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Teacher view

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Notebook



Glossary



Reading assistance

# 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.



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**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) (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

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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?

## Learning objectives from the IBDP Business Management guide with assessment objective level:

- **Examine** the impact of MNCs on the host countries (AO3)



1. Introduction to business management / 1.6 Multinational companies (MNCs)



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# Impact of multinational companies on host countries

The impact of MNCs on the host countries

The impact of MNCs on the 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 \(/study/app/business-hl/sid-351-cid-762729/book/ethical-objectives-and-corp-social-resp-csr-id-36520/\)](#), 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.



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# Reasons for the growth of MNCs

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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.

<b>Larger customer base</b>	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.
<b>Brand recognition</b>	A business can increase its brand recognition if it expands into different countries and cultures, thus increasing its brand value and sales revenue.
<b>Technology</b>	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.
<b>Tax incentives</b>	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.
<b>Avoiding trade barriers</b>	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.
<b>Costs of production</b>	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.
<b>Lack of regulation</b>	Lower levels of labour and environmental regulation in some countries can make it easier and less costly for businesses to manufacture goods.
<b>Spreading risks</b>	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 ( <a href="#">Section 1.1.6 (/study/app/business-hl/sid-351-cid-762729/book/tool-swotsteeple-analysis-id-36504/)</a> ), they can still operate in other countries without serious damage to business revenue. This can make a business more resilient.



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## Activity

**Learner profile:** Thinkers

**Approaches to learning:** Thinking skills (transfer)

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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 \(/study/app/business-hl/sid-351-cid-762729/book/tool-swotsteeple-analysis-id-36504/\)](#) can affect these decisions.

Section

Review the STEEPLE analysis tool in [Section 1.1.6 \(/study/app/business-hl/sid-351-cid-762729/book/tool-swotsteeple-analysis-id-36504/\)](#) and complete the activity.

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Assign

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
- 
1. Technological
  2. Legal or political
  3. Legal or political
  4. Sociocultural
  5. Economic
  6. Political or economic
  7. Economic
  8. Sociocultural or economic
  9. Legal
  10. Ethical



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## ⌚ Making connections

Globalisation has improved opportunities for companies to grow and evolve. This links to [Subtopic 1.5 \(/study/app/business-hl/sid-351-cid-762729/book/the-big-picture-id-36532/\)](#) 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



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**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.



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## Negative impacts of MNCs on host countries

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**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

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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.

- 762729/o 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%20capa) (<https://www.lego.com/en-sa/aboutus/news/2022/january/china-factory-expansion/#:~:text=Sites-,LEGO%20Group%20expands%20manufacturing%20capa>)
2. How would you classify this growth of LEGO, using terminology from [Subtopic 1.5 \(/study/app/business-hl/sid-351-cid-762729/book/the-big-picture-id-36532/\)](#)? 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.





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## 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]

#### Section

Student... (0/0)

Feedback

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Assign

One negative impact that multinationals can have on the host country is the loss of local culture as local residents switch their demand to globally recognised goods. The case study mentions that multinationals, such as McDonalds and Pizza Hut, can capture the demand from UAE residents, reducing the demand for culture-specific local food.

**Outline** is an AO1 level command term requiring a brief account or summary.

- Only one point needs to be made.
- Other responses are possible and would be rewarded if appropriate.



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- To achieve full marks, you must always include theory and application to the case study in your responses.

## Question 2

Multinationals have positively impacted the UAE as follows:

- There is a greater choice available for consumers in the UAE. Due to competition, lower prices may be enjoyed by shoppers. And they enjoy international products at a competitive price.
- Multinationals may create jobs in the host country. A large number of locals and expatriates are employed in MNCs. They are paid wages according to the minimum wage law in the UAE.

**Explain** is an AO2 level command term requiring a detailed account including reasons or causes. Explain *how* or explain *why*.

- Two reasons need to be explained. You should write visibly separate short paragraphs that each explain a reason (theory) and use information from the case study (example) to support the response.
- Other responses may be possible and, if appropriately explained and applied in context, may receive full marks.
- To achieve full marks, you must always include theory and application to the case study in your responses.

## 3 section questions ▾

1. Introduction to business management / 1.6 Multinational companies (MNCs)

# Checklist

Section	Student... (0/0)	Feedback	Print (/study/app/business-hl/sid-351-cid-762729/book/checklist-id-36545/print/)	Assign
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### What you should know

By the end of this subtopic, you should be able to:

- define the following terms: (AO1)
  - host countries
  - multinational companies (MNCs)

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- explain the reasons for the growth of multinationals (AO2)
- examine the positive and negative impacts of multinationals on the host country (AO3)

1. Introduction to business management / 1.6 Multinational companies (MNCs)

## Reflection

**Section**

Student... (0/0)

Feedback

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**Assign**

### Teacher instructions

The goal of this section is to encourage students to pause at the end of the subtopic and to reflect on their learning. Students can use the questions provided below to guide their reflection. The questions encourage students to look at the bigger picture and to consider how the subtopic's contents might have impacted the way they view the subject.

The following table shows you how each prompt aligns to the DP *Business management guide*:

Prompt #	Syllabus alignment
1	<b>Concept:</b> Ethics
2	<b>Learner profile:</b> Communicators

Students can submit their reflections to you by clicking on 'Submit'. You will then see their answers in the 'Insights' part of the Kognity platform.



### Reflection

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In this subtopic you learned how multinational companies (MNCs) operate and evaluate their impact on host countries.



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Take a moment to reflect on your learning so far. You can use the following questions to guide your reflection. If you click 'Submit', your answers will be shared with your teacher.

1. Do MNCs have ethical obligations and responsibilities to the countries in which they operate?
2. Think of the MNCs operating in your country. In your opinion, do they contribute to the wellbeing of your community and its people? Explain your answer.

Once you submit your response, you won't be able to edit it.

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### Rate subtopic 1.6 Multinational companies (MNCs)

Help us improve the content and user experience.



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