Mnc multinational corporation

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Analysis of MNC Behavior

Introduction

Multinational corporation (or transnational corporation) (MNC/TNC) is a corporation or enterprise that manages production establishments or delivers services in at least two countries. Very large multinationals have budgets that exceed those of many countries. Multinational corporations can have a powerful influence in international relations and local economies. Multinational corporations play an important role in globalization (Bartlett et al). Multinational corporations can be divided into three broad groups according to the configuration of their production facilities:

Horizontally integrated multinational corporations manage production establishments located in different countries to produce similar products. (Example: McDonald's)

Vertically integrated multinational corporations manage production establishment in certain country/countries to produce products that serve as input to its production establishments in other country/countries. (Example: Adidas)

Diversified multinational corporations do not manage production establishments located in different countries that are horizontally, vertically or straight (Example: Microsoft or Siemens A. G.)

The paper deals with analysis of MNC behavior of three popular MNC's viz. Exxon Mobile, Royal Dutch and BP. These are oil and gas companies from India and China. The paper will explain about how the products of these

companies differ or are similar to each other and how their marketing strategies & corporate strategies differ. All this will be explained through the Dunning O-I-L framework and Global Integration Local Responsiveness framework. This paper represents the compare and contrast studies of different strategies.

About the companies

MNC behavior differs across various locations and is different regarding marketing, finance, human resource and other aspects related to the products. The three companies selected for analyzing MNC behavior differ in geographical locations, political conditions, cultural considerations and legal frameworks. The general introduction of the all the 3 companies is as follows:

Exxon Mobil Corporation or Exxon Mobil (NYSE: XOM) : It is an American oil and gas corporation and a direct descendant of John D. Rockefeller's Standard Oil company. Formed on November 30, 1999 by the merger of Exxon and Mobil, Exxon Mobil is the world's largest company by revenue at $404. 5 billion for the fiscal year of 2007. It is also the largest publicly held corporation by market capitalization, i. e. $501. 17 billion. While it is the largest of the six oil super majors with daily production of 4. 18 million BOE (barrels of oil equivalent). Currently, the company ranks 1st in the world in net income, which was almost $40 billion last year.

The Exxon Mobil Corporation global headquarters are located in Irving, Texas. The company markets products around the world under the brands of Exxon, Mobil, and Esso. It also owns hundreds of smaller subsidiaries such as

Imperial Oil Limited (69. 6% ownership) in Canada, and Sea River Maritime, a petroleum shipping company (Exxon Mobile Corporation 2008).

Royal Dutch Shell : It is commonly known as Shell, a multinational oil company of British and Dutch origins. It is the second largest private sector energy corporation in the world, and one of the six " super majors". The company's headquarters are in The Hague, Netherlands, with its registered office in London, United Kingdom (Shell Centre).

The company's main business is the exploration, production, processing, transportation and marketing of hydrocarbons (oil and gas). Shell also has a significant petrochemicals business (Shell Chemicals), and an embryonic renewable energy sector developing wind, hydrogen and solar power opportunities (Royal Dutch Shell: About Shell 2008).

BP (British Petroleum): It was previously known as British Petroleum but now using only the initials, it is the world's third largest global energy company, a multinational oil company (" oil major") with headquarters in London, UK. The company is among the largest private sector energy corporations in the world, and one of the six " super majors" (vertically integrated private sector oil exploration, natural gas, and petroleum product marketing companies).

Though, all these companies are involved in similar business practices, yet there are also certain differences among them. There is a compare and contrast scenario among these companies. To analyze these three MNC's, the “ Global Integration- Local Responsiveness” framework and “ Dunning's O-I-L” framework can be used (BP Global: About BP 2008).

Similarities and Differences

The products of all three companies are similar in the sense that all have natural resource seeking and efficiency seeking products. All three companies produce the same kind of products, so they also require the same kind of raw materials for the products. The products they produce are all location specific. All the companies have their established positions in the international market and are among the six super majors in the oil and gas industry. They possess abundant resource utilization capacity. They have competitive advantage, which helps them to achieve their strategic goals. The products of the companies are globally marketed.

The major differences among the products of the companies are the quality and quantity of the products and the capital requirement for the products. The products also differ in the level and type of technology used and the customer demand for the product. The location where the product is manufactured is also important and it makes a big difference for the company. The export and import of the products vary from company to company. The manufacturing and innovation among the products also vary depending on the Government rules, regulations and policies in the countries in which the companies operate. The products also differ on the basis of marketing strategies used to market the product.

The reason for these differences can be explained through the “ Global Integration- Local Responsiveness” framework popularly known as I-R model. It is generally related with ideas of value creation. It states that these differences occur because of differences in the competitive advantage of the

companies and the strategies used by them. Strategies can be global, international, multinational or transnational (Bartlett et al). The risk handling capability of the companies is also one of the possible reasons for the differences among them. The proportion of the global assets, number of countries in which the company operates in value added activities and the value of the output are responsible for significant differences among the companies of the same industry (Rugman & Hodgetts 1995).

These differences are not general differences. These differences are responsible for the company's success and help it in making popular among the general public. The products of the company become known to the customers because of these significant differences and they are responsible for the growth and revenue of the company (Bartlett et al).

The marketing strategies also differ between various firms and countries on the basis of the strategies used to market the products. The differences between countries occur because of alterations in the market structures among various countries with respect to the transactional costs. Differences also occur on the ground of capital availability and resource utilization. The difference in the market size is also very important.

Marketing strategies differ across firms due to differences in the extent of market diversification and market stability of the firms. They differ according to the number of customers for the product and because of the market allocation for the product.

The firms have set up in their respective locations because according to " Dunning's O-I-L" framework, the assets which these companies possess are

ownership specific and location specific. Though, they are available to all the firms, yet they are unique in nature and help the company to establish a difference for itself. This criterion of Dunning is based on the eclectic paradigm. The assets can be tangible like manpower, capital, etc. or intangible like technology, marketing, etc.

Global, International, Multinational & Transnational Firms

As the companies grow and develop, there category changes and they become international, global, multinational or transnational firms. As time passes, their product category also changes.

Global Firms consider the world as a single integrated unit with centralized scale intensive manufacturing. Through world wide diffusion and adaptation, these companies exploit the parent company's knowledge and capabilities (Dunning 1993).

International Firms take the overseas units as offshoots of domestic strategy. Here the core competencies are centralized and others are decentralized. It builds cost advantage through global scale operations (Dunning 1993).

Multinational Firms consider the world as a portfolio of national opportunities. They are self sufficient and decentralized. Through strong resourceful national operations it creates a response to national differences.

Transnational Firms comprise of all the above three firms. They are dispersed, interdependent and specialized. They have flexibility, global efficiency and great learning capability.

Different Corporate Strategies

The corporate strategies of the MNC's differ across different locations as the Government policies and regulations are different in different countries. The goals and the means to achieve them differ according to the customer size and the market adaptability in different countries. The collaborations with the local partners also create a difference in the corporate strategies because they also have their company's policies and requirements. It also differs according to the company law of the respective countries. The terms and conditions of the local partners differ, which causes significant variations in the corporate strategy (Dunning 1993)..

Innovations in MNC's

Innovations are a growing trend in today's world and MNC's are successful till they maintain their innovativeness and creativity. Innovation does not necessarily come from the home country but it can also be sourced in the local country. The MNC's hire the employees of the local country so it can be possible that innovations are from the local country.

Government and the MNC's

There are differences among the MNC's about the Government policies and regulations. Government's encouragement or inhibition for the oil and gas industry depends on the type of country and the requirement of such an MNC in the country. There are also significant differences across various locations for the involvement of Government in the MNC activities. This depends on the need of the country to grow and develop and also on the

economy of the country. This can also be explained with the help of " Dunning's O-I-L" framework. The Government involvement depends on the asset availability of the country which is location specific.

Social & Cultural Factors

The MNC's are also affected by social and cultural factors of the local country. They have to conduct the business according to the conditions in that country. The products should be manufactured according to the needs and requirements of the people. The cultural and social sentiments of the people should be taken care of. For example, when Mc Donald's started its business in India, it made beef burgers. But this was failed in India, as it was against the cultural, religious and social sentiments of the people of India, because Indians worship cows so they would never prefer a beef burger.

But many a times it happens that MNC's also shape the social, cultural, political and even the legal framework of the local country. The people of the local country many a times adapt to the products of the MNC's. For example, Pizza Hut, Dominos, etc. have totally changed the eating habits of the people wherever they have spread their business. The dressing style of the people changes, e. g. Indians started wearing western style clothes. They also convince the Government to make its legal policy flexible to suit their business conditions because the country is being benefited by the MNC's.

The role of WTO in MNC activity

WTO and regional trade agreements influence the MNC activities in many ways. The fundamental principles of WTO are non discrimination, free trade,

encouraging competition and extra provisions for less developed countries. Through non discriminatory trading system, all the MNC's are provided with their rights and obligations to be used while performing their operations. Each country and MNC receives fair exports and fair treatment in the markets of other countries. It provides responsibilities regarding implementation of agreements, technical cooperation and increased participation in the global trading system. These agreements help in removing trade barriers and duty free access. It also helps in protecting industrial property rights and dispute settlement. The trade agreement system helps in promoting peace, provides more choices of products and qualities (Cherunilam 2005).

Export processing zone refers to one or more specific areas of a country where some of the normal trade barriers are ruled out and bureaucratic necessities are let down in the desire of attracting new business and foreign investments. This zone also refers to the manufacturing centers, which are labor intensive involving the import of raw materials and the export of factory products. This zone is of great importance for the operations of MNC's.

Geography of production

The linkages in the value chain also differ around different locations. The relationship between the various functional processes is different at different locations. The spread of production differs according to the spatial distribution. This differs according to the elements of the value chain. The working of the functional processes affects the production. It differs from

firm to firm because the functional units like finance, marketing, etc. differ across firms and across various locations. So the firm's production differs according to geography as the resource availability differs from place to place.

Also, the human resource management, organizational structure and managerial responsibility differ between the firms and locations. These are not the same at all the places and with all the firms. The manpower availability differs from place to place and from firm to firm. Because of workforce diversity, human resource management differs and is not the same at all places. The organizational structure also differs because of each firm's policies and regulations. The managerial responsibility is different depending upon the size of the firm and its working. It also depends upon the strength of the organization, type of business it deals with and the amount of work done by the organization (Cherunilam 2005). MNC's also hire local people for key positions because its not possible for the MNC's to hire people from the home country as it is a time consuming and costly affair. Instead of doing so, they can spend money on the training of the people in the local country. The Country Subsidiary Manager is responsible for the administration and management of the MNC in the country. He helps the MNC to recruit highly efficient and energetic people. He also helps in the growth and development of the MNC along with marketing its products.

Conclusion

Thus, from the above discussion about MNC's, it is concluded that they differ across different locations in terms of their resources, working, legal

framework, etc. They also affect the culture and social life of the people of the local country.

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