		x		x	x
China: "Kraft looks to build up its presence in China on a foundation made of Jell-O and Kool-Aid"	*Asian Wall Street Journal /20Nov95*	x	x		x	x				x
China: "Kraft aims to expand sales of its food products in China"	*Wall Street Journal Europe Edition /15Oct95*	x	x	x			x	x		

[a] This Appendix categorizes sources on Philip Morris' activities in the developing world according to the methodological classification developed in this thesis. Additional references on Philip Morris and all sources cited in the text of the thesis on Philip Morris can be found in the 'Philip Morris Bibliography'. The following applies to this table:
(i) An 'x' indicates that the source provides a contextual discussion of the global strategy indicated.
(ii) This Appendix has been divided into sections according to the following developing regions: 'Asia and Southeast Asia'; 'Central Asia and Eastern Europe'; 'South America and The Caribbean'; 'Middle East'.
(iii) The total number of references found in each category is tallied on the last page of the Appendix.
(iv) The key to abbreviations may be found on the last page of this Appendix.

Appendix continued...

Appendix 6.2 - Sources on Philip Morris continued...

ARTICLE TITLE	SOURCE/ DATE	GLOBAL PRODUCTION			GLOBAL MANAGEMENT			GLOBAL PARTNERSHIPPING		
		Mfg.	Dst.	Dsg.	Mkg.	R&D	CP	CF	M&A	JV
China: "Philip Morris to dominate shelves"	*Business Weekly (China) /03Sep95*	x		x	x		x			x
China: "How to conquer China and the world with instant noodles"	*Economist /17Jun95*		x	x	x		x	x		x
Asia: "Kraft foods and Pepsi-Cola manufacturing set up Asian joint venture"	*Agence Europe /23Mar95*									x
Asia: "Kraft...plans to set up a joint venture to market canned instant coffee in Asia"	*Hong Kong Standard /22March95*		x	x						x
"Kraft foods and Pepsi forge coffee alliance in Asia"	*Business Wire /21Mar95*		x	x	x					x
South Korea: "World's biggest spenders tightened purse strings in '93, but Korean companies bucked the trend"	*Advertising Age /21Nov94*				x					
China: "Philip Morris donates to China's 'Hope Library'"	*Xinhua News Agency News bulletin (China) /16Nov94*						x			
China: "Philip Morris's Kraft unit is hoping that the Chinese get taste for Yogurt"	*Wall Street Journal (Eastern Princeton Edition) /12Sep94*			x	x					
North Korea: "American trade delegation interested in North Korea Investment"	*Korea Economic Daily /25Aug94*						x			
China: "Kraft moves to establish market for Yogurt in China'	*Asian Wall Street Journal /15Aug94*			x	x					

Appendix 6.2 - Sources on Philip Morris continued...

ARTICLE TITLE	SOURCE/ DATE	GLOBAL PRODUCTION			GLOBAL MANAGEMENT			GLOBAL PARTNERSHIPPING		
		Mfg.	Dst.	Dsg.	Mkg.	R&D	CP	CF	M&A	JV
Asia: "Looking north hungrily for a bite of the market"	*Business Times (Singapore) /10Aug94*	x	x	x	x			x	x	
Malaysia: "Philip Morris to set up RM182 million plant"	*New Straits Times /31Mar94*	x	x			x				
India: "Philip Morris plans to set up holding company in India"	*Informatics (India) /15May94*			x			x			x
China: "Philip Morris Asia to sponsor China's professional soccer league..."	*Hong Kong Standard /14Apr94*						x			
"Philip Morris active in Vietnam"	*Dairy Markets Weekly /03Feb94*	x		x		x				x
China: "Kraft creates miracle in China market"	*Business Weekly (China) /02Jan94*	x		x	x		x			x
China: "Kraft opens dairy in Beijing"	*Food Manufacture International /30Nov93*			x		x				x
China: "Cleaning up in China"	*Journal of Commerce and Commercial /30Nov93*									x
China: "Sino-US dairy venture established in Beijing"	*China Daily /23Oct93*	x		x	x	x	x			x
"Kraft China Venture"	*New York Times /18Oct93*	x								x
Taiwan: "President sells food stake to Kraft"	*Reuter News Service /15Oct93*				x				x	x

Appendix 6.2 - Sources on Philip Morris continued...

ARTICLE TITLE	SOURCE/ DATE	GLOBAL PRODUCTION			GLOBAL MANAGEMENT			GLOBAL PARTNERSHIPPING		
		Mfg.	Dst.	Dsg.	Mkg.	R&D	CP	CF	M&A	JV
China: "Kraft...and Beijing Agriculture Industry and Commerce General Corporation form Beijing Kraft Food Corporation Ltd."	*Regulatory News Service /09Jun93*	x		x	x					x
South Korea: "Testing the Korean waters"	*Korea Economic Daily /29Mar93*			x	x					x
China: "Advertising explosion has big guns all fired up"	*South China Morning Post /27Sep92*				x					x
CENTRAL ASIA AND EASTERN EUROPE										
Russia: "Kraft Jacobs Suchard is going to arrange production of biscuits in St. Petersburg"	*Moskovskie-Novosti /15May96*	x								x
Ukraine: "EBRD, still part of the wild East"	*Euromoney /30Apr96*	x	x			x	x			x
"Lithuanian agency for privatizing state property publishes top 10 foreign investors in Lithuania"	*Baltic Business News / 21Feb96*	x							x	
Romania: "Philip Morris unveils chocolate brand in Romania, Part of its Eastern Europe push"	*Wall Street Journal (European Edition) /18Sep95*	x		x	x	x			x	
Poland: "Latest food, tobacco deals"	*EIU /02Aug95*	x	x	x		x			x	
Russia: "Philip Morris produces Chesterfield brand"	*Kommersant (Russia) /16Jun95*	x								
Czech Republic: "Philip Morris awards Kovohute Bridlicna contract..."	*Konomicke-Zpravodajstvi /28Mar95*	x								

Appendix 6.2 - Sources on Philip Morris continued...

ARTICLE TITLE	SOURCE/ DATE	GLOBAL PRODUCTION			GLOBAL MANAGEMENT			GLOBAL PARTNERSHIPPING		
		Mfg.	Dst.	Dsg.	Mkg.	R&D	CP	CF	M&A	JV
Ukraine: "MNCs flood food and drink sectors"	*EIU /22Mar95*	x								x
Ukraine: "KJS acquires Ukrainian chocolate factory"	*Dairy Markets Weekly /23Feb.95*	x				x			x	
"KJS buys Ukraine firm"	*Euromoney /15Feb95*	x				x			x	
Ukraine: "Kraft acquires majority stake in leading Ukraine chocolate maker"	*Milling and Baking News /14Feb95*	x	x	x						x
Ukraine: "Philip Morris acquired the controlling block of stocks of the local chocolate mill"	*Kommersant /09Feb95*								x	
Czech Republic: "Kraft Jacobs Suchard's turnover totaled CEK 1.5 billion in the Czech Republic last year"	*Ekonomicke Zpravodajstvi /17Jan95*	x		x	x					
Lithuania: "35 facilities with a nominal value...were sold at auctions to owners of convertible currency"	*Inzhenernaia-Gazeta (Russia) /07Dec94*								x	
Lithuania: "Philip Morris creates manufacturing center in the Baltic countries"	*Kommersant (Russia) /16Aug94*	x			x					
Eastern Europe: "Eastward Ho"	*SwissBusiness /3May94*	x			x		x			x
"Kraft Jacob Suchard plans to open manufacturing facilities in Central and Eastern Europe"	*Swiss Business /30May94*	x					x			x
"Kazakhstan: "Republic started to sell the real estate"	*Kommersant /06May94*								x	
Hungary: "KJS to expand output in Hungary"	*Candy Industry /30Apr94*	x	x	x		x				

Appendix 6.2 - Sources on Philip Morris continued...

ARTICLE TITLE	SOURCE/ DATE	GLOBAL PRODUCTION			GLOBAL MANAGEMENT			GLOBAL PARTNERSHIPPING		
		Mfg.	Dst.	Dsg.	Mkg.	R&D	CP	CF	M&A	JV
Czech Republic: "Some more coffee, please?"	*Ekonom Tydenik Hospodarskych Novin /14Apr94*	x		x	x					
Romania: "KJS buys Romanian Poiana confectionery firm"	*Eurofood /30Mar94*			x					x	x
Czech Republic: "Kraft increased its sales by 60% last year"	*Ekonomicke Zpravodajstvi /07Mar94*				x					
Romania: "Poiana has been sold to Kraft Jacobs Suchard"	*Tribune-Cote-Desfosses /10Feb94*	x							x	
Romania: "Philip Morris buying stake in Romanian candy company"	*New York Times /11Feb94*								x	
Bulgaria: "Kraft Jacobs Suchard acquires Bulgarian company"	*Candy Industry /Dec93*	x				x				x
Lithuania: "Kraft Jacobs Suchard to buy majority share in Lithuanian Chocolate company"	*Milling and Baking News /19Oct93*	x							x	
Lithuania: "Kraft Jacobs Suchard buys Lithuanian Candy Company"	*Wall Street Journal /06Oct93*								x	
SOUTH AMERICA AND THE CARIBBEAN										
Brazil: "Philip Morris acquisition completion"	*Regulatory News Service /02Jul96*	x			x				x	
Brazil: "Industrial Chocolate Lacta - Philip Morris acquires Brazilian company"	*Candy Industry (USA) /20Jun96*				x					x

Appendix 6.2 - Sources on Philip Morris continued...

ARTICLE TITLE	SOURCE/ DATE	GLOBAL PRODUCTION			GLOBAL MANAGEMENT			GLOBAL PARTNERSHIPPING		
		Mfg.	Dst.	Dsg.	Mkg.	R&D	CP	CF	M&A	JV
Brazil: "Lacta predicts return to profit in 1996"	*Reuter News Service /02May96*	x				x	x	x		x
Mexico: "US investors commit $12 billion to Mexican investment"	*Reuter News Service /11Oct95*	x								
Brazil: "Performance of Philip Morris"	*South American Business Information /31Jan95*		x		x					
Mexico: "MNCs fault latest emergency plan"	*EIU /22Mar95*		x				x		x	
Brazil: "Rain in Brazil offers no reprieve for coffee drinkers"	*Reuter News Service /04Nov94*				x			x		
Mexico: "Dean foods eyes Mexican venture"	*Reuter News Service /15Jul94*									x
Brazil: "Maxwell House coffee prices to rise 15 percent"	*Reuter News Service /28Jun94*	x						x		
Argentina: "La Montevideana acquired by Philip Morris"	*South American Business Information /01Mar94*	x		x					x	
Argentina: "Kraft General Foods wins injunction against Bongrain Cheese"	*PRN Newswire /03Jan94*		x		x		x			
Brazil: "Philip Morris to acquire confectionery company in Brazil"	*Business Wire /17Dec93*	x		x			x		x	x
Argentina: "Massalin particulars nine month net up"	*Reuter News Service /16Nov93*	x								
Argentina: "Vida empresaria"	*South American Business Information /26July93*		x			x				

Appendix 6.2 - Sources on Philip Morris Continued...

ARTICLE TITLE	SOURCE/ DATE	GLOBAL PRODUCTION			GLOBAL MANAGEMENT			GLOBAL PARTNERSHIPPING		
		Mfg.	Dst.	Dsg.	Mkg.	R&D	CP	CF	M&A	JV
Argentina: "Philip Morris is looking to purchase food processing company"	*South American Business Information /29Jun93*				x				x	
Mexico: "Cerveceria Modelo to be acquired by Anheuser-Busch, with option to acquire up to 49%"	*Beverage World /30Apr93*		x		x				x	
Mexico: "Oscar Mayer enters Mexican market through agreement with Sigma Alimentos"	*PRN Newswire /29Apr93*	x	x	x	x					x
Latin America: "Business gets aggressive in Latin America"	*Advertising Age /15Feb93*			x	x		x			x
Mexico: "Fomento Economico Mexicano to be 7.9% sold by Citicorp International Holdings to Philip Morris"	*Beverage World Periscope Edition /31Dec92*				x				x	
El Salvador; "Organizers end boycott of Procter and Gamble's Salvadoran Coffee"	*Dow Jones News Retrieval /20Mar92*							x		
Brazil: "US multinational Philip Morris reorganizes interests"	*Gazeta Mercantil (Brazil) /24Jul91*						x			
MIDDLE EAST										
Israel: "Elite chief seeks to sell stake to Kraft"	*Reuter News Service /05Feb96*		x						x	
"Philip Morris - Multinationals look to Israel"	*Eurofood /27Dec95*		x	x		x			x	
Middle East: "Getting the best from the market"	*Media and Marketing /17Oct95*				x					

Appendix 6.2 - Sources on Philip Morris Continued...

ARTICLE TITLE	SOURCE/ DATE	GLOBAL PRODUCTION			GLOBAL MANAGEMENT			GLOBAL PARTNERSHIPPING		
		Mfg.	Dst.	Dsg.	Mkg.	R&D	CP	CF	M&A	JV
Dubai: "Counterfeit Philip Morris products seized"	*Times of Oman /20May95*				x					
"World's food giants notice Israel"	*Israel Business Today /15Jul94*		x		x	x	x		x	
"Philip Morris interested in creating joint ventures with Israeli food importers and manufacturers"	*Jerusalem Post /01Dec93*		x							x
Egypt: "Manufactures warn up to a friendly Egypt"	*Advertising Age /15Feb93*	x		x	x					
TOTAL REFERENCES IN CATEGORY	**85**	**41**	**22**	**31**	**36**	**17**	**22**	**7**	**27**	**35**

KEY:

Global Production:
Mfg. = Manufacturing **Dst.** = Distribution **Dsg.** = Product Design

Global Management:
Mkg. = Marketing **R&D** = Research and Development **CP** = Corporate Policy

Global Partnershipping:
CF = Contract Farming **M&A** = Mergers and Acquisitions **JV** = Joint Venture

APPENDIX 6.3

PROFILE OF SOURCE QUOTES ON UNILEVER'S GLOBAL OPERATIONS [a]

UNILEVER		
Global Production	**Global Management**	**Global Partnershipping**
• **Global Product Design Adapted to Local Needs:** "Adapting to nutritional needs, *Blue Band,* one of the earliest Unilever margarine brands, continues to expand its international popularity. It does so by adapting its formulation to local nutritional needs. High calcium and liquid versions have been launched ...and the brand is sold in many countries, including Indonesia, Kenya, Trinidad and Venezuela." (Unilever PLC 1997b:26) • **Global Manufacturing Standards**: "Building your factories to Unilever's well advanced standards is expensive in the lowest priced ice cream market in the world. Everyone enters with the magic number of 1.2 billion consumers in mind. However, in Beijing real incomes per capita are $1,000 per year and in the rest of the country they are only $300... One means by which Wall's has been cutting costs is to source ingredients and packaging locally." (Fraser 1997: 19) • **Global Manufacturing Standards**: "[In Kazakhstan, Unilever] plans to invest a substantial amount in plant modernization, staff training and agricultural development to bring the manufacturing process up to Western standards." (Gilchrist 1994: electronic retrieval)	• **Global R&D Applied Locally:** "Unilever strives to obtain a competitive advantage by harnessing the benefits of global scale and world class research and technology to the specific requirements of local consumers. [T]he balance of innovation and associated investment is being increasingly focused towards developing and emerging markets, [with research units recently constructed in China and India]." (Unilever PLC 1997b:18) • **Global Corporate Strategy in LDCs**: "Unilever provides basic products which are the first purchase when economies start to develop; it provides low-unit priced convenience products which are most in demand when income begins to rise; and [then] it provides more sophisticated products which satisfy growing aspirations." (Unilever PLC 1997c:4) • **Global Marketing Applied Locally**: "[Trying to introduce a global brand in China] we have the double challenge of converting people from green tea to black tea, and from loose tea to tea bags." (Fraser 1997:21) • **Global Management and R&D**: "Bringing our international knowledge and expertise to bear on the specific requirements of local consumers depends on ... our electronic network ... cover[ing] 70,000 employees in over 90 countries." (Unilever 1997b:20)	• **M&As and JVs are Used for Global Expansion:** "Developing and emerging markets account for a very large proportion of the world's population and, increasingly, its spending power...Our strategy is to give priority [to those regions through acquisitions]." (Unilever PLC 1997b:4) • **M&A's and JV's Introduce Global Business Standards to Local Firms:** "The first thing we have to do is learn about Kibon and its strengths and how Unilever can apply its global strengths in ice cream to the Brazilian market." (Skelly 1998:5) • **Global Brand Growth Through M&As**: "The *Ragu* brand...remains the largest part of the tomato-based business, but in recent years...growth has been achieved both through organic expansion and the acquisition of businesses in different parts of the world, such as Cica in Argentina and Brazil, Malloa in Chile and Kissan in India." (*Unilever Magazine* 1998a:34) **continued...**

[a] Statements in bold type face identify the sub-category of global process for which the source quote has been categorized. [Note: Due to the electronic retrieval of some sources, page numbers were not always cited.]

UNILEVER		
Global Production	**Global Management**	**Global Partnershipping**
• **Global Manufacturing Standards Achieved Through Awards:** The Unilever Indonesia Rungkut factory has won the Premier Unilever Safety Trophy- the award for the 'best of the best'. Gold trophies were awarded to Hindustan Lever's factories in India and Gessy Lever's factory in Brazil. Bronze awards were given to Unilever Philippines, Lever Brothers Thailand, and Quest International de Mexico. (paraphrased, Glaskin 1997a: 30) • **Global Manufacturing Standards on the Factory Floor:** "Workers on the factory floor also need training, especially where using high technology [from the West]... On a more mundane level, Unilever has had to make spitting a sacking offence in its ice cream factory to curb the Chinese habit. So far nobody has fallen foul of the measure." (Oram 1994:7) • **Global Product Design and Standards:** TNCs, such as Unilever, should do well in Asia - the quality of their products is usually much higher and their marketing far more professional than their local rivals. But it should be kept in mind that local companies are learning to fight back (paraphrased, *Economist* 09Mar96: electronic retrieval) • **Global Product Design Adjusted to Local Tastes:** "Responding to local tastes: Wall's Asian Delight ice cream in Thailand is designed to taste like traditional coconut-based desserts. The combination of authentic local flavours in a modern ice cream format has proved popular and the brand has already been rolled out to [other LDCs]." (Unilever 1997b:16)	• **Global Corporate Policy on Training:** "Unilever has found it very easy to impart basic business, technical and information technology skills in its new [Chinese] recruits...[but] ingrained cultural attitudes are proving more difficult to accommodate. [T]raditional Chinese management style generally means that the boss tells his subordinates exactly what to do, and they are not expected to ask questions or show personal initiative...the trick is to have them manage in a fashion which is acceptable to Unilever's general management principles within a Chinese context." (Fraser 1997:23) • **Global R&D and Marketing:** "[G]lobal knowledge is what we want to place at the disposal of our local companies, so they can respond to their consumers' constantly evolving tastes and preferences." (Colon 1998b:27) • **Global Marketing:** "We want to define the need, create the brand and move it around the world at the marketing equivalent of the speed of light." (Perry 1992:16) - e.g. The Magnum brand sold in 45 countries (Perry 1995:speech) - e.g. Marketing ideas developed in Belgium are used in 50 other countries (Perry 1992:10) • **Global Management Applied Locally:** "The food industry...shifts continuously between centralized requirements...and the need to stay close to local markets." (Maljers 1992:48)	• **Global Partnershipping Through Contract Farming:** "In California, tomatoes are supplied by a small number of growers with extensive farmland who are able to meet Unilever's requirements. In India and Brazil, however, the number of small farmers growing tomatoes for one factory could be close to 1,000." (*Unilever Magazine* 1998a:33) • **Global Standards in Contract Farming Partnerships:** All farmers get assistance with agronomy from the centre ... and local companies ensure that their operations are well run and provide crops of good quality and high yield. This assistance benefits both parties: higher yields provide the farmer with a larger income and company with competitive prices." (*Unilever Magazine* 1998a:33) • **Global Standards in Contract Farming Partnerships:** Unilever works with farmers to encourage them to adopt standards aimed at reducing environmental impact. (paraphrased, Unilever Environment Group 1998:16) **continued...**

UNILEVER		
Global Production	**Global Management**	**Global Partnershipping**
• **Globalization of Manufacturing** "[There was a time] when we would...replicate manufacturing and distribution facilities country by country. Today we centralize those functions, [as] it makes best economic sense." (Perry 1995:6) • **Global Exchange of Manufacturing Process Ideas:** "Not only will a company receive production from sister companies in other countries. It will market products designed in one country, with advertising developed there." (Heron 1991:speech) • **Global Distribution:** "Unilever ice cream is now available in over 80 countries and we lead this category strongly worldwide." (Unilever PLC 1997b:27)	• **Global Corporate Policy Guidelines:** Global safety, health and environmental standards are promoted by a centre within Unilever called 'SEAC'. There is a 24 hour global inquiry line to answer all subsidiary questions. For instance, "if you are in Ghana. and have a problem" you can call the SEAC 24 hour hotline for instructions. (paraphrased, Aldridge 1998:24) • **Global Corporate Culture:** "[Unilever] recognizes the need for a common culture among its many scattered units and [has] set up formal training programs aimed at the 'Unileverization' of all its managers." (Maljers 1992:47) • **Global Management Standards Among Worldwide Subsidiaries:** "[W]ithout the Unileverization of those Indian, Australian, Brazilian and other local managers, the company's many scattered units would not have shared any common corporate culture or vision." (Maljers 1992:49)	• **Global Competition Between TNCs Through M&As and JVs:** Through a Brazilian ice-cream acquisition, Unilever acquired a 60% share in the Brazilian ice-cream market. This dwarfs its next largest competitor, Nestle, which has a 20% share of the market. (paraphrased, *Independent* 1997: 23) • **Global Management Standards applied in JVs:** "[J]oint ventures [in Vietnam] will be run by Unilever's appointed managing directors. A team of experienced Unilever managers is already in place and high priority is being given to the training and development of local personnel with the ultimate aim of replacing expatriates with local management." (*Business Wire* 03Mar95: electronic retrieval)

APPENDIX 6.4

PROFILE OF SOURCE QUOTES ON PHILIP MORRIS' GLOBAL OPERATIONS [a]

PHILIP MORRIS		
Global Production	**Global Management**	**Global Partnershipping**
• **Global Manufacturing Quality:** "[O]ur stringent quality system guarantees consistency in product quality [among worldwide subsidiaries]." (Kraft Jacobs Suchard 1995:23) • **Global Product Standardization Achieved Through Quality Control:** "Every country has its own coffee culture and its favorite brands ... [the link between Kraft coffee worldwide is that] we only use the best coffee-beans." (Kraft Jacobs Suchard 1995:13) • **Global Product Design Adjusted To Local Tastes:** "[Philip Morris] think[s] globally, but adapt[s] locally. Our strategy is to emphasize the core values of [a] brand which has contributed to its popularity [worldwide], but making it more affordable for Latin American consumers by reducing packaging size." (*Philip Morris Globe* 1998g:3) • **The Local Distribution of Global Products:** Global products are distributed by local individuals, where a 'motorbike task force' acts as the "foot soldiers on wheels to reach out to the legion of mom-and-pop retailers" and continue to refill their stock and introduce them to new products and merchandising concepts. (paraphrased, *Philip Morris Globe* 1998h: 3)	• **Global Corporate Policy Adjusted to Local Circumstance:** "[Subsidiaries] have the necessary freedom to decide when it is appropriate to make adjustments to standard corporate policy, in order to meet the local needs of consumers." (Kraft Jacobs Suchard 1995:24) • **Global Corporate Policy Adjusted to Local Circumstance:** "To accommodate [differing global consumer needs], a maximum of flexibility is required. Our strategy is to plan globally and to act regionally, according to needs of the consumer." (Kraft Jacobs Suchard 1995:25) • **Global R&D and Marketing Shared Locally:** "The secret of our success lies in gathering information from many different companies and then sharing it with all of them. This close cooperation, together with an intense exchange of knowledge, results in important synergies." (Kraft Jacobs Suchard 1995:25)	• **Global Growth Through M&As:** "We spent more than $600 million on various... acquisitions that expand our geographic reach or complement our business portfolio." (*Philip Morris Globe* 1998b:3) • **Global Expansion Through M&As:** "Kraft Jacobs Suchard's market success is accorded prime importance and is based on dynamic growth generated by a clear-cut strategy...targeting geographic expansion... by acquiring companies." (Kraft Jacobs Suchard 1995:23) • **Global Standards Through Co-Sponsored Technical Assistance in Contract Farming:** "Thanks to the project, which was funded through ACAIPADE and TechnoServe, the farmers were given technical assistance and training in ... farm management... [through third party funding]." (*Philip Morris Globe* 1998j:3)

continued...

[a] Statements in bold type face identify the sub-category of global process for which the source quote has been categorized. [Note: Due to the electronic retrieval of some sources, page numbers were not always cited.]

PHILIP MORRIS		
Global Production	**Global Management**	**Global Partnershipping**
• **Global Production Standards:** "[Philip Morris] anticipates that restructuring actions will enable its international food operations to compete more effectively by streamlining capacity; standardizing product formulations and packaging; consolidating administrative support; and continuing unification of its sales forces in key markets." (*Philip Morris Globe* 1998k:1)	• **Global R&D Support for Subsidiaries:** "Want to know anything about flavor, aroma or quality coffee? Just ask the international team of 24 engineers ...The objective is to ensure all facilities meet the gold standard for quality, productivity, cost efficiency, safety and environment. Central engineering's [has] reputation for effectiveness and efficiency." (*Philip Morris Globe* 1998j:3) • **Corporate Policy on Global Training:** "At various locations [in Eastern Europe], we work together with employees who are familiar with their regional markets in order to further develop our brands. We support local management through training and exchange programs with [other global] subsidiaries." (Kraft Jacobs Suchard 1995:23)	• **M&As Are Used To Establish a Global Identity:** "[Philip Morris] has been looking for greater geographic diversification, outside the U.S....Philip Morris wants to increase its global identity." (Moreau 1992:28) • **Global M&As Preferred Over JVs:** "Philip Morris has engineered over 30 international acquisitions during the last four years. [The company] would prefer to make acquisitions...rather than form joint ventures or develop subsidiaries." (*Israel Today* 15Jul94: electronic retrieval)

Chapter 7

CONCLUSION

The transnational corporation has occupied many levels of academic research. In the social sciences, not only has research focused on the role of TNCs in global economic expansion, but a primary emphasis has been on the interconnection between transnational corporations and development. Recently, the concept of globalization has introduced a new angle from which to evaluate the TNC. The idea of 'global processes' stems from globalization literature, in which it is claimed that new systems of production and consumption signify qualitative changes within the 'global economy' (Sklair 1995; McMichael 1996; Ross and Trachte 1990).

When speaking of global processes, scholars focus on 'new' structures. In determining how TNC global processes are new, the UNCTC (1993) has identified three stages in TNC strategies since the post-World War Two era - 'stand-alone', 'simple-integration', and 'complex integration'. The categorization developed by the UNCTC is based on broad generalizations of how TNCs from *all industries* are thought to have become more global. However, it is necessary to acknowledge that different classes of consumer goods impact economic life in distinct ways, prompting the need for industry-specific studies of TNC global processes.

The progression of TNCs from 'stand-alone affiliates' to 'complex global institutions' is an important observation. This transition occurred within the context of a changing global economy, in which it has been observed that 'inward national development' is becoming

increasingly unviable (McMichael 1996; Leys 1996b). Two points arise from these general observations: first, global processes need to be identified and evaluated; second, the impacts from those processes are largely locally-based. In this context, a detailed 'global' / 'local' analysis of one of the largest and most widely available consumer goods industries worldwide contributes to this dual research concern. By this, I mean a socio-economic analysis which breaks TNC activity in the food processing industry into distinct functional areas and evaluates not only how these activities are global in scope, but also how they are linked to local conditions.

Some might argue that analyzing the managerial and operational aspects of a TNC is a task for the business schools. However, since social scientists from sociology, geography, economics, development studies and international relations view the TNC as an important unit of analysis, an interdisciplinary approach to the social scientific study of the TNC is necessary. Accordingly, this thesis has threaded together the theories of several of these fields, including strategic business studies, to gain an in-depth understanding of this global institution in the context of the global food industry. After all, TNCs are businesses and it is first necessary to understand the composition of their operations before assessing social implications.

In this thesis a framework was developed and then applied to *identify the global processes facilitated by food processing TNCs and subsequently assess their links to possible local effects in the developing world.* Researching this involved taking several original points of departure. In regard to the first part of the equation (global processes), the breadth of TNC activity made it necessary to review operations and conceptually attach various functions to identifiable global processes. In this pursuit, a typology of TNC global processes was developed, as founded in the conceptual categories of Global Production, Global Management and Global Partnershipping. The creation of this triad proved necessary not only to make sense of the various TNC global processes at work, but also to have a concrete formula to apply to the evidence gathered on the actual case studies.

For the second part of the equation (local linkages and effects), the triad of global processes was evaluated against observable local linkages and potential impacts. While the

analysis revealed that thirteen key local linkages could be identified, since each TNC global process yielded several potential linkages, a matrix of global processes and local linkages was constructed to provide a blueprint to the investigation (recall Table 3.1). Again, this proved necessary on conceptual and practical grounds: conceptually, it allowed for the links to be systematically identified within the global food processing sector; and practically, it provided the means with which to analyze these links in the context of specific case studies.

GLOBAL PROCESSES - ONE SIDE OF THE GLOBALIZATION EQUATION

Early insight into the evolving processes of TNCs within the context of a changing worldwide economy centered on the 'production process'. The first popularized view applying TNC production to a broader theoretical level was the 'new international division of labour'(NIDL) thesis (Frobel et al. 1980). It was asserted that, among other aspects, advancements in technology enabled the production process to be dispersed to various cheap labour locations worldwide, supporting the development of 'export-processing zones'. This early aspect of an evolving TNC has been categorized by the UNCTC as 'simple integration'.

While a number of critiques have been launched against the NIDL thesis for its concentration on the labour aspect of production, the theory highlighted an important shift in TNC activity (Jenkins 1984). The acknowledgment that TNCs were reinventing themselves within a changing world economy started with the NIDL thesis, and has recently emerged with the idea of a new globally-evolving TNC. Through case studies, this thesis has found that, in the context of trade liberalization and deregulation, food TNCs are forming new globally-integrated structures, which signify distinct global processes.

TNCs facilitate global processes through their normal worldwide operational activities. In assessing TNC operations a number of authors have concentrated on various specialized

areas of activity (in addition to the production process). For instance, Oman (1989) speaks of M&As and JVs, Goodman (1991) concentrates on food TNC biotechnology, Howells and Wood (1991) investigate technology; and Warrant (1994) evaluates the transnationalization of R&D. The triad of Global Production, Global Management and Global Partnershipping has integrated these and other theories on TNC activity to provide a systematic look at all aspects of food TNC global activity. This involves not only studying the quantifiable trends and changes taking place, but also evaluating qualitatively whether each category of TNC global activity is globally-standardized, locally-differentiated, or mixed (recall Table 2.1). In the latter aspect, the food processing industry proved an intricate sector to study, as different cultural food influences make it necessary for TNCs to flexibly adjust products to local tastes and pursue mixed global strategies.

The flexibility demonstrated by food processing TNCs is partly a reaction to the necessity of staying in tune with local cultural nuances. This is why Nestlé uses its global information and experience to achieve flexibility in manufacturing processes. *Global Production* in the food processing industry signifies much more than 'global sourcing', but also the flexible adjustment of production processes to combine global standards in manufacturing quality with local preferences in taste. This is not to say that food processing TNCs do not manufacture and distribute 'global products', but that global products are produced and marketed flexibly. For instance, Nescafe instant coffee is produced according to standardized production processes, but its ingredients and packaging vary: the Thai people use it to make cold coffee shakes; the Chinese require the product to be packaged with creamers; and the British use it simply for hot coffee.

The evidence at the moment suggests that there is not a pronounced globalization of tastes in food. This is not to say that tastes will never become more standardized, but that at this time globalization in food processing encourages a global cultural exchange, rather than a global culture in its own right. Like the entertainment industry's ability to add subtitles to films, food TNCs change language on packaging (or list several languages on one package). However, a primary difference is that while film content is not adjusted to local preferences

(Barnet and Cavanagh 1994), processed foods are. Food TNCs introduce new foods to different markets worldwide, thereby promoting an awareness of worldwide food habits, but at the same time maintain a sensitivity to local tastes. For example, a peasant in rural China is much more likely today to know what Italian pizza is than was the case twenty-five years ago, even if the pizza is prepared to the Chinese taste bud (*South China Morning Post* 12Aug94; Tan 1996). The worldwide expansion of the food TNC is therefore paradoxical, supporting both local and global products. This suggests that while economic processes are becoming easily globalized, cultural globalization in food is only in its infancy.

Hence, food processing TNCs successfully expand operations worldwide by applying global standards to the needs of different local markets. This aspect of food TNC operations is remarkably different from the 1970s, when 'stand-alone' TNC affiliates acted as self-contained domestic firms. In a globalizing economy, food TNC affiliates are no longer 'stand-alone' entities, but integral parts of a global enterprise. *Global Management* processes are the best representations of how food TNCs spread industry standards of operations around the globe. Corporate policy documents are distributed to affiliates to ensure that standards in operations are followed in a wide range of areas, including employee training, the use of technology, policies on local suppliers, product marketing and corporate culture. These are strategies which standardize the process, not the product.

In its pursuit to standardize processes and consolidate global operations, the food TNC shares information among its worldwide affiliates. In the area of marketing, as the case of Nestlé has demonstrated, this might involve ensuring that a common theme runs throughout affiliate marketing campaigns, or sharing marketing concepts, which have been already tested and successfully applied in one location, among worldwide affiliates. The end result in the sharing of marketing ideas is the fortification of the TNC's global brand and corporate image.

The global sharing of ideas is perhaps most significantly observed in R&D activities. At Nestlé and Unilever, R&D is not viewed solely as an internal process. There is significant evidence that these TNCs view it as socially responsible behaviour to sponsor independent worldwide scientific research. However, while Nestlé and Unilever are actively engaged in

R&D sponsorship, the majority of their research efforts are pursued internally by each TNC's global R&D network. But even this internal company research is globally disseminated among affiliates. The low cost and speed of telecommunications has made it possible for TNCs to spread R&D facilities worldwide. Supporting the globalization of food science, TNC R&D facilities are no longer country-specific, but are global information centres which share scientific research to develop products for hundreds of markets.

In the past, TNC expansion into new markets rested primarily on building new factories in various large domestic markets. Today, relatively fewer factories are built from scratch by TNCs. Instead, the use of *Global Partnershipping* has accelerated the expansion of the food processing industry. Global Partnershipping through M&As and JVs is effectively reducing the number of small-scale food processors. However, it is also a means by which global business standards are introduced into local communities. For instance, it has been found that smaller companies have had to imitate food TNCs in order to compete effectively (Alexander 1996; *Business World* [Phillippines] 13Mar95; EIU 10Jul96). Through TNC expansion, there is a globalization of business practice, in which worldwide standards in labour conditions, technology and product quality are slowly spread.

The general trends and observations described above were shown to be evident in my principal case study of Nestlé. Indeed, Table 7.1 not only reveals how this thesis' global processes indicators are applied to TNC operations (the theoretical backdrop for which was developed in Chapter Two), but it also summarizes key findings in the Nestlé case (see Chapter Four for a detailed explanation of each summary point).

TABLE 7.1
SUMMARY OF KEY NESTLÉ GLOBAL STRATEGIES [a]

GLOBAL PRODUCTION	GLOBAL MANAGEMENT	GLOBAL PARTNERSHIPPING
•The rapid expansion of production facilities worldwide (via acquisition), with a particular emphasis on the developing world. •Manufacturing for local markets and for export (no longer 'stand-alone' operations). •Exchange of specialty products and product lines among Nestlé affiliates worldwide. •Global standardization in product quality is flexibly mixed with local differentiation in product design to accommodate local tastes. •Use of a wide and flexible product portfolio to take advantage of growing opportunities in the developing world, offering both basic foodstuffs and, as incomes rise, higher value-added Nestlé products.	•Increasingly, marketing campaigns are globally-coordinated to ensure certain uniform themes and standards are met among worldwide subsidiaries and to allow for the sharing of successful, locally-applied marketing concepts among Nestlé affiliates. •The promotion of Nestlé strategic brand groups worldwide is connected to the global standardization of packaging and brand policies. •A global network of R&D facilities is dedicated to: (i) developing products and processes for worldwide markets; (ii) adapting global products to local tastes; and (iii) monitoring global strategic trends and local opportunities. •A globally-centralized corporate structure, in which corporate policy documents are distributed to subsidiaries worldwide, ensure some degree of uniformity in basic policies, principles, rules of conduct and strategies (the complex-integration of TNC activity).	A policy of aggressive global growth through M&As and JVs is used for: (i) geographic expansion; (ii) product diversification; (iii)developing marketing synergies; (iv) taking advantage of transfers of knowledge. •Partnershipping strategies involve both local firms and other TNCs. In JVs with local firms, Nestlé always prefers a majority interest, but with TNCs an equal equity basis is maintained. •Sub-contracting via contract farming is used to partnership with local farmers in an effort to secure ample supplies of raw materials (with little or no risk) for the global manufacture of goods.

[a] This table represents a brief summary of key Nestlé global strategies, which have been explained and developed throughout Chapters Two and Four. See Chapter Four for contextual discussions and confirming examples of these and other Nestlé global process indicators.

Undoubtedly, Global Production, Global Management and Global Partnershipping processes are directly related to, and have grown from, the liberalization and deregulation of the global economy. Many authors point to the world economic crises of the 1970s as the impetus which 'threw open' the floodgates to the global economy (McMichael 1996; Leys 1996b). The realization that protectionism and self-industrialization were not answers to economic wealth fueled the liberalization of many national economies. While key events in the 1970s, such as the disintegration of fixed exchange rates, were undoubtedly important, it is the collapse of communism and the years surrounding 1989 which were even more important

to both the idea and reality of globalization. Not only did virtually the entire global economy literally open up for business, but this was also the period when food TNC mergers and acquisitions were at their height. In effect, M&As and JVs became the vehicles through which TNCs started to tackle the liberalization of the global economy, introducing processes which took advantage of this new-found freedom. In short, liberalization and deregulation made globalization possible, but TNC global strategies made the possibility a reality.

LOCAL LINKAGES AND EFFECTS - THE OTHER SIDE OF THE GLOBALIZATION EQUATION

While the global economy is obviously not a utopia of free trade, there is an increasing awareness that if nations do not freely participate they may be left behind. Accordingly, there have been calls from scholars to acknowledge that concepts of development must accurately consider the various forces of globalization at work (Leys 1996b; McMichael 1996). An understanding of globalization in the social sciences needs to include not only the study of processes, but also an evaluation of effects. While neoclassical theory has long argued that developing countries must concentrate on liberalizing markets, it is also necessary to observe how outside forces (such as the TNC) might affect development. This is why 'theories of development' came to fruition in the post-World War Two period. The introduction of development theories brought to the forefront the fact that world economic forces, such as the TNC, had varying effects in different geographic locations. Where moderate development theories concentrated on the 'unequal terms of trade' (e.g. Emmanuel 1972), more radical interpretations argued that the structure of the world economy perpetuated a form of 'dependent development' between 'core' and 'periphery' countries (e.g. Cardoso and Faletto 1979).

In fact, since the heyday of radical development thinking, the relationship between transnational corporations and the developing world has been a hotly-debated issue. Scholars have recently observed that research into this relationship has not adequately considered how new processes of globalization may affect the developing world (Leys 1996b; McMichael 1996). Moreover, much of the analysis on TNCs and development has focused on country-comparative studies (McMichael 1992a). Studying development in a national context makes sense when the purpose is to assess government development directives. However, if a research question seeks to evaluate the connection between TNCs and development, the arena of study must be the local level. The most obvious reason for this is that TNCs do not decide critical national development issues, such as which educational programs are funded or how many hospitals should be built per capita. Moreover, while TNCs certainly contribute to the GNP of a nation, how this wealth is redistributed is a governmental rather than a commercial interest. Hence, in real empirical terms, TNC impacts are more clearly observed at the local, not national, level.

For 'stand-alone affiliates' in the 1970s, operations were confined to local economies. Thirty years later, while TNC operations have become functionally-integrated among worldwide affiliates, outcomes remain local. Production, products and procedures are shared among TNC affiliates, ensuring a globalization of wealth-creation methods. But the actual operational effects are linked to the farmers, communities and consumers TNCs have daily contact with. Using government directives, nations certainly have a degree of control over the relationship between TNCs and local communities. Current day examples of this include: the Thai government's insistence that Nestlé drop its product prices; the Vietnamese government's requirement that Philip Morris provide technical assistance to local firms; and the Kazakhstan government's guidelines to enable Unilever to enter the local market (*Nation*, Thailand, 24Oct96; *Dairy Markets Weekly* 03Feb94; *Central European* 01Jun95, respectively).

Some scholars argue that because governments continue to exert power over TNCs, globalization is not happening (Hirst and Thompson 1996). This, however, is a weak

argument. The existence of global forces is not dependent on the weakening of the nation-state. On the contrary, it is more likely that the nation-state is contributing to the shaping and reshaping of the global economic system (Dicken 1992). The most telling sign of this is the nation-state's drive toward economic liberalization. TNCs can still be global facilitators even if they must operate within national rules of law. Hence, the process of globalization and the existence of the nation-state are not mutually exclusive. But it is also true that the two have separate and distinct impacts. Whereas nation-states are the primary facilitators of overall national development, TNC global processes are more closely linked to local effects.

Assessing local impacts from TNC activity is even more accessible in the global information age. Search the Internet and you can get daily updates on a multitude of TNC subsidiaries (e.g. Nestlé Brasil, Unilever Sri Lanka, etc.). More importantly, it is now possible to review local news and other specialized sources around the globe to monitor reports on TNC activity. In this sense, TNC operations are no longer elusive. While Nestlé has operations in roughly 90 countries and sells its products in nearly every existing country, electronic sources enable an increased awareness among the public of the firm's vast operations.

The food industry provides a wide scope for research, attracting not only those who want to examine industrial performance, but also those who wish to assess how agriculture, food production, and consumption impact everyday life. Rural sociologists have traditionally been interested in the food sector's influence on local agriculture. However, with the perceived globalization of the economy, a number of scholars have called for the investigation of impacts from the newly forming 'global food system' (see Bonanno et al. eds. 1994; McMichael ed. 1994; Burch et al. eds. 1996; Friedland et al. eds. 1991). In studying the globalization of the food system, scholars have increasingly pointed to food TNCs as the central coordinators of the system (Heffernan and Constance 1994; McMichael 1994; Buttel 1996).

But while it is asserted that food TNCs should be primary units of analysis, there is very little, if anything, in the 'global agro-food literature' about the three largest TNCs in the

industry. Specifically, the cases of Nestlé, Unilever and Philip Morris have not been used to uncover a variety of interrelated linkages between food processing TNC global processes and local communities. Since TNCs are argued to be primary facilitators of globalization, an examination of how food TNCs are linked to local conditions in the developing world is not only an investigation into how the newly evolving 'global food system' impacts local communities, but it is also a contribution to the investigation of the broader relationship between 'globalization and development'.

Since TNC activity is realized locally, research on the linkage between globalization and development should contain two principal components of study: (i) global processes facilitated by the TNC; and (ii) local impacts from TNC global processes. In this thesis, this connection was developed using the global process indicators of Global Production, Global Management and Global Partnershipping. As discussed above, these indicators not only enabled the identification of TNC global processes, but also provided the means to identify and subsequently evaluate thirteen key local linkages in the food processing industry, which are: agriculture, rural communities, technology, local firms, consumption, education, environment, training, food security, employment, nutrition, local firms and labour conditions. While this framework can be used to assess all industries, both 'process' and 'linkage' will likely vary according to different industry characteristics. For instance, contrary to the food industry, the electronics industry is not involved in contract farming and thus has no observable direct linkage to local agriculture.

In applying this framework to investigate the general relationship between 'global processes' and 'local effects' in the food processing industry, not only have specific examples been found in the primary case studies, but consistent trends have signified that broad observations may be made about the linkages and influences.

OBSERVABLE TRENDS AND INFLUENCES - ASSESSING AND BALANCING THE GLOBALIZATION EQUATION

It is at the subsidiary level that real local impacts are observed. Subsidiaries are the linchpins between the 'global' and the 'local'. While subsidiaries are the functional components of a TNC's global network, they are also inextricably linked to local communities. For instance, Global Partnershipping through M&As and JVs is a process by which TNCs expand globally (via subsidiaries), but it is also the vehicle through which TNCs enter local communities. Evidence from the food processing industry has suggested that the relationship between a TNC subsidiary and a local joint venture partner is generally mutually beneficial: the joint venture partner provides an understanding of local needs, and the TNC transfers its global industry expertise to the local partner. There is a transfer of skill between both parties which facilitates a globalization of industry 'know-how'.

In addition, different types of Global Partnershipping, such as contract farming, promote the globalization of agricultural technology. Technological know-how is transferred from the TNC to local farmers through technical assistance programs. An interesting example of this is Nestlé's transfer of artificial insemination technology to local communities in India, which has enabled farmers in the region to significantly increase milk production. Corporate policies which encourage farm technical assistance can assist in promoting the globalization of scientific method and efficiency in agriculture.

There are many obvious linkages which promote transfers, including the generation of employment and the implementation of training programs. These are the typical benefits associated with local manufacturing. However, when speaking of a TNC subsidiary, there are also a number of linkages with local businesses which encourage local suppliers to meet quality standards. Improvements in food packaging can have a significant impact on developing world communities. This is especially true in places such as China, where nearly half of all agricultural produce is lost due to spoilage (Rama 1992). TNCs impose global

quality standards on local suppliers, which upgrades the supply and quality of food packaging. This, in turn, improves local standards in food hygiene. Unilever's introduction of pre-packaged condiments to the Ivory Coast gave local consumers the choice to either buy mayonnaise from a jar by the spoonful or to purchase the material in hygienically-sealed sachets (Broadbent 1998). Global Production standards in food packaging certainly have the potential to improve food safety in the developing world.

TNC standards of operations are also introduced through Global Management policies, which determine what type of products are introduced, how they are marketed and what message the marketing campaign portrays. These include decisions on whether local raw materials will be used and whether the nutritional value of a new product is a priority. Nestlé took both of these issues into consideration in its decision to use local raw materials in the production of a soya substitute for dairy and meat products in India. This type of innovation in food processing has obvious beneficial impacts. Not only does using local material support local farmers, but product innovation which seeks to fulfill nutritional requirements has the potential to ease the need for more expensive, less available foods. In the case of soya products in India, Nestlé's decision to consider local needs demonstrates how TNCs can make a conscious decision to use their expertise to positively impact local conditions.

Real observable linkages to TNC global processes were detailed in my principal case study of Nestlé. My method of establishing a matrix of key global-local links served as a guide with which to assess the evidence. Because it is obviously impossible to account for every outcome arising from every individual TNC activity in every specific location around the world, it is necessary to first have an idea of what to look for in a broader respect so that general trends can be observed and recorded. Accordingly, Table 7.2 not only provides a snapshot of the types of local linkages connected to various global processes (the theoretical backdrop for which was developed in Chapter Three), but also provides one example of each of the thirteen key local linkages found to exist in the Nestlé case (see Chapter Five for a detailed explanation of each summary point).

TABLE 7.2
A SNAPSHOT OF SELECTED NESTLÉ LOCAL LINKAGES [a]

GLOBAL PRODUCTION	GLOBAL MANAGEMENT	GLOBAL PARTNERSHIPPING
EMPLOYMENT via Manufacturing activity: Nestlé Philippines employs about 3,500 workers and 248 indirect suppliers. Through global standards in employee remuneration, it has been observed that the firm has one of the highest pay rates in the local food industry. **NUTRITION via Product Design/Distribution:** Nestlé Sri Lanka's locally designed powdered coconut drink was originally produced as a nutritional product based on local raw materials for the local market, and has since been distributed to Brazil and other markets around the world. **LABOUR CONDITIONS via Manufacturing activity:** The Hong Kong press notes that Nestlé is held to higher standards than local firms in guaranteeing a safe labour environment due to its vast experience in manufacturing processes. **LOCAL INCOMES via Mfg.:** Nestlé's global manufacturing presence in rural communities increases local incomes, not only directly through factory work, but also because the TNC's factory presence is often connected to the need for contract farming. In Moga (India), Nestlé's production activities (including manufacturing and contract farming) is said to impact the local incomes of nearly 77,000 people in the community.	**CONSUMPTION via Marketing:** Nestlé's global marketing activities have succeeded in doubling the sale of luxury products, such as ice cream, in China. Through similar efforts the TNC managed to convince local consumers in Hong Kong to drink Hi-Calcium milk, as confirmed by a 73% growth of the local liquid milk market. **EDUCATION via R&D:** Through Nestlé's global R&D network, hundreds of local chemists, technicians and agricultural assistants in Singapore, India and China are taught new techniques in food science. **ENVIRONMENT via Corporate Policy:** Nestlé's corporate policy requiring local suppliers to meet the TNC's high standards in packaging and comply with its environmental directives indirectly impacts LDC communities (such as in Brazil), where landfills are frequently at maximum capacity. **TRAINING via Corporate Policy** Global standards in training factory workers have gained Nestlé Philippines awards from the Department of Labour and Employment and the Personnel Management Association of the Philippines. Quality circles and committees on the factory floor are said to serve as a positive local model of labour-management relations. **FOOD SECURITY via Corporate Policy and R&D:** Nestlé does not maintain a corporate policy on the protection of local staple crops. [b] However, at times, its actions can indirectly impact food security. For instance, at its Samalkha factory in India, Nestlé has instituted a policy of using local raw materials to produce soya-based meat and milk substitutes, including 'Cerelac-Soya, 'Bonus' and 'Soyex'. This Nestlé raw material/nutrition directive can indirectly impact food security through the provision of local nutritional foods, made from local raw materials.	**LOCAL FIRMS via M&As:** Nestlé's 100% purchase of a Taiwanese frozen foods firm is said to have substantially influenced the local industry, in which smaller firms were pushed out of business due to the combination of Nestlé's global expertise and the acquired firm's highly developed local distribution channels. **TECHNOLOGY via JVs:** Through its joint venture with Nestlé, San Miguel is said to have emulated the TNC's global operational strategies and technologies and has applied them as part of its own efforts to independently expand into dozens of new global markets. **AGRICULTURE via Contract Farming:** Through its contract farming activity in the Yunnan province of China, Nestlé is said to have helped to develop a coffee growing industry. In addition, its Farm Technical Assistance Program has put the TNC in contact with local farmers, through which new agricultural technology is introduced to local farmers. **RURAL COMMUNITY via Contract Farming:** In its efforts to sustain a milk producing region in the Moga district of India, Nestlé has instigated the development of general infrastructure projects, including the specific program of building steel tubed wells in the district.

[a] This table is for illustrative purposes and is by no means a comprehensive list of all the linkages identified in this thesis. It is meant to provide one single example of all thirteen linkages. The above linkages are listed in isolation; however, as will be recalled from Chapter Three and Table 3.1, the linkages are interrelated. See Chapter Five for a contextual discussion of the above examples, as well as for other linkages identified in each Global Process category.

[b] In general, food security is directly impacted if Nestlé's contract farming activity displaces local staple crops. However, as discussed in Chapter Five, in the case of both the Moga district in India and the Yunnan province in China, while food security was an identifiable linkage, it was found that food crops were not generally displaced by contract farming activity.

Identifying the linkages paved the way to assessing impact. If one wishes to extrapolate from the local evidence found in this thesis' primary case studies, it may be said that, by and large, a food TNC's presence in a local community raises the overall standard of living: more people are in work, the infrastructure is generally improved, training and education is emphasized, local suppliers are able to flourish, farmers are assured a long-time purchaser, and technology is transferred.[1] While these are examples of positive effects, it is certainly true that not all food TNC activity translates positively. It is a TNC's corporate policy and actions of corporate responsibility which most powerfully influence whether impacts are positive or negative.

The food processing TNC's ability to understand different cultural nuances can beneficially affect how global processes impact local conditions. The global knowledge and expertise gained by a TNC can be used to profit the corporation's 'shareholders' alone, or may be used to also benefit the 'stakeholders' at large. By trumpeting its charitable contributions, Philip Morris appears to be more concerned with firm marketing than with understanding how it can benefit 'stakeholders' through its *normal course of business*. On the other hand, Nestlé and Unilever have better demonstrated commitments to society as expressed in policies and actions pursued in day-to-day operations. Nestlé in particular has illustrated a knowledge of how its global operations might impact developing world communities, one example of which is its corporate goal of buying an increasing percentage of raw materials directly from local farmers. While Unilever has shown a lesser awareness

[1]Because the local sources seemed to suggest that food processing TNC activity (and Nestlé's in particular) is primarily positive, a check on the reliability of the data was performed against certain industries with varying degrees of publicized negative impacts. This was done by cross-checking my referenced sources in the food processing industry against other industries (Garment and Toy) which have had highly publicized accusations levied against them concerning negative impacts in LDCs. This involved examining references relating to the 'sweatshops' said to be connected to the Nike corporation and the Gap - in each case, sufficient negative evidence appeared in the same sources used to assess food processing TNC (including Nestlé's) activity in the developing world. Similarly, the oppressive working conditions claimed to exist via some toy manufacturing subcontracting arrangements (e.g. connected to the Mattel corporation) were also recorded. This cross-checking suggested that the sources used to confirm food processing TNC activity in the developing world were not, as a rule, biased in favour of the positive outcomes of TNC operations.

than Nestlé, it too has made location-specific adjustments to its global operations in various developing world communities.

In this global information age, the TNC of the 21st century will find it increasingly difficult to avoid behaving in a socially responsible manner. TNCs can play positive roles in becoming agents of social change, or they may be forced to react to changes initiated by other social actors, such as interest groups, governments or international institutions (Sethi 1994). To play a positive role, TNCs need to consider the social impacts of their operational decisions.

This is not to argue that TNCs are benign institutions of social progress, but simply that corporate social responsibility eases the interaction between TNCs and the culturally diverse societies in which they operate. TNCs are under increasing pressure to pursue socially responsible behavior, as society has some leverage over which companies are successful and which are not. This is shown by the strength of consumer boycotts in an increasingly global economy. For instance, even though the evidence is still inconclusive on the fate of 'GM' foods, a majority of food TNCs have taken the decision to abandon 'GM' products due entirely to pressure from global interest groups. Interest groups are becoming increasingly effective in monitoring TNC activity. Understanding TNC 'processes' and 'effects' is an *informed* means by which to monitor TNC activity and hold the institution accountable for its operations and impacts in local communities. In short, it is necessary to identify and understand local linkages from TNC activity prior to assessing outcomes.

Unlike any other industry, the food processing industry has linkages with every level of society. Everybody on the planet requires food, and an increasing proportion of the world's population is consuming processed foods. It is no wonder then that Nestlé, Unilever and Philip Morris are among the largest TNCs in the world. It is difficult to fathom how a TNC can run operations in nearly 90 countries, with over 8,000 different brands in its portfolio. Yet these are the characteristics of Nestlé, the largest food TNC in the world. However, it is even more difficult to determine how such vast operations will affect local conditions in economically sensitive areas such as in the developing world. It is only possible

to monitor this connection by focusing on the linkages between TNC global processes and local conditions. This thesis has evaluated these linkages, and it has been observed that, while the linkages are clear, effects may vary depending on individual TNC corporate policies. While it is not provocative to state that the impacts from TNC global activity are variable, the fact of the matter is that corporate social responsibility, as it translates from rhetoric to practice, is the variable which cannot be predicted, but must be monitored to maximize positive outcomes from globalization processes.

FINAL REMARKS ON RESEARCH FRAMEWORK

Some final remarks and reflections may now be forwarded regarding the research framework employed in this thesis and its value and applicability for further research. Through the development of the global process triad, the immediate objective of this thesis was achieved by uncovering the global processes of food processing transnational corporations and, subsequently, through the global-local matrix connecting these processes to local linkages and impacts in the developing world. In pursuit of this objective a framework unique to existing literature on the TNC was developed which may not only be used in the study of other food TNCs, but also, with some modifications, be applied to TNCs in other industries.

This research has demonstrated that, while the global processes and linkages are clearly observable in the food processing industry, effects may vary depending on individual TNC corporate policies. Since TNC corporate policies do differ, the global-local matrix developed in this thesis and applied to the cases of Nestlé, Unilever and Philip Morris may serve as an effective tool for measuring the global-local dynamic of other food processing TNC case studies. On a broad level, therefore, applying this thesis' framework to other food TNCs would reveal similar global processes and linkages as those observed for Nestlé, Unilever and Philip Morris, while assessments of their corporate policies (and, especially,

traces of social responsibility) would provide clues as to the likely local impacts arising from their operations in the developing world.

This thesis' framework may also be applied to assess whether TNCs from other industries support similar global processes. More specifically, the global process triad of Global Production, Global Management and Global Partnershipping allows one to analyze the degree to which other industries are globalizing. My expectation is that the global food processing industry is the model other industries are likely to follow as TNC operations increasingly become more global in those industries. This is not to say that all the global process sub-categories would remain the same. For instance, under Global Partnershipping, the subcategory of contract farming would not apply to the toy industry, for which industrial subcontracting would be its replacement global process.[2] Moreover, due primarily to the absence of a sufficient consumer base interested in toy purchases in the developing world (incomes have not yet risen enough in LDCs to support a substantial toy sector), the toy industry is certainly not as globally prominent as the food processing industry.

Whereas food processing transnationals view the developing world as a fast growing market for which investment risks should be taken, the toy transnationals do not yet consider the LDCs as viable risks. Incomes in LDCs would have to rise in order for toy manufacturers to target that consumer base as aggressively as the food processing transnationals do. As a result, while this thesis' global process triad could certainly be applied to the global toy industry, one would likely find that some of the global strategy indicators might not apply, while others would (e.g., Global Partnershipping via M&As would be less prominent, but Global Production via manufacturing would be observed). Measuring firm activity in the toy industry against this thesis' global process triad would provide an effective means of determining the extent of globalization in that industry.

Using the global process triad to measure the globalization of industries would be one side of the equation. To assess the other side of the globalization equation, the global-local

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[2]Considering that I have practical and business research experience in the toy industry, I feel confident to make preliminary assessments in regard to its applicability to my research framework.

matrix developed in this thesis could also be used. While thirteen primary linkages were identified in the food industry, they would undoubtedly change for other manufacturing sectors. When the four food-related linkages are removed (food security, agriculture, rural community, and nutrition), nine primary linkages would likely be applicable to nearly all consumer goods manufacturing sectors (local incomes, employment, labour conditions, environment, local firms, training, education, technology, and consumption). Any additional industry-specific linkages could then be identified and added to the nine primary linkages noted above to complete the matrix for the particular industry under review.

Having outlined some of the possible applications for this research framework, it is also the case that, upon reflection, several aspects could have been strengthened to not only add to its theoretical foundation, but also to lend more weight to its empirical base. As will be recalled from Chapter One, and as shown by examples given throughout this thesis, while the important influences nation-states have on the actions of TNCs were acknowledged, I did not give theoretical preference to the role of the state in this dynamic. In this respect, my framework may be enhanced in regard to the role of the state in influencing a TNC's pursuit of Global Production, Global Management and Global Partnershipping strategies. Moreover, through more detailed case studies on state involvement, a clearer picture would emerge as to the state's role in monitoring how global processes are interpreted locally.

Similarly, and by way of further contributing to this thesis' methodology, detailed field studies would likely be necessary to uncover how local governments influence the global processes and local impacts of food processing TNCs. In this respect, further research on the role of the state would strengthen claims made in this thesis that the state is an important part of the globalization process, in terms of both its interactions with TNCs and through its monitoring of TNC activity on a local level.

Moreover, this thesis did not evaluate the local linkages which exist in the industrial world. As a result, it is not clear whether local linkages differ from those identified in the developing world. To gain this comparative perspective, my global-local framework may be used to uncover global process linkages in the industrialized world, which may then be

compared to the findings on LDC linkages presented in this thesis. The differing regulatory structures between the two regions may influence how global processes are interpreted locally.

On a more micro level, notwithstanding the logistical constraints of conducting field research in such a wide sampling of developing world locations, more LDC field research would certainly have strengthened the validity of arguments presented in this thesis on local impacts, and would also have provided a first-hand test of the empirical sources (both TNC-sponsored and independent developing world sources) gathered as evidence in this thesis. In fact, as an extension to my research, field studies could focus on any one of a number of areas, including: (i) TNC manufacturing facilities in LDCs; (ii) contract farming communities where TNCs are active; and (iii) communities where food TNC products are consumed. Such field research would enable the local linkages identified in this thesis to be better quantified through the gathering of on-site data. This, of course, would not only be an extremely useful exercise in terms of gaining an important first-hand 'micro' account of linkages from TNC global processes, but it would also present a more quantifiable account of how TNC operations impact local communities and local individuals.

In short, further research might involve applying the framework developed in this thesis to test similar research concerns in other industries, or it may involve building upon and enhancing the framework through not only a more detailed treatment of the role of the state, but also through location-specific field research. Although this framework was developed around evidence uncovered for the food industry, its significance and analytical value are not specific to this industry alone. As other industries increasingly come to seek out new potential consumers in the developing world, they too will invariably perpetuate new global processes, which need to be monitored to understand the linkages and, more importantly, the potential impacts. The framework developed in this thesis is an effective means of analyzing the evolving research concerns of the 'global' and the 'local' in the context of the TNC.

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[a]The 'General Bibliography' is comprised of references primarily for the theoretical chapters of the thesis, namely Chapters One, Two and Three. There are a further three Bibliographies on each TNC case study - the 'Nestlé Bibliography', 'Unilever Bibliography', 'Philip Morris Bibliography'. References throughout the thesis on any of the case studies can be found in the corresponding Bibliography.

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[a]The Nestlé Bibliography is comprised of references written about Nestlé and its affiliates. Sources cited include various independent reports, books, worldwide newspapers and magazines (including those translated from local languages), plus public and internal Nestlé documents (including company archives). In addition, the following applies:

(i) Where author names were not given by electronic sources, the journal, newspaper, or industry report is listed as the author.

(ii) Appendix 4.2 includes hundreds of other sources reviewed, but not necessarily cited in this Bibliography, on Nestlé in the developing world.

(iii) References cited in the thesis text as 'Nestlé' are listed as 'Nestlé, S.A." in this Bibliography.

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(i) When author names were not given by electronic sources, the journal, newspaper, or industry report is listed as the author.

(ii) Appendix 6.1 includes over one hundred other sources reviewed, but not necessarily cited in this Bibliography, on Unilever in the developing world.

(iii) References cited in the thesis text as 'Unilever' are listed as 'Unilever PLC' in this Bibliography.

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[a]The Philip Morris Bibliography is comprised of references written about Philip Morris and its affiliates. Sources cited include various independent reports, books, worldwide newspapers and magazines (including those translated from local languages), plus public and internal Philip Morris documents (including company archives). In addition, the following applies:

(i) When author names were not given by electronic sources, the journal, newspaper, or industry report is listed as the author.

(ii) Appendix 6.2 includes nearly one hundred other sources reviewed, but not necessarily cited in this Bibliography, on Philip Morris in the developing world.

(iii) References cited in the thesis text as 'Philip Morris' are listed as 'Philip Morris Companies, Inc.' in this Bibliography.

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