

Globalization and the multinational enterprise assignment

[Sociology](#)



Chapter 1: Globalization and the Multinational Enterprise
Multinational enterprise (MNE) – Company that has operating subsidiaries located in foreign countries
Transnational corporations – Managed at a global perspective rather than from the perspective of a single country

GLOBALIZATION AND CREATING VALUE IN THE MULTINATIONAL ENTERPRISE

Building firm value (generating profit and value for shareholders) requires combining 3 elements: (1) an open marketplace (2) Strategic management (3) access to capital

An open Marketplace: Allows free movement and competition of labor, capital, technology, and innovation of entrepreneurship. Strategic

Management: Discover business opportunities, design, develop and execute a corporate strategy through all levels of management. Access to Capital

Ability of the enterprise to reach out and obtain resources from outside of the firm to pursue the firm's vision and create the value

THE THEORY OF COMPARATIVE ADVANTAGE

Each country specializing in products for which it possessed absolute advantage and produce more for less and exchange products for the items they needed
Governments interfere with comparative advantage for a variety of economic and political reasons, such as to achieve full employment, economic development, national self-sufficiency in defense related industries and protection of an agricultural sector's way of life.

Factors considered in the location of production facilities worldwide include:

Local and managerial skills

Dependable legal structure for settling contract disputes
Research and development competence
Educational levels of available workers
Energy resources
Consumer demands for brand name goods
Mineral and raw material availability
Access to capital
Tax differentials
Supporting infrastructure (roads, ports... etc)
Terms of trade are determined by supply and demand, but the process by which the terms are set are determined partly by administered pricing in oligopolistic markets

It takes a relative advantage in costs, not just an absolute advantage, to create comparative advantage. Global Outsourcing = A procurement strategy in which a business seeks to find the most cost efficient location for manufacturing a product, even if the location is in a foreign country. Main differences between a multinational enterprise and a domestic is: political risk, foreign exchange risk and corporate governance

MARKET

IMPERFECTIONS: A RATIONALE FOR THE EXISTENCE OF THE MULTINATIONAL FIRM

Imperfections in the market for products translate into market opportunities for MNEs
Reasons why firms become Multinational (motivators):
Market seekers – Produce in foreign markets either to satisfy local demand or to export to markets other than their home market (i. e. automobile manufacturers)
Raw material seekers – Extract raw material wherever they can be found.
Production efficiency seekers – Produce in countries where one or more of the factors of production are underpriced relative to their productivity.

Knowledge seekers - Operate in foreign countries to gain access to technology or managerial expertise. Political safety seekers - Establish new operations in countries that are considered unlikely to expropriate or interfere with private enterprise. Above motivators are subdivided into (2): Proactive investments - Designed to enhance the growth and profitability of the firm. Defensive investments - Designed to deny growth and profitability to the firm's competitors. THE GLOBALIZATION PROCESS

Globalization Process - The structural and managerial changes and challenges experienced by a firm as it moves its operations from domestic to global Corporation moves from the domestic phase to international trade (INTERNATIONAL TRADE PHASE) Own its own distribution and production facilities and owns assets and enterprises in foreign countries (MULTINATIONAL PHASE) Limits to Financial Globalization - Limit/Impediment: the growth in the influence and self-enrichment of organizational insiders. (increase of insiders interest to increase personal wealth rather than organizational value)