Multi National Companies in India - A Critical Review

Volume: 7

Issue: 2

Month: March

Year: 2019

ISSN: 2319-961X

Received: 3.3.2019

Accepted: 8.3.2019

Published: 15.3.2019

Citation:
Tigari, Harish, and Chandrashekhar, R. "Multi National Companies in India - A Critical Review." *Shanlax International Journal of Economics*, vol. 7, no. 2, 2019, pp. 52-57.

DOI:
https://doi.org/10.34293/economics.v7i2.314

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Abstract

India is one of the faster growing emerging economies in the world. For this many industries are contributing that may be Indian or foreign origin company. By observing the statistics, 49.86 % of contribution by MSMEs towards nation export and the remaining by large companies only. MNCs (multinational corporations) are also contributing to the growth of the country by generating employment, the inflow of FDI, transfer of technology etc. The orientations of international business connotatively deal with ethnocentric, polycentric, geocentric, and regiocentric approaches. The MNCs and their profit-making objective always influenced by entry strategies with the time of entry, size of the entry, and place of entry into the foreign market. It also influenced by way of entry into the foreign market by concentrating on FDI with green field and brown field strategies. Here the present paper addresses the multinational corporations in India and their contribution to the economic development of India and attempts to address characterization of MNCs with employment argument and growth prospects of economic variables significantly influenced on different sectors growth in India. The present study attempts to analyze the relationship between foreign companies' mode of entry with FDI and economic variables by using Karl Pearson coefficient correlation.

Keywords: MNCs, developing country, economic development, FDI

Introduction

Multinational corporations (MNCs) means a company which is acting in more than one country and it should have a head quarter in the home country and its subsidiary branches should be located in more than two host country and its production is controlled in more than one country. The Global corporations, International corporations, and transnational corporations are synonymously used terms closely associated with multinational corporations but there are a little bit differences in their control mechanism. MNCs are not new to India because in the early 17th century we have seen British and Dutch East India Company who are coming to India for the purpose of trade. These also have the intention of earning a profit by trading in more than one country. But afterward, we all know how they turn into purely a practicality of business by ignoring social justice. And acquire whole India and rule India. After implementation of New Economic Policy, 1991 the Government of India makes relaxation of rules and regulations to attract FDI to India with the concept of LPG. On that time the Government has the intention that to generate employment, poverty alleviation, transfer of technology etc.

But nowadays the nomenclature of inviting foreign capital and multinational corporations create a fear of dominating domestic industries which lead to acquiring a monopoly in the market. The multinational corporation is a business enterprise whose business operations or activities are dispersed over in more than two countries by entry mode of foreign direct investment. This form consists of a two or more country locations, one is where the firm is incorporated another one is establishment of branches or subsidiaries in foreign countries.

Review of Literature

(Shameema Ferdausy,Md. Sahidur Rahman 2009) The MNCs are firms those own and control production facilities in two or more countries and produce and distribute goods and services across national boundaries; they spread ideas, tastes, and technology throughout the world; and they plan their operations on a global scale. Such companies have offices and/or factories in different countries and usually have a centralized head office where they coordinate global management.

(Dictionary of International Trade 2017) A large commercial organization with affiliates, operating companies in a number of different countries. A typically one normally functions with a headquarters that is based in one country, while other facilities are based in locations in other countries. In some circles, this type of corporation is referred to as a multinational enterprise (MBE) or a transnational corporation (TNC). There are several models of multinational corporations.

(S.Tamer Cavasgi & et al 2009) MNE is a large company with substantial resources that performs various business activities through a network of subsidiaries and affiliates located in multiple countries.

(J. W. J. Harrod 2009) MNC as privately owned organizations which have production, whether goods or services, and the generation of financial surpluses, as objectives, and, which own assets used for such production in more than one national unit in a global complex of nation-states.

Objectives of the Study

- To examine MNCs are contributing to economic development.
- To analyze the role of FDI in Economic development.

Methodology of the Study

The research design consists of the data; it can be classified into two types of primary and secondary data. The data which does not exist can be called as primary data and the data which is existed can be called secondary data. The present study is based on secondary data available in different books, journals, articles, research papers, and internet source also. The main objectives of the present study are, to examine MNCs are contributing to economic development and to analyze the role of FDI in Economic development. The present study attempts to analyze the relationship between foreign companies' mode of entry with FDI and economic variables by using Karl Pearson coefficient correlation.

Hypothese for the Study

Null hypotheses

1. H0- There is no significant correlation between FDI and GDP
2. H0- There is no significant correlation between FDI and GNP
3. H0- There is no significant correlation between FDI and Foreign Trade
4. H0- There is no significant correlation between FDI and Reserves

Scope of the Study

The multinational company is a company which is operating in multiple nations, which is using global resources for production and marketing those in more than two countries. It is a company which is generating employment to millions of people around the world and makes improve their standard of living. MNCs are big in size, operation, investment etc. in the international business which consists of host and home country. In this host countries are developing countries and home countries are developed countries which are the origin of MNCs. In this study, we are going to know whether MNCs are contributing to economic development and their business environment in a developing economy. This study is done on MNCs and developing economies; in this, we consider India's economy as a developing economy. And in this, we have considered the economic variables such as Employment, GDP, GNP, and Balance of payment and FDI to know whether MNCs are contributing to the economic development of the country or not.

Data Analysis and Interpretation

Table 1 Foreign Direct Investment and Economic variables

Year	FDI	GDP	GNP	Trade	Reserves
2000-01	1.07	2.34	2.32	2.03	1.97
2001-02	1.86	2.47	2.45	2.09	2.64
2002-03	1.28	2.57	2.55	2.55	3.61
2003-04	1.00	2.78	2.76	2.93	4.90
2004-05	1.46	2.97	2.94	3.75	6.19
2005-06	2.45	3.25	3.23	4.56	6.76
200607	5.63	3.56	3.53	5.71	8.68
2007-08	9.86	3.90	3.88	6.55	12.37
2008-09	14.28	4.16	4.13	8.40	12.83
2009-10	12.31	4.51	4.48	8.45	12.59
2010-11	9.73	4.91	4.86	11.42	13.61
2011-12	16.51	5.24	5.20	14.65	15.06
2012-13	12.19	5.48	5.45	16.34	15.88
2013-14	14.75	5.74	5.67	19.05	18.28

Source: Data compelled from different sources

Table 2 Correlation between FDI and Economic variables

Particulars	GDP	GNP	Foreign trade	Reserve
'r' Value	0.916222	0.917048	0.86557	0.937656
Result	Very strong positive	Very strong positive	Very strong positive	Very strong positive
Null hypotheses	Rejected	Rejected	Rejected	Rejected

Source: Author calculations

Correlation between FDI and Economic variables

The Table-1 is indicating that when FDI from MNCs are increasing it significantly impact on economic variables such as GDP, GNP, Foreign Trade and Foreign Reserves. In 2000-01 FDI is only 1.07 and GDP is 2.34, GNP is 2.32, Foreign Trade is 2.03 and Foreign Reserves is 1.97. But in 2013-14 we can see the changes when the FDI increases then automatically GDP, GNP, Trade and Reserves i.e. 5.74, 5.67, 19.05 and 18.28 respectively. The Table-2 shows that there is very strong relationship between FDI and economic variables such as GDP, GNP, Foreign Trade and Foreign Reserves so null hypotheses are rejected.

Table 3 Distinction among MNCs, GCs, ICs, and TNCs

Basic difference	MNCs	ICs	GCs	TNCs
Operations and Trading	Two are more countries	Selling through exporting in foreign countries and not having any branches	Many countries means at least 15 to 20 countries	Mixture of MNCs, ICs, and GCs
Investment	FDI	FDI	FDI	FDI
Strategy	Centralized	Parental company	Centralized	Decentralized
R&D	Parental company	By domestic country	Parental company, Distribution by subsidiaries	Right to subsidiaries
Challenges	Regulatory and Legal and IPR issues	Legal regulatory and custom issues	Regulatory and Legal issues	HR and Organization issues due to structure

Source: Data compelled from different sources

Types of MNCs

Service MNCs

A service MNC is a transnational corporation which generates more than 50% of its revenues from services. Services are such as banking, insurance, finance, transport, tourism etc.

Manufacturing MNCs

A manufacturing MNC is one which generates at least 50% of its revenue from manufacturing process or activity. Most of the MNCs operated in manufacturing sector.

Trading MNCs

A trading MNC is one which generates at least 50% of its revenue from the trading activity. These are the very oldest form of multinationals.

Indianization of Transnational

The orientation which dealt with the expansion of firm local business strategy in a borderless economy creates firm-specific, owner specific and location specific advantages. But the transnationals dynamic engagement with adjusting nature energizes the firms' strength in market share. The transnationals keen foresight aspects always gain the competitive and comparative advantage by having cost, size, and strategy which are unique in nature with no scope for imitating. Literally, Indianization is a development process of the by using indigenous resources, making the people economically empowered who are economically backward who are at the bottom of social strata and are not having resource and then ends up at top strata of the society.

Indianization argues for utilizing the indigenous resources and skills for indigenous people, starting from the bottom to the top. Indianization argues to make the country an economic sourcing center not an outsourcing center. (Saurabh Tiwar 2017). The intentions of Multinational companies in emerging economies are increasingly looking to growth prospect in their businesses by adjusting with the emerging markets. The growth potential of emerging markets creates the opportunity for market expansion by the transnational's., the success of companies succeed in the emerging markets usually depends on localizing their own strategy as per country consumerism. So the key to success often depends upon how close the transnationals are to the local market requirements means, how they will try to understand the market expectations, and consumer pulses, whether they adapt their products or services according to local tastes and preferences how much they localize their management functionalism

Top ten areas invested by foreign companies

The top sector which attracts foreign companies registered India is community, personal and social service. Total companies registered were 1430 and 992 foreign companies are active. The second most sectors which attracts foreign companies is business service, it attracted 610 companies. The third most important sector is manufacturing which attracts 79 foreign companies .And the very less number of foreign companies registered in electricity, gas and water sectors. Hence it is clear that there most of the foreign companies registered in community, personal and social service, business service, and manufacturing.

Table 4 Top ten areas invested by foreign companies

S.No	Top ten Areas invested by Foreign Companies	Active
1	Community, personal & Social Services	992
2	Business Services	610
3	Manufacturing (Machinery & Equipments)	79
4	Finance	83
5	Manufacturing (Metals & Chemicals, and products thereof)	41
6	Mining & Quarrying	59
7	Trading	55
8	Construction	50
9	Transport, storage and Communications	45
10	Electricity, Gas & Water companies	16

The top ten Multi National Companies in India

The top ten Multi National Companies in India based on their market value are apple Inc, Microsoft, nestle, citi group, proctor and gamble, sony corporation,pepsico, IBM, and google. The market value of these multinational companies in India were observed by ashish bansal such as apple inc 926.9 billion dollar, the software company Microsoft 750.6 billion dollar, the Nestle with 237.3 billion dollar and CITI group, proctor and gamble. coca-cola, and sony corporation they have the market value which less than 200 billion dollars. And lastly Pepsico, IBM, and Google they have less than 150 billion dollar market value.

Table 5 Top 10 MNCs in India

S.No	MNCs	MV ($)
1	Apple Inc	926.9
2	Microsoft	750.6
3	Nestle	237.3
4	CITI Group	185.8
5	Proctor& Gamble	184.5
6	Coca-Cola	179.3
7	Sony Corporation	158.6
8	PepsiCo	138.1
9	IBM	132.3
10	Google	132.1

Source: www.reviewsxp.com (Ashish Bansal)

Findings of the Study

MNCs and Economic growth: The present study significantly identifies the correlation between foreign direct investment as well as the gross domestic product and gross national product. The high positive correlation coefficient value clearly depicts how the foreign companies through FDI contribute towards boosting the economy through productive activities

Foreign trade and GDP

The standardized measure to tackle the position of particular countries economy is a gross domestic product at factor cost the correlation analysis clearly states that there is a very strong positive relationship between foreign trade and gross domestic product. Hence it's clear that the null hypothesis is rejected.

Foreign reserves and GDP

The other important economic variable to measure the growth prospects of a particular countries economy is the foreign reserves. The correlation analysis clearly states that there is a significant relation between foreign reserves and gross domestic product.

Top area invested by foreign companies

The top sector which attracts foreign companies registered India is the community, personal and social service. Total companies registered were 1430 and 992 foreign companies are active. The second most sectors which attract foreign companies is business service, it attracted 610 companies.

Top ten multinational companies in India

The top ten Multi National Companies in India based on their market value are Apple Inc, Microsoft, Nestle, Citi group, proctor and gamble, Sony Corporation, PepsiCo, IBM, and Google.

Conclusion

The finality of the present paper particularly not confined with the conclusion, but the multinational companies in Indian perspective is quite different compared to the rest of the world. The Indian foreign trade is vigorous and experienced with drastic changes. India's openness policy with existence liberalism greatly contributes to our economy for growing in different dimensions. So by observing the current statistics, we need to improve the control mechanism relating to the multinational companies by increasing productive activities in the economy. The multinational companies contribution towards employment, technological know -how, cultural transformation, optimum utilization of available resources etc, creates an opportunity to develop nations competitive advantage.

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