

UNIT II FORMS OF BUSINESS ORGANISATION

CHAPTER

8

MULTI NATIONAL CORPORATIONS (MNCs)



Learning Objectives

To enable the students to understand

- the meaning of a Multi National Corporations,
- the advantages, disadvantages,
- the examples of MNC

8.01 Meaning and Definition

A multinational company is one which is incorporated in one country (called the home country); but whose operations extend beyond the home country and which carries on business in other countries (called the host countries) in addition to the home country.

It must be emphasized that the headquarters of a multinational company are located in the home country.



A multinational corporation is known by various names such as: global enterprise, international enterprise, world enterprise, transnational corporation etc.

Definition of MNC

“A multinational corporation owns and manages business in two or more countries.”

- Neil H. Jacoby

“MNC is defined to be an enterprise operating in several countries but managed from one country”

Oligopoly: It is a market condition where there are very few sellers in the same product line.

Global enterprises are the business organisations which operate in more than one country. Since they operate in more than one nation they are also called as Multi National Companies.

8.02 Advantages and Disadvantages

Advantages

i. Low Cost Labour

MNC set up their facilities in low cost countries and produce goods/service at

lower cost. It gains cost advantage and sells its products and services of good quality at low cost. This is not available to smaller companies which operate at regional level.

ii. Quality Products

The resource, experience and expertise of MNCs in the sphere of research and development enables the host country to establish its research and development system which helps it in producing quality goods and services at least possible cost.

iii. Proper Use of Idle Resources

Because of their advanced technical knowledge, MNCs are in a position to properly utilise idle physical and human resources of the host country. This results in an increase in the National Income of the host country.

iv. Improvement in Balance of Payment Position

MNCs help the host countries to increase their exports. As such, they help the host country to improve upon its Balance of Payment position.

v. Technical Development

MNCs carry the advantages of technical development to host countries. In fact, MNCs are a vehicle for transference of technical development from one country to another. Because of MNCs, host countries also begin to develop technically.

vi. Managerial Development

MNCs employ latest management techniques. People employed by MNCs do a lot of research in management. In a way, they help to professionalize management along latest lines of management theory and practice. This leads to managerial development in host countries.

vii. End of Local Monopolies

The entry of MNCs leads to competition in the host countries. Local monopolies of host countries either start improving their products or reduce their prices. Thus MNCs put an end to exploitative trade practices of local monopolists. As a matter of fact, MNCs compel domestic companies to improve their efficiency and quality.

In India, many Indian companies acquired ISO-9000 quality certificates, due to fear of competition posed by MNCs.

viii. Improvement in Standard of Living

By providing super quality products and services, MNCs help to improve the standard of living of people of host countries.

ix. Promotion of international brotherhood and culture

MNCs integrate economies of various nations with the world economy. Through their international dealings, MNCs promote international brotherhood and culture; and pave way for world peace and prosperity.

Disadvantages

i. Danger for Domestic Industries

MNCs, because of their vast economic power, pose a danger to domestic industries; which are still in the process of development. Domestic industries cannot face challenges posed by MNCs. Many domestic industries have to wind up, as a result of threat from MNCs. Thus MNCs give a setback to the economic growth of host countries.

ii. Transfer of Outdated Technology

Where MNCs transfer outdated technology to host nation, it serves no purpose.

iii. No Benefit to Poor People

MNCs produce only those things, which are used by the rich. Therefore, poor people of host countries do not get, generally, any benefit, out of MNCs.

iv. Danger to Independence

Initially MNCs help the Government of the host country, in a number of ways; and then gradually start interfering in the political affairs of the host country. There is, then, an implicit danger to the independence of the host country, in the long-run.

v. Deprivation of Job Opportunity of Local People

MNCs may not generate job opportunities to the people of home country.

vi. Misuse of Mighty Status

MNCs are powerful economic entities. They can afford to bear losses for a long while, in the hope of earning huge profits—once they have ended local competition and achieved monopoly. This may be the dirty marketing strategy of MNCs to wipe off local competitors from the host country.

vii. Careless Exploitation of Natural Resources

MNCs tend to use the natural resources of the host country carelessly. They cause rapid depletion of some of the non-renewable natural resources of the host country. In this way, MNCs cause a permanent damage to the economic development of the host country.

viii. Selfish Promotion of Alien Culture






MNCs tend to promote alien culture in host country to sell their products. They make people forget about their own cultural heritage. In India, e.g. MNCs have created a taste for synthetic food, soft drinks etc. This promotion of foreign culture by MNCs is injurious to the health of people also.

ix. Neglect of Industrial and Economic Growth of Home Country


An investment in host countries is more profitable, MNCs may neglect home countries industrial and economic development.

8.03 Examples of MNCs

List of Indian subsidiary companies of Foreign MNCs

Foreign Multinational	Indian Affiliate / Subsidiary	Company Logo
Bata Corporation	Bata India	
Colgate Palmolive	Colgate India	
Sony Corporation	Sony India	
Suzuki	Maruthi Suzuki	
Timex	Timex watches	

List of Indian Multinational Companies and their Logo (Do you know?)

Company	Headquarter	Company Logo
Micromax Informatics	Gurgaon	
Hero Motocorp	New Delhi	
Bajaj	Pune	
Britannia	Bengaluru	
TVS	Chennai	
TATA	Mumbai	
INFOSYS	Bengaluru	

Key Terms

Oligopoly Global Enterprises
Exploitation Host Country
Domestic industry



For Own Thinking

1. Name any 2 Indian Multinational Companies in abroad?
2. Name any 2 Foreign Companies in India?



For Future Learning

Multinational companies establish themselves in developing countries to enjoy huge profits by selling consumer goods or luxury items. They start business by offering wide variety of goods at prices cheaper than local retailers offer. But once they are established they increase prices.

- a. State the values the government of a developing country ignores while allowing MNCs to establish in their country.
- b. What value do the MNCs violate?



Case Study

Public enterprises are established to achieve the goal of economic and social development of the country. They are managed and controlled by Central or State Governments through ministers or government officials. Many times their poor performance influences the policy formulation and running of the enterprise into loss. Even the big business houses use their influence and get the policies formulated in their favour. State the role of ministers or government to frame the policies for the success of public enterprises.



Exercise



I. Choose the Correct Answer

1. A Multinational Corporation can be defined as a firm which

- a) is beyond the control of any government
- b) is one of the top 200 firms in the world
- c) owns companies in more than one country
- d) All the above

2. Centralised control in MNC's implies control exercised by

- a) Branches
- b) Subsidiaries
- c) Headquarters
- d) Parliament

3. Enterprises operating in several countries but managed from one country is termed as _____

- a) Government company
- b) Multinational Company
- c) Private company
- d) Joint Venture

4. Dispersal of decision making power to branches/affiliates/subsidiaries by head office represents _____

- a) Centralisation b) Decentralisation
- c) Power d) Integration

5. Coca-Cola company is an example of _____

- a) MNC b) Government company
- c) Joint Venture d) Public company

Answers

1. c 2. c 3. b 4. b 5. a

II. Very Short Answer Questions

1. Define Multinational Company.
2. Write any two advantages of MNC's.
3. Give two examples of MNC's.

III. Short Answer Questions

1. Name the type of business enterprises which operates in more than one country.
2. Write any three Indian MNC's.

III. Long Answer Questions

1. What are the advantages of MNC's? (any 5)
2. What are the disadvantages of MNC's? (any 5)

Reference

1. Mathur, B.S, Business Organisation
2. Shukula, M.C. Business Organisation.