# B.COM

# BUSINESS ORGANIZATION

# UNIT - 5

# Multinational Corporations (MNC's)

**Syllabus** - UNIT-5 - **Multinational Corporations (MNC's)**

Definition - Distinction among IC, MNC, GC and TNC - Characteristics of MNC's-cultural impact of MNC's. Factors contributed for the growth of MNC's – Advantages and Disadvantages of MNC's – Control over MNC's – Organization Design and Structure of MNC, s – Relationship between Headquarters and Subsidiaries – MNC's in India.

## Expected leaning objectives and outcome

After studying this unit, you should be able to:

1. Define the term 'Multinational Corporation'
2. Identify the factors that contributed to the growth of MNCs
3. State the advantages and disadvantages of MNCs
4. Discuss the control and organization structure in MNCs
5. Know the state of MNCs in India

## INTERNATIONAL BUSINESS

A business enterprise who goes for international business has to take a very wide and long view before making any decision, it has to refer to social, political, historical, cultural, geographical, physical, ecological and economic aspects of the another country where it had to business. International business by its nature is a primary determinant of international trade, one of the results of the increasing success of international business ventures is globalization. International Business is the process of focusing on the resources of the globe

and objectives of the organisations on global business opportunities and threats. International business is defined as global trade of goods/services or investment.

## DRIVERS OF INTERNATIONAL BUSINESS

1. **Higher Rate of Profits: -**The basic objective of business is to achieve profits. When the domestic markets do not promise a higher rate of profits, business firms search for foreign markets where there is scope for higher rate of profits. Thus the objective of profit affects and motivates the business to expand operations to foreign countries.

2. **Expanding the Production Capacities beyond the Demand of the Domestic Country:** Some of the domestic companies expand their production capacities more than the demand for the product in domestic countries. These companies, in such cases, are forced to sell their excess production in foreign developed countries. Toyota of Japan is an example.

3. **Limited Home Market**: When the size of the home market is limited either due to the smaller size of the population or due to lower purchasing power of the people or both, the companies internationalize their operations.

4. **Political Stability vs. Political Instability:** Political stability does not simply mean that continuation of the same party in power, but it does mean that continuation of the same policies of the Government for a quite longer period.

5. **Availability of Technology and Competent Human Resources:** Availability of advanced technology and competent human resources in some countries act as pulling factors for business firms from the home country. The developed countries due to these reasons attract companies from the developing world.

6. **High Cost of Transportation:** Initially companies enter foreign countries for their marketing operations. But the home companies in any country enjoy higher profit margins as compared to the foreign firms on account of the cost of transportation of the products. Under such conditions, the foreign companies are inclined to increase their profit margin by locating their manufacturing facilities in foreign countries through the Foreign Direct Investment (FDI) route to satisfy the demand of either one country or a group of neighboring countries.

7. **Nearness to Raw Materials:** The source of highly qualitative raw materials and bulk raw materials is a major factor for attracting the companies from various foreign countries.
8. **Liberalisation and Globalisation:** Most of the countries in the globe liberalized their economies and opened their countries to the rest of the globe. These change in policies attracted multinational companies to extend their operations to these countries.
9. **To Increase Market Share:** Some of the large-scale business firms would like to enhance their market share in the global market by expanding and intensifying their operations in various foreign countries. Smaller companies expand internationally for survival while the larger companies expand to increase their market share.

## GLOBALISATION

Meaning of Globalisation Economic "globalisation" is a historical process, the result of human innovation and technological progress. It refers to the increasing integration of economies around the world, particularly through the movement of goods, services, and capital across borders. The term sometimes also refers to the movement of people (labour) and knowledge (technology) across international borders. There are also broader cultural, political, and environmental dimensions of globalisation.

The term "globalization" began to be used more commonly in the 1980s, reflecting technological advances that made it easier and quicker to complete international transactions – both trade and financial flows. It refers to an extension beyond national borders of the same market forces that have operated for centuries at all levels of human economic activity – village markets, urban industries, or financial centers.

**”Globalisation is this process of rapid integration or interconnection between countries”**

According to International Monetary Fund (IMF), globalisation **means “the growing economic interdependence of countries world wide through increasing volume and variety of cross-border transactions in goods and services and of international capital flows and also through the more rapid and widespread diffusion of technology”.**

## BENEFITS OF GLOBALISATION

1. **Increase in Competitive Strength of domestic industry:** Globalisation exposes domestic industry in developing countries to foreign competition. This put domestic companies under pressure to improve efficiency and quality and reduce costs. Under a protective regime industry lose the urge to improve efficiency and quality. Globalisation helps to improve the competitive strength and economic growth of developing nations.
2. **Access to Advanced Technology:** For a developing country like India, globalisation provides access to new technology; Indian companies can acquire sophisticated technology through outright purchase or through joint ventures and other arrangements.
3. **Access to Foreign Investment:** Globalisation has attracted the much needed foreign capital towards developing countries like India. Foreign multinationals have invested billion of dollars in India. In addition, foreign institutional investors have brought in huge funds in stock markets in India.

4. **Reduction in Cost of Production:** In a globalised environment, companies can secure cheaper sources of Reduction of trade barriers so as to ensure free flow of goods and services across national frontiers; Creation of an environment in which free flow of capital can take place among nations; Creation of an environment which permits free flow of technology between nations; Creation of an environment in which free movement of labour can take place in different countries of the world; and Creation of a global mechanism for the settlement of economic disputes between various countries.
5. **Growth and Expansion:** When the domestic market is not large enough to absorb the entire production, domestic companies can expand and grow by entering foreign markets. Japanese firms flooded the US markets with automobiles and electronics because of this reason. Companies from USA, Europe and other developed regions are increasing their presence in Asia due to growing population and increasing income levels in Asian countries.
6. **Higher Volume of Trade:** Due to globalisation, each country can specialize in the production of goods and services in which it has a comparative advantage. It can export its surplus output and import their items freely from other nations. This will lead not only to a phenomenal increase in the world trade but also to better allocation and utilization of resources in each country.
7. **Consumer Welfare:** Better quality and low priced goods and services will become available to consumers. This along with a wider choice in consumption will help improve standards of living of people in developing countries. Over a period of time, the proportion of people below the poverty line will go down. Consumers also get access to products manufactured in any part of the world.
8. **Other benefits:** Globalisation also offers some spin off benefits. It helps in the professionalization of management. Globalisation brings people of different races and ethnic backgrounds closer. It helps to promote mutual cooperation and world peace.

Today, globalisation has undeniable effects on almost all countries around the world. Its influence has been seen especially in economic, political and social fields. Moreover, for

developing countries, it could be considered as a propulsive force to sustain and/or raise their growth via multinational companies. Multinational companies' share in the developing countries Growth Domestic Product (GDP) is getting bigger day by day and it is correspondingly affecting those countries in various aspects from economy, policy to politics or the position of country in international trade to regional economy.

## Multinational Corporations - Definition and Meaning

MNCs are defined as an enterprise that is headquartered in one country but has operations in one or more countries. Sometimes it is difficult to know if a firm is an MNC because multinationals often downplay the fact that they are foreign held.

"A corporation that controls production facilities in more than one country, such facilities having been acquired through the process of foreign direct investment, firms that participate in international business, however large they may be, solely by exporting or by licensing technology are not multinational enterprises."

The various benchmarks sometimes used to define "multi nationality" are that the company must:

1. Produce (rather than just distribute) abroad as well as in the headquarters country
2. Operate in a certain minimum number of nations (six for example)
3. Derive some minimum percentage of its income from foreign operations (e.G., 25%)
4. Have a certain minimum ratio of foreign to total number of employees, or of foreign total value of assets
5. Possess a management team with geo-centric orientations.
6. Directly control foreign investments (as opposed simply to holding shares in foreign companies).

## International, Multinational, Transnational & Global

### 1) International Companies

a) The operations of such companies lie in one single home country as the base center.
b) These companies only export or import products from the home country.
c) The offices, hence, only exist in the home country and there is no foreign direct investment in other countries.
d) The functioning and strategies are derived mostly from the primary market which is the domestic home country market.
e) They have to continuously adjust to trading norms of the home country.

### 2) Multinational Companies

a) As the name suggests, these companies have direct operations in more than a single country, however, it is usually not a very large number.
b) However, MNC's have a centralized structure, with the head office in the home country calling all the shots.
c) In this case, products are decided and developed by the head office and subsidiary offices do have options to adapt to local markets if needed.

**Adidas is an amazing example to explain multinational companies.**

### 3) Transnational Companies

a) These companies are operating in multiple countries, having foreign direct investment in all of them.
b) Such companies follow a flexible approach, understanding and adapting to the local culture and demand of each country.

c) Hence, offices in each country work in a decentralized manner with decision-making powers.
d) Infact, subsidiary offices can launch and make products which might not be manufactured in the original home country, if there is a chance of demand.

**Nokia is one of the examples in the Indian context.**

**4) Global Companies**

1. These companies work to have a foothold in a large number of countries, usually larger than a Multinational Corporation.
2. They, however, do not follow the system of having an official head office.
3. Various subsidiaries are set but standard products are sold, without any flexibility in terms of adapting to local consumers.
4. There is no change in branding or information about a global company, even if the country of operations changes.

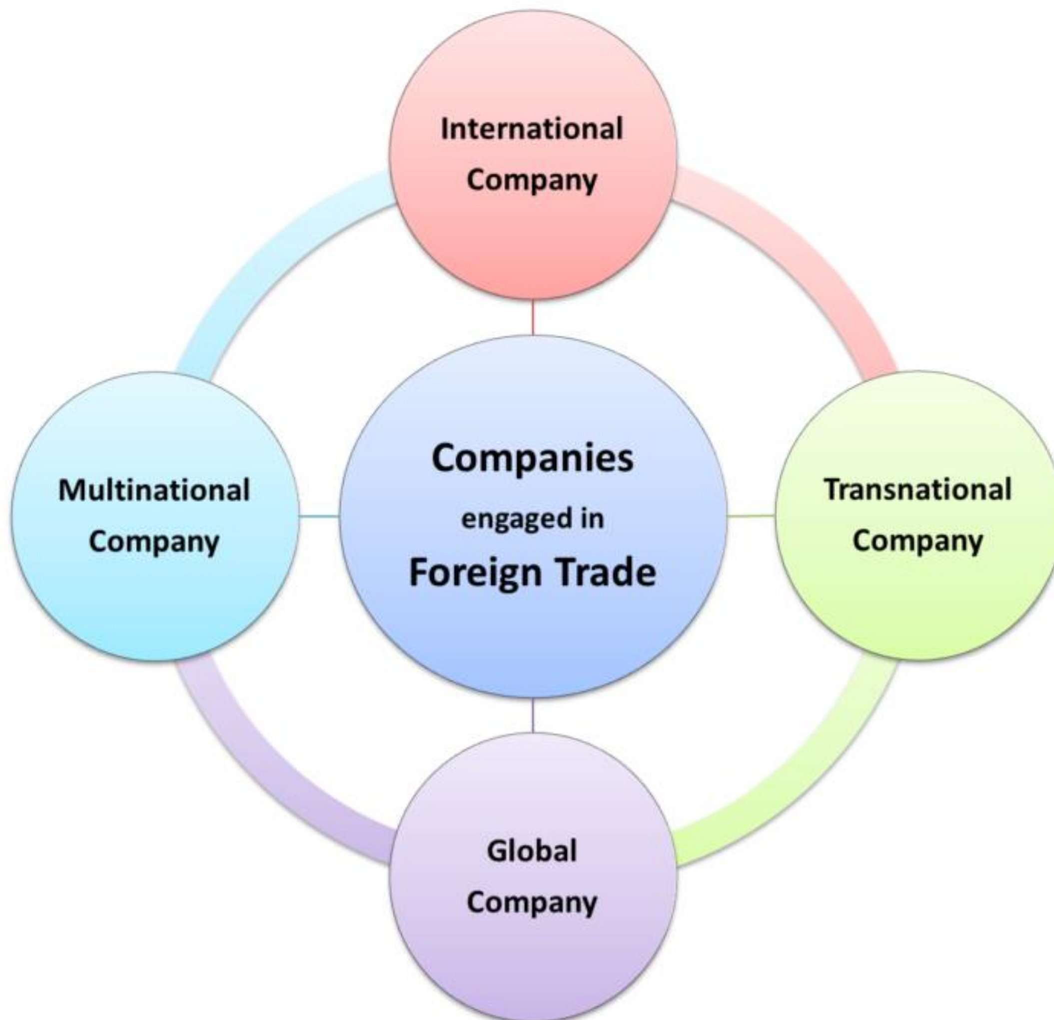
- ✓ **McDonald's – a fast-food chain, is an exemplary example of this kind of companies.**

**The Difference between International, Multinational, Transnational & Global Companies**

Each term is distinct and has a specific meaning which defines the scope and degree of interaction with their operations outside of their "home" country.

1. ***International companies*** are importers and exporters; they have no investment outside of their home country.

2. ***Multinational companies*** have investment in other countries, but do not have coordinated product offerings in each country. More focused on adapting their products and service to each individual local market.
3. ***Global companies*** have invested and are present in many countries. They market their products through the use of the same coordinated image/brand in all markets. Generally one corporate office that is responsible for global strategy. Emphasis on volume, cost management and efficiency.
4. ***Transnational companies*** are much more complex organizations. They have invested in foreign operations, have a central corporate facility but give decision-making, R&D and marketing powers to each individual foreign market.



## Characteristics of a Multinational Corporation

The following are the common characteristics of multinational corporations:

### 1. Very high assets and turnover

To become a multinational corporation, the business must be large and must own a huge amount of assets, both physical and financial. The company's targets are high, and they are able to generate substantial profits.

### 2. Network of branches

Multinational companies maintain production and marketing operations in different countries. In each country, the business may oversee multiple offices that function through several branches and subsidiaries.

### 3. Control

In relation to the previous point, the management of offices in other countries is controlled by one head office located in the home country. Therefore, the source of command is found in the home country.

### 4. Continued growth

Multinational corporations keep growing. Even as they operate in other countries, they strive to grow their economic size by constantly upgrading and by conducting mergers and acquisitions.

### 5. Sophisticated technology

When a company goes global, they need to make sure that their investment will grow substantially. In order to achieve substantial growth, they need to make use of capital-intensive technology, especially in their production and marketing activities.

### 6. Right skills

Multinational companies aim to employ only the best managers, those who are capable of handling large amounts of funds, using advanced technology, managing workers, and running a huge business entity.

### 7. Forceful marketing and advertising

One of the most effective survival strategies of multinational corporations is spending a great deal of money on marketing and advertising. This is how they are able to sell every product or brand they make.

### 8. Good quality products

Because they use capital-intensive technology, they are able to produce top-of-the-line products.

## Reasons for Being a Multinational Corporation

There are various reasons why companies want to become multinational corporations. Here are some of the most common motivations:

### 1. Access to lower production costs

Setting up production in other countries, especially in developing economies, usually translates to spending significantly less on production costs. Though outsourcing is a way of achieving the objective, setting up manufacturing plants in other countries may be even more cost-efficient.

Due to their large size, MNCs can take advantage of economies of scale and grow their global brand. The growth is done through strategic manufacturing/service placement, which allows the corporation to take advantage of undervalued services across the globe, more efficient and inexpensive supply chains, and advanced technological/R&D capacity.

**2. Proximity to target international markets**

It is beneficial to set up business in countries where the target consumer market of a company is located. Doing so helps reduce transport costs and gives multinational corporations easier access to consumer feedback and information, as well as to consumer intelligence.

International brand recognition makes the transition from different countries and their respective markets easier and decreases per capita marketing costs as the same brand vision can be applied worldwide.

**3. Access to a larger talent pool**

Multinational corporations are also known to hire only the best talent from around the world, which allows management to provide the best technical knowledge and innovative thinking to their product or service.

**4. Avoidance of tariffs**

When a company produces or manufactures its products in another country where they also sell their products, they are exempt from import quotas and tariffs.

## Models of MNCs

The following are the different models of multinational corporations:

**1. Centralized**

In the centralized model, companies put up an executive headquarters in their home country and then build various manufacturing plants and production facilities in other countries. Its most important advantage is being able to avoid tariffs and import quotas and take advantage of lower production costs.

**2. Regional**

The regionalized model states that a company keeps its headquarters in one country that supervises a collection of offices that are located in other countries. Unlike the centralized model, the regionalized model includes subsidiaries and affiliates that all report to the headquarters.

**3. Multinational**

In the multinational model, a parent company operates in the home country and puts up subsidiaries in different countries. The difference is that the subsidiaries and affiliates are more independent in their operations.

## Advantages of Being a Multinational Corporation

There are many benefits of being a multinational corporation including:

**1. Efficiency**

In terms of efficiency, multinational companies are able to reach their target markets more easily because they manufacture in the countries where the target markets are. Also, they can easily access raw materials and cheaper labor costs.

**2. Development**

In terms of development, multinational corporations pay better than domestic companies, making them more attractive to the local labor force. They are usually favored by the local government because of the substantial amount of local taxes they pay, which helps boost the country's economy.

**3. Employment**

In terms of employment, multinational corporations hire local workers who know the culture of their place and are thus able to give helpful insider feedback on what the locals want.

**4. Innovation**

As multinational corporations employ both locals and foreign workers, they are able to come up with products that are more creative and innovative.

**5. Foreign Direct Investment**

Foreign direct investments are prevalent within multinational corporations. The investments occur when an investor or company from one country makes an investment outside the country of operation.

Foreign investments most often occur when a foreign business is established or bought outright. It can be distinguished from the purchase of an international portfolio that only contains equities of the company, rather than purchasing more direct

## Role of Multinational Corporations (MNCs)

**(i) 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.

**(ii) International Operations Through a Network of Branches**

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

**(iii) Unity of Control**

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

**(iv) Mighty Economic Power**

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

**(v) Advanced and Sophisticated Technology**

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

**(vi) Professional Management**

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

**(vii) 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.

**(viii) Better Quality of Products**

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

## CULTURAL IMPACT OF MNC'S.

### Culture –Meaning

It is the "set of values, beliefs, rules, and institutions held by a specific group of people". It is learned and shared by common category people and the elements of culture are interconnected. Group boundaries are well defined by the culture. Each large culture may contain some subcultures having the same context. Culture influences the decision making, impacts the management in strategic activities and also the negotiations. Ethnocentricity is a belief that one's own culture is universally superior to others.

## Elements of Culture

- Aesthetics – sense of beauty and good taste
- Art, color, symbols, music, folklore
- Attitudes and beliefs
- Time, directness, achievement, work, change
- Manners (appropriate behavior) and customs (traditional behaviors)
- Education
- Literacy, science, math, trades, management
- Legal and political system
- Secular versus religious
- Free or not free
- Planned versus laissez-faire
- Societal organization
- Family structure, in-laws, extended family, divorce
- Class mobility
- Associations by age, gender, common interests, or otherwise
- Language and communication
- Verbal and non-verbal
- Gestures and body language
- Office size and closed versus open doors
- Conversational distance
- Touching
- Protecting traditional languages

## Cultural Diversity: Impact on Multinational Businesses

### 1. Cultural Diversity

MNC works in a global market it must be ready to identify all potential changes in the global environment and it should be able to communicate and adapt the uniqueness of the company to match with the environment. For example in India and Sri Lanka women's will not work for night so they have to manage time for their convenience. In some hotels and organization they are offering transport services to them.

The misinterpretation and disregards of different cultures and language direct to the failure of setting up multinational companies. To avoid this, a common knowledge of another country's culture and history is important.

For example,

- ✓ McDonald's adopt the culture where they operate and made some changes to achieve market growth. In India, McDonald's doesn't serve any beef or pork in any of their menu because Hindus do not eat beef and Muslims do not prefer to eat pork and introduced Maharaja Mac to fit with Indian culture.
- ✓ Google give us a chance to browse in many languages.

**2. Attitudes towards Appointments and Deadlines**

In America, Americans were give strict obedience to time commitment and it was an essential standard of professionalism and polite manners. They should want everything tends to be strictly scheduled, postponements in one appointment or deadline can have a serious effect on a coworker or customer's further work commitments.

But for example: The more flexible and open-ended approach to time of Indian and Sri Lankan businesses culture can create tensions and adverse impressions on American counterparts.

**3. Meaning of Agreements and Commitments**

In business relations, commitments are taken accurately and seriously in US. They have a preference for understandable, detailed agreements and are uncomfortable with unclear expressions of general commitment. They look failure as a sign that a person isn't trustworthy. In Asian business culture tends to view agreements more flexibly as intentions and strategy for future action.

**4. Cross Country Difference in Individual Work Values and Attitudes**

From the evaluation of several articles of Employee Work Values and Attitudes across many countries, a comparative study of the said socio-cultural features among an average American, Japanese and Indian employee can be made. The socio-cultural features have been compared from fifteen topics of consideration - These topics are individualism, superstition, adaptability, time orientation, innovativeness, diligence, time consciousness, discipline, self-respect, religion-orientation, caste-orientation, sexual-orientation, gender discrimination, education and dependence on own language

**5. Diversity Creates Lack of Cohesion**

Multicultural groups often have diverse views of the problem. They often go on discussing about the problem statement. This problem can be the reason for three basic factors:

**a. Mistrust**

A natural human being is to work directly with colleagues of their own culture and not to belief people who are from different cultures.

Some years ago, in Intel new members of the group were added to the project. While engineers were working at Puerto Rico, Texas engineers primarily have irrespective to their Puerto Rican colleagues. This was affected through the worth of education in Puerto Rico because of the fact that the American Engineers have. This was a fake categorize because every single one working on Puerto Rico were studied in the USA and have worked on complex projects earlier. Probably it will take sometime for the American engineers to recognize the engineering capability of their Puerto Rican colleagues.

**b.. Miscommunication and Language Barriers**

In MNC they are having one main challenge under culture is a language barrier. Communication is necessary for management. Yet communication relies upon a common language, a condition that does not exist in many global business situations and that is when

the problems start. The most pronounced sign of the language barrier at work can be found in the relationship between a multinational parent company and its network of global subsidiaries.

Multicultural teams are required to communicate in a common language – it's usually the language of the main group. It can be also in English or Tamil or Spanish or Hindi or French etc. This means that there are members in the team for whom the communicating language is not their native language. Where one colleague meant one thing, but said something else or it was understood in a different way which was frequently results in miscommunication between team members. The problem can arise in translation errors.

### c. Work Stress

The above two can create work stress on group members. Because if they are aware that there is a chance of mistake in inter-team interactions, then all problem analysis, decision making and inference are at risk. This creates a huge stress on workforce.

Members can frankly argue problems and issues in mono-culture teams. Whereas members are frightened of offending other members in multicultural teams- therefore forcing a "polite diplomatic" approach to sensitive matters. This creates fake or superficial manners which raises stress on the company. This forced team members led to discouraged and disconnected which will efficiently lowers work productivity.

## 6. MNC Workforce Diversity

Multinational Companies (MNC) had to face a number of challenges in their every day business over the past couple of years. Globalization has changed various things for international players. In general MNC formation illustrates a focal point on their main resources and sectors like finance, technology, marketing, sales and production, because they want to have a large number of customers and to earn profit.

## 7. Managing diversity in MNC during HRM

To manage workforce diversity in MNC it's a challenge for the human resource management to set up a global corporate culture. To recognize with the corporate culture of the company is the most significant thing for the workforce. That is why building a global corporate culture is one of the most important challenges for Multinational Companies.

Employee behavior is possibly the most critical challenge that multinational organizations have to deal with. In Multinational Companies there is a huge potential of conflicts, because of its diverse personalities. As a result of this anxieties will arise among employees.

Successful cultural adaptation reduces members' anxiety, role conflict, and intentions to leave. Additionally, successful adaptation increases organizational obligation, job satisfaction, confidence, and job familiarity as well as successful acculturation and establishment of relationship.

For example: Google tries to maintain its workforce and assess them in a quantitative as well as qualitative manner. Actually, the company prepared its work environment vibrant and vehicles the image of an enjoyable place to work during what it proposes. For example, workers can have free refreshments or go to the fitness center or bring there pets to work place etc. workers can gain from flexible working hours and cover some time for their independent projects which shows the significance of the creativeness and innovation from each and every department.

## 8. Challenges of Working across Culture

They are usually misrepresentations and inaccuracies fixed in false guesses and faulty analysis. Usually this valuation is seen in a negative perspective. The challenges to MNC are to acknowledge differences in positive terms.

Power struggles and can be the result of stereotyping in companies. For example, placing women, who stereotypically have had lower status than men in society; in senior management positions create status incongruence in the minds of many of the people. This can root complexities in the leader/subordinate relationship and can root power differences in a business. This is done in such a way that affiliates of minority groups may find it hard to use influence over decision processes in the organization.

**Ethnocentrism**

Ethnocentrism results while managers in MNC identify the differentiation in cultures. But they have a propensity to feel that their culture and their mode of doing things is the correct way. Their method of doing things is the simply way and the best way. Any difference from their culture or from their method of doing things is observed as “distortion” or as a “fault” or as “immoral way”.

The majority of people have the propensity to pursue ethnocentrism. Japanese, Americans, Germans, Chinese, French, Russians and Scandinavians, are more to ethnocentrism than other cultures when compared to other, Latin Americans, Asians, Africans, Australians, Indians and British.

**Parochial Attitude**

Parochial attitude means to a person’s incapability to see cultural diversity. This is exactly the reverse of ethnocentrism. Managers who are sent overseas frequently meet people who are also dressed in suits and speak their language – this prompts them to disregard all other cultural differences and make them feel that all others are “just like us”. In today’s business globe, most people are apt to dress similarly – in suits or other methods and speak in English, but this does not indicate that all people have the same culture – but people often only see the outside and think that the other person shares the same cultural values.

In Asian countries Expatriate managers from US/UK frequently have a tendency to show a strong parochial attitude – mostly because the populace with whom they relate on regular base are dressed likewise in suits or western dresses and can speak English.

**9. Positive ways when adopting cultural diversity**

MNC generally offer much more wide-ranging benefits compared to local businesses. Overall, MNC be apt to value aptitude more than local companies. It's all in the culture. MNC was earning revenue and market from international than from their local country. For example: McDonalds earning more revenue from international other than their own country.

**Gain positive ways such as:**

Work practices such as technology and management proficiency obtained from competing in global market. Time commitment and it was an essential standard of professionalism and polite manners in US. Therefore can learn good work practices. For example MAS holding was adopting there work practices to success in the market.

Some MNC are giving educational facilities, comfort zones' to workers to feel free before work.

MNC controls production firm or delivers services in at least two countries. It can have a powerful influence in global relations and local economies. Multinational corporations play a significant role in globalization.

Therefore when they are operating in more than two countries, cultural diversity impacts Multinational businesses in variety of positive and negative ways. In MNC there are overcoming negative as positive.

# Recommendations

There are some challenges to MNC when adopting cultural work diversity. Employee behavior is possibly the most critical challenge that multinational organizations have to deal with. In Multinational Companies there is a huge potential of conflicts, because of its diverse personalities. As a result of this anxieties will arise among employees.

In order to adapt to the environment, individuals sacrifice their individualities to fit in with their new cooperatives. Individuals become incorporated into the culture of an organization when they are successfully understood into the workplace and cultural adaptation it will reduces members' anxiety.

## Factors contributed for the growth of MNC's

The main factors which have contributed towards the growth of multinational corporations are given below:

1. **Market Expansion:** The growth of GDP and per capita income in various countries led to increasing demand for goods and services. Companies in developed economies, explained their operations overseas to exploit the expanding markets abroad.

2. **Marketing Superiorities :** Multinationals enjoy the following marketing superiorities over the following over the domestic companies :
    a. Availability of more reliable and up-to-date information about market conditions.
    b. Reputation in the market due to popular brands and image.
    c. More effective advertising and sales promotion techniques.
    d. Wide distribution network.
    e. Quick transportation and warehousing facilities.

3. **Financial Superiorities :** Multinationals are financially superior to domestic companies in the following respects :
   a. Huge financial resources.
   b. More effective and economical utilisation of funds through transfer of excess funds from one country to another.
   c. Easy access to foreign capital markets.
   d. Easy mobilisation of high quality resources of different types.
   e. Access to international banks and financial institutions.
4. **Technological Superiorities :** Multinationals have strong R & D departments. They can invent and innovate new products and processes more easily and frequently. This provides them an edge over national companies. Developing countries invite multinationals for advanced technology due to the following reasons :
   a. Developing countries do not have the resources to develop advanced technology and the level of industrialisation is low.
   b. They are unable to exploit their rich mineral and other natural resources due to shortage of funds and low level technology.
   c. They do not have adequate foreign exchange reserves to import raw materials, capital equipment and technology on their own.
   d. They face difficulty in marketing their products in highly competitive world markets.

## Advantages and Disadvantages of MNC’s

**Advantages of MNCs**

1. **Access to Consumers** – Access to consumers is one of the primary advantages that the MNCs enjoy over companies with operations limited to smaller region. Increasing accessibility to wider geographical regions allows the MNCs to have a larger pool of potential customers and help them in expanding, growing at a faster pace as compared to others.

2. **Accesses to Labor** – MNCs enjoy access to cheap labor, which is a great advantage over other companies. A firm having operations spread across different geographical areas can have its production unit set up in countries with cheap labor. Some of the countries where cheap labor is available is China, India, Pakistan etc.

3. **Taxes and Other Costs** – Taxes are one of the areas where every MNC can take advantage. Many countries offer reduced taxes on exports and imports in order to increase their foreign exposure and international trade. Also countries impose lower excise and custom duty which results in high profit margin for MNCs. Thus taxes are one of the area of making money but it again depends on the country of operation.

4. **Overall Development** – The investment level, employment level, and income level of the country increases due to the operation of MNC’s. Level of industrial and economic development increases due to the growth of MNCs.

5. **Technology** – The industry gets latest technology from foreign countries through MNCs which help them improve on their technological parameter.

6. **R&D** – MNCs help in improving the R&D for the economy

7. **Exports & Imports** – MNC operations also help in improving the Balance of payment. This can be achieved by the increase in exports and decrease in the imports.

8. MNC help in breaking protectionalism and also helps in curbing local monopolies, if at all it exists in the country.

**Disadvantages of MNCs for the Host Country**

1. **Laws** – One of the major disadvantage is the strict and stringent laws applicable in the country. MNCs are subject to more laws and regulations than other companies. It is seen that certain countries do not allow companies to run its operations as it has been doing in other countries, which result in a conflict within the country and results in problems in the organization.

2. **Intellectual Property** – Multinational companies also face issues pertaining to the intellectual property that is not always applicable in case of purely domestic firms.

3. **Political Risks** – As the operations of the MNCs is wide spread across national boundaries of several countries they may result in a threat to the economic and political sovereignty of host countries.

4. **Loss to Local Businesses** – MNCs products sometimes lead to the killing of the domestic company operations. The MNCs establishes their monopoly in the country where they operate thus killing the local businesses which exists in the country.

5. **Loss of Natural Resources** – MNCs use natural resources of the home country in order to make huge profit which results in the depletion of the resources thus causing a loss of natural resources for the economy.

6. Money flows – As MNCs operate in different countries a large sum of money flows to foreign countries as payment towards profit which results in less efficiency for the host country where the MNCs operations are based.

7. **Transfer of capital** takes place from the home country to the foreign ground which is unfavorable for the economy.

## Following are the world's Top 10 MNCs

1. Microsoft
2. Nokia
3. Toyota
4. Intel
5. Coca-Cola
6. Sony
7. IBM
8. General Electric
9. Nike
10. Citigroup.

## Harmful Effects of the Operations of MNCs on Indian Economy

The operations of MNCs open up the possibilities of interference in the industrial (and other) activities of the recipient country and are thus resented by the 'nationalist' thinkers.

**Their arguments against the operations of MNCs can be summed up as follow:**

**1. Payment of Dividends and Royalty:**

A large sum of money flows out of the country in terms of payment of dividends, profits, royalties, technical fees and interest to the foreign investors. For instance, remittance made abroad by private sector companies stood at Rs. 72.26 crores in 1969-70. This rose to Rs. 398.9 crores in 1981-82 and further to 813.5 crores in 1989. A study by N.K. Chandra shows that over three fifths of private corporate, or about two fifths of factory sector dividends were paid out by the foreign firms in the mid-1980s.

**2. Distortion of Economic Structure:**

MNCs can inflict heavy damage on the host country in various forms such as suppression of domestic entrepreneurship, extension of oligopolistic practices (such as unnecessary product differentiation, heavy advertising, or excessive profit taking), supplying the economy with unsuitable technology and unsuitable products, worsening of income distribution by distorting the production structure to meet the requirements of high-income elites, etc.

Modern Marxist economists (Paul Baran, for example) argue that foreign investment (especially through multinational corporations) opens up the doors of 'neo-imperialism' and 'exploitation'.

**3. Technology Transfer not necessarily Conducive to Development:**

As far as transfer of technology to underdeveloped countries is concerned, the behaviour pattern of MNCs reveals that they do not engage in R & D activities within the underdeveloped countries. Their R&D efforts are concentrated in laboratories in the home county or in other industrialised countries.

Though R&D activities continue to be centralized in the parent country, the host countries have to bear the bulk of their costs since the affiliates of the MNCs in these countries remit payments on this account generally in relation to their sales volume. Such payments by the affiliates are generally over and above those remitted in the form of royalties and technical fees to the parent firm.

The satisfaction expressed on technology transfer is partly misconceived also on account of the fact that MNCs which generally command a semi-monopolistic position in their product lines do not transfer their first-line or most advanced technology until foreign firms compel them to do so in many cases, the technology transferred is of a capital intensive nature which is not useful from the point of view of a labour surplus economy. In fact, continued insistence on the import of such technology can have serious consequences for the economy of the host country since unemployment will increase.

**4. Political Interference:**

Because of their immense financial and technical power, the MNCs have gained the necessary strength to influence the decision making processes in underdeveloped countries. Though they do help in transferring technology to underdeveloped countries. It has been often found that models and patterns of industrial development and technologies transferred are not in harmony with the interests of the host countries.

The governments of underdeveloped countries have also felt threatened by the direct and indirect interference of MNCs in their internal affairs. The autonomy and sovereignty of the host countries is in danger. Because of these reasons, the governments of various countries have sought to restrict the activities of MNCs in their economies through a battery of administrative controls and legal provisions.

# CONTROL OVER MNC'S

India being the fastest growing economy in the world provides many opportunities to foreign companies to grow and develop their business. The MNC in India are governed by the rules and policies of FDI, FEMA, RBI and Companies Act 2013.

**Different Agencies in India to Control MNC's.** These agencies include

1. **The Department of Company Affairs**
2. **The Reserve Bank of India**
3. **The Ministry of Industrial Development**
4. **The Ministry of Finance**

To Control the MNC's the government has imposed following regulations.

a) Some industries were not allowed to import Technology
b) The maximum rate of royalty on Technology
c) Import of foreign Capital allowed – based on administrative decisions
d) Exporting and and other marketing restrictions

## The New Industrial Policy 1991 and Multinational Corporations

The New Industrial Policy 1991, removed the restrictions of entry to MNCs through various concessions. The amendment of FERA in 1993 provided further concession to MNCs in India.

**At present MNCs in India can—**

a) Increase foreign equity up to 51 percent by remittances in foreign exchange in specified high priority areas. Subsequently MNCs are free to own a majority share in equity in most products.

b) Borrow money or accept deposit without the permission of Reserve Bank of India.

c) Transfer shares from one non-resident to another non-resident.

d) Disinvest equity at market rates on stock exchanges.

e) Go for 100 percent foreign equity through the automatic route in Specified sectors.

f) Deal in immovable properties in India.

g) Carry on in India any activity of trading, commercial or industrial except a very small negative list.

h) Thus, MNCs have been placed at par with Indian Companies and would not be subjected to any special restrictions under FERA.

## ORGANIZATION DESIGN AND STRUCTURE OF MNC's

Organizational structure gives the framework or lines of communication, authority, responsibility and accountability. Organizational structure specifies the firm's reporting relationships, procedures, controls and authority and decision processes. It is a critical component of effective strategy implementation process. Organizational structure provides for specialization and interfaces among specializations for collaborative synergism and competitive dynamism.

For Multinational Enterprises (MNEs) / MNC's deciding the organization structure is very important because it cannot be the same for all units and at the same time cannot be just one design for all. Whatever the design, it must be organic enough to adapt to situations. The structure must have stability to facilitate day to day activities to go on consistently and flexibility to facilitate taking advantage of opportunities that environment throws up.

From an organizational point of view, the foundation is the 'Organizational Structure' which demonstrates different roles, hierarchy levels and terms, and conditions in an

organization. 'Organisational Design' encompasses restructuring and destructuring roles, hierarchy level, terms, and conditions as per business or organizational needs.

## Organizational Design

In simpler terms, "Organizational Design" refers to defining, designing, and re-structuring organizational structure. The very process of organizational design is aimed at finding any type of defective or dysfunctional elements related to an organization's system, organization structure, process, and work culture. Identification of these elements leads to their rectification so that they can better fulfil an organization's objective

Organizational design and organizational structure are interrelated to each other, yet have a slight difference. The organizational structure represents organizations in an immovable or static form that can be presented through a diagram, popularly known as "Organogram." These diagrams or organization charts provide an easy interpretation of different functions of organizations and their relationships. Also, they show a hierarchy of the staff i.e. managers, leaders, other team members, and supervision levels.

## Key task of Organizational design and organizational structure

1. Showing work responsibilities and reporting relationships
2. Improving lines of communication
3. Reducing cross-departmental confusion
4. Creating a visual employee directory
5. Allowing for better management and growth

## Horizontal vs. Vertical organizational structure

Many businesses start off with a horizontal structure. This means that there are no middle managers. The company exists with only a handful of staff, who may well be the founders of the business. They handle all the tasks relating to the company; they cover the strategy as well as the routine tasks such as dealing with customer complaints and paperwork. **A company with a horizontal structure is called a flat company**. **A company with a vertical structure, on the other hand, is called a tall company.** In a tall company there is a hierarchy with top management making strategic decisions, passing them down to middle

managers, who then implement the strategy with the lower managers and general staff. A hierarchy in the tall company means that the company is more formal than one with a horizontal structure.

A business may develop from a horizontal structure into a vertical structure as it grows. This is not a bad thing. As a company expands it needs to have systems and structure so that people know 'who does what'. In other words, a tall structure makes clear who is responsible for what and to whom. When it comes to strategy, a tall structure might be a bit slower in implementation as the strategy needs to be communicated across different levels of management. With the horizontal structure the informal environment and small number of decision makers mean that decisions might be made and implemented more quickly. Strategy is decided by a small group which deals with operations as well. In this way, strategic decisions in a flat company will be based on information received directly from the market. The tall company has to ensure that all layers of management are able to communicate plans and strategies - if the message gets mixed up as it is passed down, then the results could be catastrophic.

**Additional Control Problems of MNCs**

In addition to the control problems associated with managing dispersed subsidiaries in economically and politically diverse environments, MNCs also
encounter several other specific control problems:

1. Language and cultural differences
2. Geographic distance between the headquarters and subsidiaries
3. Legal differences
4. Security issues
5. Intrafirm business transactions (transfer pricing)
6. Currency exchange rate fluctuations

### 1. Product Orientation Structure

A product alignment model ignores geographic boundaries and focuses the organization's structure purely on product / service portfolios. In this model, product divisions are setup to have responsibility for the production, marketing, finance and the overall strategy of that particular product on a global basis. The advantage offered by this model is the attention paid to product performance. The major disadvantage of this structure is the lack of integral networks that may lead to overall higher costs as initiatives are duplicated and economies of scale are not leveraged.

### 2. Geographical Orientation Structure

**Geography-based** organizational model is organized into business divisions that are based solely on geographical area. Usually, in this model, each geography is self-contained with its own functional units for sales, finance, operations and human resources under the regional division's responsibility. The division has responsibility for all the products and services sold within its region, maintaining its own Profit & Loss control. While this structure does allow the company to evaluate the geographical markets that are most profitable and showing positive growth, the model is prone to many *issues* including: communication problems with other parts of the company, conflicts arising over corporate controls and duplication of costs (e.g. numerous regional initiatives occurring instead of one corporate led global program).

### 3. Decentralized Business Units Structure

The decentralized business units was pioneered in the 1920s by General Motors and DuPont. Each unit or divisionis generally autonomous, with a division manager responsible for performance and holding complete strategic and operational decision making authority. Organizational growth may ultimately require that related product lines be grouped into division and that the division themselves then be grouped into strategic business units

(SBU). A strategic business unit is agrouping of business units based on some important strategic elements common to each: a closely related strategic mission, a common need to compete globally, and ability to accomplish integrated strategic planning, common key success factors, and technologically related growth opportunities.

**4. Strategic Business Units Structure**

Organizational growth may ultimately require that related product lines be grouped into division and that the division themselves then be grouped into strategic business units (SBU). A strategic business unit is agrouping of business units based on some important strategic elements common to each: a closely related strategic mission, a common need to compete globally, and ability to accomplish integrated strategic planning, common key success factors, and technologically related growth opportunities. Figure 35 illustrates the SBU form of organization, along with its strategyrelated pros and cons.

**5. Matrix Structure**

Another way to achieve focus on multiple outcomes is with the matrix structure. The matrix structure creates a dual chain of command; two lines of budget authority, and two sources of performance and reward. The key feature of the matrix is that product (or business) and functional lines of authority are overlaid to form a matrix or grid, between the product manager and functional manager.

The strength of the matrix is that it enables an organization to meet dual demands from the environment. Resources (people, equipment) can be flexibly allocated across different products, and the organization can adopt to changing external requirements.

Although increased coordination is the desired goal, matrix forms have had their share of coordination problems. Matrices are very expensive and evendys functional in stable organization with few products. Another disadvantage of the matrix is that some employees

experience dual authority, which is frustrating and confusing. However, a matrix approach allows each of several strategic consideration to be managed directly and to be formally represented in the organization structure. It helps middle managers make tradeoff decisions from an organization wide perspective.

## RELATIONSHIP BETWEEN HEADQUARTER AND SUBSIDIARIES

Headquarters and subsidiaries are the two generic organizational units that form multinational corporations (MNCs). Their specific relationship is of central importance, as conflicts in these relationships threaten the effectiveness, or even the operations, of MNCs. Reasons for conflicts in headquarters–subsidiary relationships are manifold. They range from differing perceptions of business opportunities to the introduction of corporate-wide standards. In particular, conflict potential can be linked to headquarters-driven charter losses, i.e. an active move by headquarters to withdraw a charter from a particular subsidiary.

Headquarters-driven charter losses in subsidiaries are typically an outcome of headquarters redefining the strategic mission of the MNC. One example is the implementation of a rationalization strategy, in which some production plants are to be closed and production capacities are reallocated to other subsidiaries. Another occurs when a subsidiary loses its charter because the parent company downgrades the importance of the host country market. These charter reallocations are likely to increase competition among subsidiaries and, for the "losers," a conflicting relationship with the parent company is likely to arise However, little is known about what causes conflicting interests in charter losses between headquarters and subsidiaries to turn into an open conflict, nor is much known about the role of headquarters' and subsidiaries' agency.

**The different aspects of relationship between headquarter and subsidiaries include the following**

**Knowledge Sharing:**

Knowledge sharing is a systematic process for creating, acquiring, synthesizing, learning, sharing and using knowledge to achieve organizational goals. It is also a source of competitive advantage especially for multinational companies. The objective of this paper is to discuss the impact of subsidiary manager's role in knowledge sharing, manager's compensation system, and the level of cultural differences between home and host country on the level of knowledge sharing between the headquarters and subsidiaries of multinational companies.

**Resource Sharing**

The ability of headquarters to create value through resource allocation to subsidiaries within the multinational corporation is contingent on the complementary fit between the resource allocation strategy and the dominant behavior of the receivers of the resources. Like – Financial – human, market and Technology

**Decisions flow**

To an increasing extent, the success of multinational companies (MNCs) is considered to be contingent upon the ease and speed by which valuable knowledge is disseminated throughout the organization. Decisions made by the MNC's Headquarters flow to various subsidiaries for information and implementation

**Coordination of Activities:** A mechanism of coordination can be used for achieving integration among difference unit within organization. -coordination as compared with control should be less direct MNC's should bring balances in sharing and coordination of various resources and Market demand.

**Control Operations**:

An effective MNC control system should allow for local adaptability and responsiveness to the host country environment. A challenging task for MNC top management is to build a control system that, while promoting the overall corporate competitive position, is beneficial to individual subsidiaries as well. In other words, if subsidiaries consider the strategy process and associated control system fair, they will accept it more readily. Subsidiaries' managers consider a corporate strategy more attractive when it includes interests important to the subsidiaries. Moreover, when subsidiaries' interests are not totally abandoned in favor of promoting corporate objectives, the strategy process will be considered to be fairer. This, in turn, provides greater incentive for compliance by the subsidiary and makes corporate control much easier.

**Strategic formulation** In recent years, the relationship between the Multinational Corporation (MNC) and its subsidiaries has shifted from a control to a strategic orientation. MNC's headquarters help the subsidiaries to formulate the various strategies. It directs and guides MNC's in implementing, evaluating and controlling strategies.

## Criticisms against MNC's in India

The operations of MNCs in India have been opposed on the following grounds:

(i) They are interested more on mergers and acquisitions and not on fresh projects.

(ii) They have raised very large part of their financial resources from within the country.

(iii) They supply second hand plant and machinery declared obsolete in their country.

(i v) They are mainly profit oriented and have short term focus on quick profits. National interests and problems are generally ignored.

(v) They use expatriate management and personnel rather than competitive Indian Management.

(vi) Though they collect most of the capital from within the country, they have repatriated huge profits to their mother country.

(vii) They make no effort to adopt an appropriate technology suitable to the needs. Moreover, transfer of technology proves very costly.

(viii) Once an MNC gains foothold in a venture, it tries to increase its holding in order to become a majority shareholder.

(ix) Further, once financial liberalizations are in place and free movement is allowed, MNCs can estabilize the economy.

(x) They prefer to participate in the production of mass consumption and non-essential items.

## Important Questions

1. Define globalization.
2. Due to which reason the latest models of different items are available within our reach?
3. Give major factor that has stimulated the globalization process.
4. In what ways is a MNC different from other companies?
5. Have the people played an important role in the struggle for a fair globalization? Give any instance.
6. What is a multinational corporation?
7. Give the benefits enjoyed by a local company in a joint production with a MNC.
8. What controversies can multinational companies face in developing countries?
9. Can multinational companies have a positive influence on developing countries?
10. Explain the Strategies practiced in control of MNC's
11. Explain the Relationship between Headquarters and Subsidiaries.
12. Explain the role of MNC's in India

## MCQ - Questions

1. Which of the following was created in an effort to promote free trade?
   - **a) World Trade Organization**
   - b) The Sarbanes-Oxley Act
   - c) Multilateral development banks
   - d) The Organization for Economic Cooperation and Development

2. Why is globalization often perceived as a threat in developed countries?
   - a) Because countries with authoritarian governments are becoming more powerful.
   - **b) Because low-skilled jobs in advanced economies are at risk.**
   - c) Because emerging markets are importing fewer goods from the developed countries.
   - d) Because MNEs from developed countries are facing stiff competition in emerging markets.

3. Globalization refers to ______
   - a) Lower incomes worldwide
   - b) Less foreign trade and investment
   - c) Global warming and their effects
   - **d) A more integrated and interdependent world**

4. Select an example of Indian Multinational Company
   - a) Hindusthan Unilever
   - **b) Videocon**
   - c) Cargill
   - d) Tesco

5. ________ Corporation produces in the home country or in a single country and focuses on marketing these products globally or vice a versa.
   - **a) Global**
   - b) International
   - c) Transnational
   - d) None of the above

6. The ___________ company produces, markets, invests and operates across the world
   a) Global
   b) International
   **c) Transnational**
   d) Multinational

7. Balance of Payment can be made favourable if
   a) Exports are increased
   b) Imports are increased
   c) Devaluation of money
   **d) (A) and (C).**
8. Which of the following is a characteristic of multinational enterprises?
   **a) The affiliates are responsive to a number of important environmental forces.**
   b) The overseas market is larger than the domestic market.
   c) The company does at least 30 percent of its business in foreign markets.
   d) At least half its directors are foreign nationals.

9. Which of the following is not an advantage of exporting?
   a) Easier way to enter into international markets
   b) Comparatively lower risks
   **c) Limited presence in foreign markets**
   d) Less investment requirements

10. Which one of the following is not amongst India's major import items?
   a) Ayurvedic medicines
   **b) Oil and petroleum products**
   c) Pearls and precious stones
   d) Machinery

11. Characteristics of organizational culture include all but which one of the following?

a) Common language, terminology and norms of behaviour
b) Preference for formal or informal communication
**c) Sustainability policies**
d) Rulebook of do's and don'ts for staff

12. Ethics focuses on:
a) Differences between cultures
**b) Principles of right and wrong**
c) Values and norms of behaviour in different cultures
d) Universal standards of behaviour

13. From the viewpoint of the foreign investor, which of the following is a disadvantage associated with developing countries?
a) Poorly skilled workers
**b) Weak protection of intellectual property**
c) Small consumer markets
d) Slow economic growth

14. The main reason behind MNCs investments are
a) To benefit foreign countries
b) To provide financial support to the country's government
c) For the welfare of underprivileged people.
**d) To increase the assets and earn profits.**

15. Key controllable factors in global marketing are:
a) Government policy and legislation
b) social and technical changes
**c) marketing activities and plans**
d) All of the above.