

**Multinational
enterprises engage in
foreign direct
investment
economics essay**



A multinational enterprise is defined as an enterprise that engages foreign direct investment (FDI) and owns or controls value adding activities in more than one country (John H. Dunning, 1992). Today all big multinational enterprise was once a small firm with a less number of employees. Once the firm started manufacturing the product according to customer needs and satisfaction, then the firm can achieve high success in the market. To start a business a firm needs a capital amount. In the beginning stage of business the firm does not know how to market the product and who are the entire customer's and what actually the consumer want.

The main reason that firms outsource the products is to know what actually the consumer really needs and to understand the market conditions.

Outsourcing helps to reduce the overall costs in an organization. So the cost factor becomes less. Once the firm satisfies customer needs and satisfaction then the business and market can be globally expanded. To achieve high success in business, the firm has to design products according to consumer needs and satisfaction than market conditions.

Market conditions are also an important factor; the firms should know how well the product is playing into market and how long it lasts in the market. Customers are the king source in business. To reach our product to all kinds of customers is through advertising, the advertising costs are expensive. So if the firms outsource the product then there is no problem to worry about advertising costs. To expand the business globally the firm has to manufacture products with good quality.

A national enterprise is the one which does business within the country and it has no foreign direct investment (FDI) and no exchange value. The difference between national enterprise and multinational enterprise is national enterprise has less number of competitors and multinational enterprise has more number of competitors. Once the business started growing globally the multinational enterprise contributes fifty percent of funds to its organization.

To do a business in a particular product, the product has to be patented. The cost of obtaining the patent license is expensive. So if the firms outsource the products then the patent cost becomes less. If the patent license is obtained, then the business can be expanded globally and export cost is also reduced. " Globalization is the circulation of goods, services and capital, but also information, ideas and people. It has shaped all of the twentieth century, albeit with large cyclical variations and has become an increasingly visible force in recent decades" (World Bank, 2000).

FDI

Local Packing & Assembly

Export through own Supply representative or sale subsidiary

vxfczxfgd

Representative or sales subsialary

Export via agent or distributor

License

Time

Depth of involvement in foreign market

Fig: 1 Entry into foreign Market

Source : Rugman A. M., and Collinson S, 2009

Once the business starts growing globally, the competitive advantage also starts increasing. We will come to know about latest technology in the market and more firms in the world. In the initial stage the firm should target only one country to market the product. Once the firms become success in that country then the firms can target many other countries. If the firm exports the product through agents or through distributors then the firm will come to know about the market conditions and the competitive advantage of the product.

The important thing is that firms should concentrate mainly on quality, customer's need and satisfaction and market condition of the product. The reason that firms export the product through agents or through distributors is the exportation cost. The exportation cost is less. Once the quantity of customers is increased, then the firm can achieve high profits. Then gradually the firm can increase its production and globally the market is also expanded. The firms can exchange ideas and information, improves communication and networking is developed.

Initially the main reasons for outsourcing the business are the cost factor. Cost is an important factor to design a business. While doing business the firms should know how to control the overall costs and expenditure. The main aim is to manufacture products with good quality and low costs. The raw material costs are high and the availability of raw materials is very low. Once the number of consumers is gained the business is expanded globally and the firm itself can directly market the product.

The main reasons for multinational enterprises are responsiveness to environmental forces such as competitors, customers, suppliers, financial institutions and government. Attracts common pool of resources including assets, patents, trademarks and human resources. More number of competitors starts increasing once the firms become multinational enterprise.

“ The level of development of each country vis-à-vis the aforementioned prerequisites clearly differs” (Patrick, 2000). Central Europe is advanced in terms of infrastructure and privatization than south-west Europe. Mainly western countries give tax benefits and the government itself will provide funds for the firms which are all sick. Foreign direct investment takes an increasingly important role in the restructuring process which hinges on a number of variables. The main reasons that firms go for multinational enterprise is the job opportunities.

Job opportunities will be expanded and a large number of employments are provided to large number of people. The national enterprise face pressure from trade union activity to avoid company spread their bases around the

world; this in turn weakens the company's growth and economy. One of the important reason firms go multinational is to increase sales and to expand production activities. National firms naturally do not become multinational firms; the company has to expand its production, manufacture good quality products and should solve the problems. There should be a smooth flow in running the firms. Then only the company has improved in its production, profit, technology and growth.

The advantages of multinational company are as follows:-

Marketing opportunity: When they expand over different countries their market expands. The products can be marketed world-wide in different parts of the world and the exports also can be increased. Joint -venture with overseas countries also makes a national firm multinational.

Research and Development: This helps us to manufacture products with good quality. If any failure occurs, while designing a product, this helps us to rectify the errors. And immediately the problem is solved.

Export promotion: Export and import plays a key role for the countries income. Lot of foreign exchange is earned through supply of raw materials, technology and various other product.

Growth of industry: The growth of multinational companies are considered to be quick when compared to others. It also helps the domestic companies to grow by giving work opportunities. They also help them enter global market through their network.

Gives latest technology: it plays the role of manufacturing good quality products and reduces the cost of production. Multinational companies are basically rich. It solves the bridge between developed countries and developing countries.

Optimum utilization of resources: this helps us to utilize the natural and artificial resource in a preserved manner. Uses natural and artificial resources of the home country. Home country gets benefited by the growth of these companies.

Help to local industry: This provides a ready market to domestic suppliers of raw materials or semi-finished products

Management opportunities: Opens management opportunities to management students who can be appointed as professional managers to earn a handsome salary and build reputation of the company.

National development: Developing countries are highly benefited by the multinational companies. It helps them to increase their efficiency and improve the technology and most importantly foreign direct investment. It helps the developing country improve economically as well by providing financial and technical support.

Monopoly: When multinational company enters in to domestic market they compete with existing competitors and break the monopoly of selected few companies.

Conclusion

Firms go multinational as they are bound to have many advantages such as cheap labour, cheap raw materials which will help them in cost cutting. They enter into a competitive market and strive to increase their sales. There are three important stages to become a multinational firm. They greatly depend up on export and expansions of export sales to justify building new plants out of the countries. Secondly overseas production, there must be a limit to overseas sales that is being halted by a multinational company. Lastly the firm needs to start their research, planning, organizing, coordinating, production, marketing and financial support which is said to be R&D (Research and Development) to go multinational. In deciding whether the reasons for becoming multinational have changed, considering the buzz word has only been around for the best part of forty years it is fair to say that it has not. If we look back at the end of the last century the only difference is that the huge petroleum companies, gold mines and fruit growers only became multinational. To get closer to their market, the transport of such goods are difficult than it is today. Indeed, as recently as it could still be taken as axiomatic that it was both desirable and feasible for firms that were diversified both by product and to develop multidimensional strategic capabilities. To build broader organizational capabilities those transcend formal structure.

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