

The formation of multinational enterprises



**ASSIGN
BUSTER**

Firms or particularly Multinational companies (MNC) as part of their functioning cannot remain “static”. They have to break ‘boundaries’ both in the geographical sense as well as economical sense, to actualize the opportunities in the new markets and emerge successful. As the name indicates, MNCs are Multinational companies, which operate in multi-nations as part of the internationalizations strategy, and thus are being influenced by various factors. That is, with every firms wanting to expand their geographical reach and make an imprint in various markets, there will be enough opportunities for it, to initiate an entry into a foreign market. To initiate and actualize the entry, organisations become Multinational firms. Thus, firms which want to successfully tap the opportunities, brought on by various factors including globalisation, in foreign countries become Multinational companies. To tap those opportunities, firms have to initiate country specific strategies from the recruitment stage to the recruitment stage, thereby fully evolving and actualizing into MNCs. MNCs are organisations that have substantial direct investment in foreign countries and actively manage those operations and regard those operations as integral parts of the company both strategically and organizationally. (Barlett, Ghoshal & Beamish 2008, p. 2)

MNCs have to set targets and formulate various strategies according to the situation prevailing in those foreign markets. As every foreign market or country will have different political, social, economic conditions as well as different customers, competitors, prospective employees, etc, etc, there will be many opportunities as well as challenges, which will block the firms’

success. Thus, these factors could influence the practices of MNC's, thus enabling the firm to become a complete MNC.

Initial factors that lead to the formation of multinational businesses

Nations and its firms have been engaged in doing business with other nations and firms in order to get profits and cultivate their economies.

Although this form of trade is going for centuries, certain countries in certain period of time have imposed restrictions on this international trade. That is, these nations due to one reason or other actualized a protectionist regime, thereby blocking foreign companies to enter and do business in their territory. However, with the advent of globalization and the liberalization of the WTO regimes, this protectionist regime gave away to the regime of free trade, thus leading to the formation and proliferation of MNCs. Many countries have opened up their economies as part of Free Trade with globalization acting as the catalyst.

In literal meaning Globalization is defined as a collective alteration, an elevated association between various societies and their fundamentals because of the transculturation, the explosive advancement of communication and transportation technologies to assist an exchange of global economy and culture. The arrangement of a global community in such a way there is an immense contact linking various parts of the globe, with elevating potential of individual switch over, communal understanding and companionship among “ world citizens”, thereby leading to economic cooperation. When one looks at the economic or financial part of globalization, it is clear that globalization has given liberty to the business to

initiate an entry into various prospective markets, based on the Free Trade regimes of the entering countries, thus leading to the formation of MNCs. The main strength of Free Trade is that, it puts forward the notion that minimalistic state role or intervention resulted in better economy and importantly better society. That is, with greater role for private sector and importantly entrepreneurial role for individuals, it will be a 'breeding ground' for MNCs. Free trade proposes that human well-being can best be advanced by liberating individual entrepreneurial freedoms and skills within an institutional framework characterized by strong private property rights, free markets, and importantly free trade (Harvey, 2001, p. 2).

Globalisation's role in MNC formation

Among the many economic based movements, globalisation is the one which had and is still having major impact on the economic development of many countries and its people worldwide. "The word globalisation marks a set of transitions in the global political economy since the 1970's, in which multinational forms of capitalist organisation began to be replaced by transnational" (Appadurai, cited in Meyer and Geschiere 1999, p. 307).

Economic part of globalisation is the key because with the whole world becoming a kind of global village, barriers between the countries are broken with integration happening mainly in the economic aspects. In this scenario, foreign organisations, using the globalisation plank, have entered and will also enter various sectors of the businesses leading to the establishment of many MNCs. "Globalization is widely seen to be the dominant tendency of our time. It is a shorthand expression for a variety of processes

encompassing worldwide integration of financial systems, trade liberalization, deregulation and market opening” (Mathews 2006, p. 6)

With these MNCs providing good employment and the resultant good development, people of those countries have become financially stable and are going in search of material comforts, causing impacts on social change. From earlier times, many Third World countries including Asian and African countries only indulged in agriculture for their livelihood. However, with the onset of globalization and the opening up their markets as Free Trade regimes, these countries and their governments started to focus on industrial development, by improving their own industries and importantly by facilitating entry of foreign companies. Thus, globalization and the resultant Free Trade turned out to be a great boon for the formation and the development of MNCs. These countries as part of their Free Trade regimes opened up their markets and enticed the foreign companies with a slew of beneficial financial and social schemes. The other reason why MNCs are further welcomed by the foreign countries leading to further evolution is the need for economic development, as there is still major portion of population living in abject poverty. “ Despite formidable strides in poverty reduction... According to World Bank calculations, out of a total 2.3 billion people in China and India, roughly 1.5 billion earn less than US\$2 a day. Only rapid economic growth can hit them out of abject poverty” (Aslam). So, it is clear that the current economic growth will be sustained and even accelerated by these countries by welcoming MNCs in a more optimal manner. As a sizeable portion of good profits reached the local employees, thereby improving their economic standing and also optimizing country’s economy, MNCs can

become a common phenomenon. Although, there are some opposition to MNCs on the grounds that it severely affects the indigenous firms, people has started to realise that MNCs are not the culprit. Loss of customers and market share, happens mainly due to the inability of the local businesses, however they wrongly fear that large multinationals would drive them into extinction and cripple domestic entrepreneurship. (Bhagwati 2004, p. 181). So, this globalization and the resultant industrial and financial optimization are welcomed by majority of the people, with the government of these countries also taking maximum initiatives to support MNCs.

Factors during Recruitment process that aids MNC's formation

One of the main factors which play a key role in the formation of the MNCs is the workforce. That is, MNCs will normally put more focus during. Optimal recruitment function will only provide constant availability of effective employees. This recruitment function in a MNC will be quite different from the recruitment in a national firm, with regional factors being the strong criterion. National or indigenous firms will normally be established by recruiting the ' sons' and the ' daughters', that is, citizens of a particular country, while MNCs will have a mix of employees from many countries taking into account both the national and regional factors. In MNCs, the employees will be recruited mainly from the local population, thus giving the firms a multinational outlook. Recruitment of these diverse local or regional workers under the concepts of IRHM will be a common feature in MNC. That is, MNC will be consisted of employees from three national or country categories, when they are recruited to fulfil the various needs of the MNC.

The employees from the parent country where the firm is usually headquartered or based (or came from) are called Parent Country nationals (PCNs). The employees from the host country where a subsidiary or MNC may be located are called host country nationals (HCNs). Finally, there will be third or other countries which may be the source of labor, finance, research and development, and the employees from these countries are called third country nationals (TCNs) (Scullion & Collings 2006). Among these three groups of workers, MNC's will be duty bound and also logically recruit the first two groups of workers and thus will become an MNC in actual sense of the word. This recruitment process, apart from complying with the unwritten rule of giving maximum employment to the local population, will also benefit the MNC in many ways. That is, apart from elevating the organisation's image in the eyes of the local population, it will also provide them with surplus and at times cheap labour. Thus, MNC by recruiting HCNs as part of regional factors can achieve two targets in one single action.

Conclusion

With globalisation making both positive and negative impacts, multinational businesses with sound business strategies should have surmount the challenges. Unison of humans into a team, with an urge to usher the organisation into a successful 'territory' will actualize, only if the workers show optimum functionality. But, as a kind of cycle, only if apt, qualified, equipped workers are recruited, they could exhibit optimum functionality. For that, as discussed in this paper, the staffing process of the organisations has to be optimum. That is, when it comes to Multinational companies stationed or located in foreign lands, all the organisational processes have to

be implemented in an effective manner based on the various influencing factors.