The role of multinational enterprises in developing countries

Countries

The Role of Multinational Enterprises in Developing Countries According to the Oxford Dictionary, a developing country is “ a poor agricultural country that is seeking to become more advanced economically and socially” (Oxford Dictionaries Online). Multinational Enterprises (MNEs) enable developing countries to achieve these objectives in several different ways. For instance, they introduce foreign products, injectmoneyin the economy, and serve as a learning engine in the communities where they are located. In this essay, I will discuss the positive impact that MNEs have on developing countries through human resource development. MNEs support developing countries’ social and economicgoalsthrough the improvement of human capital by providing enormous numbers of employment opportunities, useful skills and training for their workers, and a businessculturethat is aligned with global standards MNEs bring hundreds of thousands of employment opportunities to their host countries.

This contributes to a higher standard of living for individuals and to improvements in local economies. The unemployment rates in developing countries are generally very high. In 2011, Nigeria, Liberia, Haiti, and several other developing countries, had unemployment rates that were well above 20% (CIA – The World Factbook). MNEs reduce the income gap between first and third world countries by generating direct and indirect employment opportunities. For example, the International Labour Organization (ILO) found that, in 1976, approximately 2 million people were directly employed by MNEs in developing countries (Kumar, 1980, p. 6). One successful MNE that has made significant contributions to the economies of countries in the developing world is Volkswagen. Volkswagen supplies thousands of direct job opportunities to inhabitants of emerging countries. In their supply strategy, they explicitly state, “ We are convinced that international work sharing, combined with free access to markets, supports growth and wealth in … developing countries. Responsible globalisation with the challenge of securing theenvironment-related and social-oriented services in an increasingly global setting, as well as further developing them with innovative and flexible solutions and projects, represents a contribution to sustainability across the world” (Volkswagen Konzern Startseite). Volkswagen has proceeded to establish an extensive production network that includes facilities in countries such as Brazil, South Africa, India, China and Mexico.

In the city of Puebla, Mexico alone, a Volkswagen production facility employs 13, 937 workers (Volkswagen Konzern Startseite). Some indirect opportunities associated with the presence of MNEs include increased business for local vendors, and demand for raw material production. One argument against MNEs is that host countries often become dependent on them. For example, an association comprised of six European firms was responsible for 66% of Nigeria’s exports and 70% of its imports (Chukwuemeka, 2011). Kumar (1980) stated that, “ people have been socialized to look at outsiders for guidance and support.” It is true that developing countries rely on local MNEs to an extent. However, this reliance only occurs initially, as a result of a lack of wealth in their countries. Once host countries utilize the benefits provided by MNEs to improve their economies and become self-sufficient, they no longer rely exclusively on MNEs for sustainability. Furthermore, the dependence is double-sided. MNEs rely on developing countries for the local labour that they supply. Hence, a relationship between an MNE and its host country is mutually beneficial

MNEs also enhance the human resources of developing countries by supplying their employees with useful skills and training that are often unavailable in local firms. Skills, training and experience contribute to the personal development of individuals and, therefore, lead to long term economic growth and superior business conduct. Many domestic organizations in developing countries underinvest in proper training programs. According to the World Business Environment Survey (WBES), results from several surveys conducted in 2002 and 2003 indicated that the number of trained employees within local enterprises ranged widely, from 30% to 75% (Miyamoto, 2003, p. 29). The lack of training initiatives inherently make domestic companies less competitive, as training is a significant source of skilled employees. In contrast to the domestic companies, MNEs are more likely to implement training programs, as they do not face significant credit constraints, they have access to global information on efficient business conduct, and they are interested in low turnover rates (Miyamoto, 2003, p. 31). MNEs recognize the need for skilled employees, and therefore see training initiatives as an investment for long term growth (Kumar, 1980, p. 30).

The resources that are available to MNEs allow them to employ this strategy and make significant differences in the lives of many individuals in third-world countries. For example, Shell Oil has participated in countless initiatives in oil producing districts of Nigeria to provide aneducationfor potential employees. Eweje (2006) claimed that, " the company states that it actually provides 480 university scholarships for students from oil producing areas every year...” One study was performed by Zheng (2007) to quantify the investments made by MNEs for training initiatives in developing Asian countries, such as Indonesia, Malaysia, Singapore, and Thailand. The study found that MNEs have indeed invested significant funds in these programs. For example, the mean dollar investment for American firms was $419, 855 per firm (Zheng, 2007, p. 481). These initiatives enable individuals in third-world countries to establish themselves professionally and become more valuable contributors to society. It is common for new local entrepreneurs to enter the market as a result of their newly developed skills.

Finally, MNEs develop human capital in emerging countries by introducing a business culture that is consistent with global ethical standards. Although their facilities are located elsewhere, MNEs are heavily scrutinized and held accountable in the first-world. For example, in the 1990s, Nike suffered extreme negative publicity, as it was employing children and providing poor working conditions for workers in developing countries such as Cambodia (Locke, 2006). Nike’s sales dropped significantly as a result, and they were forced to issue strict regulatory laws concerning ethical conduct in their sweatshops (Stanford University – The Nike Controversy). This demonstrates how MNEs face a higher probability of detection and a higher penalty for negative publicity from immoral behaviour (Harrison, 2004). As a result, MNEs often provide higher quality working conditions and promote ethical practices in business. Companies, such as McDonalds, have official documents that articulate global standards for business conduct in their facilities. These standards include ethical guidelines, rules for corporate socialresponsibility, and safety standards.

The languages of these documents differ according to geographic location, but the material in each one is identical. Thus, the same ethical policies are held as a standard in highly industrialized countries, like France, and emerging countries, like Malaysia (McDonald's – Official Global Corporate Website McDonald's). Another example of an MNE that employs global standards is Coca-Cola. Coca-Cola has a Workplace Rights Implementation Guide that provides a checklist for their global suppliers to ensure that no violation ofhuman rightsoccurs, such asdiscrimination, abuse of labour, andchild labour(The Coca-Cola Company). Such ethical practices enable individuals in developing countries to enjoy safer working conditions and have a better understanding of globally accepted business standards, which can be helpful in their own business initiatives. In addition to the ethical standards that MNEs enforce, they also teach their employees global expectations for conducting oneself in a business setting, such as how to dress, how to negotiate, and how to handle customers and suppliers.

All of the aforementioned developments are critical for individuals to establish themselves in the business world. They also encourage higher standards of conduct among local businesses. Critics argue that the establishment of a business culture imposes industrialized practices and destroys authentic culture in developing nations. For instance, Ghertman (1984) wrote that, " they brutally impose a Western-style culture on rich as well as poor consumers and so destroy the old way of life and the national identity of these countries." Although this is a valid concern, this argument can be refuted with the definition of a “ developing nation”. Since a developing nation seeks to become more economically advanced, it would be unjust to deny them the opportunity to industrialize and become part of the global economy. Furthermore, the world is becoming increasingly globalized. It is inefficient for a country that is interested in advancing itself economically to remain isolated. In fact, in order to succeed economically, a country must adopttechnologyand productive techniques from other countries and learn to respond to changing economic and social circumstances.

In conclusion, despite the heavy scrutiny and occasional mishaps that occur, the overall impact of MNEs on developing countries is extremely positive. Among the most important contributions is the development of domestic human resources. This is done through direct and indirect employment, training initiatives, and the establishment of global business standards. Bracken (2004) stated, “ Today, the multinational corporation is the most vital institution of economic development, social change, technology, and let’s face it, dynamism and new ideas.” Hopefully developing countries will continue to utilize the resources provided by MNEs, and become more active and competitive players in the global market.