Topic 1.6 - MNC's

Globalization had a significant impact on businesses' growth and evolution. Globalization is the process by which the world's regional economies are becoming one integrated global unit.

In terms of intensity, scale, speed and economic value of goods and services being exchanged, global interdependence today is on a completely different scale from that seen in previous periods

Current globalization is being characterized by a relatively small number of extremely large "post-national" businesses. Post national means that, although these companies have a home record, these businesses are otherwise transnational, apart from the legal home of record, these businesses consider no place their home. They will do business wherever they can make a profit. Loyalties are to the company itself and to its profits, and not to any country.

Globalization can have significant impact on the growth of domestic businesses for the following reasons:

1) increased competition: large foreign businesses can force domestic producers to become more efficient as the domestic consumer has more choice. Greater efficiency can mean lower lost goods and services for consumers. However, one way that businesses become more efficient is by slowing the growth in wages of its workers and extracting greater productivity from them

2) greater brand awareness: domestic producers have to compete with big brand names and so they need to create their own unique selling point

they can do this by emphasizing that the product is local or from national origins.

3) skill transfer: foreign businesses, no matter how big, must use some local knowledge: at least some of their workforce must be local, which will lead to a two way transfer of know edge and skills. The multinational or global firm will learn from the workers hired in particular countries, while those workers can learn new approaches and develop new skills.

4) closer collaboration: whether through joint ventures, franchises, or strategic alliances, domestic products can create new business opportunities.

The definition of a "multinational company" is a firm that operates, owns, or controls production or service that facilities outside the country in which it is based. The connotation of multinational company is a very large company, typically with high operating leverage and significant market power.

Multinational companies often benefit from economies of scale and access to larger markets than companies operating in only one country. They are, however, exposed to additional risks, especially political risk and foreign exchange risk.

Four factors that have allowed MNC'S to grow rapidly

1) improved communications: ICT, transport, distribution networks
2) dismantling of trade barriers: allowing easier movement of new materials, components and finished products.
3) deregulation of the worlds financial markets: easier transfer of funds, and tax avoidance

4) increasing economic + political power of the MNC: enormous benefit for middle and low income countries.

The impact of MNC on the host (domestic) country

Advantages for the host country:

1) economic growth: multinational companies can boost domestic economies by providing employment, developing a local network of suppliers, and paying taxes and providing capital injections.

2) new ideas: multinational companies may introduce new ways of doing business and new ways of interacting socially.

3) skills transfer: MNC'S may help develop the skills of local employees. Domestic businesses can benefit from starting their own business with the skills learned.

4) greater choice of products: the domestic market will benefit as the variety of products will increase.

5) short term infrastructure projects: MNC'S often help to build infrastructure (e.g: roads).

Disadvantages for the host country:

1) profits being repatriated: the MNC'S way pay into the local tax system, but the bulk of their profits will be rerouted away from the host country.

2) loss of cultural identity: the appeal of domestic products, ways of doing business, cultural norms, may suffer. Especially important for the younger generation.

3) brain drain: many highly skilled employees way look to work for the MNC in another company.

4) loss of market share: as MNC'S take over more of the domestic market, domestic producers may suffer.

5) short term plans: MNC'S may not intend to stay for a long time, if lower cost producers are found elsewhere, they may more out at short notice.