**Multinational Corporation (MNCs: meaning, characteristics, role, models, merits and demerits**

A multinational corporation is a company that operates in its home country, as well as in other countries around the world. It maintains a [central office](https://corporatefinanceinstitute.com/resources/knowledge/finance/corporate-structure/) located in one country, which coordinates the management of all other offices such as administrative branches or factories.

It isn’t enough to call a company that exports its products to more than one country a multinational company. They need to maintain an operation in other countries and must make a [foreign direct investment](https://corporatefinanceinstitute.com/resources/knowledge/economics/foreign-direct-investment-fdi/) there.

**Characteristics of a Multinational Corporation**

Not all businesses can be called a multinational corporation. There are certain features that must be met for them to be named as such. The following are the characteristics of multinational corporations:

**1. Very high assets and turnover**

To become a multinational corporation, the business must be large and must own a huge amount of assets, both physical and financial. The company’s targets are so high that they are also able to make substantial profits.

**2. Network of branches**

Multinational companies keep production and marketing operations in different countries. In each country, the business oversees more than one office that functions through several branches and [subsidiaries](https://corporatefinanceinstitute.com/resources/knowledge/finance/subsidiary-definition/).

**3. Control**

In relation to the previous point, the management of the offices in other countries is controlled by one head office located in the home country. Therefore, the source of command is found in the home country.

**4. Continued growth**

Multinational corporations keep growing. Even as they operate in other countries, they strive to grow their economic size by constantly upgrading and even doing [mergers and acquisitions](https://corporatefinanceinstitute.com/resources/knowledge/deals/mergers-acquisitions-ma-process/).

**5. Sophisticated technology**

When a company goes global, they need to make sure that their investment will grow substantially. In order to achieve substantial growth, they need to make use of capital-intensive technology, especially in their production and marketing.

**6. Right skills**

Multinational companies employ only the best managers who are capable of handling huge funds, using advanced technology, managing workers, and running a huge business entity.

**7. Forceful marketing and advertising**

One of the most effective survival strategies of multinational corporations is spending a huge amount of money on marketing and advertising. It is how they are able to sell every product or brand they make.

**8. Good quality products**

Because they use capital-intensive technology, they are able to produce top-of-the-line products.

**Reasons for Being a Multinational Corporation/** **Internationalization of firms: why do companies cross borders?**

There is a reason why many companies want to become multinational corporations. Here are some of them:

**1. Access to lower production costs**

It is a very common reason for companies to go global because if they set up production in other countries, especially in [developing economies](https://www.isi-web.org/index.php/resources/developing-countries), they spend less on production costs. Though outsourcing is a way of doing this, setting up manufacturing plants in other countries may be even cheaper.

**2. Proximity to target international markets**

It is beneficial to set up business in countries where the target market of a company is. It helps reduce transport costs, and it gives multinational corporations easier access to consumer feedback and information, as well as to consumer intelligence.

**3. Avoidance of tariffs**

When a company produces or manufactures its products in another country where they sell them, they are exempt from import quotas and tariffs.

**Models of Multinational Corporations**

The following are the different models of multinational corporations:

**1. Centralized**

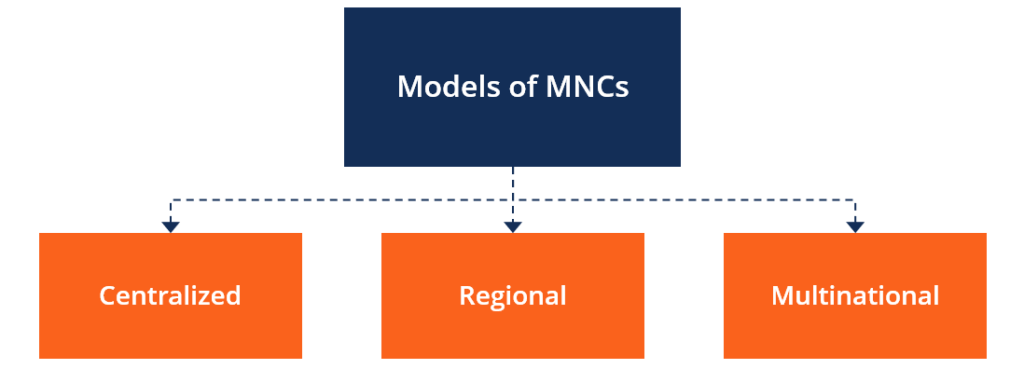
In the centralized model, companies put up an executive headquarters in their home country and then build various manufacturing plants and production facilities in other countries. Its most important advantage is being able to avoid tariffs and import quotas and take advantage of lower production costs.

**2. Regional**

The regionalized model states that a company keeps its headquarters in one country that supervises a collection of offices that are located in various countries. Unlike the centralized model, the regionalized model includes subsidiaries and affiliates that all report to the headquarters.

**3. Multinational**

In the multinational model, a parent company operates in the home country and puts up subsidiaries in different countries. The difference is that the subsidiaries and affiliates are more independent in their operations.



### ****Role of MNCs****

1. **Promotion Foreign Investment:**

In the recent years, external assistance to developing countries has been declining. This is because the donor developed countries have not been willing to part with a larger proportion of their GDP as assistance to developing countries. MNCs can bridge the gap between the requirements of foreign capital for increasing foreign investment in India.

The liberalized foreign investment pursued since 1991, allows MNCs to make investment in India subject to different ceilings fixed for different industries or projects. However, in some industries 100 per cent export-oriented units (EOUs) can be set up. It may be noted, like domestic investment, foreign investment has also a multiplier effect on income and employment in a country.

For example, the effect of Suzuki firm’s investment in Maruti Udyog manufacturing cars is not confined to income and employment for the workers and employees of Maruti Udyog but goes beyond that. Many workers are employed in dealer firms who sell Maruti cars.

Moreover, many intermediate goods are supplied by Indian suppliers to Maruti Udyog and for this many workers are employed by them to manufacture various parts and components used in Maruti cars. Thus their incomes also go up by investment by a Japanese multinational in Maruti Udyog Limited in India.

1. **Non-Debt Creating Capital inflows:**

In pre-reform period in India when foreign direct investment by MNCs was discouraged, we relied heavily on external commercial borrowing (ECB) which was of debt-creating capital inflows. This raised the burden of external debt and debt service payments reached the alarming figure of 35 per cent of our current account receipts. This created doubts about our ability to fulfill our debt obligations and there was a flight of capital from

India and this resulted in balance of payments crisis in 1991. As direct foreign investment by multinational corporations represents non-debt creating capital inflows we can avoid the liability of debt-servicing payments. Moreover, the advantage of investment by MNCs lies in the fact that servicing of non-debt capital begins only when the MNC firm reaches the stage of making profits to repatriate Thus, MNCs can play an important role in reducing stress strains and on India’s balance of payments (BOP).

1. **Technology Transfer:**

Another important role of multinational corporations is that they transfer high sophisticated technology to developing countries which are essential for raising productivity of working class and enable us to start new productive ventures requiring high technology. Whenever, multinational firms set up their subsidiary production units or joint-venture units, they not only import new equipment and machinery embodying new technology but also skills and technical know-how to use the new equipment and machinery.

As a result, the Indian workers and engineers come to know of new superior technology and the way to use it. In India, the corporate sector spends only few resources on Research and Development (R&D). It is the giant multinational corporate firms (MNCs) which spend a lot on the development of new technologies can greatly benefit the developing countries by transferring the new technology developed by them. Therefore, MNCs can play an important role in the technological up-gradation of the Indian economy.

1. **Promotion of Exports:**

With extensive links all over the world and producing products efficiently and therefore with lower costs multinationals can play a significant role in promoting exports of a country in which they invest. For example, the rapid expansion in China’s exports in recent years is due to the large investment made by multinationals in various fields of Chinese industry.

Historically in India, multinationals made large investment in plantations whose products they exported. In recent years, Japanese automobile company Suzuki made a large investment in Maruti Udyog with a joint collaboration with Government of India. Maruti cars are not only being sold in the Indian domestic market but are exported in a large number to the foreign countries.

As a matter of fact until recently, when giving permission to a multinational firm for investment in India, Government granted the permission subject to the condition that the concerned multinational company would export the product so as to earn foreign exchange for India.

However, in case of Pepsi, a famous cold -drink multinational company, while for getting a product license in 1961 to produce Pepsi Cola in India it agreed to export a certain proportion of its product, but later it expressed its inability to do so. Instead, it ultimately agreed to export things other than what it produced such as tea.

1. **Investment in Infrastructure:**

With a large command over financial resources and their superior ability to raise resources both globally and inside India it is said that multinational corporations could invest in infrastructure such as power projects, modernisation of airports and posts, telecommunication.

The investment in infrastructure will give a boost to industrial growth and help in creating income and employment in the India economy. The external economies generated by investment in infrastructure by MNCs will therefore crowd in investment by the indigenous private sector and will therefore stimulate economic growth.

In view of above, even Common Minimum Programme of the present UPA government provides that foreign direct investment (FDI) will be encouraged and actively sought, especially in areas of:

(a) Infrastructure

(b) High technology

(c) Exports

(d) Where domestic assets and employment are created on a significant scale.

**Merits of Multinational Corporation**

There are many benefits of being a multinational corporation including:

**1. Efficiency**

In terms of efficiency, multinational companies are able to reach their target markets more easily because they manufacture in the countries where the target markets are. Also, they can easily access raw materials and cheaper labor costs.

**2. Development**

In terms of development, multinational corporations pay better than domestic companies, making them more attractive to the local labor force. They are favored in some way by the government because they also pay local taxes, which help boost the country’s economy.

**3. Employment**

In terms of employment, multinational corporations hire local workers who know the culture of their place and are thus able to give helpful insider feedback on what the locals want.

**4. Innovation**

As multinational corporations employ both locals and foreign workers, they are able to come up with products that are more creative as a result of their convergence.

**Demerits of MNCs**

1. The MNCs technology is designed for world wide profit maximization, not the development needs of poor countries. The imported technologies are not adapted to

a. consumption needs 

b. size of domestic markets 

c. resource availabilities

d. stage of development of many of the LDCs.

2. Through their power and flexibility, MNCs can evade or undermine national economic autonomy and control and their activities may be inimical to the national interests of particular countries.

3. MNCs may destroy competition and acquire monopoly powers.

4. The tremendous power of the global corporations poses the risk that they may threaten the sovereignty of the nations in which they do business.

4. MNCs retard growth of employment in the home country.

5. The transnational corporations cause fast depletion of some of the non-renewable natural resources in the host country.

6. The transfer pricing enables MNCs to avoid taxes by manipulating prices on intracompany transactions.

**Multinational Companies (MNC) in India**

Every student or an educated person dreams to work in an MNC. It gives you the experience to move internationally. Also, here you get experience, credibility and confidence to move ahead in career.

So what picture comes to your mind when the word MNC pops up. Is it a lavish job where you can travel internationally? But not to forget we live in a country where jobs are not so easily and frequently found and that too, a job in MNC. But working in an MNC is not all one can achieve in his/her life. India derives a lot of benefits from MNC’s such as higher level of investment, reduction in a technological gap, optimum utilization of natural resources and a boost to a basic economic structure.

Due to India’s growing economy, globalization and its potential in market, many of the multinational companies are coming to India to extend their business. Below is the list of top 10 MNCs in India.

**1.    Microsoft** – Microsoft Corporation India is a subsidiary of Microsoft Corporation which as we all know is an American multinational, started in the year 1975. Microsoft Corporation began its operations in 1990 with its headquarters in Hyderabad, India and ever since has worked closely with Government of India as well as the IT firms. It is indeed one of the most popular in the list of MNCs in India.

**2.    IBM – IBM** (International Business Machines Corporation) is the second MNC in our list of multinational companies in India with its headquarters in Bangalore (IBM India private Ltd). It started in the year 1992 in India and has its credits with a range of products and services including business consulting, storage solutions, etc.

**3.    Nestle** – 3rd on the list of MNCs in India is Nestle. Nestle India which is a food and beverage company from Switzerland is a part of Nestle S.A. Nestle had made its entry into the market in the year 1912 with improved products and is currently one of lead MNCs in India. It is considered as one of the largest food company in India with their best food products. And also comes with the rank 72 on the Fortune Global 500 in the year 2014 according to the revenue.

**4.    Proctor & Gamble** – Procter & Gamble (P&G) is a worldwide developer MNC and was started by William Procter and James Gamble in 1837. P& G Indian is a part of Procter and Gamble. The MNC made its ways into India in 1964 and currently has products such as Olay, Gillette, Vicks, Tide etc. It has a wide range of products including beauty, grooming health and household care etc.

**5.    Coca-Cola** – Coca-Cola is yet another widely acclaimed MNC in India that comes in the list of top best MNC in India. Coco-cola, the marketer of non-alcoholic beverage founded in 1886 by Asa Griggs Candler and started operation in India in 1993. Corporate office of Coco-cola is in Atlanta, Georgia and having the revenue US$ 45.998 billion. The company operated in India as a subsidiary of Coca-Cola India Private Ltd.

**6.    Pepsico –** PepsiCo too makes its way into the list of MNCs in India as a well-known manufacturer of snacks and beverages. An American Company found in 1965, PepsiCo operates in India through its subsidiary, Pepsico India Holding Private Limited and is a leading manufacturer of popular brands such as Lays, Pepsi, Slice, etc.

**7. CITI Group –** Next one on the list of MNCs in India is the CITI Group, founded in 1998, an American Banking services Corp. It operates in India through the subsidiary, Citibank, which presently has more than 40 branches in over 30 cities in India. Corporate office in Manhattan, New York City and revenue US$ 76.88 billion and in India it’s headquarter is in Mumbai. Citibank has 42 branches across 30 cities and more than 700 ATMs in India. Interestingly, Citibank was formed by one of the largest mergers in the history and now owns the world’s largest financial services.

**8. SONY Corporation** – Sony is yet another well-known Japanese multinational company which came into existence in the year 1946. Sony Corporation began its operations in the year 1994 and is well acclaimed for its products in various categories: electronics, media and entertainment. Televisions, mobile phones, cameras, PlayStations, headphones, memory card, etc. are the major products of the Sony Corporation. It’s headquarter is situated in Delhi, India with the total revenue of US$ 153.683 billion.

**9. Hewlett Packard –** HP has also made its way into the list of MNCs in India with its products ranging from laptops, monitors, desktops and other electronic items. HP was started off in the year 1939 and has it’s headquartered in Palo Alto, California and having the biggest revenue US$ 111.454 billion. HP, an American Electronics and Information Technology Company has its headquarters in Banglore, India. HP produces line of printers, digital cameras, scanners, PDAs, calculators, servers, workstation computers, and computers for home and small-business use. Many of the computers came from the 2002 merger with Compaq.

**10. Apple Inc –** Apple Inc which was a foot bed in 1976 and currently sells laptops, phones, software and various online services. Apple Inc., an American Multinational Company was founded in the year 1976. The company is well-renowned for electronic consumers and some of their best selling products such as iPhone, iPod, iPad, and Mac. This is one of the largest MNC’s companies in India which develops and sells computer, laptops, software and online services.

Below is the list of best MNC’s for MBA graduates:-

* Amazon
* Wipro
* Citigroup
* Infosys
* Cognizant
* Accenture

Top MNCs for IT graduates:-

* Intel
* TCS
* Cognizant Technology Solutions
* Google
* IBM
* SAP