Multinational Corporations: Final Paper

Week 7 Final Paper: Multinational Corporations

Malcolm Robinson

MGT 614 Global and Transnational Management

Tiffin University

10/14/12

**Multinational Corporations**

Multinational Corporations have been in existence for a long time and today, multinational corporations have increased power as well as visibility. When two or more individuals of a country’s nationality own a parent company effectively, the firm becomes a multinational company. An example of this would be Shell, which is controlled by Dutch and British nationals (Rutenberg, 1970).Multinational corporations have facilities and assets in a country other than its own country and these types of corporations have come to exist because so much of trade is worldwide. These companies often thrive because they are able to use numerous resources and people to achieve their goals and they do it more economically and efficiently than other companies. One important factor of a multinational corporation is that it helps provide additional financial resources to developing countries and when this happens, jobs become available to citizens of these countries. The purpose of this paper is to provide a general overview of multinational corporations for example, procedures used by multinational corporation in entering a new market, ethnical issues of a multinational corporation, and the concerns of a multinational corporation.

**Entry of Multinational Corporations into New Markets**

Multinational corporations need to deal with the different cultures of their employees, partners, suppliers and customers. National and local governments often compete against one another to attract MNC facilities (Rutenberg, 1970). For a multinational corporation to enter into a new market, it has to follow either a joint venture, sequential market entry, or a direct acquisition of pre-existing concerns or merging (Rutenberg, 1970).

The direct acquisition of a pre existing company is considered as a straightforward method of penetrating a new market, which multinational corporations normally employ. This method is also referred to as foreign direct investment since it allows a multinational company, especially the one that is large in size to utilize the advantage of its size as well as economies of scale, which it provides (Rutenberg, 1970). The second procedure is the sequential market entry which multinational corporations make use of to penetrate a new market. This procedure often includes the foreign direct investment and establishment or acquisition of concern, which is also involved while operating in a niche market compared to a parent company’s operations in a new country. Finally, a multinational corporation can access a new market through the creation of a joint venture or ventures with a firm, which is already in operation in a market. This procedure is mostly evident in countries, which are under a communist rule (Rutenberg, 1970).

**Ethical Issues Associated with Multinational Corporations**

The multinationals give rise to huge merged conglomerations that reduce competition and free enterprise, raise capital in host countries but export the profits, exploit countries for their natural resources, limit workers' wages, erode traditional cultures, and challenge national sovereignty (Rutenberg, 1970).

The hardest problems for companies that operate in several nations and across cultures, is determining what is right and wrong. Many ethical conflicts develop from conflicts between the difference in interests of company owners and their workers, customers, and surrounding community. Ethical issues have become more complicated because of the global and diversified nature of many large corporations. In society, managers must balance the ideal against the need to produce a reasonable profit for the company's shareholders with honesty in business practices, safety in the workplace, and larger environmental and social issues (Rutenberg, 1970).

Business ethics is the study and evaluation of decision-making by businesses according to moral concepts and judgments. Ethical questions range from practical, narrowly defined issues, such as a company's obligation to be honest with its customers, to broader social and philosophical questions, such as a company's responsibility to preserve the environment and protect employee rights (Rutenberg, 1970). Every company doing business abroad faces numerous legal and ethical issues. The multinational corporation faces legal issues raised by “home country” laws, “host country” laws, regional regulations or directives, bilateral and multilateral treaties, and international standards and certifications (Rutenberg, 1970).

**Challenges facing Multinational Corporation**

Multinational Corporations are faced with numerous challenges. Four kinds of challenges that MNC’s face are challenges are competition, human rights issues, environmental issues, and social equity issues. Failure to focus on these can result in significant legal and reputational consequences, but paying proper attention to them can improve corporate performance (Rutenberg, 1970).

Other challenges facing MNCs is the issue of cultural diversity. Culture is the learned, shared way of doing things in a particular society.   It is the way, for example, in which its members eat, dress, greet and treat one another, teach their children, and solve everyday problems. Cultural diversity in workplace refers to the range of differences between individuals in an organization. People from different countries always have different tradition and attitudes towards business. Some companies decide to expand their organization globally but unsuccessful because they fail change their organization to adapt to the new country (Rutenberg, 1970). An international company needs to understand the host market. In order to have better understanding of host market, an international market needs to employ locals.

When cultural diversity is not properly managed, it causes problems, misunderstandings, and conflicts. Cultural diversity in the workplace and elsewhere should be respected. Employees’ skills, talents, ideas, and values must be developed and improved and an organization must be able to capture the idea of all employees in order to meet the challenges of the competitive marketplace (Rutenberg, 1970).

**Multinational Corporation Concerns**

Social welfare, government agencies, environmental protection and labor organizations questions the motives and actions of multinational corporations however; the corporations, success and pervasiveness are not doubted at all. The international and labor unions are concerned that a multinational corporation based in an economically developed country will refrain from any form of labor negotiations by transferring their job operation to a country which is willing to offer a lower labor cost (Rutenberg, 1970). This situation is also evident in developing countries where the multinational corporations will only be willing to negotiate the terms of a contract where the standards of the domestic wages are below that of the parent company’s country (Whelan, Moon & Orlitzky, 2009).

Offshore outsourcing, a strategy used by multinational corporations, gives rise to job loss .In addition to that, multinational corporations employ U.S workers. Multinationals are normally less concerned on any social matters in the country. This has left social organizations and environmental agencies concerned about the corporation’s activities which normally pose a threat to the environment (Rutenberg, 1970).

Finally, the power of a multinational corporation is always growing such that the government agencies have also developed fear of the power that the corporation may poses. The government agencies’ fear is that, the corporation may pose a threat of removing their successful operations from a country with an aim of securing a favorable legislation as well as regulation (Rutenberg, 1970).

**Multinational Corporation’s future**

According to Rutenberg (1970), the development of multinational corporations is favored by the current trend existing in the international marketplace. Industries being run by the government are being privatized all around the world. Regional trading partnerships are also being developed for example, North America Free Trade Agreement and the European Union with an aim of removing any form of barriers to international free trade (Rutenberg, 1970). The efforts of privatizing government run agencies has given rise to infrastructure which multinationals intend to use while seeking entry into a new market (Rutenberg, 1970) .The barriers to international free trade removal are considered as a boost to the birth of several multimillion operations.

However, the main disadvantage, which may be posed by a multinational corporation, is their continued success in a country, which is not yet fully developed. In the industrial economies, this disadvantage has been experienced once in a while. This can lead to price and wages deflation, corporate activities contraction, and the slowing down of the economic life phase, which is usually rapidly growing (Rutenberg, 1970).

Work Cited

Rutenberg, D. P. (1970). ORGANIZATIONAL ARCHETYPES OF A MULTI-NATIONAL COMPANY. *Management Science*, 16(6), B-337-B-349. Vaibmu (n.d). Retrieved on 12th Oct 2012 from <http://www.vaibmu.com/services/>

Whelan, G., Moon, J., & Orlitzky, M. (2009). Human Rights, Transnational Corporations and Embedded Liberalism: What Chance Consensus?. *Journal of Business Ethics*, 87367-383. doi:10.1007/s10551-009-0298-3