Chapter 4 : Multinational Corporation

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Globalization

- **Globalization** is an international integration which involves **exchange** of products, services, ideas, business practices and cultures.
- Globalization is a process which integrates **regional economies** and their **culture**, by developing a network of world trade, transportation, immigration and communication.
- **According to International Monetary Fund [IMF]** : Globalization is the growing economic interdependence of countries worldwide through **increasing volume and variety** of cross border transactions in goods and services.
- **According to Charles Hill:** Globalization is the shift towards a **more integrated** and **interdependent world economy**. It has two components-the globalization of markets and the globalization of production.

Features of Globalization

- Improved Technology: The technological advancement like – high speed internet, satellite television, smartphones etc. has interconnected the different economies of the world. Due to globalization, people from all over the world are able to share information and contribute to increasing stock of knowledge.
- Movement of people and capital: People belonging to developing countries are migrating to more developing and developed nations in order to achieve economic success.
- Circulation of Knowledge: Globalization facilitates circulation of new and innovative knowledge across different economies of the world.
- Talent Mobility and Integration: Globalization allows integration of two organizations of different countries to overcome their inabilities and improve their performance. International corporations can send their employees to foreign countries for acquiring new skills and knowledge.
- Rise in competition: The removal of foreign trade barriers help the international companies to compete with firms of other countries in terms of product prices, level of technology, market share, customer service, fulfilling customer demands etc. Companies can expand their market by gathering optimum resources from other countries at low cost for producing quality products.

Essential conditions for Globalization

- Business freedom
- Facilities
- Government Support
- Resources : Funds, latest technology, research and development capabilities, human resources, managerial expertise
- Competitiveness
- Orientation: Firms need to have the appropriate **globalization strategies** and the necessary **global orientation** in order to grow globally.

Stages of Globalization

1. Domestic Company: In domestic stage, a company intends to serve **home-country** consumers to benefit from domestic market opportunities, acquire finance from financial institutions within the country.
2. International Company: International companies are importers and exporters, they have no investment outside of their home country. Example : Spencer, Wal-mart
3. Multinational Company: Multinational companies have investment in other countries, however, it is not a very large number. MNC's have a centralized structure, with the head office in the home country calling all the shots. Example: Adidas, Accenture, IBM
4. Global Company: Global companies also has locations in multiple countries, but they've figured out to create one company culture with one set of processes that facilitate a more efficient and effective single global organization.
5. Transnational Company : A transnational company is something more than a company that has investments, operations and sales in different countries. Such companies are commanding industries and markets across the globe.

Stages of Globalization

1) International companies

- One Business in a country
- Exports products in foreign countries.

Example:

- Wal-mart, spencer etc.

2) Multinational Companies (MNC)

- Established branches Few of the foreign countries (2 to 10)
- Main branch decision

Example:

- General motors

3) Global companies:

- Established branches all over the world (unlimited)
- Selling same products,
- Main decision

Example:

- Coca-cola, shell petrol, microsoft etc.

4) Transnational companies (TNC):

- Mixture of international, multinational and global companies.
- Every branch have right to take any decision

Example:

- McDonald, KFC etc

Globalization Trends

1. Cooperation among Countries: The cooperation among different nations typically happens through international organizations, agreements, treaties or consultations.
2. Liberalization of Cross Border Movement: Every country normally has some degree of control on the movement of goods and services across its borders.
3. Technology Transfer
   i. Profit from selling Technology
   ii. Location and Logistics Advantage
   iii. Competitive Edge
   iv. Limitation of Home Country
   v. Superior Capital Markets
   vi. Enhance Competence

Importance of Globalization

1. Boost in the Economy: Globalization has boosted the flow of foreign investments in India through certain industries like petroleum, BPO, manufacturing and pharmaceutical industries.
2. Increased Rate of Employment
3. Availability of Advanced Technology
4. Goods and Services
5. Removal of restriction from Capital Flow
6. Boost in Industrialization
7. Balanced Development of world economies
8. Adaptation of foreign taste and trend

Globalization Challenges

1. Reduced jobs and income: With advancement of technologies and new production facilities, **manpower requirement** in industries have considerably reduced.
2. Improper Labour practices and Environment policies: Free trade facilitates developed countries to set-up their manufacturing units outside national borders in order to **gain cheap labour** and **resources.**
3. Cut throat Competition: People are willing to spend their money for quality products at low cost. As a result , the market share of **local manufacturers** is reducing rapidly.
4. Inequality: With increasing economic growth, **gap** between **rurales and urbans** is also increasing.
5. Inflation: With improving economic conditions and increasing demand for food and energy there has also been an unreasonable increase in **prices of commodities**.
6. Loss of culture: People are **migrating** to other countries for increasing the **living standards** at the cost of their own culture and values. This is leading towards **cultural conflict** between countries.

Multinational Corporations (MNCS)

- Multinational Corporations are companies that have its **production units** in one or more countries other than its **home country**.
- It is an organization which allocates its **capital resources across national borders**, with the ownership centralized at home country or nation.
- It is an organization which manages and governs various activities like **production or service** facilities in different countries along with home country.
- According to James C. Baker the multinational corporation is a company

1. Which has a **direct investment** base in several countries
2. Which generally derived from 20% to 50% or more of its **net profits** from foreign operations
3. Whose management makes **policy decision** based on the alternatives available anywhere in the world

Features of MNCS

- Huge Size
- International Operations
- Dominate the market on the basis of their operations with its huge size and economic power.
- Transfer of Resources
- International Market
- Refined Technology
- Professional Management
- Single Managerial Control
- Facilitating maximum production at minimum cost.
- Integrated Worldwide Business System: It allows proper flow of information and effective functioning of company.

Classification of MNCs

- Classification on the **Basis of Corporate Structure**

i. Horizontally Integrated Multinational Enterprises : These enterprises establish their **production units** in **host countries** to produce similar products. E.g. Pizza Huts and KFC

ii. Vertically Integrated Multinational Enterprises : These enterprises are established in some countries to manufacture inputs like raw materials to its **production units** situated in different countries. E.g. Nike is headquartered at U.S. whereas it has large production units in China, Indonesia and from there the finished products are supplied worldwide.

iii. Diversified Multinational Enterprises : These enterprises are situated in different countries having **no integrated activities**, neither horizontal nor vertically. Eg. Microsoft do not have any collaboration or integrated activity with other countries, it **runs independently** in the host countries.

Classification of MNCs

- Classification on the **Basis of Behavior**
  1. Ethnocentric : The main focus of ethnocentric based MNCs is towards the home country. Therefore, **home country members** are considered for the **top management positions** of parent company.
  2. Polycentric : Unlike ethnocentric MNCs, polycentric companies give priority to the people of the **host countries**, while keeping few **key persons** from the **home country.**
  3. Regiocentric and Geocentric : This type of MNCs select employees from the whole country be it the home or host country, as their aim is to **recruit the best employees.**

Merits of MNCs

1. Better Access to worldwide market
2. Best Access to Capital Investment
3. Transfer of technology through R & D
4. Local supplier development
5. New jobs for labour
6. Advanced training for labour
7. Better access to managerial Talent
8. Better products for consumers at lower cost
9. Contribution to exports

Demerits of MNCs

1. Drain of resources for Profit maximization
2. Strain of scare foreign exchange reserves : MNCs invest in developing countries to gain the advantage of foreign exchange reserves like foreign currencies, bonds and other government securities.
3. Minimum Technology Transfer
4. Insignificant Employment potential : Use of advanced technologies require less labour force.
5. Influence on Culture
6. Ill effects of advertisement: MNC invest huge amount on advertisements, this may lead to increase in prices of the product, decline in demand etc.
7. Unfavorable effect on Business Process Outsourcing of the Host Country
8. Monopoly growth: To compete with the local industries and grab the market of host country, MNCs may form their monopolies.
9. Economic Threat: MNCs may alter their financial statements to avoid local taxes of host country. They may forcefully apply their own terms and conditions by indicating their huge investments made in the host country.

Current Opportunities of Indian MNCs

1. Rapid Domestic Economic Growth
2. International Expansion Strategy
3. Factor Mobility such as labour, capital, management, technology etc.
4. Economic Reforms
5. Market Potential
6. Development in Communication Technology

Challenges faced by Indian MNCs

1. Indian Political System
2. Power of Politician
3. Business, But Not Social Justice
4. Unconcern towards Social Responsibilities and Business Ethics
5. MNCs and Process of planned Economic Development in India
6. Cultural Erosion
7. Unconcern for Environmental Pollution and ecological balance
8. Distortion of economic structure
9. Technology Transfer not necessarily Conducive to Development

Transnational Corporation(TNCs)

- A registered organization which functions in more than one nation at a particular point of time is termed as **transnational corporation**.
- This corporation operates through its partially or wholly owned **subsidiaries** in one or more nations and has its **headquarters** in a certain country.
- The **central headquarters** regulate the operations of the subsidiaries.
- A transnational corporation is capable of challenging the conventional economies, imposing an **economic and political plan** on the host nation as well as enforcing **monopolistic activities.**
- Transnational corporations are also able to reduce their **tax liability** through their foreign subsidiaries.

Features of Transnational Corporation(TNCs)

- Resources and capabilities are widely distributed
- Structures are flexible and even-changing
- Subsidiary managers initiate strategy and innovations that become strategy for the corporation as a whole
- Existence of Successful coordination

Merits of TNCs

- Benefits to host Country
- Provides Employment
- Maintains and Retails Relationships
- Facilitates Cooperation and Learning
- Increases Flexibility

Disadvantages of TNCs

- Not in favour of Host Country
- Damages to the Environment
- Host Country Issues
- Effect on Host Country Market

Globalization of Brands

- **Characteristics of successful Global Brands**

1. Superior Product quality: A strong brand image goes automatically with quality and consistency. The confidence in the customers mind about quality of products is the first step in developing a successful brand. Example: BMW, Dell
2. Additional Services: Apollo tyers conducts a free check-up for all its customers for the first year so additional services instills confidence in consumers about the accountability of the company's product.
3. Differentiation from Competition: Organizations need to differentiate their offerings from that of competitors, to develop successful brands.
4. Long-term Communications Strategy: Colgate toothpaste has an effective long-term advertising strategy, "Stop bad breath, prevents tooth decay". Colgate has used the same marketing message, even for its new line extensions, ensuring that the brand message sticks and heighlights the core benefits of the product.

Global Branding Strategies

- Developing established Local brands
- Local adaptability for Global Idea
- Creation of new brands
- Buying native brands and internalize
- Expanding Brand Names
- Using a Multi-local Strategy
- Aggressive Globalisation

Factors Favouring Global Branding

- Demand
- Global Consumers
- Economy of Scale
- Homogenizing Needs of Consumers
- Globalizing Competitors
- Enhancing Global Marketing Efficiency

Global issues in Branding

- Market Differences
- Entrenched Local Brands : To enter upon or take over something unfairly, improperly, or unlawfully on local brands.
- Rising Channel Power
- Criticism of Global Brands

Guidelines for Global Branding

- Focus on Target Markets
- No duplication of another's brand
- Match brands exactly with domain names
- No silly prefixes
- Avoid over used words such as global, tech, soft, serve
- Obey Grammatical Rules
- No negative or controversial Connotations
- Memorable and easy to spell
- Understood and accepted internally
- Tested Prior to Development

Positive implication of Globalisation in Indian industry

- Updated Technology
- Free flow of Capital
- Increase in Industrialization
- Investment and capital flow
- Productivity Growth and Growth of Firms
- Sales promotion and growth of firms
- Faster Transportation
- Increase in foreign collaborations
- Development of service sector

Negative implication of Globalisation in Indian industry

- Reduced jobs and incomes
- Poor labour Practices and environmental Policies
- Globalization and the world's poor
- Factor mobility
- Risks and uncertainties
- Loss to domestic industries
- Dominance of foreign institutions

Global competition

Factors affecting Global Competition

- Reduction in differences among Countries
- Aggressive Industrial Policy
- National Recognition and Protection of distinctive assets
- Free flow of Technology
- Gradual emergence of New Large Scale Markets
- Newly Developed Countries (NDC) Competition

Challenges for Global competition

- Marketing: Different people across the world have distinct choices in different product segments such as food, fashion, electronic products, art etc. Thus a new business will face challenges while selling its products and services to a foreign nation.
- Finance: Financial challenges involve safeguarding transactions in foreign currency, adopting nation's financial regulations and tax laws, allocation of capital etc.
- Supply chain: Supply chain management can become an adverse issue for businesses facing global competition as nation are using outsourcing techniques for production, manufacturing, providing customer support and services etc.
- Economics: The difference in the currencies and fluctuating economic policies significantly affect the global competition.
- Foreign Policies: Most of the businessman have to make huge changes in their production and operation process due to regulation in political laws.
- Natural calamities, Environment and war or terrorism: Natural calamities such as floods, earthquakes or civil war in the host country can also bring serve unexpected challenges.

Conflict with Nation States

Reasons for conflict among nation states are as follows

- Competition

1. For resources
2. For territory

- Differences

1. In Government
2. In religion
3. In Ethnicity

Domestic and Global forces

- Increase and expansion of technology
- Liberalization of cross-border trade and resource movements
- Development of services that support international Business
- Growing Consumer Pressures
- Increased Global Competition
- Changing political situations
- Expanded cross national cooperation

Brexit and Latest Development

- Brexit is an abbreviation for "**British exit**" referring to the UK's decision in a June 23, 2016 referendum to leave the **European Union**(EU)
- European Union is consist of **28 different countries** like Germany, France, Spain etc.
- EU has the authority to set **rules and regulations** which will have to be followed by all the countries that come within the European Union.
- Brexit will likely harm the UK's economy and reduce its real **per capita income** in the medium term and long term.
- Brexit is likely to reduce **immigration** from **European Economic Area (EEA)** countries to the UK, and poses challenges for UK higher education, academic research and security.

Positive impact of Brexit on India

- Free Trade Agreement: After losing access to the EU single market, the UK would want to develop **trade relations** with emerging markets around the world. India, with strong **economic fundamentals** and a **large domestic market**, is in a better position.
- Easy Market Access: India is a significant **FDI source** for the UK because many Indian firms have used it as a gateway to the EU single market. It will attract **Indian firms** by offering more **incentives** such as tax break, relaxed regulations and opening up markets.

Negative impact of Brexit on India

- Short Term Distress: The UK has already been a gateway for Indian firms to enter the EU single market. After Brexit, this may cause **short term distress** on Indian firms.
- Currency volatility: Visible on **currency volatility** as there would be devolution of Pound and Euro due to Brexit. Indian companies with sizable presence will have to **bear the brunt**.
- Spike in price of imports: With Brexit, there will be a considerable **spike** in the price of imports, foods and other everyday commodities, which will impact Indian firms.
- Increase Overhead Cost: Brexit will increase **overhead cost** and setting up of new headquarters perhaps, in both EU and UK separately.

Global impact of Brexit

- The globalization has increased correlation between the countries.
- The Brexit would affect the global growth
- More countries are moving towards multilateral trade arrangements.
- The investors and the capital will move from risky markets to more safer market.
- The major exporting countries such as China and India would get affected as EU is one of the major export market.
- As per one of the estimates Brexit would lead to 25% reduction in imports by Britain.
- Britain was one of the major financial and military contributors to the EU but with Brexit, the financial of EU will suffer.
- With Brexit there have been demands for Scotland exiting from UK.

Thank you