

Module: International Business Management
Class: 1st Year Master Business Management

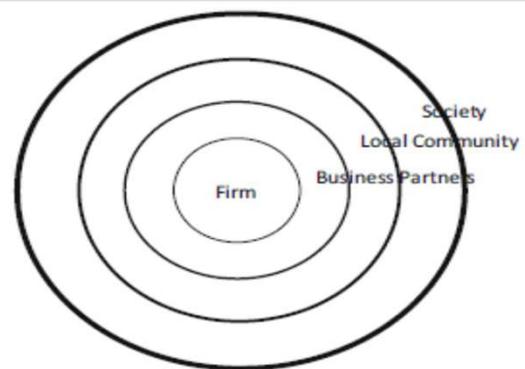
LECTURE FOUR: MULTINATIONAL CORPORATIONS

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Academic year 2025/2026/ semester 1

Lecture Contents :

1. Introduction
2. General overview of MNC
3. MNCs vs National companies
4. Advantages of MNCs
5. Examples
6. Conclusion



MNC's spheres of influence



1- Introduction

FDI from multinational corporations (MNCs) is a major driver of growth in emerging economies: it transfers technology, increases capital and production, improves the balance of payments, and expands international trade—while host countries and MNCs pursue different but complementary goals.

MNC is a company that operates in its home country, as well as in other countries around the world.

It is not enough to call a company *that exports its products to more than one country* a multinational company. The multinational needs to maintain actual business operations in other countries and must make a foreign direct investment there.

There are various reasons why companies want to become multinational corporations. Thus, MNCs have become indispensable actors in the global economy, driving innovation, investment, and economic integration. Their operations bring significant benefits, including technological advancement, job creation, and enhanced international trade. However, their structural power and profit-driven strategies pose substantial challenges, including economic inequalities, environmental degradation, and threats to national sovereignty.

2- General overview of MNC:

A- Historical Growth and Global Expansion

The development of MNCs is closely tied to the historical trajectory of post-World War II economic growth. During this period, rapid advancements in *productivity, technological innovation, and capital accumulation* facilitated the expansion of corporate operations beyond domestic borders. FDI played a central role in this process, enabling companies to establish overseas branches and subsidiaries.

MNCs initially focused on transferring their operations from domestic markets to foreign ones.

Over time, these companies adopted *comprehensive global strategies* that integrated production, distribution, and sales networks across multiple countries.

The "*global layout strategy*" allowed them to optimize resource allocation, achieve economies of scale, and secure high profits worldwide .

These strategies represent a shift from national to transnational operations, underscoring the transformative role of MNCs in the modern global economy.

* Key Milestones in MNC History

- **1600–1670:** Colonial trading companies such as the **East India Company (1600)**, **Dutch VOC (1602)**, and **Hudson's Bay Company (1670)** pioneered multinational operations by combining commerce with imperial power.
- **1800s:** The **Industrial Revolution** enabled global expansion through railroads, steamships, and telegraphs, with firms like **Siemens and Singer** establishing international presence.
- **1900s:** The rise of **American corporations** (e.g., Standard Oil, Ford, Coca-Cola) marked the dominance of U.S. business abroad.
- **1950s:** Post–World War II globalization accelerated with institutions like the **IMF, World Bank, and GATT/WTO**, supporting rapid MNC growth.
- **1970s–1980s:** Japanese and European firms (Sony, Toyota, Nestlé) expanded globally, diversifying corporate power.
- **2000s–2020s:** The **digital economy** ushered in tech giants such as **Google, Apple, Amazon, and Microsoft**, whose influence now extends to data, AI, and global carbon footprints.

B- Definition of MNCs

Definitions^{1/}

While the terms "corporation", "firm" and "company" are generally used interchangeably, the term "enterprise" is sometimes preferred as clearly including a network of corporate and non-corporate entities in different countries joined together by ties of ownership. In the present context, "corporation" is not used as a legal term but rather in accordance with common usage as reflected in the wording of the Economic and Social Council resolution 1721 (LIII).

The term "multinational" signifies that the activities of the corporation or enterprise involve more than one nation. Certain minimum qualifying criteria are often used in respect of the type of activity or the importance of the foreign component in the total activity. The activity in question may refer to assets, sales, production, employment, or profits of foreign branches and affiliates.

B- Definition of MNCs

A multinational corporation (MNC) is a company that operates in its home country, as well as in other countries around the world. It maintains a central office located in one country, which coordinates the management of all of its other offices, such as administrative branches or factories.

A multinational corporation (MNC) is a company that has business operations in at least one country other than its home country and generates revenue beyond its borders.

Examples: Apple, Toyota, Nestlé, and Coca-Cola are classic MNCs, with operations spanning continents.

Presence in daily life: From the clothes we wear to the smartphones we use, MNCs permeate nearly every aspect of modern life.

B- Definition of MNCs

Here are four alternative types of definition of multinational corporations (MNCs):

1. An **'operating' definition**, one form of which is the ownership threshold definition – a firm which owns or controls income-generating assets in more than one country;
2. A **'structural' definition** where multinationality is judged according to organization of the company;
3. A **'performance' criterion**, incorporating some relative or absolute measure of international spread (for example, number of foreign subsidiaries, percentage of sales accounted for by foreign sales);
4. A **'behavioral' criterion** based on the corporation's degree of geocentricity.

C- Dual Impact on Host Economies MNCs

1. Positive Impacts on Production

MNCs are often considered catalysts for economic growth, particularly in developing nations. Their contributions can be summarized in the following ways:

- **Capital Inflow and Investment:** By channeling FDI into host economies, MNCs help mitigate capital shortages. These investments support infrastructure development, industrial expansion, and modernization efforts, particularly critical in resource-constrained regions [10].
- **Technological Advancement:** MNCs possess advanced technologies and innovative practices often inaccessible to host countries. Their operations help elevate local technological capabilities through technology transfer and knowledge-sharing initiatives.
- **Employment Opportunities:** Establishing MNC branches and subsidiaries creates job opportunities, often improving living standards and reducing unemployment rates in host countries.
- **Improved Trade Balance:** MNCs contribute to exports and balance international payments by integrating host economies into global value chains. This global integration allows host countries to participate in and benefit from international trade.

C- Dual Impact on Host Economies MNCs

2. Negative Impacts and Monopolization

Despite these advantages, the operations of MNCs often come with significant drawbacks:

- **Market Dominance and Industrial Monopolies:** MNCs frequently dominate critical industrial sectors in host economies, leveraging their superior capital and technology to outcompete local enterprises. This dominance marginalizes domestic industries and increases dependency on foreign entities.
- **Technological Monopolies:** While MNCs introduce advanced technologies, they often retain control over these innovations through intellectual property protections. This creates technological monopolies that hinder indigenous industries' development and limit host economies' long-term growth potential.
- **Economic Dependence:** MNCs' profit-driven operations prioritize their global strategies over the interests of host countries. This often results in unequal economic relationships, where host nations depend on MNCs for investments, technology, and employment opportunities.
- **Environmental and Social Impacts:** MNCs frequently relocate high-pollution industries to developing countries, contributing to ecological degradation. Furthermore, their pursuit of low-cost labor exacerbates income inequalities and undermines workers' rights in host economies.

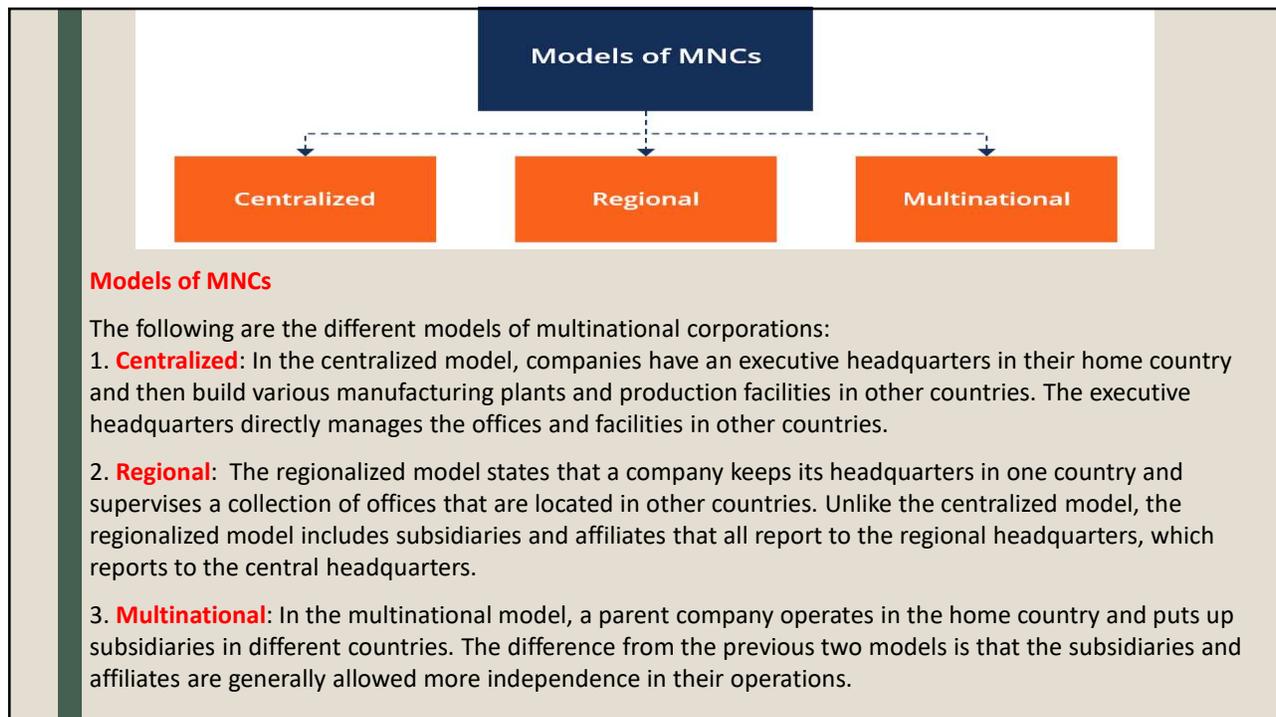
C- Dual Impact on Host Economies MNCs

3.3. Balancing the Dual Impact

To address the dual impact of MNCs, host governments must adopt strategic policies that maximize benefits while minimizing risks. Selective and regulated entry of MNCs, coupled with strong legal frameworks to protect domestic industries, can help achieve this balance. Furthermore, fostering local innovation and strengthening labor rights can mitigate the negative effects of MNC operations.

3- MNCs vs National companies :

Aspect	National Company	Multinational Corporation
Scope	Domestic only	Global presence
Decision-making	Localized	HQ + regional branches
Market strategy	Focused on local needs	Adapted to diverse markets
Capital & resources	Limited to national economy	Access to global capital, talent, tech
Impact	Local employment, taxes	Global supply chains, cultural influence



* Disadvantages of Being a Multinational Corporation

Despite the benefits of being a multinational corporation, there are also several disadvantages as well:

1. Increased legal burden

A multinational corporation will face increased legal complexity due to operating in multiple jurisdictions. Different countries have different laws around corporate structure, torts, contracts, the environment and employment, to name a few. The MNC requires a local legal presence to help navigate these complexities.

2. Increased tax compliance

An MNC will also encounter different taxation regimes by operating in many different countries. There may be different rules around sales or [value-added tax](#), tax deductions (e.g., depreciation), the ability to use [net operating losses](#) to offset future taxable income, not to mention different tax rates.

3. Public relations

A multinational corporation may be accused of sending or creating jobs outside of the corporation's home country, thereby resulting in negative public relations and political rhetoric in the home country. Conversely, the MNC may be accused of exploiting local workers, resources and regulations in the foreign country as well.

4. Political instability

A multinational corporation may experience political instability depending on where the MNC has offices and resources. Most MNCs have politically stable and economically developed home countries but operate in less developed countries. Sometimes the less developed country will experience political turmoil, including local corruption, which can impact the MNC's operations.

5- Examples of Multinational Corporations

- Apple
- ExxonMobil
- Microsoft
- Proctor & Gamble
- Tesla

Conclusion

Multinational corporations (MNCs) are firms that control economic activities across national boundaries. These companies adopt comprehensive global strategies that integrate production, distribution, and sales networks across multiple countries. Its role also is to diffuse knowledge worldwide and its pattern of foreign market entry have been successfully analyzed.

Analysts studied MNC's positive impacts and also drawbacks. Their impact depends on how governments regulate them, how responsibly they act, and how societies adapt to their presence. When managed well, they can be engines of growth and innovation; when unchecked, they risk deepening inequality and environmental harm. Nevertheless, they are still very important in world's economies and a central subject of study for many researchers due to their complexity and particularity.



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