A globalizing world: the advent of multinational corporations and their impact on...

Business, Company

Since the advent of globalization, the presence of Multinational Corporations on foreign shores has increased manifold, especially in foreign countries. This increase in the presence of foreign companies in developing countries brings with it its share of pros and cons. This essay seeks to provide an overview of the historical growth of these corporations up until the current level of presence of Transnational Corporations across the globe. The advantages and disadvantages, with a focus on the labor and human rights impact of MNCs in developing countries, will also be covered. This analysis will include impact on employment and labor conditions, Foreign Direct Investment or FDI, and governmental policies. The essay will also provide a case study of Nike's Tae Kwang Vina sweatshop in Vietnam to illustrate the effect that poor management and auditing of foreign operations by corporations can have. The focus of this case study will be the lapses in employment conditions and human rights violations. In addition to providing an overview of the case, the essay will also analyze factors that contributed to the violations.

Although the term Multinational Enterprise or Multinational Corporations has become popular business jargon today, there is no clear definition of a multinational corporation. In simple words, an MNE or MNC can be described as an organization that conducts business or is owned across countries or are organized into global products divisions. Others allocate a certain percentage of business activities that need to be conducted offshore or assets, sales, earnings or personnel that are sources from foreign countries. The term Trans-National Corporations of TNCs has also been used extensively . Yet another point of view is that, if an organization perceives itself to be operational at a multinational level, then it is indeed an MNC . The global presence of such corporations or Multinational Companies, henceforth known as MNCs, has grown tremendously in the last decade. As of 2006, there were over 60, 000 MNCs, most of which were based out of developed countries like the US and the UK. However, developing countries have become the location for the operations of such companies as well as over 500, 000 of their subsidiaries . Exploration and production operations of major oil corporations are outsourced to developing African nations whereas clothing and footwear products are manufactured in sweatshops in Asian countries .

Yet, MNCs also provide scope for employment in developing countries while boosting local support businesses. While this globalization of businesses presents developing nations, especially third world countries, with great scope for development and growth, there are several regulatory hurdles that need to be addressed. NGOs and human rights organizations across the globe have raised concerns about environmental protection, safety and rights of workers, taxation and audit requirements and consumer rights. MNCs from developed countries have been operating through other developed countries for several decades. US companies started having production and operational bases in European countries as early as 1939, although a major growth spurt was witnessed only post World War II . While there has been plenty of research on the presence of MNCs from developed nations, operating through other developed nation, very little study has been conducted on the same subject among recently industrialized and upcoming economies such as India, China and Taiwan .

However, the BRIC countries have been at the center of a major economic boom due to the advent of outsourcing. This has led to further growth in the logistics industry as well as overall international trade . The growing importance of emerging economies has lead to an upsurge of strategy research on the topic .

While there has been substantial evidence of the level of economic development that the presence of MNCs brings about in a developing country, their negative impacts on factors such as governance, human rights, labor welfare as well as the environment remain obscure . News reports of the excesses of MNCs in developing countries have been surfacing for a few years now, leading to further calls for studies into the impact such corporations have on the host country.

As international laws and regulations regarding the operations of MNCs in developing nations are reviewed and revised, companies need to formulate strategies that are in keeping with existing laws and are capable of adapting to future contingencies as well . At the same time, they need to safeguard and maintain the profitability of their operations in such nations in order to further their business gains. This often leads to issues about transparency and accountability of the corporations as there are no concrete regulations in place to monitor their activities on foreign shores .

On the positive side, MNCs are credited with creating employment opportunities across the globe. MNCs create over 73 million jobs, of which 12 million are located in developing countries. That is only 2 to 3 percent of the total workforce around the world . In the non-agricultural sector, one fifth of all paid employment is generated by MNCs, majority of the jobs being created in the manufacturing sector, especially technology related industries. According to UNRISD, 20% of all manufacturing sector employment in developing countries such as Malaysia, Argentina, Sri Lanka and Indonesia are generated by MNCs . Research has shown that the presence of MNCs has grown substantially, with China alone witnessing a 9% growth in MNC employment between the years 1998 and 2001, and an astounding 24% growth in the period between 2001 and 2004 . Latin America saw a growth of 22% in FDI projects in 2011, while Africa led with a 24% growth . In addition to generating jobs, MNCs also promote local businesses within their host countries.

Foreign Direct Investment or FDI is one of the most prominent reasons why governments of developing countries encourage and, in fact, go to great lengths to attract, MNC participation in their economies. FDI provides developing countries with precious capital that is greatly needed to boost their economic and infrastructural development. MNCs are key to the inflow of FDI to these economies in addition to other crucial resources such as technological transfer as well as upgrading of the skill sets of local workers. Direct investments by MNCs in host countries can be categorized as either Greenfield Investment or Mergers & Acquisitions or M&As .

If an MNC opens a business or manufacturing unit in a developing country, it would need local support for producing and selling their products. This would include acquisition of raw materials, infrastructural requirements, transportation, communications as well as marketing collaterals . For the local businesses, having a concentration of MNCs in an area can bring about a major spurt in business. Regions and cities with a concentration of MNCs often witness accelerated economic development. For example, the city of Bangalore in southern India achieved unprecedented rates of development and growth when it became the hub of several information and technology MNCs.

According to the UNRISD, employees in host countries that work for MNCs or their subsidiaries almost always have better pay scales, benefit packages as well as safer work environments when compared to those employed with local firms. However, when a worker’s productivity is compared to his pay, it turns out that MNCs may actually be grossly underpaying their employees for their efforts . For example, Indonesian women who sew sneakers for Reebok earn 80 dollars per month while they put in over 60 hours of labour each week. Reebok sells each sneaker for approximately the same price. Fashion giants Marks & Spencer, Next and Gap faced heavy criticism when it was reported that their products were produced in what were infamously termed as ‘ sweatshops’ .

It was reported that the workers were being made to work over 16 hours in a day while being paid only half the legal over time rates. A substantial number of the workers consisted of young children. There are several such instances of underpaid labour as well as unsafe working conditions. When the Observer reported the abuse of laborers at the workshops of Marks & Spencer, Gap and Next in developing countries, the companies claimed that they were, till then, unaware of the situation and launched independent enquiries into the matter .

In addition to human right violations and inhumane working conditions, MNCs have often been accused of influencing the local governments through bribery or by simply executing the power they hold over the area's economic development. It can be questioned whether the MNCs are considering the welfare of the people of the host countries or are only looking after their own interests. There have been studies that have tracked the growth of MNCs as well as studies on the economical status of developing countries . MNCs or TNCs are often caught in a battle for power and influence with the local governments of host countries. While the corporation would like to exercise power over government regulations and this can be achieved only by gaining the authority's cooperation, at the same time, MNCs are constantly looking for ways to exploit loop holes in existing regulations and often attempt to bypass the law to maximize profits .

While the primary responsibility of the welfare of its citizens rests with the government of a developing nation, such governments often succumb to pressures from MNCs to lower the standards of its regulations in order to attract foreign investments. MNCs have been known to push governments into reducing restrictions on investment, be lenient in the implementation of labor, environmental and consumer standards as well as provide relaxation of taxes. Between the early 1980s and the 1990s, almost all African countries had altered their foreign investment codes in order to encourage MNC participation in their economies .

In the year 1995, Nike, the world's largest manufacturer of sports apparel and shoes, started manufacturing factories in Vietnam. One such unit was the Tae Kwang Vina factory or VT. Although the company had a tangible positive impact on Vietnam's economy in the late 1990s, reports of how the factory had turned into a ' sweatshop' were soon heard. The factory employed over 10, 000 workers, 85% of whom were women . The use of hazardous substances such as toxic glue and solvents resulted in respiratory illnesses, nausea and dizziness while on-the-job accidents had become commonplace. Despite several human rights and environmental violations, operations continued without protest as the native populace were unable to rally themselves. It was NGOs and transnational information networks such as Vietnam Labor Watch or VLW that brought the plight of VT working before the global masses.

Campaigns and protests against the company began in 1997 across 10 countries and had spread to several cities in the US and Europe with consumers boycotting Nike products. Within a year, international NGOs such as the Global Exchange began protests and moved Nike to be accountable for these violations and insist that subcontractors implement better working conditions in factories .

As a result, Nike took several aggressive measures to check its increasingly negative image. In 1998, Nike agreed to comply with US labor laws across all its factors as well as eliminate the use of hazardous and toxic substances. By the end of the year, work conditions at VT had shown notable improvement . Independent audits of the sweatshops were permitted and, in 1999, the company launched a ‘ Code of Conduct’ across its operations in Vietnam. The working conditions in VT have greatly improved since, with a safer work environment and higher awareness among workers about their human rights and legal entitlements .

Nike was further forced by the global community to provide on par working conditions for its workers, regular monitoring and auditing of factories as well as enhanced Corporate Social Responsibility or CSR initiatives. In 2005, Nike responded by proactively publishing a report of the 700 factories that manufactured its products. Despite the corrective measures already in place, the results were not very encouraging. Through an audit between the years 2003 and 2004, it was found that over 25% of its factories in Asia still reported cases of physical and verbal abuse, with about 50% having limited access to toilet and drinking water. Over half the workers were being forced to work overtime, over 60 hours a week .

Although the international community lauded Nike for its transparency as well as acknowledged that the company was making sincere efforts towards rectifying the situation, some glaring questions have arisen due the failure of its measures thus far. The following factors can be deemed to be contributors to the existence of sweatshops and the inability of MNCs such as Nike to be able to control the grotesque violations of human rights therein:

- Competition: Due to globalization and the opening up of markets in Asia, the competition amidst consumer goods manufacturers has become fierce. As a result, companies are looking to maximize profits through efficiencies of economies of scale. In order to keep the pricing of their products competitive as well as attain maximum profits, companies need to intensely reduce the cost of production, a target that is easily achieved by outsourcing their manufacturing units to developing countries.
- Conditions in developing countries: The economic situation in developing countries is highly volatile. As these countries struggle to bring themselves up to a developed status, maintaining healthy commerce and trade, especially high levels of FDI becomes crucial. The economic conditions in

developing are countries are characterized by: a) Low per capita income, b) Low human capital levels, c) High incidence of poverty and under-nutrition, d) High population growth, e) Agriculture based economy, f) Poor urbanization, and g) Prominent informal employment sector. These characteristic pave the way for cheap labor without the necessity of providing working conditions that are common in developed countries. The administrations of third world countries often allow MNCs to exploit its labor resources and even forgo the local regulations.

- Minimal NGO empowerment: While developing countries may have numerous NGOs aimed at addressing local social issues, they lack the power to initiate concrete measures in this direction. The prominent reason behind this problem is the dispersed and uncoordinated nature of the NGOs.
- Accountability: With no regulations in place to monitor the operations of MNCs in developing countries, there is an almost complete lack of accountability pertaining to human rights and environmental standards adherence.
- Lack of awareness among workers: One of the most important challenges in the elimination of sweatshops is the lack of knowledge among workers about their rights and entitlements. Poverty and low income levels drive low wage workers to accept employment even in the worst of working conditions as it is a matter of survival to them. With lack of support from governments, the workers are also generally not covered by a union.

For the MNC, developing countries present the prospect of producing products at low labor costs, abundant raw material supply as well as access to untapped markets. On the downside, poor regulatory standards have led to unchecked practices on the part of the MNCs with regards to labor conditions, human rights, environmental impact as well as influences on government policies. It can be said that, as in the case of most fast paced economic developments, globalization and the growth of MNCs too will require focused efforts on the minimization of the ill effects of foreign influence while retaining the positive economic and social impacts that the presence of MNCs has on local populations in host countries.

Works Cited

Adams, Gerard F. Globalization: Today and Tomorrow. New York: Routledge, 2011.

Ajami, R., et al. International Business: Theory and Applications. 2nd. New York: M. E. Sharpe, 2006.

Baylis, John, Steve Smith and Patricia Owens. The Globalization of world politics: An introduction to international relations. 5th. New York: Oxford University Press, 2011.

Bhatnagar, Deepti and Animesh Rathore. " Bhatnagar, Deepti, et al. " NIKE IN VIETNAM: THE TAE KWANG VINA FACTORY." 2011. World Bank. 2 October 2013 .

Bonanno, Alessandro and Douglas H. Constance. Stories if globalization: Transnational corporation, resistance, and the the state in the global era. University Park: The Pennsylvania State University Press, 2008.

Castan Centre for Human Rights Law. Human Rights Translated - A Business Reference Guide. New York: United Nations Human Rights, 2008.

Chamberlain, G. GAP, NEXT and M&S in new sweatshop scandal. 8 August 2010. 2 October 2013 .

Dicken, Peter. Global shift: mapping the changing contours of the world economy. 6th. London: The Guilford Press, 2011.

Evans, R. and D. Hencke. " UK and US in joint effort to secure African Oil." The Guardian 14 November 2003.

Ferner, A., et al. " Dynamics of Central Control and Subsidiary Autonomy in the Management of Human Resources: Case Study Evidence from US MNCs in the UK." Organization Studies 25. 3 (2004): 363-391.

FT Business - FDI Intelligence. The FDI report 2012 - Global greenfield investment trends. London: FT Business, 2012.

Glover, L. and A. Wilkinson. " Worlds colliding: the translation of modern management practices within a UK based subsidiary of a Korean-owned MNC." The International Journal of Human Resource Management 18. 8 (2007): 1437-1438.

Graham, David and Ngaire Woods. " Making sorporate self-regulation effective in developing countries." World Development 34. 5 (2006): 868-883.

Hill, C. W. L. and W. Hernandez-Requejo. Global Business Today. 7th. New York: MvGraw-Hill, 2011.

Karlsson, Sune, et al. FDI and Job Creation in China - IFN Working Paper No. 723. Wporking Paper. Stockholm: Research Institute of Industrial Economics, 2007.

Lechner, F. J. and J. Boli. The Globalization Reader. 4th. Oxford: Wiley-Blackwell, 2012.

Mackinnon, D. and A. Cumbers. Introduction to Economic Geography: Globalization, Uneven Development and Place. 2nd. Harlow: Pearson

Education, 2007.

Morrison, Janet. International Business: Challenges in a Changing World. New York: Palgrave MacMillan, 2009.

O’Rourke, D. " Outsourcing regulation: Analyzing non-governmental systems of labor standards and monitoring." Policy Studies Journal 31. 1 (2003): 1-29.

O'Rourke, Dara and Garrett Brown. " Beginning to Just Do It: Current Workplace and Environmental Conditions at the Tae Kwang Vina Shoe Factory in Vietnam." 14 March 1999. Massachusetts Institute of Technology. 2 October 2013 .

Schertzinger, A. Creating Value in Insurance Mergers and Acquisitions. Wiesbaden: Gabler, 2009.

Teather, David. " Nike Lists Abuses at Asian Factories." The Guardian 14 April 2005.

Todaro, Michael P. and Stephen C. Smith. Economic Development. 12th. New York: Pearson, 2011.

UNRISD. Transnational Corporations: Impediments of Catalysts of Social Development? New York: United Nations Research Institute for Social Development , 1996.

Wright, M., et al. " Guest Editors' Introduction, Strategy research in emerging economies: Challenging the conventional wisdom." Journal of Management Studies 42. 1 (2005): 1-33.