Multinational Corporation

A multinational corporation (MNC) or worldwide enterprise is corporate organization that owns or controls production of goods or services in atleast country other than its home country.

A multinational corporation can also be referred to as a multinational enterprise (MNE), a transnational enterprise (TNE), transnational corporation (TNC), an international corporation, or a stateless corporation. There are subtle but real differences between these three labels, as well as multinational corporation and worldwide enterprise

Multinational corporations are subject to criticisms for lacking ethical standards, and that this shows up in how they evade ethical laws and leverage their own business agenda with capital, and even the. military backing of their own wealthy host nation-states. They have also become associated with multinational tax havens and base erosion and profit shifting tax avoidance activities.

A multinational corporation (MNC) is usually a large corporation incorporated inone country which produces or sellsgoods or services in various countries.The two main characteristics of MNCs are their large size and the fact that their worldwideactivities are centrally controlled by the parent companies.

- *Importing and exporting goods and services*
- *Making significant investments n a foreigncountry*
- *Buying and selling licenses in foreign markets*
- *'Engaging n contract manufacturing-permitting a local manufacturer in a foreign country to produce their products*
- *Opening manufacturingfacilitiesor assembly operations in foreign countries*

MNCs may gain from their global presence in a variety of ways. First of all MNCs can benefit from the economy of scale by spreading R&DExpenditures and advertising costs over their global sales, pooling global purchasing power over suppliers, and utilizing their technologicaland managerial know-how globally with minimal additional costs Furthermore, MNCs can use their global presence to take *advantage underpriced labor services available in certain developing countries, andgain access to special R&D capabilities residing in advanced foreign countries.*

The problem of moral and legal constraints upon the behavior of Multinational corporations, given that they are effectively "stateless "actors, is one of the several urgent global socioeconomic problems that emerged during the late twentieth century.

Potentially, the best concept for analyzing society's governance limitationsOver modern corporations is the concept of "stateless corporations". Coined at least as early as 1990 in Business week,the conception 0was theoretically clarified in 1992: that an empirical strategy for defining stateless corporation is with analytical tools at the intersection between demographic analysis and transportation research. This intersection is known aslogistics management, and it describes the importance of rapidly increasing global mobility of resources. In a long history of analysis of multinational corporations we are some quarter century into an era or Stateless corporations - corporations which meet the realities of the needs of source materials on a worldwide basis and to produce and customize products for individual countries.

One of the first multinational business organizations, the East India Company, arose in 1600. After the East India Company, arose in 1600. After the East India Company, came the Dutch East India Company, founded March 20, 1602, which would become the largest company in the world 1for nearly 200 years.

The main characteristics of multinational companies are:

- *In general, there is a national strength of large companies as the main body, in the way of foreign direct investment or acquire local enterprises, establishedsubsidiaries or branches in many countries ;*
- *It usually has a complete decision-making system and the highest decision-making center, each subsidiary orbranch has its own decision-makingbody, according to their different features and operations to make decisions, but its decision must be subordinated the highest decision-making center;*
- *MNCS seek markets in worldwide and rational production layout, professional fixed-point production, fixed-pointsales products, in order to achieve maximum profit;*
- *Due to strong economic and technical strength, with fast information transmission, as well as funding for rapidcross-border transfers,, the multinational has stronger competitiveness in the world;*
- *Many large multinational companies nave varying degrees or monopoly in some area, due to economic andtechnical strength or production advantages.*

The actions of multinational corporations are strongly supported by economic liberalism and free market system in aglobalized international society. According to the economic realist view, individuals act in rational ways to maximizetheir self-interest and therefore, when individuals act rationally, markets are created and they function best in freemarket system where there is little government interference. As result, international wealth is maximized with freeexchange of goods and services.

To many economic liberals, multinational corporations are the vanguard of the liberal order They are theembodiment par excellence of the liberal ideal of an interdependent world economy. They have taken the integrationof national economies beyond trade and money to the internationalization of production.

For the first time in history, marketing and investment are being organized on a global scale rather than in terms of isolated national.

International business is also a specialist field of academic research. Economic theories of the multinational corporation include internalization theory and the eclectic paradigm. The latter is also known as the OLIframework. The other theoretical dimension of the role of multinational corporations concerns the relationship between theglobalization of economic engagement and the culture of national and local responses. This has a historyofself-conscious cultural management going back at least to the 1960s. For example:

Ernest Ditcher, architect, of Exxon's international campaign, writing in the Harvard Business Review in1902, Was fully aware that the means to overcoming cultural resistance depended on an "understanding" of the countries in which a corporation operated. He observed that companies with "foresight to capitalize on international opportunities" must recognize that "culturalanthropology will be animportant tool for competitive marketing" However, the projected outcome of this was not theassimilation of international firms into national cultures, but the creation of a "worldcustomer". The idea of a global corporate village entailed the management and reconstitution of parochial attachmentsto one's nation. It involved not a denial of the naturalness of national attachments, but aninternationalization of the way a nation defines itself.

A transnational corporation differs from a traditional multinational corporation in that it does not identify itself withone national home. While traditional multinational corporations are national companies with foreign subsidiaries, transnational corporations spread out their operations in many countries to sustain high levels of local responsiveness.

An example of a transnational corporation is Nestlé who employ senior executives from many countries and tries tomake decisions from a global perspective rather than from one centralized headquarters.

Another example is Royal Dutch Shell, whose headquarters are in The Hague, Netherlands, but whose registered office and main executive body are headquartered in London, United Kingdom.

The multinational enterprise (MNE) is the term used by international economist and similarly defined with themultinational corporation (MNC) as an enterprise that controls and manages production establishments, known asplants located in at least two countries The multinational enterprise (MNE) will engage in foreign directinvestment (FD) as the firm makes direct investments in host country plants for equity ownership and managerialcontrol to avoid some transaction costs.

The history of multinational corporations is closely intertwined with the history of colonialism, the first multinationalcorporations being founded to undertake colonial expeditions at the behest of their European monarchical patrons. Prior to the era of New Imperialism, a majority European colonies not held by the Spanish and Portuguese crownswere administered by chartered multinational corporations. Examples of such corporations include the British EastIndia Company, the Swedish Africa Company, and the Hudson's Bay Company.These early corporationsfacilitated colonialism by engaging in international *trade and exploration, and creating colonial trading posts.Many of these corporations, such as the South Australia Company and the Virginia Company, played a direct role in Colonization by creating and maintaining settler colonies. Without exception these early corporations created differential economic outcomes between their home country and their colonies via a process of exploitingcolonialresources and labour, and investing the resultant profits and net gain in the home country42 The end result of this process was the enrichment of the colonizer and the impoverishment of the colonized.Somemultinational corporations, such as the Royal African Company, were alsoresponsible for the logistical component of the Atlantic slave trade,maintaining the ships and ports required for this vast enterprise. During the19th century, formal corporate rule over colonial holdings largely gave way tostate-controlled colonies, however corporate control over colonialeconomic affairs persisted in a majority of colonies.*

During the process of decolonization, the European colonial chartercompanies were disbanded, with the final colonial corporation, theMozambique Company, dissolving in 1972. However the economic impact ofcorporate colonial exploitation has proved to be lasting and far reaching,with some commentators asserting that this impact is among the chief causesof contemporary global income inequality.Contemporary critics of multinational corporations have charged that somepresent day multinational corporations follow the pattern of exploitation anddifferential wealth distribution established by the now defunct colonialcharter corporations, particularly with regards to corporations based in thedeveloped world that operate resource extraction enterprises in thedeveloping world, such as Royal Dutch Shell, and Barrick Gold. Some ofthese critics argue that the operations of multinational corporations in thedeveloping world take place within the broader context of neocolonialism.

However, multinational corporations from emerging markets are playing anever-greater role, increasingly impacting the global economy.

Anti-corporate advocates criticize multinational corporations for beingwithout a basis in a national ethos, being ultimately without a specific nationhood, and that this lack of an ethos appears in their ways of operating as they enter into contracts with countriesthat have law human rights or environmental standards. In the world economy facilitated by multinationalcorporations, capital will increasingly be able to play workers, communities, and nations off against one another asdemand tax, regulation and wage concessions while threatening to move. In other words, increased mobility of multinational corporations benefit capital, while workers and communities lose. Some negative outcomes generated bymultinational corporations include increased inequality, unemployment, and wage stagnation.

The aggressive use of tax avoidance schemes, and multinational tax havens, allows multinational corporations to gainadvantages over small and medium-sized enterprises.631 Organizations such as the Tax Justice Networkcriticize governments for allowing multinational organizations to escape tax, particularly by using base erosion andprofit shifting (BEPS) tax tools, since less money can be spent for public services.

1. ***Huge Assets and Turnover:*** *Because of operations on a global basis, MNCs have huge physical and financial assets.This also results in huge turnover (sales) of MNCs. In fact, in terms of assets and turnover, many MNCs are bigger than national economies of several countries.*

2. ***International Operations Through a Network of Branches:***

MNCs have production and marketing operations in several countries; operatingthrough a network of branches, subsidiaries and affiliates in host countries.

3. ***Unity of Control:***

MNCs are characterized by unity of control. MNCs control business activities of theirbranches in foreign countries through head office located in the home country.Managements of branches operate within the policy framework of the parent corporation.

4. ***Mighty Economic Power:***

MNCs are powerful economic entities. They keep on adding to their economic powerthrough constant mergers and acquisitions of companies, in host countries.

5. ***Advanced and Sophisticated Technology:***

Generally, a MNC has at its command advanced and sophisticated technology. It employs capital intensive technology in manufacturing and marketing.

6. ***Professional Management:***

A MNC employs professionally trained managers to handle huge funds, advancedtechnology and international business operations.

7. ***Aggressive Advertising and Marketing:***

MNCs spend huge sums of money on advertising and marketing to secure international business. This is, perhaps, the biggest strategy of success of MNCs. Because of this strategy, they are able to sell whatever products/services, they produce/generate.

8. ***Better Quality of Products:***

A MNC has to compete on the world level. It, therefore, has to pay special attention the quality of its products.

Features of MNCs at glance

- *Huge Assets and Turnover*
- *International Operations through a network branches*
- *Unity of control*
- *Mighty economic Power*
- *Advanced and Sophisticated and marketing*
- *Professional management*
- *Aggressive advertising and marketing*
- *Better quality of products*

Advantages and Limitations of MNCs

Advantages of MNGS from the Viewpoint of Host Country:

We propose to examine the advantages and limitations of MNCs from the Viewpoint ofthe host country. In fact, advantages of MNCs make for the case in favour MNCs; while limitations of MNCs become the case against MNCS.

1. ***Employment Generation:***

MNCs create large scale employment opportunities in host countries. This is a bigadvantage of MNCs for countries; where there is a lot of unemployment.

2. ***Automatic Inflow of Foreign Capital:***

MNCs bring in much needed capital for the rapid development of developing countries. In fact, with the entry of MNCs, inflow of foreign capital is automatic. As a result of theentry of MNCs, India e.g. has attracted foreign investment with several million dollars.

3. ***Proper Use of Idle Resources:***

Because of their advanced technical knowledge, MNCs are in a position to properlyutilizeidle physical and human resources of the host country. This results in an increase in the National Income of the host country.

4. ***Improvement in Balance of Payment:***

MNCs help the host countries to incountry to improve upon its Balance of Payment position.

5. ***Technical Development:***

MNCS Carry the advantages of technical development 10 host countries. Infact are a vehicle for transference of technical development from one country to another.Because of MNCs poor host countries also begin to develop technically.

6. ***Managerial Development:***

MNCs employ latest management techniques; People employed by MNCs do a lot ofresearch in management. In a way, they help to professionalize management along latest lines of management theory and practice. This leads to managerial development in host countries.

7. ***End of Local Monopolies:***

The entry of MNCs leads to competition in the host countries. Local monopolies of hostcountries ether start improving their products or reduce their prices. Thus MNCs putan end to exploitative practices of local monopolists. As a matter of fact, MNCs compeldomestic companies to improve their efficiency and quality.In India, many Indian companies acquired ISO-g000 quality certificates, due to fear ofcompetition posed by MNCs.

8. ***Improvement in Standard of Living:***

By providing super quality products and services, MNCs help to improve the standardof living of people of host countries.

9. ***Promotion of international brotherhood and culture:***

MNCs integrate economies of various nations with the world economy. Through theirinternational dealings, MNCs promote international brotherhood and culture; and paveway for world peace and prosperity.

Limitations of MNCs from the Viewpoint of Host Country

1. ***Danger for Domestic Industries:***

MNCs, because of their vast economic power, pose a danger to domestic industries: which are still in the process of development. Domestic industries cannot facechallenges posed by MNCs. Many domestic industries have to wind up, asresult of threat from MNCs. Thus MNCs give a setback to the economic growth of host country.

2. ***Repatriation of Profits:***

(Reparation of profits means sending profits to their country).

MNCs earn huge profits. Repatriation of profits by MNCs adversely affects the foreign Changereserves of the host country; which means that a large amount of foreign exchange goes out of the host country.

3. ***No Benefit to Poor People:***

MNCS produce only those things, which are used by the rich. Therefore, poor people orhost countries do not get, generally, any benefit, out of MNCS.

4. ***Danger to Independence:***

InitiallyMNCs help the Government of the host country, in a number of ways; and thengradually start interfering in the political affairs of the host country. There is, then, animplicit danger to the independence of the host country, in the long-run.

5. ***Disregard of the National Interests of the Host Country:***

MNCs invest in most profitable sectors; and disregard the national goals and prioritiesof the host country. They do not care for the development of backward regions; andnever care to solve chronic problems of the host country like unemployment andpoverty.

6. ***Misuse of Mighty Status:***

MNCs are powerful economic entities. They can afford to bear losses for a long while, inthe hope of earning huge profits-once they have ended local competition and achievedmonopoly. This may be the dirties strategy of MNCS to wipe off local competitors from the hostcountry.

7. ***Careless Exploitation of Natural Resources:***

MNCS tend to use the natural resources of the host country carelessly. They cause rapid depletion of some ofthe non-renewable natural resources of the host country. ln this way, MNCs cause a permanent damage to the economic development of the host country.

8. **Selfish Promotion of Alien Culture:**

MNCs tend to promote alien culture in host country to sell their products. They make People forget about their own cultural heritage. In India, e-g. MNCS have create a taste for synthetic food, soft drinks etc. This promotion of foreign culture by MNCs is injurious to the health of people also.

9. **Exploitation of People, in a Systematic Manner:**

MNCs join hands with big business houses of host country and emerge as powerfulmonopolies. This leads to concentration of economic power only in a few hands. Gradually these monopolies make it their birth right to exploit poor people and enrich themselves at the cost of the poor working class.

Advantages from the Viewpoint of the Home Country

Some of the advantages of the MNCs from the viewpoint of thehomecountry are:

1. MNCs usually get raw-materials and labour supplies from host countries at lowerprices; specially when host countries are backward or developing economies.

2. MNCs can widen their market for goods by selling in host countries; and increasetheir profits. They usually have good earnings by way of dividends earned from operations in host countries.

3. Through operating in many countries and providing quality services, MNCs add totheir international goodwill on which they can capitalize, in the long-run.

Limitations from the Viewpoint of the Home Country

Some of the limitations of MNCs from the viewpoint of home country maybe:

1. There may be loss of employment in the home country, due to spreadingmanufacturing and marketing operations in other countries.

2. MNCs face severe problems of managing cultural diversity. This might distractmanagements' attention from main business issues, causing loss to the home country.

3. MNCs may face severe competition from bigger MNCs in international markets. Their attention and finances might be more devoted to wasteful counterandcompetitive advertising; resulting in higher marketing costs and lesser profits for thehome country.

Reference

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