

Global financial crisis impacted upon mncs



**ASSIGN
BUSTER**

Another oxymoron example is TESCO. TESCO holds 6, 351 stores around the world and keeps attracting more customers by cutting down the prices and making special offers all year round. This led TESCO's profits to increase by 10 per cent in 2009 in comparison to the year before. As Chief Executive Sir Terry Leahy had stated in BBC Five Live Breakfast (2009): " This is a good news story. It is good to report that a British business is doing well here and around the world and paying £1billion in tax ...and still able to create jobs" (Poulter, 2009). The above statement shows that despite the bad circumstances the economy faces, some companies achieve their targets and even if they can't have an overall success they still have something to offer and give back to the society. Moreover, looking after your customers in tough periods, such as the one we are currently facing, increases the customer loyalty and retains the company's good reputation. Having said that, in October 2012 TESCO announced a fall in its profits. This downturn happened almost 20 years after TESCO heavily invested around the world. Since overseas investments carry the risk of financial losses, which can increase during a recession, MNC's need to have a robust business plan in place as an alternative to exiting a foreign market. 6

3. Conclusion 8

Bibliography 9

1. Introduction

The purpose of this report is to demonstrate the impact of global financial crisis upon multinational corporations. An emphasis is going to be given to a variety of examples which will help us realise the truly effects. We will

examine both positive and negative aspects, in order to understand in depth the impact of the recession upon multinational companies.

Since the Great Depression of 1930's, the world hasn't faced another recession, until 2009, when the second global financial crisis occurred. It is mentioned in the Guardian that: " Thursday 9 August 2012 marks the fifth anniversary of the financial crisis - " the day the world changed" as former Northern Rock boss Adam Applegarth put it" (Larry Elliott, 2012). So, in barely three years from 2009 until 2012, we have encountered three financial crises.

A financial crisis can be defined as an event where the demand of money outpaces the supply and where assets drop rapidly. Thus, there is no liquidity of money, as the available money is withdrawn from the banks and savings accounts in order for people to avoid a short fall or a collapse. Also, investors sell off assets because of the fear of illiquidity in recession times.

Edward Carr points out: " When the financial system fails, everyone suffers. Over the past 22 months the shock has spread from American housing, sector by sector, economy by economy. Some markets have seized up; others are being pounded by volatility. Everywhere good businesses are going bankrupt and jobs are being destroyed. For the first time since 1991 global average income per head is falling. Even as growth in emerging markets has come to a halt, the rich economies look set to shrink. Alan Greenspan, who as chairman of America's Federal Reserve oversaw the boom, calls the collapse " a once-in-a-half-century, probably once-in-a-

century type of event". Financial markets promised prosperity; instead they have brought hardship" (Carr, 2009).

The report above illustrates the global effect of the financial, starting in the U. S and then spreading across the whole world. As a result, it took reasonable that a chaotic economy followed by actions of panic can affect every company in the world and the Multinational companies are no exception.

2. Effects on MNCs

A multinational enterprise is a type of company that operates in at least one or more countries other than the home country. In other words, the company's offices and factories are situated in numerous places around the world. Owing an MNC, also leads to make a foreign direct investment (FDI), either by buying new facilities or by expanding in the same or different country. So, by engaging in foreign investments and owning or even controlling stakes in companies in more than one countries, it is easy to understand why a multinational business enlists in a global capital market.

Bina Agarwal a prize-winning development economist asserts the following: "Multinational enterprises use many interrelated firm-and country- level strategies to cope with uncertain environments in their overseas operations". (Martinez, 2012)

The above statement identifies the need for multinational enterprises to operate in various different levels and strategies. Until now, there are four most common sectors.

The first one is the “ multinational” company, which follows a traditional multi-domestic strategy. The production and the responsibilities of the multinational company rely on the local knowledge. The second sector is the “ global” firm. This type of MNC usually turns the production in a country that has cheap resources materialising the cost advantages. By operating as a series of domestic firms it loses the link with the parent company, although the latter may still take some crucial decisions. The third one is the “ international” corporation, which is organised along regional lines. This leads to a more autonomous company, which only has some responsibilities towards the parent firm. Finally, the fourth type of MNCs is the “ transnational” corporation, the one that combines all the characteristics of the above sectors and also has a global view. Transnational companies are independent and even if the knowledge is developed jointly, it is dispersed worldwide.

The next step is to demonstrate the impact of financial crisis upon MNC’s. As mentioned before, a multinational enterprise consists of many small or big firms either in the same or different countries. Thus, a global financial crisis can impact almost every country of the world. Nowadays, the most affected region from the global recession is Southern Europe – Greece, Spain, Portugal and Italy- as well as France. Therefore, many multinational companies in these countries face serious financial problems. This situation is not only affecting companies producing luxury goods but also the ones producing staple goods.

The above impact can be demonstrated by the example of “ Aldi”, a well-known multinational supermarket that operates in many countries, such as <https://assignbuster.com/global-financial-crisis-impacted-upon-mncs/>

Germany, U. K., France etc. Three years ago, this giant chain of supermarkets attempted to expand in Greece, which at that point was starting to feel the impact of the financial crisis. This turned to be a bad decision, as two years later the company decided to withdraw from the Greek market by closing all of its thirty-eight stores. As stated in a German website, the above represents the first time in Aldi's history that the company left behind an expansion attempt. Hence, Aldi didn't succeed expanding in Greece, and the reason was that the Greek economy couldn't support another big, foreign firm in times of recession.

Another good example where the effect of the financial crisis on MNCs is evident is the carmaker industry.

For instance The Economist reports: " Ford said its losses this year (2012) in Europe would be far worse than hitherto expected, at more than \$1 billion. When Fiat announces its figures, on July 31st (2012), a pleasant aroma wafting across the Atlantic from a revitalised Chrysler-in which Fiat owns a 62% stake-should help cover the stink from Fiat's European operations, whose sales are down by 18% so far this year (2012). Things also smell bad at GM's European division, Opel-Vauxhall: its boss was replaced this month, for the second time in eight months. Opel is expected to lose more than \$1 billion this year (2012), on top of the \$14 billion lost since 1999" (Anon., 2012).

This statement shows how the financial crisis impacted upon car industries. The above report illustrates how major the financial losses have been – over

\$1 billion per year. More significantly, it reflects the crucial problems that car companies face globally.

Opel-Vauxhall, is an automobile company which operates in many countries (Austria, Germany, Hungary, Poland, Spain, U. K), yet the main consumer target group is based on Southern European countries (Greece, Spain, Portugal, and Italy). As people have stopped buying new vehicles and the cost of car production is high, it's obvious that these firms are not profitable anymore. So, Opel's headquarter office has considered to follow a strategy by which the number of factories in some countries had to be reduced. That led Vauxhall to only keep the low-cost firms and reduce its production and expectations. As it was reported on The Economist " Three years ago (2009) GM was all set to sell Opel to a consortium led by Magna, a Canadian partsmaker, and Sberbank, a Russian state bank, but decided at the last minute to keep it and try to turn it around" (P. C, 2012).

Hence, the fact that GM tried to sell Opel shows the downturn that carmaker enterprises confront and also highlights how they try to turn around the loss making business.

Another car company that faces crucial problems is Peugeot-Citroen.. On July 25th (2012), it announced its first-half losses of €819m (\$1. 06 bn), which approximately is a rate of €200m per month. Thus, investors wonder whether it can survive more than another year or two. Although governments are trying to help those companies in order to avoid a rising in unemployment and in closed firms, it is noticeable that Peugeot-Citroen, like other European car companies, is in a bad market position.

On the other hand, a downturn in foreign investment doesn't mean that all multinational corporations will stop investing in foreign markets or cease establishing foreign subsidiaries. For example Ted Baker, which is a large British cloth company, has faced some difficulties due to the last overseas expansion (New York, Tokyo, Beijing, Seoul, Japan, Hong Kong) that cut its profits. However, Ted Baker succeeded to retrieve loses. Ted Baker's revenue rose up by 15 percent in the first half of last year (2011). In The Financial Times it is pointed that: " So far the economic downturn has not deterred Ted Baker's core base of fashion-conscious, affluent customers. Retail sales rose 7. 9 per cent across the UK and Europe to £74. 7m, while sales in the US rose by more than 50 per cent to \$25. 6m" (Thompson, 2012). In addition, Ted Baker plans to open a new store in Toronto next month (November 2012) and in Shanghai by the end of this year. Therefore we must keep in mind that there are still corporations, which dare to expand in foreign countries and get a positive outcome in the end. Ted Baker has remained a profitable UK company, despite the expansion in Asia-U. S (United States) and the global financial crisis.

Another oxymoron example is TESCO. TESCO holds 6, 351 stores around the world and keeps attracting more customers by cutting down the prices and making special offers all year round. This led TESCO's profits to increase by 10 per cent in 2009 in comparison to the year before. As Chief Executive Sir Terry Leahy had stated in BBC Five Live Breakfast (2009): “ This is a good news story. It is good to report that a British business is doing well here and around the world and paying £1billion in tax ...and still able to create jobs” (Poulter, 2009). The above statement shows that despite the bad circumstances the economy faces, some companies achieve their targets and even if they can't have an overall success they still have something to offer and give back to the society. Moreover, looking after your customers in tough periods, such as the one we are currently facing, increases the customer loyalty and retains the company's good reputation. Having said that, in October 2012 TESCO announced a fall in its profits. This downturn happened almost 20 years after TESCO heavily invested around the world. Since overseas investments carry the risk of financial losses, which can increase during a recession, MNC's need to have a robust business plan in place as an alternative to exiting a foreign market.

3. Conclusion

In conclusion, it is worth noting that financial crises occur more frequent than most people think. A recession may last for many years and lead to losses that are much larger than one would hope or expect.

Therefore the effects of global financial crises not only have an impact on multinational corporations but also on people's everyday life. More specifically, if people lose their jobs or experience salary cuts it is impossible

<https://assignbuster.com/global-financial-crisis-impacted-upon-mnacs/>

to continue consuming and living on the same lifestyle. As a result, their purchasing power is reduced and they start living in a simpler way and on a tighter budget. That could lead to companies, either multinational or international, to report losses and sometimes even collapse, because they do not have an effective business strategy in place to overcome a recession.

However, we should give credit to all these companies that in times like these, continue to fight in order to maintain their customer service and quality standards high. This is achieved by adapting their business strategy in order to respond to today's challenges; e. g. provide initiatives such as discounts and special offers. This has resulted in those firms not simply managing to survive but also having successfully expanded their operations.

All things considered, during recessions and economic downturns companies need to be adaptable and open to changes in order to have a viable future. Thus, multinational corporations that have their firms in many regions around the world need to engage in a global strategic level in order to accomplish their goals. This can be achieved by responding promptly and efficiently to the threats a global financial crisis produces either by adjusting their business policy or by keeping up with the specific circumstances.

References

Anon., 2012. Deeper in the doo-doo. *The Economist*, 28 July, 404(Only big cuts will stop the weakest carmakers from sinking in the mire), p. 56.

Carr, E., 2009. Greed- and fear. *The Economist*, 5pp(The golden age of finance collapsed under its own contradictions. Edward Carr(interviewed here) asks why it went wrong and what to do next), p. 64.

<https://assignbuster.com/global-financial-crisis-impacted-upon-mncs/>

Financial crisis, five years on: animation. 2012. [Film] Directed by Marianna Santos Phillip Inman. United Kingdom: s. n.

Larry Elliott, Jill Treanro, Graeme Wearden, 2012. guardian. co. uk. [Online]

Available at: <http://www.guardian.co.uk/business/2012/aug/08/financial-crisis-five-years-on-live-q-and-a>

[Accessed 5 October 2012].

Martinez, Christopher Williams Candace A., 2012. Government Effectiveness, the Global Financial Crisis, and Multinational Enterprise Internationalization. *Journal of International Marketing*, Volume 20, pp. 65-78.

P. C, 2012. An Opel-less Future. *The Economist*, 6 September, 404(GM's European Crisis), p. 42.

Poulter, S., 2009. www. dailymail. co. uk. [Online]

Available at: <http://www.dailymail.co.uk/news/article-1172251/Prices-profits-Tesco-puts-success-discounts-shoppers-pay-staple-goods.html>

[Accessed 11 October 2012].

Thompson, J., 2012. Overseas expansion cuts Ted Bakers Profits. *The Financial Times*, 4 October. p. 25.

Wood, Z., 2012. www. guardian. co. uk. [Online]

Available at: <http://www.guardian.co.uk/business/2012/oct/03/tesco-profits-fall-uk-supermarkets>

<https://assignbuster.com/global-financial-crisis-impacted-upon-mncs/>

[Accessed 10 October 2012].

Marian, P., 2010. www.just-food.com. [Online]

Available at: http://www.just-food.com/news/discount-giant-aldi-to-exit-market_id111765.aspx

[Accessed 10 October 2012].