

Issues faced by the multinational companies



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Multinational company (MNC) is actually a multinational corporation that functions with a headquarters in the origin of that country, while having other facilities and assets that are based in location of other countries.

Multinational corporation that operates in different countries provides technology, marketing skill and finance capital for a more profitable market in return. Many host countries have impose regulation which gives them a portion of share in profit, market and also jobs which is generated by multinational corporation in that particular country.

Multinational company can be categories into 3 elements which is horizontally integrated multinational corporations, vertically integrated multinational corporations and diversified multinational corporations

Horizontally integrated multinational corporations

Corporations that manage production establishments in different countries that produces similar products (example, McDonalds)

Vertically integrated multinational corporations

Manage production establishment in certain countries to produce products as input to its production establishment in other countries (example, Adidas)

Diversified multinational corporations

Production Establishment is neither horizontally or vertically integrated (example Microsoft)

Globalisation:

Globalisation can be seen in much different way, one way of seeing it as increase in the share of economic activity that is taking place across national boundaries. Globalisation that takes place has given a great impact on a number of interrelated developments such as:

Growth in foreign direct investments and multinational corporation,

Enhance the development of communication and transport technology,

privatization of public sectors services

Internationalization of financial markets.

The impact of globalization can be both positive and negative, the positive side can be seen the potential of generating wealth and improving the living standards of a country. Countries that have the skill and resources are able to take advantage of the opportunities provided by global market. However, it seems to be flaws for countries that do not fall into this category.

Globalisation can be said to have increase the gap between of poor and rich people, this can be seen through policies that are drives globalization process in the matter of business and not for the people. Globalisation is not entirely positive or negative, below are the point of view of people regarding the debate of globalization.

Positive view

“ Globalization is about worldwide economic activity – about open markets, competition and the free flow of goods, services, capital and knowledge. Consumers are its principal beneficiary.

Its benefits in terms of faster growth, quicker access to new technology, cheaper imports and greater competition are available for all. Globalization has made the world economy more efficient and has created hundreds of millions of jobs, mainly, but not only, in developing countries. It generates an upward spiral of jobs and prosperity for countries that embrace the process, although the advantages will not reach everybody at the same time.” ICC (International Chamber of Commerce) brief on globalization, Nov 2000

Negative view

“ What are doing, in the name of globalisation, to the poor is brutal and unforgivable. This is especially evident in India as we witness the unfolding disasters of globalisation, especially in food and agriculture.” Dr Vandana Shiva, environmentalist

Introduction: Unilever as an MNC

Unilever was formed in year 1930 through merger by Lever Brothers in British and Margarine Unie of the Dutch and now Unilever is based in London.

Unilever is one of the fast moving consumer goods (FMCG) in the world. They offer a wide range of products in food, beverages, personal care products and many more. The success story of Unilever can be seen in the annual turnover in the year 2009 which is €39.8 billion worldwide and employs 163,000 employees around the world.

Unilever established as a MNC because they have a headquarter in London, United Kingdom while other businesses operating in other countries. Here we will study how globalization and Unilever gives impact to the society as a whole.

Macro-environment for Unilever in host country (PEST analysis) :

Political

Unilever being a MNC company in the world does not support any political parties whose activities is to promote the party interest, this is because they believe that the business they operate in must be behave with honesty , integrity and openness. However, the political trends still affects Unilever for example in UK where the headquarter is situated.

In early February 2010, Unilever has been burden by the increase of taxation by the UK government. Initially, the company is already facing economic instability because consumer is unwillingly to spend more money. Paul Polman, the chief executive said that the daily mail,

“ If on top of that we would get an additional regulatory or tax environment that would make us non-competitive that would be unfortunate for the UK.”

Mr. Polman is worried with the increase of taxation; Unilever has to pay even more into for expenditure cost for research laboratories, manufacturing facilities and more.

The graph above shows us the expenditure cost of Unilever from year 2000 to 2009. From year 2000 until 2004, Unilever has been less on expenditure

such as manufacturing facilities, and research and development sector. As of year 2004 onwards the cost has been increasing yearly until 1, 700 (million) and with the recent increase of taxation in UK, Unilever will have to spend more on expenditure cost in the year to come.

This would improve the competitiveness of Unilever with other competitors as the firm is facing massive problems to deal with higher taxation, which will result in lower profit gained. This would be a motivational factor for the firm to encounter the problem by setting effective strategies to sustain such taxation rate at the same time remain competitive from price aspect. For instance, Unilever has implemented several technologies “ pallet live storage system” from Bitto Storage System Ltd to store frozen products.

Economic environment

In the economic environment, Unilever generates wealth by adding value to raw materials, and manufacturing their product for the consumers. The parties that are involve in the economic environment is their employees, government, investors, and many more communities that benefits from the activities of the company.

This graph shows the parties that benefit from the activities that are ventured by Unilever in UK. Despite the economic instability that happens in decades, Unilever is still able to generate an operating profit of €5, 020 and sales of € 39, 823 million in 2009. This graph shows us that the employees gain the biggest share of the company which is €5. 2billion, whereas the least share is earn by the local communities which is €89million. The provider of capital obtains the 2nd highest share which is €2. 5billion and the

governments gain €959million from the company in the form of corporation tax that is issued by the government.

Sociological Environment

Making a difference in society is one of Unilever's biggest aim because they want to deliver the best and to give back to the society that has been supporting the success of Unilever. Unilever will be focusing on 4 elements which is giving more choice to consumers, focusing more on research and development on healthier products, to provide nutrition information to the understanding of consumers and also improving nutrition quality of their products.

In order to improve the nutritional quality of the product and maintaining the taste , It is estimated that reduction of salt intake by 1g can reduce the chances of strokes by 5% and heart attack by 3 % reducing salt by as little 1 g. The Nutrition Enhancement Programme has come up with a strategy known as salt reduction strategy , in this strategy it states that " in 2009 we set product benchmarks to achieve a dietary intake of 6 g of salt per day by the end of 2010, with the ambition to reduce further to 5 g per day by the end of 2015".

This graph clearly shows that Unilever has taken the responsibility in giving consumer to make healthier choices. Unilever has come up with healthier products and also providing the health information on the products so that consumer will understand the content of nutrient in the product. For example, Knorr is one of Unilever's famous food solution brands in UK, all

crouton varieties are now containing less 70% less saturated fats and up to 40% less sodium.

Unilever has also extended their impact by working together with World Food Programme (WFP) where they support developing countries and improving the health and nutrition of product. In order to reach out to the people , Unilever in UK has donated €500, 00 through global partnership and with (WFP). They also encourage people to donate through website to the Haiti's earthquake disaster relieve cost. Unilever also had donated soap and Puriet (water purifier that does not need pressured water and or electricity.

Technology Environment

In the technology sector, Unilever has been spending in the area of e-business to improve brands communication and market through internet, and also making transaction simple along chain. Unilever Technology has work together with Unilever R& D group in order to meet consumers' needs. In the year 2003, Unilever introduce the new " pallet live storage system" from Bitto Storage System Ltd. The purpose of this technology is to store frozen products.

Plans are being made to improve IT infrastructure in Unilever. For example, increment in the energy-efficiency of data centers and applying power management strategies. Tele presence video conferencing is also applied in order to reduce the impact of business travelling. Telepresence has been generated in 13 countries and plan to add another 39 countries in 2010. This technology have helped us to reduce our emission by 4, 230 tonnes and save up to €12 million in travel cost for the year 2010

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PEST of Unilever in different countries

Political

Unilever in Nigeria are now facing with difficult time this is because of the government's policy such as indigenization, nationalization and also to deplore state infrastructure. The effect of this has made given Unilever with no choice but to consider pulling out of Nigeria and relocate themselves to Ghana. Unilever chose to leave is because there is no commitment made to the deplorable state of basic infrastructure in the country that causes a big loss to the business. Moving on, Unilever is also losing business because the inadequate power supply which has cost billion of naira and multiple taxation from regime in Nigeria has reduce the profit made drastically. The government of Nigeria should intervene this issue of basic infrastructure and develop the necessity needed before Unilever pulls out and cause bigger lose to the country such as increase in the rate of unemployment and living standard of the people can be advance.

Economic

The market environment is highly competitive in the Western Europe and this has disrupted the market of Unilever, one of Unilever's main competitors in the Western Europe would be Procter & Gamble (P&G). EU free trade policy has also affected the profit potential of Unilever. Products are also force to reduce in price by retailers, and due to current economic tide many consumer are unwilling to purchase expensive products.

In developing countries (Asia and Africa), where political instability, Unilever has come up with strategies in order to maintain the momentum of profitability. Example, some products are in small packages for low income earner for affordability, and this has help to increase the profit and at the same time increase the hygiene level of the people.

Due to inflation and fluctuation of currency Unilever in some country such as Nigeria to be precise has suffered a decrease in profit in 2005 compared to 2004. Graph below will show the turnover of Unilever in Nigeria.

This graph will show us the turnover in 2004 and 2005 is N3. 34 billion (naira) and N2. 56billion (naira) respectively. The profit after tax is N2. 17billion (naira) and N1. 61billion (naira) respectively in the year 2004 and 2005. From here we can conclude there is a decrease in profit in Unilever of Nigeria. Low per capital income of the people has also affected the market of Unilever because over 30% of African population lives on less than \$1 per day.

This would highly affect Unilever's competitiveness in the industry as it is important for an international firm to encounter every fluctuation in business, either currency or increment in taxation. It shows that Unilever has implemented a brilliant strategy to encounter the price factor for products, which is changing the packaging to affordable price by reducing the size, consumer's crave for Unilever's product can still be fulfilled. As shown above, turnover for Unilever has increased tremendously even after 2005 which show Unilever is capable and competitive to maintain its business level.

Socio-cultural

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Unilever has done their part to maintain the socio-cultural environment with its sustainability development. The company has been working very hard to bring improvement hygiene and better nutrition to the people in Asia, Africa and Latin America. Over 30% of Africa population lives on less than \$1 per day.

The awareness for people regarding hygiene and nutrition is very important and this has given the opportunity to strengthen their goodwill. However, marketing vehicles such as advertisement in print media has been overcome with challenges such as low workforce. Therefore, employment of more resources is very important for instance face-to-face communication to increase the awareness of the people. Unilever has also employed 100 nationalities to ensure diversity between employees and consumers. The major strategy that is use by Unilever is a diversity toolkit which is use to manage and leverage diversity that increases high demand of their products in the developing and emerging market.

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This would align with sustainable environmental outcome that is increasingly important globally because the firm has implemented several remedies in

enhancing its sustainable development from human rights, community services and environmental aspects, such as donations and activities to increase cleanliness awareness among the African nation.

Technology

Since in 2000, Unilever has been spending on IT to enhance the development of its business, mainly giving priority to the e-business sector as to improve brands communication and market through the blooming of internet as making transaction simple along chain.

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Sustainable development from environmental aspect can be seen as an important element for Unilever in improving its technology to reduce pollution towards the environment. The technologies implemented are highly effective in reducing pollution caused by the business and this is affected by

the increment in awareness of environmental issues globally in recent decades for positive environmental outcomes.

Impact of globalization:

The people around the world have always given the opportunity to exchange goods, services, culture, and knowledge with each other. However, recent technology and reduce of barriers has increase the exchange rate in recent years. This has given markets challenges, big markets means earning more money and interrelated to greater wealth generation for investing in development and reducing poverty, whereas weak domestic policies and trade barriers has stop a country from being flexible and fail to take the opportunity to maximise the benefits and minimise economic downfall.

Below is table that shows the impacts generated by the globalisation process.

Positive impact

Enhancing competition in recent decade is always a factor for firms to set effective strategies to remain competitive and also gaining additional profit in the future. Through competition, can help promote efficiency and productivity for the business, with different challenges that an international firm has to encounter to maintain its business activities and profit because business strategy is crucial in order to excel as it would improve business systems and practices.

Improved environmental awareness and accountability has contributed to positive environmental outcomes by encouraging the use of more efficient,

less-polluting technologies and facilitating economies' imports of renewable substitutes for use in place of scarce domestic natural resources.

Negative impact

The income earned by individuals will decrease due to the economy fluctuation and also low profit for a firm. This could be seen during economy fluctuation where employee's salary is cut and increment in unemployment. Therefore, the economy will not be improved.

Sustainable development is increasingly important because it is not only about how well a business runs, instead, how well the people is being treated. Human rights are also included in this section where fairness in treatment and other necessities of an employee or customer must be fulfilled.

Potential impact of globalisation:

Technology

Unilever's technology is very important to maintain the momentum to generate profit. New technology in the business which has branches globally will impact the productivity and encourage effectiveness as it will improve the living standard of the people. Existing technologies has consume large amount of energy and chemical in producing products and as a result produce large amount of wastage of water. Unilever has co-operated with Voltea Limited in order to save the usage of water. Voltea's breakthrough Capacitive Deionization (CapDI) is the first desalination system that is able to recovery high water usage and also operates without producing any

chemical that might pollute the water. In addition, this system has substantially reduced energy in production of products. The technology will soon be implemented by other businesses globally under the influence of Unilever, which was earlier to alter Unilever's host countries technology. CEO of Voltea Michiel Lensink has said, " Working with industry leaders, our technology has proven itself to be a breakthrough in low-energy, low-cost water desalination. As we continue our growth, we are keen to seek out industry leading partners who can further strengthen our position". Clean water is essential in sustaining agriculture such as tea production in Lipton tea on of Unilever's top leading beverage brand.

Sustainable development

Unilever has made approach in making tomorrow a better day. With their tag line " creating a better future everyday " shows that they have venture into enhancing the development of society. For the hygiene concern, Unilever are able to change the hygiene behaviour of 1 billion people in the future with emphasising on hygiene education programmes on developing countries such as Pakistan, African and also Sri Lanka. Reduction in the rate of carbon dioxide, water usage, and chemical waste will continue in the manufacturing operation because up to 2009, Unilever has manage to save up to 15% of water usage and reduce 25% of carbon dioxide emission to the environment.

This would effectively influence lifestyle of undeveloped countries and areas globally as these countries deserve to have better living standards under global effort by Multinational Corporation.

Changes in Lifestyle

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Change in lifestyle is a crucial factor in globalisation because the benefit that consumers extract from tea would affect the health of younger generation and consumption pattern of tea. Health is more important as time goes, tea is better than coffee from benefit because study has shown that tea containing anti-oxidant that can reduce the rate of getting a heart attack and cancer. Lipton tea can also change the lifestyle of older adults enjoying the fact that a modest price for a cup of tea and snack , they can meet up with friends and family members instead of going to a bar and paying for an alcoholic drink that does not even bring much health benefits compare to what tea has to offer. People in recent decade has identify the importance of healthy living which therefore act as an indirect force to encourage tea consumption worldwide, as compared to coffee that would carries negative impact on health.

Tea consumption

<http://www.fao.org/docrep/006/y4343e/y4343e05.htm>

Tea exports

<http://www.fao.org/docrep/006/y4343e/y4343e05.htm>

Graphs above demonstrated the tea consumption that is increasing tremendously. World tea consumption and exports are both playing a relatively profitable business.

Strategy for globalisation:

Unilever has applied several remedies and improvement in business activity in order to sustain globalisation that will give enormous impact to its business.

Personal care for future sales growth and profitability

Unilever has identified the key to achieve sustainable profitable growth through its personal care business segment as it generate the fastest-growing business compared to other sector such as food and beverages. Personal care business refers to the products that are self managed, such as hair shampoo and skin care products. This is because the demand for these products in the market has been increasing, as well as the existing sales from this segment is satisfying. However, Unilever's greatest rival Procter & Gamble (P&G) for many years have been more innovative and creative in introducing new products. In the previous year in the personal care sale increase only by 1. 4% to €11. 30billion while overall turnover rose by 1. 4% to €40. 2 billion. In order for creating future sales growth, Unilever will focus more personal care segment for future sale growth and sustaining profit from increasing raw material cost. Graph below shows the revenue increment in Unilever's products line, including personal care segments.

[http://www. goldmood. com/cosmos/h/UL. html](http://www.goldmood.com/cosmos/h/UL.html)

External Pressure and Organisational Restructuring

High cost of raw material, adverse exchange rates and macroeconomic worries such as politic and regulation of countries might affect the

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performance of Unilever. In order to secure generation of profit and sustaining raw material cost Unilever has come up with few strategies. Unilever has to reduce 20, 000 jobs across its production division and combine its Personal Care and food sector into one category to reduce cost that will be delivered to consumer. Unilever has come up with “ Path to Growth” strategy that promises improvement in its performances. This strategy will help the organisation to restructure its two global divisions, Home & Personal Care and Food into one division. This would effectively lower production costs that will be implied into price of the products and influence consumer’s consumption from price aspect. Price is a crucial matter to consumers due to economy fluctuation that will affect lower spending power.

Restructuring Unilever

Unilever’s CEO Patrick Cescau has announce that Unilever will be changing their management structure in order to focus on developing markets and promoting executives with experience in that environment. This is due to the reason of constant change in global business activity which makes Unilever’s management structure less effective to cope with latter business strategy. Centralising management has combined its central and Eastern Europe division will allow emerging economies to share similar consumer traits and potential for growth, as well as combining the cost that the firm has to sustain for distance management.

Besides, combination of Home & Personal Care and food sector is the company’s effort to increase its profitability in profit by reducing production

cost from workforce aspect. This is because the cost that will be delivered to consumer will be lower and make products affordable for consumers to purchase.

<http://business-strategy-case.blogspot.com/2008/04/unilever-business-strategy-2008.html>

<http://www.unilever.com/sustainability/strategy/>