Multinationals: Doing More Harm Than Good

A multinational corporation (MNC) is a company that has business operations in another country other than its home country. It also generates at least 25% of its revenue outside of its home country.

Generally, a multinational company has offices, factories, warehouses or other facilities in different countries around the world and a centralized headquarters that coordinates other management.

Multinationals operate worldwide and are hence also known as global enterprises. The activities are controlled and operated by the parent company across the globe. Products and services of MNCs are sold around various countries which require global management.

High turnover and many assets, aggressive marketing are some of the features of Multinational Companies. LTI, TCS, Tech Mahindra, Deloitte, and Capgemini are some examples of MNCs in India. Now let us understand the features, and advantages of Multinational Companies in detail.

First, let's begin by understanding;

What are multinationals?

A multinational corporation (MNC), also known as a transnational corporation, is any corporation that is registered and managed in more than one country. Generally, the corporation has its headquarters in one country and operates owned subsidiaries worldwide. Its subsidiaries report to the corporation's central headquarters.

Multinational corporations: what do they do?

A multinational corporation is an enterprise whose business activities occur across the world. You can consider any company with a foreign branch to be a multinational corporation. Multinational companies can make direct investments in foreign countries' markets. Many businesses are based in developed nations.

Multinationals create high-paying jobs and technologically advanced goods in countries that otherwise would not have access to such opportunities or goods. However, critics of this business believe multinational corporations exert undue political influence over governments, exploit developing nations, and create job losses in their own home countries.

4 Types of Multinational Corporations

1) A Decentralized Corporation

A decentralised corporation maintains a presence in its home country and has subsidies or branch offices and other facilities across the world. This type of multinational company has the capability to achieve more, faster because it's decentralized. Each office manages the local business by itself, making its own decisions.

2) A Centralized Global Corporation

It has a central headquarters in the home country. Executive officers and management are located there across the global offices and operations as well as domestic managers.

They, rather than managers at local offices in foreign countries, make the main business decisions. The offices typically must report to and obtain approval from headquarters personnel for major activities of the organisation.

3) An International Division Within a Corporation

An international division is a part of the multinational corporation that has been made responsible for all international operations of the organisation. This structure facilitates business decision-making and general activities in local, and foreign markets.

4) A Transnational Corporation

It is a kind of parent-subsidiary structure whereby the parent company oversees the operations and manages subsidiaries in foreign countries as well as in the home country.

Subsidiaries can make use of the parent’s assets, such as research and development data. The parent usually maintains a management role directing the operations of its subsidiaries, at domestic and foreign levels.

It is said that multinational corporations do more harm than good, so let’s find out why

1) Limit consumer options

Multinational corporations make the world market a smaller place. That fact benefits society, though it usually creates a disadvantage for the local consumer. Multinational companies make it difficult for small companies to stay competitive in the market.

That forces smaller companies, entrepreneurs, and freelancers into niche areas of their preferred market. If they grow big enough, the larger corporation might decide to buy them out instead of letting them grow.

2) Exploit local workers

Multinational corporations tend to follow local rules when it comes to employment opportunities in the industry. That means what may be acceptable in one location is permitted to occur, even if it may not be acceptable in the home location.

3) Can go on bankrupt

Multinational corporations may provide new opportunities for some industries, but they can be at the expense of the current businesses already operating in that industry. Being able to offer low prices comes at a high cost and even when brands have an established name, retail pricing efforts can disrupt the entire supply chain.

4) Monopoly opportunities

Multinational companies look for opportunities to monopolize markets while doing so they drive the competition away, allowing them to set their prices on products. Over time, this reduces economic growth, because consumers eventually pay more for less of what they want.

5) Can create unemployment in local economies

Multinational corporations use their size to create competition when it comes to worker wages. They look for the best value possible in the market. For many workers in high-value economies, that means whether they lose their jobs or go away or are forced to take a large pay cut to keep their position.

6) Environmental costs

Multinational companies can outsource other parts of the production process to developing economies with weaker environmental legislation.

For example, trade-in rubbish gets sent to developing economies like India for disposal and recycling. One advantage of multinational corporations is the ability to produce goods using the least expensive methods possible across the globe.

7) Economic uncertainty

Multinationals may not have a reason to feel loyal to one country over another, which creates economic uncertainty for the employees and the community in which they base their production.

If laws change and a multinational searches for the same goods elsewhere for a cheaper cost, they have no good reason to maintain its original factory. These corporations can ship overseas to wherever they can build their products at cheaper rates, which can leave some communities financially devastated.

FAQ’s:

Must read the articles:

- Globalization And Its Impact On Small-Scale Industries
- Impact Of Startups On Local Economies
- Why Franchising Is A Smart Business Solution