

Effect of the recession on multinational enterprises



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Economic recession is general slowdown of economic activity over a period of time that measured by Gross Product Domestic (GDP), recession is highly characterized by falling of investment spending, business decline, slow growth of new business high rate of unemployment.[1]

Economic recession can be caused by widespread of drop in spending and investments, poor micro-economic policies, such as poor control of financial institutions such as banks, and other lender institutions as well as other economic variables

During economic recession, many business profitability declines and other bankrupt due to lack markets for their products and services, many customers have inadequate money to buy these products and services.

Economic recession also affect stock markets, where by share of the companies drops sharply and reduce confidence to investors

Government revenues decline due to economic recession, hence government fails to provide social services and other future plans.

Economic recession in one country can also affect others, in sense that recession has magnitude, many multinational companies operate more than one country, and hence impact in one county can have multiplier effects in other countries, many FDIs also will be affected

E. g. economic recession which was hit USA in 2008/2009 which was contributed to united states housing bubble and subprime mortgage crisis, was affected not only in America but almost all over the world, many

business affected with this recession, stock markets such as NYSE, LSTE, and other banks were bankrupted such as warner brothers.[ii]

Impact of Economic Recession

High rate of unemployment, recession can contribute to high rate of unemployment in sense that may company reduce number of staff in order to strive; in recession it leads to other problems, such as people who lack jobs may engage in criminals in order to survive.

Recession may lead people to lack disposable income; and other fails to repay their loans hence many families are affected.

Decline in productivity, where by many business profits falls, other firm's bankruptcy, hence and affect the whole financial system.

Recession has negative impact due to decline of growth domestic produces (GDP) where by its affect economic as well social life.

Many new businesses collapse, and hence fails to repay their loans banks.

Recession can led to decline in living standard due to the fact people depend on wage and salaries, this can have negative impact on stability of families and individuals health and well-being

Multinational Corporation (MNC) or transnational corporation, is an enterprise that manages production or delivered service in more than one country, multination cooperation has been achieved due to advancement in information technologies as well globalization,

British is one of country which have many multination companies such British petroleum Vodafone, Virgin, Rynair as which operate within and outside the country, they are interested to operate in emerging economies such as India, china, Africa and Brazil

British companies usually engaged in international business

Acquire new markets, British multinational usually going international in order to search new markets for their products and services, many large firms flock to china, India, brazil and Africa due to growing of consumer purchasing power.

Increasing sales, firms expand international so as to increase its market share hence being able to compete.

Acquiring resources, large firms decided to go globally because to find resources so as to continue producing and ensure production cost can be controlled hence to able to pass benefit to customers.

Cheap labor, due to growing of stiff competition in the markets, large firms fight to reduce production cost in order to earn profit, this led companies looking overseas areas where cheap labor is available.

Global Strategies, many firms consider engaged in international business as strategies in order to survive in a stiff competition

Growing consumer pressure, tastes and preferences of consumer has changed dynamic, income increase; consumer can be able to purchase

luxurious products and services, growing income to emerging economies influence many firms to set their operation and respond to these markets

The external environment is an essential element for the business to operate international due to the fact business do depend on external environment because and changes can have multiplier effect toward business, if the country policies towards economy are good and there is peace and security business will prosper as well as economy

PESLTEL for British Multinational Enterprises are;

Political

British MNE they are highly interested to operate in where there high democracy and freedom of speech, and where there is a less government intervention towards business unless it's breaking the abiding laws.

Multinational Enterprise, interested operates in a country which there is peace and security, and that countries have diplomatic relation with other countries.

Tax policy is well structured and can be predicted, this give opportunity for business to incorporate into their business, in a country where taxation policy is highly uncertainty many British MNE are not interested to invest in these countries

Multinational enterprises interested to know all regulatory bodies governing trade, local and international business such competition laws, employment laws, Business ownership laws, health and safety laws, foreign and local

trade regulatory, fair competition bodies as well as environment protection laws main objectives is to make sure the business running smooth.

Economic

British Multination enterprises are interested in invest in a country where a GDP is heading toward good direction, this is good conducive environment for growth of business

Also British MNE prefer to engage in international business in a countries which their economies are growing and their citizen has disposable income in sense that this will provide market as well as access to raw material.

British MNE prefer to invest in countries which have national comparative advantage, such as huge population as well as huge market, good climatically condition availability of natural resources such gas, oil and minerals.

British MNE also interested to invest in a country which has efficient money supply low interest rate

British MNE are highly consider types of economic system, preferred capitalism where by supply and demand is controlled by markets

Multinational Enterprises interested to operate in countries which are not prone to recession and depression, due to the fact these affect companies profitability..

Technological factor

Advancement in Information and telecommunication technologies (ICT) and innovation contribute for multinational enterprises to participate in international business, technologies such as internet, teleconferencing, where company headquarters can have two ways communication with scattered branches around the world.

Transport Innovation, development of maritime technology and existence of many airline companies, contribute MNE to engage in international business

Transportation innovation, Development of maritime technology and existence of many airline companies in transportation system lead easier to fly around the world at competitive fares and conduct business.

Many international companies inject huge sum of capital in research and development to come up with a newer, better and innovative products due to increase of competition among international companies as well growing of consumer pressure due to increase in of income

Social factors

Multinational enterprises interested to operate in country which there is large population, hence be a market of the products and services provided by these multinational companies, many multinational companies interested to operate in china, India and most of African countries due to large population.

Due to powerful economies of western countries and globalization, social culture and life style affects other societies, such as Africans and Asian

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societies adopt a western culture, and hence create opportunity for MNE to engage in international business

Ansoff Matrix Model

Source; tuitor2u. net

Ansoff Matrix Model is one strategic tools objectives, and most well-known framework for deciding upon strategies for growth, the firms which attempts to grow depend on wither its market to a new or existing products or in a new or existing markets

Market Penetration is when a firm decides to market existing products to its customer, the aim is to maintain or increase market share to the existing products to customers and increase usage of existing customers

Strategies such as, competitive pricing strategy, advertising, sales promotion and also personal selling as well as aggressive promotional campaign and led market to be unattractive for competitors.

Market Development, Is when firm decide to sell its existing product into new market, firm can implement this strategy by, by moving into new geographical areas such as exporting to a new country, new product dimension or packaging, new distribution channel or different pricing strategies which can attract new customer.

Products Development, is the growth strategy where by firm introduce new products into existing markets, strategies such as upgrading which can appeal to existing markets

Diversification, is the growth strategy where by firms decide to market new products to a new markets, diversification can relate or unrelated depending with company policies.

Strategies to execute in recession period

In period of Economic Recession many multinational enterprises should review their growth strategies, due recession which affect the prosperity their business,

By using Ansoff Matrix Model as strategic tools for growth, Multinational Enterprise can adopt this in survive.

The first strategy should be execute for multinational companies in a recession period is cut operation cost and reaming with core business in order to survive

The appropriate strategy, which Multinational Enterprise can execute, is by market development strategy, where by firm can decide to shut down their operations in countries which affected with recession due to the fact recession affect purchasing power, hence people fails to buys products and services, firms can decide to operate in countries which economy is growing.

Other Strategies which can be adopted by the Multinational enterprises is diversification strategy where by firms can decide to market new products to a new markets, a Multination company can decide to diversity their business and start new business e. g. electricity firm can decide to enter into hotel business but there is lot of risk to be considered before making decision to diversify

Multinational Enterprises can decide to diversify their operation into new emerging market, and which are not affected with recession, countries such as china, India and Brazil.

Globalization is the broadening set of interdependent relationships among people from different parts of a worlds that's to be divided into nations, the growth of globalization has accelerated due to advancement in information and telecommunication technologies such as internet, teleconferencing, Enterprise resource planning (ERPs), Knowledge management (KM), Customer relationship Management (CRM).

I do agree that the benefit of new technologies will off-set the in investment in R&D. in one perspective but in other circumstances new technologies might increase investment in R&D, this can argued as follows.

New technologies help multinational companies; to reduce cost as well as time which were previously invested in R&D due to the fact the time taken to come up with the new product is essential due to competition among multinational companies

Development of new application software, such has designing and drawings software, CAD, 3Ds helps companies to design a products which meets customers taste and preferences to customer across the world.

Internet technologies help multinational companies to advertise and sell their products and services on line around where it can reach many customers at a low cost.

Internet technologies also helps R&D departments in multinational companies to get instant review about their products, such as how customer perceive that products, their weaknesses. This feedback helps companies to come with the newer and innovative products in the market.

In other circumstances new technologies in R&D contribute to increasing competition to multinational companies, due to the fact barriers for entry become low, companies now days can but these technologies on shelves and entering into business.

Despite of new technology, in R&D, the competition become stiff, due to emerging economies such as china, India have decide to engaged in international business.

New technologies helps to reduce investment in R&D but also create new challenges due to the fact many small emerging companies used technology as strategy to engage in international business, and create stiff competition.