

## 1.6 Multinational companies (MNCs)

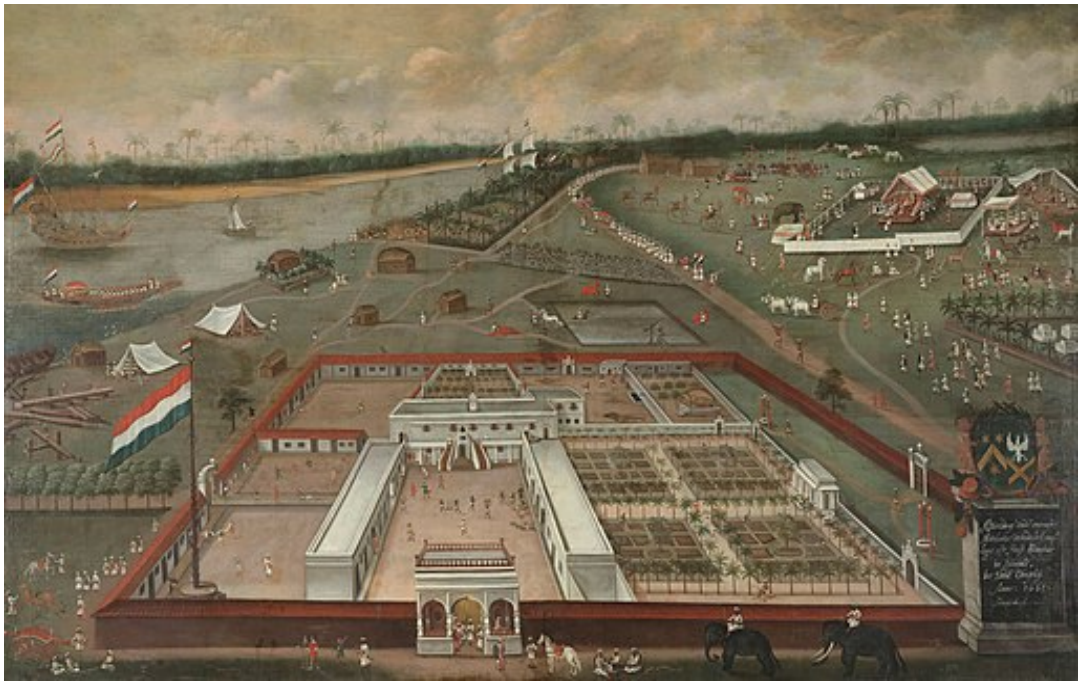
# The big picture

Businesses are constantly changing, influenced by internal and external factors. The aims of businesses have evolved over time and in the early 21st century there has been a shift towards more sustainable business practices. The businesses that are successful in adapting to these changes will be able to endure and thrive in the future.

The history of business contracts, marketing and product branding goes back almost 3000 years. By the early 1870s, monopolies were emerging, where very large companies had the power to manipulate prices, operate at lower costs and extract a great deal of value from human and natural resources, often far from the company's origin.

In the early 1920s, these monopolies became corporations managed by professionals. Later, by the 1960s, these professionals became responsible for expanding businesses into different countries. Thus, the new era of business gained momentum. The world saw the growth of multinational companies (MNCs). Businesses started investing abroad through large scale expansions. Foreign direct investment (FDI) is the long-term investment by multinational corporations in a foreign country. This involves either setting up factories and expanding operations in the new country or the purchase of at least a 10% share of a foreign company.

The first multinational corporation in the world was the Vereenigde Oost-Indische Compagnie (VOC), or the Dutch East India Company. By the late 1700s, increased globalised trade of spices resulted in more competition from other countries such as Brazil, which was producing goods like sugar much more cheaply. Technological advancement in communication and transportation has made it easier for both goods and service companies to operate in different countries.



**Figure 1.** A trade lodge of the VOC in Hooghly, Bengal, by Hendrik van Schuylenbergh , 1665.

Source: Hendrik van Schuylenburgh, Public domain, via Wikimedia Commons

MNCs are corporations that have their headquarters in one country and operate in at least two countries, one of which is outside the corporation's 'home' country.

**Table 1.** List of top ten multinationals performers globally according to Forbes’ Global 2000 list in 2021.

Source: Forbes (<https://www.forbes.com/lists/global2000/#146e185c5ac0>), 2021

Rank	Company	Country
1	ICBC	China
2	JPMorgan Chase	United States
3	Berkshire Hathaway	United States
4	China Construction Bank	China
5	Saudi Arabian Oil Company (Saudi Aramco)	Saudi Arabia

6	Apple	United States
6	Bank of America	United States
6	Ping An Insurance Group	China
9	Agricultural Bank of China	China
10	Amazon	United States

Of course, multinational corporations need to be mindful of their business and profits. But they also have a duty to their employees, the economy and the local community of the country in which they operate. The actions they take to fulfil these duties will depend on the legislative framework in the country. The presence of a multinational can have many advantages, but also many disadvantages for host countries.

## Concept

### Sustainability

Sustainable development is development that 'meets the needs of the present without compromising the ability of future generations to meet their own needs' (Source: [United Nations \(http://www.un-documents.net/our-common-future.pdf\)](http://www.un-documents.net/our-common-future.pdf), 1987). With the changing business environment, private or public businesses are expected to work sustainably. A sustainable business will be able to minimise its waste, maintain a strong brand image, contribute to its community and natural environment and earn reasonable profit for its business activity.

## Theory of Knowledge

MNCs play an important role in host countries. They can support the fight against poverty and persistent unemployment by providing jobs to the unemployed. In addition to producing goods, workers may be required to build infrastructure to support MNCs, which can stimulate economic development in host countries.

Consider the following:

- Should profitable MNCs have an ethical obligation to support the poor in society, beyond providing employment, as a natural consequence of their business activities?

