Social Responsibility of TNC

Meaning of TNC's

Also known as MNCs (Multinational Companies) these are large businesses that operate in a number of countries. They often separate their production between various locations, or have their different divisions – Head Office and Administration, Research and Development, Production, Assembly, Sales – separated around a continent or the globe.

Reasons for growth of TNCs

- **Global expansion** of a major product with worldwide markets, such as Coca Cola
- **Take-over** of foreign competitor firms, such as BMW
- **Merger** with foreign firms into one large international company, such as GlaxoSmithKline
- **Vertical integration**: acquiring the companies that sell you materials and components, and/or that you sell on to for manufacture, assembly or sales.
- **Horizontal integration**: acquiring the companies that make similar components that, along with yours, will go into the final product.
- **Diversification**: using the profits from one major company to purchase companies dealing with different products in order to spread risks from loss of sales or financial fluctuations.
- **Risk dispersal**: firms may find it advantageous to distribute their plants in a range of countries so that union disputes, government instability, supply disruptions and financial uncertainty in any one country does not disrupt overall production. Production can be switched to alternative plants relatively quickly if need be.
- **Profit maximization**: firms may set up divisions abroad for a range of reasons:

  - Locating low business-tax countries and ensure their profits are registered there so they pay minimum tax. Ireland has one of the lowest tax regimes in the EU at 12.5% (20% in UK) and attracts many US firms marketing to Europe.

- Locate to avoid trade tariffs and tax barriers. Some Japanese car firms set up plants inside the EU to avoid import taxes being imposed on cars from Japan.
- Locate in low production-cost countries where wages are lower. As these are often the single largest cost for a firm, locating production in low-wage economies can maximize profits at a stroke.
- Locate in low-regulation countries where there are fewer laws (or less /enforcement) governing employment rights, trade union rights and environmental protection.

Over time amalgamations of firms results in a trend towards fewer, larger corporations that operate with an international workforce selling to an international market. As a result of greater economies of scale (the larger the scale, the cheaper it is to do) TNCs are able to make greater profits, enjoy a higher share price and can absorb or take-over smaller, independent national companies or simply put them out of business by capturing the majority of the market and offering a product at a lower price.

Social Responsibility of TNC

1. Honoring Local Traditions

A company doing business in another nation is not an invader; it is a guest and must strive to accept traditions that may not be familiar. This can create ethical dilemmas. For example, an American company must offer the same wages for the same work regardless of the ethnicity or gender of the worker. If this goes against a tradition in a foreign country, the company has a responsibility to make it clear that it will honor its home value while accepting the host country's differences. In short, a multinational company has a responsibility to accept, but not to embrace foreign customs.

2. Respecting Human Rights

American companies have a responsibility to ensure the safety, health and well-being of their workers, no matter where their workers are employed. While a U.S. company may contract with a foreign company that has different practices, all employees doing work for the American company have the same basic rights as its American personnel. The company can pay lower wages in another country if the prevailing cost of living is lower, but taking advantage of foreign workers by offering lower-than-subsistence wages goes against the company's responsibilities.

3. Giving Back

Many companies engage in philanthropic activities, and some multinational companies elect to take on the responsibility of spreading their social initiatives to host countries where they do business. For example, multinationals may fund initiatives to supply vaccines in countries with poor health care, or they may create task forces to teach locals how to maintain a clean water supply. In more developed countries, a multinational corporation may contribute to neighborhood beautification projects or purchase supplies for local schools. This kind of charity can be good business. Positive public relations are just as important in a host country as they are in a home country.

4. Protecting Environments

Many companies may find U.S. environmental restrictions burdensome, but that doesn't mean they can willfully destroy the environment in another country. American companies have a responsibility to honor the host nation's environment to the greatest extent possible, even when local laws don't require them to do so. Multinational companies may not suffer fines for ignoring the environment abroad, but they could face a public relations crisis if word gets out.