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Paper: 12 Business Environment

Module: 32 Multinational Corporations

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Items	Description of Module
Subject Name	Management
Paper Name	Business Environment
Module Title	Multinational Corporations
Module Id	Module no.32
Pre- Requisites	Basic knowledge of Business Environment
Objectives	To study the basic features and concept of Multinational Corporations
Keywords	MNC's , Transnational corporations, Foreign Investment

QUADRANT-I

Module 32: Multinational Corporations
1. Learning Outcome
2. Introduction
3. Meaning and Definition of MNC's
4. Characteristics of Multinational companies
5. Aims of MNC's
6. Role of MNC's in the development of Indian Economy
7. Summary

1. L
Learning Outcome:

After completing this module the students will be able to:

- The Meaning and definition of Multinational Corporations
- The concept of MNC's
- Features of MNC
- Role of MNC's in development of Indian Economy

2. Introduction

The world has now become a global village. Whole world is now converting into single market. The barriers of trade have been reduced to a great extent. Factors of production are not confined to single boundary of a nation. With the advancement of borderless economies almost in all big economic regions most of the companies who carry a vision to go global are expanding their businesses across national borders in order to maintain competitiveness and gain strategic advancements. The numbers of MNC's in the global economy are increasing at a rapid speed. As the geographical barriers in the countries have reduced, ;to achieve economies of scale derived from transportation, labour, capital, need of energy etc company's move across the borders to gain strategically.

3. Meaning and Definition of MNC's

Multinational companies are the corporations which have their home in one country but operate and sustain in the different countries. Due to the tremendous and huge growth in transportation, communication and technology the distance between the countries have become as shorter as ever and the geographical barriers between them have virtually finished and vanished .As a result of such reduction in the distances and least barriers the mutual dependence among the countries have increased tremendously.

Multinational companies are mega form of business organization. These organisations carry out their production and distribution of goods and services in at least two countries. Their owner ship and management are scattered around the countries wherever they operate. They are incorporated in one country. As a parent company, multinational companies can be viewed as holding company and the branch companies as its subsidiaries.

Thus, a **multinational corporation** commonly known as MNC'S is an organization that owns or controls production of goods or services in one or more countries other than their home country. MNC's are very giant industrial or service corporations which have their headquarters located in one country. They extend their industrial, marketing, production and service activities in several countries carried through a network of various branches. Now a day's MNC's operate through their foreign affiliates also. MNC's are also known as Transnational Corporations, Global Corporations and International Corporations.

Definitions of MNC's

There is no universally accepted definition of the multinational corporations. Various authorities have given diverse opinions regarding MNC's. Some of them are listed below:

Investopedia defines MNC as, "A corporation that has its facilities and other assets in at least one country other than its home country. Such companies have offices and/or factories in different countries and usually have a centralized head office where they co-ordinate global management."

According to the United Nations a multinational corporation is "an enterprise which owns or controls production or service facilities outside the country in which it is based".

In the words of W H Moreland, "Multinational Corporations or Companies are those enterprises whose management, ownership and controls are spread in more than one foreign country".

Thomas L. Wheelen and David Hunger defined MNC as-

"MNC's –

1. Consider opportunities throughout the globe though they do the business in a few countries,
2. Invest considerable portion of their assets internationally,
3. Engage in international production and have operative plants in a number of countries,

4. **Take** managerial decisions based on a global perspective. The international operations are integrated into the corporations overall business."

5. In India, the Foreign Exchange Regulation Act, 1973 (FERA) provides a specific definition of multinational corporation as follows:

6. "A corporation incorporated in a foreign country or territory shall be deemed to be multinational corporation if such corporation' (a) is a subsidiary or a branch or has place of business in two or more countries or territories, (b) carries on business or otherwise operations in two or more countries or territories."

These corporations are characterised by owing, controlling or managing production and distribution facilities in several countries. That is why they are regarded as transnational corporations. The business operations of such organisations extend to several countries and they often operate in diversified business activities. Most of the MNC's allow movement of private foreign capital. These corporations also allow and encourage Foreign Direct investments in various sectors specially in developing nations where they get an opportunity to grow and gain advantages by exploring and beating the markets of the host country.

In order to increase their profitability many huge firms find it necessary and worthwhile to go in for horizontal and vertical integration for increasing their scale of operations. For the purpose of achieving greater profitability most of the giant corporations set up their production or distribution units outside their home country.

The firms that sell their products abroad which are produced in the home country or the products produced abroad to sell in the home country must decide how to manage and control their assets in other countries.

In this regard, there are three methods of foreign investment by multinational firms which are discussed as below:

4. Modes of Foreign Investment:

There are following modes of foreign investment:

1. Entering into contract with the Firms of host country for Sale of MNCs Products:

A multinational firm can enter into contract with the Firms of host country for exporting the products manufactured/produced by it in the home country to them for sale in their countries. In such a case, a multinational firm gets an opportunity to sell its product in the foreign markets and control all aspects of sale operations.

2. Establishing Subsidiaries in various countries:

Another mode for investment abroad by a multinational firm is to set up a wholly owned subsidiary to operate in the foreign country. In this case a multinational firm has complete control over its business operations. It ranges from the production of its product or service to its sale to the ultimate use or consumers. It includes all marketing, operating and other activities necessary to reach the ultimate end user. The subsidiary acts as an independent entity in regard to make the product accessible to the user. A subsidiary of a multinational corporation in a particular country is set up under the Acts which are operative in that region/country.. However, it enjoys some independence from the parent company.

3. Opening up of Branches Abroad:

One more important aspect of the operations of MNC'S in this global village approach is instead of establishing its subsidiaries; Multinational Corporation can set up their branches in other countries. In this era of globalisation whole globe is treated as a single market. Thereby following this approach the control remains in the hand of the company originated in the home country. Various branches of the company are established across nations. The scale of operations is widened covering various geographical regions. Being branches they do not act and enjoy complete freedom in their business, legal, operative or other decisions. They are always linked with their parent company.

4. Entering into Joint Ventures:

The multinational corporations can enter into joint ventures with foreign firms to either produce its product or to get their product manufactured by he host country from their domestic companies.

A multinational firm may set up its business operation in collaboration with foreign local firms to obtain raw materials not available in the home country. More often, to reduce its overall production costs multinational companies set up joint ventures with local foreign firms to manufacture inputs or subcomponents in foreign markets to produce the final product in the home country.

5. Characteristics of Multinational companies:

The following are the characteristics of the multinational companies:

I. **Large size and Large scale business operations:**

A multinational company is generally very giant or big in size. Some of the multinational companies own and control assets worth billions of dollars. Even Their annual sales turnover can be more than the gross national product of any small country.

Moreover the capital of multinational companies is considerably very large. The assets and volume of turnover/ sales are also quite large. The sales turnover of some multinational companies are much more then the annual budget of many developing countries. Thus an enduring feature of an MNC is that it operates on a much wider and large scale as compared to a domestic company.

II. **Worldwide operations**:

A multinational corporation carries on business in more than one country. Multinational companies operate globally. the parent company manufacture and sells its products and services through its subsidiaries established in other countries. Hence, they perform their business scale at the global scalesMultinational corporations such as Coco cola has branches in as many as seventy countries around the world.

III. **Maintains global standards and is a Productive Organization:**

Multinational companies are involved in the production distribution of goods and services at the international companies and level. The organisation aims to achieve global standards set world wide so that the product or the services of the company are accepted globally. They not only maintain the global benchmarks of production and marketing by they try to set global examples of their working styles. Most of the leaders of MNC’s try and aspire to attain better and best ways of working every day. MNC’s produce goods and sells it under one brand name.

IV. **Global/ International management**:

The management of a MNC is generally a mix of various people from several cultures and countries showing true diversity. So we can say that diversity in management can be seen evidently in the management of multinational corporations. The management of multinational companies carries international character and international impacts whether it is the operations, production, marketing or any strategic decision. It operates on the basis of best possible alternative available any where in the world. Its local subsidiaries are managed generally by the nationals of the host country. The MNC’s follow such type of approach to beat every possibility of widening markets worldwide.

V. Mobility in factors of production and other resources:

The operation of multinational company involves the mobility of capital, technology, entrepreneurship and other factors of production across the territories. It helps them to attain economies of scale achieved through exploiting the factors of production at the best possible level. Most of the multinational firms achieve the strategic advantages by exploiting the cheap factors of production available throughout the regions. They in true sense take the advantage of being global.

VI. Integrated set of activities:

As an MNC is a giant firm, it involves set of all kind of activities. A multinational company is usually a complete organization comprising of manufacturing, operations, marketing, research and development and other facilities.

VII. MNC'S may operate through several forms:

A multinational company may operate in host countries in several ways i.e., by way of opening branches, creating subsidiaries, allowing franchises, going into joint ventures or starting Turn key projects.

VIII. High use of advanced technology:

Multinational companies make use of latest and advanced technology. They are highly dependent on technological innovations. They promote creativity and strive for technological innovations to supply world class products. They use capital-intensive technology and innovative, improved and modern techniques of production. Multinational companies invest a huge and a great chunk of their capital amount of money on research and development for using and developing latest technology. Therefore they help to transfer advanced technology to developing countries through their subsidiaries and branches.

IX. Strive to achieve high efficiency:

MNC's use advanced technology and are highly capital intensive. They can survive and sustain only if they are able to sell their product worldwide at cheapest price but at best quality. High levels of trainings for the workforce are important aspects of the working of MNC's to achieve efficient level of workings. Due to high and efficient level of workings in the multinational companies, they can provide large volume of quality products at cheaper price.

X. Qualified and Professional Management :

A Multinational corporation employs professional experts and specialised people for its working. MNC"S try and spend billions of money to keep their employees updated by imparting them training from time to time. It employs professionals to handle the advance in technology effectively.

XI. May operate through Centralized Control activities :

The branches of Multinational companies are spread in different countries if the MNC's carry operation through branches through the world and across many nations. They are controlled and managed from the headquarters situated at the home country. The strategic decisions are taken at the centralised head office. All the major decisions are under the control of one body. Only day today working and operating decisions are carried out by the head office. All branches operate within the policy framework formed by headquarters.

XII. MNC's may become Oligopolistic Powers :

Oligopoly is a situation where power remains in the hand of few companies only . Due to their giant size , the multinational companies occupy dominating position in the market .They join hands with big business houses and give rise to monopoly. They also take over other firms to acquire huge power and improve market share.

6. Aims of MNC's

Multinational companies make investments in different countries with the following aims.

- Most of the MNC's try to get various advantages in developing nations by setting up their enterprises at SEZ's to take tax benefits in host countries;
- One strong reason for MNC's setting abroad is to exploit the natural resources of the host country;
- Various developing nations in order to attract FDI offer certain deductions and concessions to foreign companies. Therefore MNC's are also established to take advantage of Government concessions in host country;
- Sometimes in the home country the environment for the companies is not so conducive to develop and diversify. To mitigate the impact of regulations in the home country the multinational companies go abroad.

- One of the common reasons for MNC's to expand and diversify to various countries is to reduce cost of production by making use of cheap labour and low transportation expenses in the host country.
- MNC's expand their operations to gain dominance in foreign markets;
- To expand activities vertically.

7. Role of MNC's in the development of Indian Economy:

Since 1991, India followed the policy of Liberalization, privatization and Globalization. Many sectors were opened by the government to promote not only privatization but for FDI also. Since then in India a number of multinational companies have shown interest. It is understandable feature that foreign companies come and settle to earn profits but they have helped to induce capital formation, generate employment opportunities, promote healthy competition and have been an important source of technology transfer. India offers a wide market for different and new goods and services due to its increasing population and varying consumer taste. MNCs have found Indian market to be quite lucrative in many aspects. It has become favorite destination of many multinational corporations as they found a huge potential in the Indian market for their product and services. Besides that, India's foreign policy, FDI norms, consumer preference, high growth rate, huge potential in market, macro-economic stability are some of the key factors that catch the attention of MNCs towards India.

In turn, India has also derived a tremendous benefits from MNCs -such as higher/ induced level of investments, reduced technological gaps, optimum utilization of natural resources. MNC's have acted as a key source of technology transfer, technology up gradation and modernization for Indian industry. MNC's have helped Indian economy to gain certain strategic advancements also. With the growing MNC's diversity I work cultures and adoption of best international practices have become a common and beneficial phenomenon for not only private sector undertakings but public sector enterprises are also following world's best practices to improve their productivity.

The workforce who gets an opportunity to serve in MNC's is able to refine their skills, talents and intellect by various aspects. They redefine their knowledge and skills by getting in touch with world class facilities and contribute to the development of nation.

But as every coin has two faces there are certain disadvantages of having MNCs in a developing country like India. The biggest threat which MNC's can have is the competition to small scale and medium scale industries. These MNC's can vanish such industries if government is not able to take appropriate steps to save the domestic markets by putting certain tariff and non tariff barriers. MNC's also increase pollution and increase certain environmental hazards. Thereby it becomes imperative on the part of the government that in order that MNC's are not able to exploit the market and consumers negatively, they should create proper checks and controls on their functioning.

8. Summary

To sum up we can say that the following are the main features of MNCs:

1. MNCs have managerial headquarters in home countries, while they carry out operations in a number of other (host) countries.
2. A large part of capital assets of the parent company are owned by the company headquartered at home country.
3. Decisions on new investment and the local objectives are taken by the parent company.
4. MNCs are predominantly large-sized and exercise a great degree of economic dominance.
5. MNCs control production activity with large foreign direct investment in more than one developed and developing countries.
6. MNCs are oligopolistic in character. It is sustained by modern technologies, management skill, product differentiation and enormous advertising.