Multinational Companies: A Study Of Their Impact On India

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INTRODUCTION

Multinational: "A multinational corporation is a corporation or enterprise that manages production establishments or delivers services in all least two countries."

Very Large multinationals:

A multinational corporation (MNC) is a corporation or enterprise that manages budgets that exceed those of many countries.

Multinational corporation structure:

Multinational corporations are often divided into three board groups:

• Horizontally integrated multinational corporations manage production establishments located in different countries to produce the same or similar products. Example: **McDonalds.**

• Vertically integrated multinational corporations manage production establishment in certain country/countries to produce products that serve as input to its production establishments in other country/countries. Example : **Adidas**

• Diversified multinational corporations manage production establishments located in different countries that are neither horizontally nor vertically integrated. Example: **Microsoft.**

Reasons for growth of MNC in India are :

Although the multinational corporation took birth in the early 1860's, it was after the Second World War that the multinational has grown rapidly. In the early days, the United States was the home of majority of the MNC's. Now there are a large number of Japanese MNCs and European MNCs are the largest in number. Multinationals have been emerging from the developing countries too. South Korea has, for example, well known MNC's like Samsung, Hyundai and Daewoo. The growth of MNC's has been the result of foreign direct investment. The global liberalization has paved the way for the fast expansion and growth of the MNCs. Multinational corporations have various factors or reasons responsible for the growth.

Some of them are as under:

- **Product innovations**
- **Market superiorities**
- **Technological superiorities**
- **Expansion of market**
- **Financial superiorities**
- **Availability of Raw Materials**
- **Protecting Reputation of Branch**
- **Minimizing cost of production**

1) Production innovations: It is a time-tested fact that multinational corporations possessed adequate research and development facilities. They are busy in the task to develop new products and superior designs of existing products. Therefore, they have greater production opportunities than the national companies. German optics, Swiss watches and Parisian fashions can be cited as examples.

2) Market superiorities: Multinational companies enjoy a number of market superiorities, such as: (a) efficient warehousing facilities, (b) Market reputation, (c) reliable market information (d) effective advertising, and (e) sales promotion techniques etc. over the national companies.

3) Technological superiorities: A Multinational Corporation has been encouraged by the underdeveloped countries to participate in their industrial development due to technological superiorities. These countries consider transfer of technology useful and the following grounds.

I) The underdeveloped countries have to face severe competition to sell their products in international markets.

II) Industrialization represents the major way out of underdevelopment.

III) The resources of these countries are insufficient to sustain the industrial progress on their own.

IV) Local manpower, materials, local capital equipment, etc., have to be optimally exploited, and

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underdeveloped countries are unable to accomplish this task. Unless the products produced in underdeveloped countries earn quality specifications and standard, they cannot be sold in the international competitive markets. In this regard, multinational corporations help to promote marketing for such commodities.

4) Expansion of market: Being large companies, multinational corporations expand their operations in a wider market and consequently, they earn the international reputation, which further seeks more and more extension of their activities beyond the physical boundaries of the countries in which they are incorporated. Thus, the extension of business is greatly responsible for the growth of multinational corporations in different countries.

5) Financial superiorities: Another reason for the growth of multinational corporations is an account of financial superiorities as compared to other national companies, like, (a) an easier access to external capital market, (b) international reputation, (c) utilization of high level of funds, (d) huge financial resources, etc.

6) Availability of Raw Materials: Some firms, particularly oil exploration firms, and mines have no choice except to locate at the site of raw materials. For example, if copper or iron ore is being smelted, it does not make sense to ship the ore when a smelter plant could be built at the mine site. Since these are weight losing raw materials, it is cheaper to transport the product copper or iron bars to the markets than to ship the ore. Infact, the earliest multinationals are raw material seekers. They are the British, Dutch and French East India companies which grew under the protective umbrella of their respective government. The modern day counterparts of such companies are the multinational oil and Ming companies. British should invest in foreign firms instead of domestic investment. Through FDI, a multinational firm can do things better than a local firm.

7) Protecting Reputation of Branch: When product differentiation exists and when certain brands of goods acquire reputation, the firms producing such goods prefer to produce them through their subsidiaries rather than grant a license to a foreign firm with Aviva label as the firm may produce inferior quality of jeans. Aviva likes to protect its reputation by making jeans through its subsidiary.

8) Minimizing cost of production: Depending upon the availability of cheap labour and other inputs, the firms seeking to invest in low cost production sited overseas (e.g. Hong Kong, Taiwan etc. to remain competitive both at home and abroad. Many of such firms are in electronic industry. Japanese electronic firms produce their products in Taiwan and Hong Kong. General Electrical of USA has been producing some of the electronic goods such as tape recorders in China.

ROLE OF MULTINATIONAL CORPORATIONS IN INDIA

Multinational corporations are having a strong hold over the India economy. In fact, even two decades ago these corporations controlled 53.7% of the assets of the gain sector in India. As per the estimates of the **Industrial policy inquiry committee** in 1966, there were 112 companies in India with assets worth Rs. 10 crores or more. Of these, 48 were either foreign branches or Indian subsidiaries of foreign companies. Western foreign capital dominated the country's big business. An important feature of multinational corporations in India are that they have raised a major part of investment resources from within the India economy.

A common from of MNC participation in Indian industry is through entering into collaboration with Indian industrialists. Foreign collaboration agreements are made between India and foreign companies through its sale of technology, spare parts, and use of foreign brand names for its final products. After independence, in almost all of the new industries in the large of medium sized group, privately or publicly owned, some collaboration was entered into by Indian companies. The liberalized foreign investment policy was announced in July 1991. As a result of that, there has been a spurt in the foreign collaboration. According to the **Economic Survey** 1999-2000 over the period 1991 to 1999, the Government approved 6381 foreign technology collaborations and 9986 foreign direct investment proposals. Foreign collaborations have had some favorable impacts on India economy. The Indian industry, which initially concentrated on consumer goods industry, only, has diversified its production spectrum with the help of foreign collaborations. Gains from foreign collaborations are also realized in terms of increase in physical output, training for technicians, technology transfer and development of skills of modern management. But these collaborations helped in the growth of monopolies and concentration. Multinational corporations joined hands with big business houses and formed monopolies in the country.

Multinational corporations in several developing counties make substantial contribution to export earnings. The performance in the case of India has, however, been very dismal. This is attributed mostly to the government policy. However, multinational corporations contributed to some extent for the growth of the Indian economy industry and business.

MERITS OF MNCs

- Supplementing capital

- Transfer of technology
- Fillip to domestic industries
- Lower cost of production
- Creating employment opportunities
- Development of human resource capital
- Effect on balance of payment
- Research and development activities
- Breaking up of domestic monopolies
- Professional management

DEMERITS OF MNCs

- Profit oriented
- Drainage of resources
- Minimum transfer of technology
- Strain of foreign exchange reserves
- Exploitation of labour
- Creation of monopolies
- Evasion of taxes
- Cultural loss
- Depletion of natural resources
- Promote regional disparities

MNCs PRACTICES IN INDIA

1) Knowledge Process Management
2) Customer Relation Management (CRM)
3) Suply Chain Management (SCM)

1) Knowledge Process Management: MNCs identified that in India, there is no dearth of potentials, resources of any kind and talents i.e., knowledge of manpower. Effective application of knowledge requires prevalence of wisdom, which enables decision-making process simple and easier. People who understand the ground realities and make proper judgments of the situations make best decisions. Apart from materialistic benefits, due weightage is given to intrinsic values as well by prudent people.

Knowledge may be of 2 kinds-
-Explicit knowledge
- Tacit knowledge

Explicit knowledge - (acquired through data and information).

Tacit knowledge - (possessed by individuals through insight, expertise and that may not be visible to common man).

The Indian Diaspora in UK and US act as ambassadors. They are a rich source of domain expertise who helps transfer knowledge and expertise to India and generate a new class of Indian based thought leaders.

Eg.; **Mr. Laxmi N. Mittal** with his audacious takeover of world's second largest steelmaker **Arcelor & Mr. Narayana Murthy** by raising **Infosys** as one of the global IT majors through its inclusion in **Nasdaq-100.**

But this is possible only by the free flow of FDI into the country.

2) Customer Relationship Management: The process of liberalization and globalization has opened up the markets to global competition. While on one hand, competition had become acute with the entry of several new players. On the other hand, the customer demographics have undergone sea change. Today's customer is more demanding in all aspects, be quality, price or convenience. The customer is truly empowered by information and choice. There is choice, not only of products and services but also of the place and time of purchase and mode of payments. These developments present new challenges to MNCs, who in their quest to acquire, retain and service customers are adapting customer relationship management in a big way and MNCs are changing their business approach from being “product-centric” to “customer-centric”.

The role of CRM is to provide a wide range of touch-points through which customers interact with the company.

Example: **call centers, BPO business.**

CRM technologies help companies to manage the customer life cycle of acquiring new customers, enhancing the profitability of existing ones and retaining profitable customers for long. That is why CRM gains much importance as the spending activities on this practice increases to $ 17.7 bn in 2006. i.e. growing at an average annual rate of 6.7%.

3) Supply chain management; The concept of supply chain management (SCM), introduced by MNCs to address the issue of integration of organizational functions ranging from the ordering and receipt of raw materials through the manufacturing processes to the distribution and delivery of products to customers with a view to enable organization to achieve higher quality in products and customer service and to lower inventory cost, has attracted considerable managerial attention in recent times mainly because of its huge potential competitive impact.

REASONS FOR EMPLOYING SCM PRACTICE

Reduce costs of operation

- Reduce inventory
- Improve customer satisfaction
- Reduce lead time
- Remain competitive and improve quality
- Improve output quality
- Improve market share
- Increase cross functional communication
- Improve flexibility
- Improve system reliability.

IMPACT OF MNC's ON INDIA:

The operations of multinational corporations have some harmful effects on the Indian economy. They are as under:

- Entry of leading MNCs into retail sector
- Free flow of FDI's into country
- Outflow of large sums of money
- Damage to the economy
- Political interference
- Cultural erosion
- Faulty technology
- Unconcern for environmental pollution and ecological balance
- Unconcern towards social responsibilities and ethics

The above-mentioned factors have been elaborated:

1) Entry of leading MNCs into retail sector:

it is definitely going to affect the small retailers, but it will be a great advantage for customers who will get lower cost products, better quality and more options compared to existing small retailers. Small retailers can co-exist in this market by providing better services catering to existing customer base and getting more organized. They still will have the advantage of catering to existing customer base, getting more organized. and catering to the taste of local people. Overall entry of MNCs will boost the profitability of local farmers and producers as these MNCs like to purchase directly without involving middlemen (who eat and inflate lot of price). So it is a win-win situation for customers, producers (produce and commercial items) and the entry of MNCs will also help in organizing the retail sector.

2) Free Flow of FDI to country:

As government policies are liberalized, there is rapid growth in inflows of FDI's into the Indian market by MNC's. Foreign Direct investment (FDI) is permitted as under the following forms of investments.

1. Through financial collaborations.
2. Through joint ventures and technical collaboration.
3. Through capital markets via Euro issues.
4. Through private placements or preferential allotments.

The main benefit of foreign direct investment for India comes from the additional resources made available, including capita, technology, management and training labour. The package of capital, knowledge and entrepreneurship may acclerate the development of the country. But the benefit depends on the terms of agreement between MNC and host country (India).

3) Outflow of large sums of money: Every year, a large sum of money flows out of the county in terms of payments of dividends, profits, royalties, technical fees and interest to the foreign investors. The remittances increased from Rs. 813.5 crores in 1989 to Rs. 1251 crores in 2000.

4) Heavy damage to the economy: multinational corporations inflict heavy damage to the economy of India through:

a) Suppression of domestic entrepreneurship.

b) Extension of oligopolistic practices, like heavy advertising, excessive profit making, unnecessary product differentiation, etc.

c) Supply of unsuitable technology and unsuitable products.

d) Worsening the income distribution in the economy.

e) Opening the doors for neo- imperialism and exploitation.

5) Political interference: There is a growing tendency of direct and indirect interference of the multinational corporations in the internal political and other affairs of the country. Due to their technical and financial power, they are in a position to affect the decision making process in the country. Thus, they put the autonomy and sovereignty of the country in danger.

6) Cultural erosion: Indian culture with regard to dressing pattern, eating habits, building and maintaining the relations, etc, are quite distinct from the rest of the world. But, it is widely criticized that the MNC's activities with regard to the type of the products, (mainly cigarettes, liquor beverages etc) advertisements and the like erode the Indian culture. MNCs may bring the culture from a foreign country, which is detrimental to the interest of the home country.

7) Inappropriate technology transfer: Another drawback of MNCs is the faulty transfer of technology, which leads to transfer of inappropriate technology, which is too much capital intensive in nature and in a labor surplus, would lead to serious consequences for the Indian economy since unemployment will increase. Moreover, the behavior pattern of MNCs reveals that they do not engage in R&D activities within the host country. Rather, they concentrate their efforts in the home country though the financial burden of the research has to be borne by the host county. Moreover, they do not always supply the first line or the most advanced technology until foreign firms compel them to do so.

8) Unconcern for environmental pollution and ecological balance: Multinational corporations in India did not invest in environmental polluting controlling equipment as they normally do in their home country. This in turn resulted in environmental pollution in a number of instances in the country. For e.g., **Bhopal gas tragedy** and also failure of union carbide in paying due compensation to the victims is an example. MNCs in India are also unconcerned in maintaining ecological balance in the country.

9) Unconcern towards social responsibilities and ethics: MNCs try to maximize their profits and do not think of discharging their responsibilities towards Indian society. Further, MNCs exploit the Indian natural resources indiscriminately, export the products from India to other countries and transfer the proceeds of sales to their home countries.

In addition, it is criticized that MNCs price the products exclusively based on business principals like supply of and demand for products rather than the social considerations. They are in business but not in social service. They believe in the superiority of free market economies. It is also criticized that MNCs resort to unethical means in the process of profit maximization.

CONCLUSION

MNCs have been playing a significant role in the international economy in creating a global shopping centre. Many of the sophisticated goods have come to the doorstep even to the remote places. Branch name shave becomes household's names even in villages.

Multinational corporations can have a powerful influence in international relations and local economics. They play an important role in globalization. In the present situation, MNC's are in a position to encroach the economic position of developing countries. So governments should adopt policies against MNC's to protect the country and its domestic players from MNC's.

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