

MULTINATIONAL CORPORATIONS



OVERVIEW

- What is MNC?
- History and Evolution of MNC
- MNC Structure.
- Organization of MNC.
- SWOT Analysis of MNC.
- Reasons for establishment of MNC.
- Advantage and Disadvantage of MNC
- Criticism of MNC.
- MNCs in India.



WHAT IS A MULTINATIONAL CORPORATION???

- It is a corporation that:

Manages
production

And/or

Delivers
services

In more than
one country



WHAT IS A MULTINATIONAL CORPORATION? (CONTINUED)

- According to Franklin Root (1994), an MNC is a parent company that:
 - engages in foreign production through its affiliates located in several countries,
 - exercises direct control over the policies of its affiliates,
 - implements business strategies in production, marketing, finance and staffing that transcend national boundaries.



EXAMPLES OF MNCs:

- Ford
- IBM
- British Petroleum
- Mc Donald's
- Phillips

The largest MNCs:

- Wal-Mart Stores
- Exxon Mobil
- Royal Dutch Shell
- **These companies have turnovers in excess of the GNPs of some countries.**



HOW IS A COMPANY CLASSIFIED AS AN MNC?

Subsidiaries in
foreign
countries;

Operations in a
number of
countries;

High proportion of countries.
assets in or/ and
revenues from
global operations;

Stakeholders
are from
different





HISTORY

HISTORY

HISTORY AND EVOLUTION OF MNCs:

- These corporations originated early in the 20th century and expanded after World War II.
- A multinational corporation developed new products in its native country and manufactured them abroad.
- Almost all the earliest and largest multinational firms were either American, Japanese, or West European.



HISTORY AND EVOLUTION OF MNCs:

- During the last three decades, many smaller corporations have also become multinational.
- Such enterprises maintain that they create employment, create wealth, and improve technology in countries.



MULTINATIONAL CORPORATION

STRUCTURE:



Horizontally integrated multinational corporations.



Vertically integrated multinational corporations.



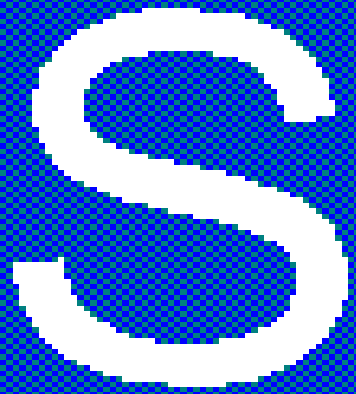
Diversified multinational corporations.



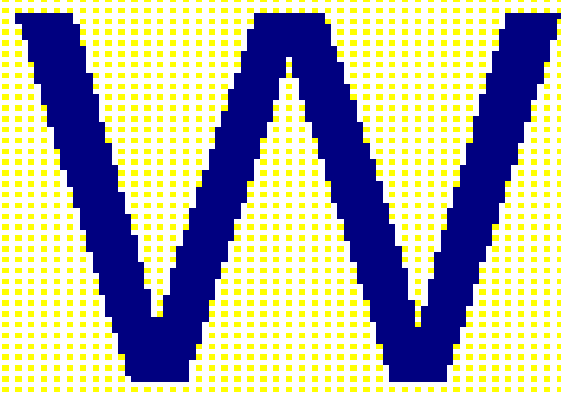
ORGANIZATION OF MULTINATIONAL CORPORATIONS

- Subsidiaries
- Joint Ventures Companies
- Franchise Holders
- Turn Key Project.

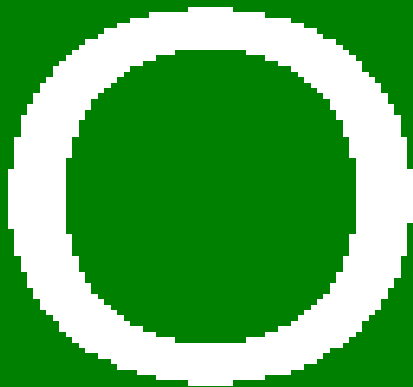


A large, white, stylized letter 'S' is centered on a blue background with a fine, dotted pattern.


Strengths

A large, dark blue, stylized letter 'W' is centered on a yellow background with a fine, dotted pattern.

Weaknesses

A large, white, stylized letter 'O' is centered on a green background with a fine, dotted pattern.

Opportunities

A large, white, stylized letter 'T' is centered on a red background with a fine, dotted pattern.

Threats

SWOT Analysis of MNCs:

Strengths

- Low Cost
- Well Developed Infrastructure

Weakness

- Location is often very distant
- Lack of Transportation facilities
- Relative Inflexibility



Opportunities

- Leverage Government
- Attract new industries

Threats

- Govt. restrictions
- Quotas



REASONS FOR THE ESTABLISHMENT OF MNCs

- To *increase market share*.
- To secure *cheaper premises and labour*.
- Employment and Health & Safety *Legislations* in other countries *may be more relaxed*.
- To *avoid* or *minimise* the amount of *tax to be paid*.
- To take advantage of *government grants* available.

Conti...



- To *save on costs* of transporting goods to the market place.
- To develop an *international brand*.



Advantages



To the Host
Country

To the Home
Country



ADVANTAGES OF MNCs TO THE HOST COUNTRY:



- Transfer of technology, capital and entrepreneurship.
- Increase in the investment level and thus, the income and employment in the host country.
- Greater availability of products for local consumers.
- Increase in exports and decrease in imports.



ADVANTAGES OF MNCs TO THE HOME COUNTRY.



- Acquisition of raw materials from abroad.
- Technology and management expertise acquired from competing in global markets.
- Export of components and finished goods for assembly or distribution in foreign markets.
- Inflow of income from overseas profits, royalties and management contracts.



DISADVANTAGES OF MNCs:



- Trade restrictions imposed at the government-level
- Limited quantities (quotas) of imports.
- Effective management of a globally dispersed organization.
- Slow down in the growth of employment in home countries.
- Destroy competition and acquire monopoly.



WORLD'S TOP MNCs:



FORTUNE GLOBAL 500 LIST 2011:

TOP 10

RANK	COMPANY	COUNTRY	FIELD
1	Wal-Mart Stores	United States	Retail
2	Royal Dutch Shell	Netherlands	Petroleum
3	Exxon Mobil	United States	Petroleum
4	BP	United Kingdom	Petroleum
5	Sinopec	China	Petroleum
6	China National Petroleum	China	Petroleum
7	State Grid	China	Power
8	Toyota Motor	Japan	Automobiles
9	Japan Post Holdings	Japan	Diversified
10	Chevron	United States	Petroleum



FORTUNE GLOBAL 500 2011:

COUNTRY WISE:

RANK	COUNTRY	NUMBER OF COMPANIES
1	United States	133
2	Japan	68
3	China	61
4	France	35
5	Germany	34
6	United Kingdom	30
7	Switzerland	15
8	South Korea	14
9	Netherlands	12
10	Canada	11



CRITICISM OF MNCs:

- Creation of false needs in consumers.
- Interference and dominance in the internal affairs of sovereign nations.
- Invasive advertising and corporate lobbying.
- Creation of monopolies in the market and elimination of local competitors.

contd...



- Depletion of resources due to their continuous use by these corporations.
- Centralization of R&D operations in their home country.
- Low consideration for human rights and welfare.
- The problem of Dumping.



MNCs IN INDIA:



MNCs in India have a long history and tradition:



WHAT INDIA OFFERS???

- One billion plus population.
- India is ranked as the 10th largest economy, 4th largest in terms of Purchasing Power Parity.
- 250-300 million middle class.
- Gross Domestic Product (GDP) is growing at over 7-9 %, making it one of the fastest growing economies in the world.
- Opportunities for U.S. exporters with the right products or services.
- Easier access to capital.



INDIAN COMPANIES IN FORTUNE

GLOBAL 500 LIST 2011:

COUNTRY RANK	COMPANY	GLOBAL 500 RANK	CITY	REVENUE (\$ millions)
1	Indian Oil	98	New Delhi	68,837
2	Reliance Industries	134	Mumbai	58,900
3	Bharat Petroleum	272	Mumbai	34,102
4	State Bank of India	292	Mumbai	32,450
5	Hindustan Petroleum	336	Mumbai	28,593
6	Tata Motors	359	Mumbai	27,046
7	Oil & Natural Gas	361	Dehradun	26,945
8	Tata Steel	370	Mumbai	26,065



TRENDS OF MNCs IN INDIA:

- First MNC in India was the EAST INDIA Company. in 1600.
- American companies account for around 37% of the turnover of the top 20 firms operating in India.
- Oil companies and Infrastructure builders from the Middle East are also flocking in India to catch the boom.

Contd.....



- Increasing flocking of European Union companies to India.
- ✓ Finnish mobile handset manufacturing giant Nokia is the largest Multinational Corporation In India.
- ✓ Italian automobile giants like Fiat, Ford Motors, Piaggio etc expanded their operations in India with R&D wing attached.

- South Korean Electronics giants Samsung and LG Electronics and small and mid-segment car giant Hyundai Motors are doing excellent business and using India as a hub for global delivery.



KEY ADVANTAGES OF EXISTENCE OF MNCs IN INDIA

- Work culture for employees.
- Training and Learning.
- Technology – especially concept of working with better technologies.
- Safety, Health and Environmental Learning.
- Excellent training grounds for many entrepreneurs.



KEY CHALLENGES THAT INDIAN MNCs FACE:

- Domestic market like India vis - a - vis International expansion.
- Language.
- Culture.
- Autonomy to “local” managers .
- Styles of doing business.
- Handling of potential liabilities related to Labor, IPR etc.



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Thank You!

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