

International Business Environment

MULTINATIONAL CORPORATIONS / ORGANIZATIONAL MODELS

THE MULTINATIONAL CORPORATIONS ARE ALSO KNOWN AS:

- INTERNATIONAL CORPORATIONS.
- TRANSNATIONAL CORPORATIONS.
- GLOBAL CORPORATIONS.

International Business Environment

MULTINATIONAL CORPORATIONS / ORGANIZATIONAL MODELS

- MULTINATIONAL CORPORATION STARTED IN THE EARLY 1860s.**
- AFTER THE SECOND WORLD WAR THAT MULTINATIONALS HAVE GROWN RAPIDLY.**
- UNITED STATES WAS THE HOME OF MOST OF THE MNCs.**
- NOW, THERE ARE LARGE NUMBER OF JAPANESE AND EUROPEAN MULTINATIONALS.**
- MULTINATIONALS HAVE BEEN EMERGING FROM THE DEVELOPING COUNTRIES TOO.**
- IN 2006 FORTUNE 500 LIST HAS SIX INDIAN COMPANIES.**
(INDIAN OIL CORPORATION, RELIANCE INDUSTRIES, BHARAT PETROLEUM, HINDUSTAN PETROLEUM, ONGC AND SBI)

International Business Environment

MULTINATIONAL CORPORATIONS / ORGANIZATIONAL MODELS

- MNCs OF THE U.S. ARE MORE FOCUSED.**
- SEVERAL AMERICAN MNCs WHICH ATTEMPTED DIVERSIFICATION, MOSTLY BY THE ACQUISITIONS ROUTE, REVERTED TO FOCUS, AFTER BITTER EXPERIENCE.**
- MOST EUROPEAN COMPANIES HAVE A MUCH BROADER PRODUCT LINE.**
- JAPANESE COMPANIES ,GENERALLY HAVE PRODUCT LINES THAT ARE MUCH TOO BROADER.**
- RECENT TRENDS INDICATE THAT THE DIVERSIFIED CORPORATIONS HAVE MANY ODDS AGAINST THEM AND THE FOCUS STRATEGY IS MORE SUCCESSFUL.**

International Business Environment

MULTINATIONAL CORPORATIONS / ORGANIZATIONAL MODELS

DEFINITION AND MEANING

- ❑ **THE CONCEPT OF MULTINATIONALITY HAS SEVERAL DIMENSION.**
- ❑ **THERE IS NO SINGLE CRITERION THAT CAN DEFINE THE MULTINATIONAL**
- ❑ **THERE IS NO SINGLE UNIVERSITY AGREED DEFINITION OF THE TERM MULTINATIONAL CORPORATION.**

International Business Environment

MULTINATIONAL CORPORATIONS / ORGANIZATIONAL MODELS

DEFINITIONAL DIMENSIONS

- ❑ **DEFINITION BY SIZE: THE EXTENT OF INTERNATIONALIZATION NEED NOT DEPEND ON THE SIZE. MANY SMALL FIRMS ARE, MUCH MORE GLOBAL THAN LARGER ONE. FIRMS BELOW CERTAIN SIZE ARE NORMALLY EXCLUDED FROM THE DEFINITION OF MULTINATIONAL.**
- ❑ **DEFINITION BY STRUCTURE: MNC HAS AT LEAST THREE SIGNIFICANT DIMENSION: PERFORMANCE, AND BEHAVIORAL. STRUCTURAL REQUIREMENTS FOR DEFINITION AS AN MNC INCLUDE THE NUMBER OF COUNTRIES IN WHICH THE FIRM DOES BUSINESS AND THE CITIZENSHIP OF CORPORATE OWNERS AND THE TOP MANAGERS.**

CONT....

International Business Environment

MULTINATIONAL CORPORATIONS / ORGANIZATIONAL MODELS

DEFINITIONAL DIMENSIONS

- ❑ **DEFINITION BY PERFORMANCE: CHARACTERISTICS ARE EARNINGS, SALES, AND ASSETS. THESE PERFORMANCE CHARACTERISTICS INDICATE THE EXTENT OF THE COMMITMENT OF CORPORATE RESOURCES TO FOREIGN OPERATIONS.**
- ❑ **DEFINITION BY BEHAVIOUR: IT REFERS MOSTLY TO THE BEHAVIORAL CHARACTERISTICS OF TOP MANAGEMENT, GLOBALIZATION, BASICALLY IS A MIND SET THAT REFLECTS THE GLOBAL ORIENTATION OF THE COMPANY.**

International Business Environment

MULTINATIONAL CORPORATIONS / ORGANIZATIONAL MODELS

SOME POPULAR DEFINITIONS

ACCORDING TO AN ILO REPORT:

- “THE ESSENTIAL NATURE OF THE MULTINATIONAL ENTERPRISES LIES IN THE FACT THAT ITS MANAGERIAL HEADQUARTERS ARE LOCATED IN ONE COUNTRY, WHILE THE ENTERPRISE CARRIES OUT OPERATIONS IN A NUMBER OF OTHER COUNTRIES AS WELL.”

International Business Environment

MULTINATIONAL CORPORATIONS / ORGANIZATIONAL MODELS

MULTINATIONAL CORPORATION

A DECENTRALIZED FEDERATION OF ASSETS AND RESPONSIBILITIES, A MANAGEMENT PROCESS DEFINED BY SIMPLE FINANCIAL CONTROL SYSTEMS OVERLAID ON INFORMAL PERSONAL COORDINATION, AND A DOMINANT STRATEGIC MENTALITY THAT VIEWED THE COMPANY'S WORLDWIDE OPERATIONS AS PORTFOLIO OF NATIONAL BUSINESSES.

INTERNATIONAL ORGANIZATION MODEL

THE STRUCTURAL CONFIGURATION OF WHICH IS DESCRIBED AS COORDINATED FEDERATION, MANY ASSETS , RESOURCES, RESPONSIBILITIES AND DECISIONS ARE DECENTRALIZED BUT CONTROLLED FROM THE HEADQUARTERS.

International Business Environment

MULTINATIONAL CORPORATIONS / ORGANIZATIONAL MODELS

GLOBAL ORGANIZATION MODEL

THE GLOBAL CONFIGURATION IS BASED ON CENTRALIZATION OF ASSETS, RESOURCES AND RESPONSIBILITIES, OVERSEAS OPERATIONS ARE USED TO REACH FOREIGN MARKETS IN ORDER TO BUILD GLOBAL SCALE. THE ROLE OF LOCAL SUBSIDIARIES IS TO ASSEMBLE AND SELL PRODUCTS AND TO IMPLEMENT PLANS AND POLICIES DEVELOPED AT HEADQUARTERS.

International Business Environment

MULTINATIONAL CORPORATIONS / ORGANIZATIONAL MODELS

TRANSNATIONAL

IN A TRANSNATIONAL, THE SPECIALIZED RESOURCES ARE DISPERSED AMONG THE VARIOUS OPERATING UNITS GLOBALLY. THESE UNITS ARE INTERDEPENDENT AND INTEGRATED AND HAVE LARGE FLOWS OF COMPONENTS, PRODUCTS, RESOURCES, PEOPLE AND INFORMATION AMONG THEM. AN IMPORTANT FEATURE OF THE TRANSNATIONAL, THEREFORE, IS THE COMPLEX PROCESS OF COORDINATION AND COOPERATION IN AN ENVIRONMENT OF DECISION MAKING.

International Business Environment

MULTINATIONAL CORPORATIONS / IMPORTANCE AND DOMINANCE OF MNCs

BENEFITS OF MNCs

MNCs HELP THE HOST COUNTRIES

- ❑ **MNCs HELP INCREASE THE INVESTMENT LEVEL AND THEREBY THE INCOME AND EMPLOYMENT.**
- ❑ **THE TRANSNATIONAL CORPORATIONS HAVE BECOME VEHICLES FOR THE TRANSFER TECHNOLOGY, ESPECIALLY TO THE DEVELOPING COUNTRIES.**
- ❑ **THEY ALSO KINDLE A MANAGERIAL REVOLUTION IN THE HOST COUNTRIES THROUGH PROFESSIONAL MANAGEMENT AND EMPLOYMENT OF HIGHLY SOPHISTICATED MANAGEMENT TECHNIQUES.**
- ❑ **THE MNCs ENABLE THE HOST COUNTRIES TO INCREASE THEIR EXPORTS AND DECREASE THEIR IMPORT REQUIREMENTS.**

CONT....

International Business Environment

MULTINATIONAL CORPORATIONS / IMPORTANCE AND DOMINANCE OF MNCs

BENEFITS OF MNCs

MNCs HELP THE HOST COUNTRIES

- ❑ **THEY EQUALIZE THE COST OF FACTORS OF PRODUCTION AROUND THE WORLD.**
- ❑ **THEY PROVIDE AN EFFICIENT MEANS OF INTEGRATING NATIONAL ECONOMICS.**
- ❑ **THE ENORMOUS RESOURCES ENABLE THEM TO HAVE VERY EFFICIENT R & D SYSTEM. THUS, THEY MAKE A COMMENDABLE CONTRIBUTION TO INVENTIONS AND INNOVATIONS.**
- ❑ **THEY STIMULATE DOMESTIC ENTERPRISE BECAUSE TO SUPPORT THEIR OWN OPERATIONS, THEY MAY ASSIST AND ENCOURAGE DOMESTIC SUPPLIER.**
- ❑ **MNCs HELP INCREASE COMPETITION AND BREAK DOMESTIC MONOPOLIES.**

MULTINATIONAL CORPORATIONS / IMPORTANCE AND DOMINANCE OF MNCs

PROBLEMS OF MNCs

- ❑ **MNCs TECHNOLOGY IS DESIGNED FOR WORLD WIDE PROFIT MAXIMIZATION, NOT THE DEVELOPMENT OF POOR COUNTRIES.**
- ❑ **THROUGH THEIR POWER AND FLEXIBILITY, MNCs CAN EVADE OR UNDER MINE NATIONAL ECONOMIC AUTONOMY AND CONTROL, AND THEIR ACTIVITIES MAY BE INIMICAL TO THE NATIONAL INTEREST.**
- ❑ **MNCs MAY DESTROY COMPETITION AND ACQUIRE MONOPOLY POWERS.**
- ❑ **THE TREMENDOUS POWER OF THE GLOBAL CORPORATIONS POSES THE RISK THAT THEY MAY THREATEN THE SOVEREIGNTY OF THE NATIONS IN WHICH THEY DO BUSINESS.**

International Business Environment

MULTINATIONAL CORPORATIONS / IMPORTANCE AND DOMINANCE OF MNCs

PROBLEMS OF MNCs

- ❑ **MNCs RETARD GROWTH OF EMPLOYMENT IN THE HOME COUNTRY.**
- ❑ **THE TRANSNATIONAL CORPORATIONS CAUSE FAST DEPLETION OF SOME OF THE NON-RENEWABLE NATURAL RESOURCES IN THE HOST COUNTRY.**
- ❑ **THE TRANSFER PRICING ENABLES MNCs TO AVOID TAXES BY MANIPULATING PRICES ON INTRA-COMPANY TRANSACTIONS.**
- ❑ **MNCs HAVE BEEN CRITICIZED FOR THEIR BUSINESS STRATEGIES AND PRACTICES IN THE HOST COUNTRIES. THEY UNDERMINE LOCAL CULTURES AND TRADITIONS, CHANGE THE CONSUMPTION HABITS FOR THEIR BENEFIT.**

International Business Environment

MULTINATIONAL CORPORATIONS / CODE OF CONDUCT

CODE OF CONDUCT FOR MNCs

- ❑ RESPECT THE NATIONAL SOVEREIGNTY OF HOST COUNTRIES AND OBSERVE THEIR DOMESTIC LAWS, REGULATIONS AND ADMINISTRATIVE PRACTICES.
- ❑ ADHERE TO HOST NATIONS ECONOMIC GOALS, DEVELOPMENT OBJECTIVES AND SOCIO CULTURAL VALUES.
- ❑ RESPECT HUMAN RIGHTS. NOT INTERFERE IN INTERNAL POLITICAL AFFAIR.
- ❑ APPLY GOOD PRACTICES IN RELATIONS TO PAYMENT OF TAXES, ABSTENTION FROM INVOLVEMENT IN ANTI-COMPETITIVE PRACTICES, CONSUMER ENVIRONMENTAL PROTECTION AND TREATMENT OF EMPLOYEES.
- ❑ DISCLOSE RELEVANT INFORMATION TO HOST COUNTRY GOVERNMENT.

International Business Environment

MULTINATIONAL CORPORATIONS / MULTINATIONALS IN INDIA

MULTINATIONALS IN INDIA

- ❑ **A COMMON CRITICISM AGAINST THE MNCs IS THAT THEY TEND TO INVEST IN THE LOW PRIORITY AND HIGH PROFIT SECTORS IN THE DEVELOPING COUNTRIES.**
- ❑ **THEY IGNORE THE NATIONAL PRIORITIES.**
- ❑ **IN INDIA GOVERNMENT POLICY CONFINED THE FOREIGN INVESTMENT TO THE PRIORITY AREAS LIKE HIGH TECHNOLOGY AND HEAVY INVESTMENT SECTORS FOR NATIONAL IMPORTANCE AND EXPORT SECTOR.**
- ❑ **FIRMS ESTABLISHED IN NON PRIORITY AREAS PRIOR TO THE IMPLEMENTATION OF THIS POLICY HAVE, HOWEVER, BEEN ALLOWED TO CONTINUE IN THOSE SECTORS.**
- ❑ **FOREIGN EXCHANGE REGULATION ACT (FERA) 1973 REQUIRED THE FOREIGN COMPANIES IN INDIA TO DILUTE FOREIGN EQUITY HOLDING TO 40 PERCENT.**

International Business Environment

MULTINATIONAL CORPORATIONS / MULTINATIONALS IN INDIA

MULTINATIONALS IN INDIA

- ❑ **MULTINATIONALS MAKE SUBSTANTIAL CONTRIBUTION TO EXPORT EARNINGS IN DEVELOPING COUNTRIES.**
- ❑ **IN INDIA IT HAS BEEN VERY DISMAL. IT IS ATTRIBUTED MOSTLY TO THE GOVERNMENT POLICY.**
- ❑ **POLICIES IN INDIA DISCRIMINATE AGAINST EXPORT PRODUCTION AND IN FAVOR OF PRODUCTION FOR THE LOCAL MARKET.**
- ❑ **IN THIS ENVIRONMENT IT HAS NOT MADE ANY SENSE FOR THE INDIAN PRIVATE SECTOR OR PUBLIC SECTOR TO FOCUS ON EXPORTS. NATURALLY IT HAS NOT MADE ANY SENSE FOR FOREIGN COMPANIES TOO.**
- ❑ **ONLY AFTER JAWAHARLAL NEHRU DECIDED TO EMPHASIZE IMPORT SUBSTITUTION AT THE EXPENSE OF EXPORTS DID FOREIGN COMPANIES SHUN EXPORTS.**

International Business Environment

MULTINATIONAL CORPORATIONS / MULTINATIONALS IN INDIA

MULTINATIONALS IN INDIA

- ❑ **THE NEW POLICY IS EXPECTED TO GIVE A CONSIDERABLE IMPETUS FOR MNCs INVESTMENT IN INDIA.**
- ❑ **FOREIGN COMPANIES FIND THE POLICY AND PROCEDURAL ENVIRONMENT IN INDIA STILL SO PERPLEXING AND DISGUSTING THAT A MULTINATIONAL, MOTOROLA, EVEN SHIFTED SOME OF THE PROJECTS, ORIGINALLY MARKED FOR INDIA , TO CHINA WHERE THE GOVERNMENT ENVIRONMENT IS MUCH MORE CONDUCTIVE.**

International Business Environment

MULTINATIONAL CORPORATIONS / TRANSFER OF TECHNOLOGY

TRANSFER OF TECHNOLOGY

DRAFT TOT CODE BY UNCTAD :

- THE ASSIGNMENT, SALE AND LICENSING OF ALL FORMS OF INDUSTRIAL PROPERTY, EXCEPT TRADE MARKS, SERVICE MARKS AND TRADE NAMES WHEN THEY ARE NOT THE PART OF TRANSFER OF TECHNOLOGY.

- THE PROVISION OF KNOW-HOW AND TECHNICAL EXPERTISE IN THE FORM OF FEASIBILITY STUDIES, PLANS, DIAGRAMS, MODELS, INSTRUCTIONS, GUIDES, FORMULAE, BASIC OR DETAILED ENGINEERING DESIGNS, SERVICES INVOLVING TECHNICAL ADVISORY AND MANAGERIAL PERSONNEL , AND PERSONNEL TRAINING.

CONT.....

International Business Environment

MULTINATIONAL CORPORATIONS / TRANSFER OF TECHNOLOGY

TRANSFER OF TECHNOLOGY

DRAFT TOT CODE BY UNCTAD:

- THE PROVISION OF TECHNICAL KNOWLEDGE NECESSARY FOR THE INSTALLATION, OPERATION AND FUNCTIONING OF THE PLANT AND EQUIPMENT, AND TURNKEY PROJECTS.**
- THE PROVISION OF TECHNICAL KNOWLEDGE NECESSARY FOR IMMEDIATE GOODS AND / OR RAW MATERIALS.**
- THE PROVISION OF TECHNOLOGICAL CONTENTS OF INDUSTRIAL AND TECHNICAL COOPERATION ARRANGEMENTS.**

International Business Environment

MULTINATIONAL CORPORATIONS / TRANSFER OF TECHNOLOGY

TRANSFER OF TECHNOLOGY

BROADLY THERE ARE TWO FORMS OF T T

❑ **INTERNALIZED:** HERE THE TRANSFEROR HAS A SIGNIFICANT AND CONTINUING FINANCIAL STAKE IN THE SUCCESS OF THE AFFILIATE, ALLOWS IT TO USE ITS BRAND NAMES AND TO HAVE ACCESS TO ITS GLOBAL TECHNOLOGY AND MARKETING NETWORK, EXERCISE CONTROL OVER THE AFFILIATES INVESTMENT, TECHNOLOGY AND SALES DECISIONS, AND SEES THE AFFILIATE AS AN INTEGRAL PART OF THE GLOBAL STRATEGY.

❑ **EXTERNALIZED:** REFERS TO ALL OTHER FORMS, SUCH AS JOINT VENTURES WITH LOCAL CONTROL, LICENSING STRATEGIC ALLIANCE AND INTERNATIONAL SUBCONTRACTING.

International Business Environment

MULTINATIONAL CORPORATIONS / TRANSFER OF TECHNOLOGY

LEVELS OF T T

- OPERATIONAL LEVEL**
- DUPPLICATIVE LEVEL**
- ADAPTIVE LEVEL**
- INNOVATIVE LEVEL**

International Business Environment

MULTINATIONAL CORPORATIONS / TRANSFER OF TECHNOLOGY

CHANNELS OF TECHNOLOGY FLOW

FOREIGN INVESTMENT:

THE FLOW OF TECHNOLOGY TO DEVELOPING COUNTRIES HAS BEEN AN INTEGRAL PART OF THE DIRECT FOREIGN INVESTMENT. MULTINATIONAL CORPORATIONS HAVE RESORTED TO FOREIGN DIRECT INVESTMENT FOR VARIOUS REASONS LIKE PROTECTION AND DEVELOPMENT OF MARKET, UTILIZATION OF LOCAL RESOURCES, etc.

TECHNOLOGY LICENSE AGREEMENT AND JOINT VENTURES

TECHNOLOGY TRANSFER HAS BEEN TAKING PLACE ON SIGNIFICANT SCALE THROUGH LICENSING AGREEMENTS AND JOINT VENTURES.

International Business Environment

MULTINATIONAL CORPORATIONS / TRANSFER OF TECHNOLOGY

ISSUES IN TRANSFER OF TECHNOLOGY

- COST.**
- APPROPRIATENESS.**
- DEPENDENCE.**
- OBSOLESCENCE.**

International Business Environment

MULTINATIONAL CORPORATIONS / TRANSFER OF TECHNOLOGY

ISSUES IN TRANSFER OF TECHNOLOGY

- ❑ IT HAS BEEN OBSERVED THAT THERE IS A TENDENCY TO TRANSFER OUTDATED TECHNOLOGY TO THE DEVELOPING COUNTRIES.
- ❑ DEVELOPING COUNTRIES WOULD NOT ENJOY THE ADVANTAGES OF THE LATEST TECHNOLOGY AND WOULD STILL TECHNOLOGICALLY LAG BEHIND.
- ❑ IT IS UNFORTUNATE THAT THE OWNERS OF MODERN TECHNOLOGY VIEW THE DEVELOPING COUNTRIES AS A MEANS TO SALVAGE TECHNOLOGY THAT IS OBSOLESCENT IN THE ADVANCED COUNTRIES, EVEN WHEN THEY POSSESS MORE ADVANCED TECHNOLOGY.

International Business Environment

MULTINATIONAL CORPORATIONS / TRANSFER OF TECHNOLOGY

PROMOTION AND REGULATION

AREAS OF REGULATIONS:

- THE EXTENT AND TERMS OF EQUITY PARTICIPATION.
- PHASING OF DOMESTIC MANUFACTURING.
- THE APPROPRIATENESS OF THE TECHNOLOGY.
- PAYMENT TERMS AND FOREIGN EXCHANGE OUTFLOW.
- RESTRICTIVE TERMS IN THE AGREEMENT.

International Business Environment

MULTINATIONAL CORPORATIONS / TRANSFER OF TECHNOLOGY

PROMOTION AND REGULATION

PROMOTIONAL MEASURES:

- ❑ **ASSESSING TECHNOLOGICAL REQUIREMENTS OF VARIOUS SECTORS AND IDENTIFYING AREAS WHERE FOREIGN TECHNOLOGY IS REQUIRED.**
- ❑ **DISSEMINATION OF INFORMATION IN FOREIGN COUNTRIES REGARDING FOREIGN INVESTMENT POTENTIALS AND SCOPE FOR TECHNICAL COLLABORATION IN THE DOMESTIC ECONOMY, GOVERNMENT POLICY AND REGULATIONS.**
- ❑ **PROVISION OF ADVISORY SERVICES TO INDIAN ENTREPRENEURS IN RESPECT OF FOREIGN TECHNOLOGY.**