Analysis of Rise of Multinational Corporations in India

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Abstract

In the present day world of Globalization, Multinational Companies have played an important role in the development of home countries where the MNCs are operating. Foreign direct investment by multinational companies involves much more than just transfer of capital as it brings with them technologies of production, managerial services and other business practices. Employment opportunities created by the MNCs have solved an important problem of unemployment which is an important characteristic of the underdeveloped as well as developing countries. With the shortage of savings for financing developmental projects, there is need to depend on foreign capital. Inviting and making ways for MNCs to operate in India will enhance the economic development of the country. Prime Minister Narendra Modi's initiatives for 'Make in India' and 'Skill India' campaigns, inviting Global Companies to invest in India as well as efforts to simplify the Foreign Direct Investments regulations will certainly make India a favorite destination of MNCs.

Key words: -Multinational Companies (MNCs); Globalization; Foreign Direct Investment (FDI); Economic Development; Domestic Savings

I. INTRODUCTION

Over the two decades, there has been a rapid rise of MNCs from the emerging markets. Several scholars have sought to explain this rise. Taking a view that EMNCs lack firm-specific ownership advantages, a first explanation of the EMNCs is exploitation of home country comparative advantages, such as cheap labor or natural resources (Rugman 2007). Ramamurti criticized the emphasis on country-specific advantages for explaining Indian EMNCs, and conjectured that such an emphasis might have held true "Five or ten years ago." (Ramamurti, 2012: 42). Since the 1990s, India, like most other emerging markets, has experienced dramatic transformation of her competitive and institutional environment. These transformations have resulted in the rise of MNCs from India also. While a large number of Indian firms have invested overseas, a few – who are all family businesses – account for the majority of overseas investments and acquisitions. In India, only a few firms, the firms that were both large as well as family-owned, have historically led and dominated outward FDI. This has remained true even in recent times, when acquisitions have become a dominant mode of outward FDI. During 2000–2006, for instance, 15 large business houses were responsible for 98 out of 306 overseas acquisitions, accounting for over 80 percent of the total value of acquisitions (FICCI 2006). Thus, even if the exploitation of home country comparative advantages characterized some of the Indian FDI in the past, the question remains what capabilities distinguish the firms that pursued FDI and overseas acquisitions versus others who did not.

A second explanation of the EMNCs is the springboard theory (Luo & Tung, 2007), according to which the EMNCs invest abroad in order to acquire ownership advantages. But even this explanation fails to address why EMNCs do not need ownership advantages to successfully internationalize, while the MNCs from the industrialized nations typically do as shown by the empirical studies of OLI theory (Ramamurti, 2012).

A third explanation of the EMNCs is their deep capability for organizing and managing value chains appropriate to the emerging market contexts, and in linking these with the global value chains. Ramamurti (2012) proposes that the EMNCs have a different set of ownership advantages, other than established brands and intellectual properties, such as their deep knowledge of the customers of the emerging markets, and ability to design, produce, and market affordable, low cost, no-frills products, while operating in difficult business environments. Others have noted how constrained and spurred by the government policies and directives, Indian EMNCs focused on reengineering Western know-how to suit relative factor prices in India ("technological comparative advantage," -Diaz-Alejandro, 1977); including the ability to use domestic skilled labor to design and operate projects at low cost, and to lower the costs of technical personnel and management. They excelled in the entrepreneurial adaptation of original designs to local conditions of the developing nations such as non-availability or prohibitive costs of raw materials, peculiarities of local consumers, the climate and geography (Athukorala, 2009).

II. Need for Multinational Companies

In underdeveloped countries like India domestic savings are not enough to ensure economic development. In such a case some external helps are required in the form of "foreign aid". If we turn the pages of history relating to economic development, we find that every country had to rely on foreign aid for speeding up the economic growth. In the words of W.A. Lewis, "Nearly every developed state has had the assistance of foreign finance to supplement its own meager savings during the early stages of its development. England borrowed from Holland in the seventeenth and eighteenth centuries, and in turn came to lend to almost every other country in the world in the nineteenth and twentieth Centuries. The United States of America, now a rich country in the world borrowed heavily in the nineteenth century and is in turn called upon to become the major lender of the twentieth" It is thus not the underdeveloped countries alone which need foreign capital for economic development but even the advanced countries of Europe had to seek external aid in the initial stages of their development.

If underdeveloped countries wants to see develop herself, it will have to import capital goods, technical know-how, spare parts and raw materials. One method of paying for such imports is through the stepping up of exports. The exports can be increased either by producing more or curtailing domestic consumption drastically. But underdeveloped countries have only limited productive capacity and as such it is not possible to increase exports substantially. Curtailment of consumption, on the other hand, involves a lot of sacrifice and it cannot be adopted with much success in democratic countries. Thus foreign assistance is the one form or the other which became important for speeding up the economic growth of a country.

Many MNCs have larger annual sales volumes than the entire GNPs of developing nations in which they operate. By 1980 the 20 largest MNCs had annual sales volume excess of $10 billion, while more than 200 others had sales in excess of $1 billion. The largest U.S. transnational (MNCs) like Exxon and General Motors, each sold over $60 billion in 1980; while Mobile, Texaco and Ford each had annual sales in excess of $30 billion.

In recent years there has been tremendous increase in the private foreign investment. In this connection, it is required to mention that foreign direct investment by multinational companies involves much more than just transfer of capital as it brings with them technologies of production, managerial services and other business practices.

In the past, investment by MNCs was mainly confined to extractive activities but of late manufacturing interests account for a greater share of their activities.

III. Benefits of MNCs to the Operating Countries

To Make Up the Deficiency of Domestic Savings: The domestic sources of capital formation in underdeveloped countries are inadequate to secure a growth rate of economies. These countries have not only small capital stock but their current rate of capital accumulation is very small ranging from 5 to 6 percent in advanced countries. Such a low rate of capital formation can hardly provide for a rapidly growing population which increases at the rate of 2 to 3 percent per annum. If they want to depend on themselves for economic development then they need to wait for a pretty long time. So they need to import foreign capitals to supplement domestic resources to quicken the pace of economic development.

To Solve the Problem of Unfavorable Balance of Payments: In the initial phase of economic development, developing countries have unfavorable balance of payments. They have to imports more in order to meet the growing requirements of development and at the same time their export decreases to meet the growing domestic requirements. These countries have to take recourse of deficit financing which results in inflationary pressures. The prices increase and the cost of production goes up. This further reduces exports and increases imports. As a result the balance of payment condition is distorted.

Technical Know-How: The underdeveloped countries require not only foreign capital but also technical know-how and skill to ensure the proper use of capital. Technological backwardness is responsible for high cost of production and low productivity of labor and capital.

MNC's bring along with it modern technology and train people in new skills. The marginal productivity of labor increases which results in lower prices for consumers and higher real wages of labor. All this quicken the pace of economic development.

Exploitation of Human and Natural Resources: There is a problem of high population pressure in underdeveloped countries and there is also the familiar problem of disguised unemployment on a large scale.

To transfer the surplus labor from agriculture and provide them with work, foreign capital is needed to start secondary and tertiary industries.

The industrialization of the country and the creation of employment increase job opportunities solving the problem of unemployment.

Risky Undertakings: There is a great risk involved in the setting up of new undertakings. The shortage of capital, small extent of the market, absence of enterprising groups and underdeveloped infrastructure signify a high degree of risk in different fields like mining, oil exploitation, power, transport, etc.

MNCs will undertake such initial risk and when such businesses become successful the home enterprises feel inspired and try to collaborate with foreign enterprises without suffering initial losses.

It shows that foreign capital has a vital role to play in the economic development of underdeveloped countries.

Stimulates Potential Savings: There may be potential savings in the economy which may be available at a higher level of economic development. It is therefore essential that foreign capital be imported to speed up economic activities at first instance with the view of providing inspiration to the people and incentive to the home capitalist.

IV. Top MNCs Operating in India

The country has got many MNCs operating at present. Following are names of some of the most famous multinational companies with their headquarters of operational branches in India:

IBM: IBM India Private Limited, a part of IBM has been operating from this country since the year 1992. This global company is known for invention and integration of software, hardware as well as services, which assist forward thinking institutions, enterprises and people, who build a smart planet. The net income of this company for the financial year 2010 was $14.8 billion with a net profit margin of 14.9 %. With innovative technology and solutions, this company is making a constant progress in India. With its presence in more than 200 cities, this company is making constant progress in global markets to maintain its leading position.

Microsoft: A subsidiary, named as Microsoft Corporation India Private Limited, of the U. S. (United States) based Microsoft Corporation, one of the software giant's has got their headquarter in New Delhi. Starting its operation in the country from 1990, this company has got the following business units:

- Microsoft Corporation India (Pvt.) Limited (Marketing Division)
- Microsoft Global Services India
- Microsoft Global Technical Support Centre
- Microsoft India Development Center
- Microsoft IT
- Microsoft Research India

The net income of Microsoft Corporation grew from $ 14, 569 million in 2009 to $ 18, 760 million in 2010. Working in close association with all the stakeholders including the Government of India, the company is committed towards the development of the Indian software as well as IT industry.

Nokia Corporation: Nokia Corporation was started in the year 1865. Being one of the leading mobile companies in India, their net sales increased by 4 % in the last financial year with sales of EUR 42.4 billion as compared to 2009's EUR 41 billion. Over the past few years, this company in India has been acquiring companies, which have got new and interesting competencies and technologies so as to enhance their ability of creating the mobile world. Besides new developments to fight against mineral conflicts, they are even to set up Bridge Centers in the country for supporting re-employment. Their first onsite for the installation of renewable power generation are already in place.

PepsiCo: PepsiCo Inc. entered the Indian market with the name of PepsiCo India from the year 1989. Within a short time span of 20 years, this company has emerged as one of the fast growing as well as largest beverage and food manufacturer. As per the annual report of the company in the last business year, the net revenue of PepsiCo grew by 33 %. By the year 2020, this food manufacturing company intends to triple their portfolio of enjoyable and wholesome offerings. The expansion of their Good-For-You portfolio is believed to be assisting the company in attaining the competitive advantage of the growing packaged nutrition market in the world.

Ranbaxy Laboratories Limited: Ranbaxy Laboratories Limited, one of the biggest pharmaceutical companies in India, started their business in the country from the year 1961. The company made its public appearance in 1973. Headquartered in this nation, this international, research based, integrated pharmaceutical company is the producer of a huge range of affordable cum quality medicines that are trusted by both patients and healthcare professionals all over the world. In the year 2010, the registered global sales of the company were US $ 1, 868 Million. Successful development of business forms the key component of their trading strategy. Apart from overseas acquisitions, this company is making a continuous endeavor to enter the new global markets, which have got high potential.

Reebok International Limited: This global brand is a famous name in the field of sports as well as lifestyle products. Reebok International Limited, a subsidiary of Adidas AG, is based in USA and started its operation in 1890s. Apart from their alliance with Cross Fit, Reebok tied up its partnership with Swizz Beatz.

III. CONCLUSION

In this world of Liberalization, Privatization and Globalization (LPG), it may not be possible to restrict the goods as well the foreign Multinational Companies, instead it is the time to invite these MNCs to establish in the home countries and to extract the maximum benefits from them to strengthen the countries' economies along with the safeguarding of own interest. The Indian MNCs lack the large and deep base of firm-specific resources and advantages of the type that the more established and affluent MNCs from the industrialized markets have. Their organizational capability, however, allows them to forge focused and specialized links with a range of exogenous resources, and provides them with the speed, dexterity, flexibility, and adaptability required to recognize and seize opportunities in the global market, and to withstand competition from their better endogenously endowed MNC counterparts from the industrial markets.

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