Chapter 6- Multinational Companies (MNCs)

What you should know-

- ✓ multinational companies (MNCs)
- ✓ the positive and negative impacts of multinationals on the host country

Multinational Companies (MNCs)

A **multinational company** (MNC) is any business organization that has operations overseas, irrespective of whether it produces/sells goods and/or provides services, i.e., MNCs operate in two or more countries. Although the MNC has its headquarters (or central administrative office) in one country, it has operations and premises (such as offices, factories, assembly plants, and retail outlets) in other countries

This means MNCs spend on **foreign direct investment** (FDI) in overseas markets. FDI refers to cross-border investment in which a foreign company establishes an ongoing and significant stake (financial interest and degree of influence) in its operations in another economy.

Impact of multinational companies on host countries

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 presence of a multinational can have many advantages, but also many disadvantages for host countries

Positive Impact of MNCs on the host country

Employment opportunities: MNCs can account for a significant number of jobs in the host country. Wages offered may be better than those available through local employers, even though they may be low by international standards. Local workers may also benefit from training and development opportunities.

Support to local business: MNCs can provide a range of benefits to local businesses, directly or indirectly. For example, they are likely to purchase stocks from domestic suppliers of raw materials, semi-finished goods and finished goods. This provides revenue for local firms and supports domestic industries. In addition, MNCs are also likely to use the services of local firms, such as insurance and distribution.

Better Infrastructure: 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.

Choice and Quality: MNCs offer consumers in host countries more choice and often better-quality products. Domestic customers no longer have to rely only on local suppliers and must compete with the prices and quality of the products offered by MNCs.

Skills and technology transfer: MNcs introduce new skills and technologies in production process to host countries. It increases efficiency of production in the host country and international competitiveness of business in the host country.

Efficiency gains – Similarly, MNCs create increased competition for local suppliers, forcing the domestic businesses to improve their operational efficiency. This covers aspects of the prices, quality and customer care of local firms.

Tax revenues – The host country's government benefit from profitable multinational companies as they pay corporate taxes. The additional finance can be spent to further improve the economy

Negative Impact of MNCs on the host country

Job losses/ negative impact on domestic firms: Just as they are able to create jobs, MNcs are capable of causing unemployment in host country too. This is because MNCs are likely to pose a threat to domestic businesses. Competition can be beneficial if it causes domestic firms to improve their efficiency and productivity, bit it can also be a setback if it means that local firms are unable to compete and end up making people redundant or even having to close down.

Repatriation of profit: Any profits declared at interest and tax payments are accounted for may be repatriated (sent back) to the home country, rather than the funds being used to invest further in the host country.

Exploitative business practices – MNCs have been known to be socially irresponsible, especially when operating in less economically developed countries where rules and regulations are less stringent. This has often resulted in workers being exploited (poor pay and working conditions) and business operations that cause damage to the environment (such as air pollution and destruction of natural habitats). For example, Coca-Cola's bottlers have been accused of causing water shortages in certain parts of India and South America.

Loss of cultural identity – The growing presence of multinational companies, and the convergence of habits and tastes brought about by globalization, can cause a depletion of local cultures. MNCs and globalization have been blamed for causing a cultural shift in how people live, especially for the younger generation.

Competitive pressure: Due to fierce competition, domestic firms might be forced into reducing prices to remain competitive. Knowledge and technology transfer might also present a further threat as domestic businesses might not have the finances or resources to compete with large MNCs, so they become prone to takeover bids or collapse outright.