

1.6 Multinational companies (MNCs)

Impact of multinational companies on host countries

The Walt Disney Company is the second largest broadcast and cable media multinational corporation in the world. It is famous for its iconic cartoon characters, its movies and theme parks.

Disney constantly innovates and creates new experiences for its customers, and its growth rate has at times reached almost 7%. It is way ahead of its competitors in terms of entertainment, its spectacular theme parks, its clothing, and even its cruise ships. And by creating characters such as Mickey Mouse, The Walt Disney Company has revolutionised the entertainment industry.

However, Disney has been involved in some major ethical controversies, such as its ongoing labour problems. It has been criticised for allegedly discriminating against some workers and selling products made by workers who earn sometimes below the local minimum wage.

Most multinationals have had some kind of ethical issues related to either low wages, unfair practices, or racial and religious discrimination. However, multinationals have been working towards better ethical practices in recent times. Companies such as L'Oréal and 3M are considered to be amongst the most ethical multinationals. They have an outstanding reputation and have shown international success at sourcing and manufacturing ethically.

International Mindedness

In [Section 1.3.4 \(/study/app/y12-business-management-a-sl-may-2024/sid-352-cid-174703/book/ethical-objectives-and-corp-social-resp-csr-id-36850\)](/study/app/y12-business-management-a-sl-may-2024/sid-352-cid-174703/book/ethical-objectives-and-corp-social-resp-csr-id-36850), you learned about a matrix that can help businesses consider their social, environmental and ethical responsibilities to people and the planet. How can multinational companies ensure that they meet their global responsibilities in countries far away from their home country?

So what are the reasons for the growth of multinationals? Look at **Table 1** below to understand the factors responsible for the growth of multinationals.

Reasons for the growth of MNCs

Companies that do not just export their goods for sale abroad, but that actually have operations located in more than one country, are called multinationals. The growth of multinationals is the result of various factors.

Table 1. Reasons for the growth of MNCs.

Larger customer base	By expanding on an international level, businesses can increase sales and revenues, particularly by expanding into countries with growing populations. Their own country’s markets may already have too many competitors or demand may be limited, so other countries may provide new markets.
Brand recognition	A business can increase its brand recognition if it expands into different countries and cultures, thus increasing its brand value and sales revenue.
Technology	Technological progress can facilitate the growth of multinationals, for example, innovations in container shipping, improved communications with the development of the Internet or increasing affordability of air travel.
Tax incentives	Because MNCs can bring advantages to host countries (discussed later in this section), many countries compete to attract them. They may therefore offer MNCs tax incentives such as low taxes. The practice of moving operations to another country to benefit from low taxes is a form of tax avoidance.
Avoiding trade barriers	By expanding into several countries, MNCs can avoid trade barriers such as tariffs. Tariffs are taxes on imports that make it difficult or expensive to trade goods across borders.

Costs of production	Labour costs and costs of other factors of production may be lower in other countries. There may also be opportunities to benefit from economies of scale by selling worldwide to countries in which demand is growing, particularly those with a high population growth.
Lack of regulation	Lower levels of labour and environmental regulation in some countries can make it easier and less costly for businesses to manufacture goods.
Spreading risks	Expanding internationally helps MNCs to spread risks. If they do not do well in one country due to the unfavourable external environment of that country (Section 1.1.6 (/study/app/y12-business-management-a-sl-may-2024/sid-352-cid-174703/book/tool-swotsteeple-analysis-id-36834)), they can still operate in other countries without serious damage to business revenue. This can make a business more resilient.

Activity

Learner profile: Thinkers

Approaches to learning: Thinking skills (transfer)

MNCs have to consider the external environment, minimising threats and maximising opportunities, in order to make decisions about expanding in other countries. Changes in the STEEPLE factors listed in [Section 1.1.6 \(/study/app/y12-business-management-a-sl-may-2024/sid-352-cid-174703/book/tool-swotsteeple-analysis-id-36834\)](/study/app/y12-business-management-a-sl-may-2024/sid-352-cid-174703/book/tool-swotsteeple-analysis-id-36834) can affect these decisions.

Review the STEEPLE analysis tool in [Section 1.1.6 \(/study/app/y12-business-management-a-sl-may-2024/sid-352-cid-174703/book/tool-swotsteeple-analysis-id-36834\)](/study/app/y12-business-management-a-sl-may-2024/sid-352-cid-174703/book/tool-swotsteeple-analysis-id-36834) and complete the activity.

For each factor below, state whether it represents a sociocultural, technological, economic, political, legal or ethical factor that MNCs may have to consider when expanding abroad.

1. Online (cyber) crime
2. Minimum wages
3. Environmental regulations
4. Ageing population

5. Business and consumer confidence in the economy
6. Trade barriers
7. Land and construction costs
8. Education and skillset of workforce
9. Consumer protection legislation
10. Employment equity in the host country

Making connections

Globalisation has improved opportunities for companies to grow and evolve. This links to [Subtopic 1.5 \(/study/app/y12-business-management-a-sl-may-2024/sid-352-cid-174703/book/the-big-picture-id-36864\)](/study/app/y12-business-management-a-sl-may-2024/sid-352-cid-174703/book/the-big-picture-id-36864), where you learned about the reasons why businesses wish to grow and the potential impact of growth. You will now explore this in the context of host countries.

The impact of MNCs on the host countries

The term multinational corporation has a somewhat negative connotation, and multinationals are often accused of bringing about many of the ills of modern day life, from pollution to obesity. A common joke about MNCs is that they buy where prices are low, sell where prices are high, and try to avoid paying taxes everywhere. Historically, many western multinationals have not maintained the same ethical standards abroad as they are held to in their home markets in developed countries. However this is starting to change, as public awareness is leading companies to improve their behaviour in all of the markets in which they do business.

The sheer size of many multinationals means that they inevitably impact the communities in which they operate. Multinationals can impact host countries both positively and negatively, depending on why they enter a country, what they do when they are there and whether their commitment is long term or short term. Their impact will also depend on the conditions imposed by the host countries themselves. A host country is any country that permits a multinational to operate in its territory/markets.

Exam tip

It is important for you to understand the difference between a home country and a host country. A home country is where the company has started; its country of origin and registration. A host country is another country, which permits the company to operate in its territory.

Positive impacts of MNCs on host countries



Figure 1. Most multinationals have expanded outside their 'domestic' market in search of growth.

Credit: Fanatic Studio, Getty Images

One of the more positive contributions that MNCs can make to the countries in which they operate is employment opportunities. Wages offered may be better than those available through local employers, even though they may be low by international standards. Workers may also receive training, leading to a transfer of skills and technology to the local economy.

MNCs may also provide opportunities for local businesses that become direct suppliers of inputs. Other businesses may benefit more indirectly, as wages earned by the MNC's employees are spent in the local economy.

Many MNCs are required to construct their own infrastructure, especially when they enter less developed countries. These facilities can sometimes benefit the community as a whole. For example, Coca Cola requires clean water to supply its bottling plants. Its water and wastewater initiatives have the potential to improve the availability and quality of water for the entire community.

If the products manufactured are sold in the host country, it can benefit consumers by improving their product choices. Finally, governments benefit from multinationals through taxes and foreign currency earnings from the initial investment and from the sales of exported goods.

Negative impacts of MNCs on host countries



Figure 2. Exploitation of labour is one of the main negative impacts of MNCs operating in other countries.

Credit: Liuser, Getty Images

Employment created by multinationals is not always safe, permanent, formative and well paid. Multinationals may have only a limited commitment to the local workforce. The most qualified jobs may be held by expatriates who later leave the country, taking their expertise with them. MNCs may also not uphold the standards of compensation and worker safety that are in force in their home countries. They are often looking for low-cost labour where labour regulations are weak or unenforced, resulting in workers being exploited with low wages and poor working conditions. In Bangladesh, for example, textile production from multinational companies has often been criticised.

In a similar way, multinationals operating in other countries may not hold themselves to the standards of their home countries in terms of pollution control and protection of the environment. Mining of minerals used in the manufacturing of electronic devices has become a growing source of pollution in recent years. In many cases, these resources are extracted by multinationals working in host countries. Coca Cola has been blamed for causing water shortages in India and South America.

The demands of multinationals for local goods and services to conduct their business can also drive up prices. This can harm consumers as well as local businesses vying for resources. Multinationals might also influence demand in host countries by encouraging locals to switch to more international products. Local businesses might be harmed in this process as multinationals have greater access to finance in order to market their products in the host country. In addition, the shift towards international products can pose a significant threat to the culture and values of the host countries.

Multinationals are also strong competitors, and they may take business away from local companies or even lead to their disappearance. The result may be an unhealthy dependence upon a single multinational, which can destabilise the local economy and make it overly vulnerable to decisions taken thousands of miles away.

Activity

Learner profile: Inquirers; Thinkers

Approaches to learning: Research skills (information literacy); Thinking skills (critical thinking, transfer)

LEGO is a multinational toy giant, successfully growing internally and externally. Recently, LEGO has faced numerous internal and external threats such as competition from Hasbro, the second largest toy manufacturer globally. Furthermore, LEGO suffered a major setback when it lost against MEGA Brands (manufacturers of MEGA blocks) in a legal battle, with a European Union court deciding to remove the LEGO brick trademark.

The demand for LEGO has been growing globally, particularly in Asia. To keep up with that growing demand, LEGO has planned to open another manufacturing unit in Vietnam and to expand a factory in China.

1. Read the following article and LEGO announcement about LEGO's expansions in Vietnam and China.
 - Global supply chain: Lego to build 1bn USD factory in Vietnam (<http://www.bbc.com/news/business-59588943>).
 - LEGO Group expands manufacturing capacity at its factory in Jiaxing, China to support long-term growth (<https://www.lego.com/en-sa/aboutus/news/2022/january/china-factory-expansion/#:~:text=Sites,LEGO%20Group%20expands%20manufacturing%20>
2. How would you classify this growth of LEGO, using terminology from Subtopic 1.5 (/study/app/y12-business-management-a-sl-may-2024/sid-352-

[cid-174703/book/the-big-picture-id-36864](#))? Think about which terms can be applied: internal growth vs. external growth, market penetration, market development, product development and/or diversification.

3. With a partner or in a group, discuss the possible positive and negative impacts Lego's expansions may have on Vietnam and China.

Case study

The United Arab Emirates (UAE) has become an attractive country for tourists, investors and multinational companies. The country provides tax incentives for multinationals and offers a luxurious lifestyle for their highly paid employees. It has one of the lowest corporate taxes globally and has become a tax haven for many multinational companies along with the Bahamas, the British Virgin Islands, Guernsey and Jersey. The country also has a large supply of low paid migrant labour, largely from South Asian countries.

Recently, to further boost economic growth, the country introduced regulations that made it simpler to set up businesses. The impact of multinational companies on the UAE has been massive, with global expertise in sectors such as manufacturing, technology, energy, food and beverage, automotive and allied industries, energy, consumer goods, health care, insurance and retail. This has increased job opportunities and enhanced skills. Multinational companies have to abide by the minimum wage regulations set by the UAE government. Consumers enjoy a wide variety of products and increasing competition among businesses which can lower prices.

However, the attraction of MNCs has raised sociocultural issues, with many locals switching to more international cuisines and clothing. Increasing globalisation is sometimes seen as a threat to the values, beliefs and culture of the host country. Local businesses might see a fall in demand for their goods and services as demand shifts to the products provided by multinational companies. Examples might include food multinational chains such as McDonalds and Pizza Hut. The popularity and demand for local cuisine has decreased as a younger generation is attracted to global brands.

Questions

1. Outline **one** negative impact the UAE faces from multinational companies setting up in the country. [2 marks]
2. Explain **two** positive impacts for the UAE due to MNCs expanding in the country. [4 marks]