ABSTRACT

Multinational corporations are the highlighted feature of globalization. Globalization has converted the world into a small village. Multinational Corporations are the corporations across the regional boundaries of the parent country. Every country is expanding its business to other countries. The growth of techno-economic power in countries like United States, the United Kingdom gave birth to MNC’s. Existence of MNC’s in the host country imposes some kind of responsibility upon them. This paper throws light on the meaning, types, and situation of MNC in India, their responsibility and code of conduct to regulate the functioning of MNC’s.

Keywords: Code of Conduct; Ethical; FDI; MNC; Shareholders; Technology

INTRODUCTION

An enterprise that has its branches in several countries but its head office is located in one country is called multinational corporation. The country where the head quarter is located is called the home country whereas; the other countries with operational branches are called the host countries. The head office located in home country controls the production and other activities of units located in other countries. The head office manages and owns the assets of its subsidiaries. Following are the main features of MNCs:

1. Location – MNCs have their headquarters in home countries and have their operational division spread across foreign countries to minimize the cost.
2. Capital Assets – Major portion of the capital assets of the parent company is owned by the citizens of the company’s home country.
3. Board of Directors - Majority of the members of the Board of Directors are citizens of the home country.
4. MNCs are large-sized corporation and exercise a great degree of economic dominance.

Types of MNC’s

Multinational Corporations can be categorized in following types.

1. A decentralized corporation with strong home country presence.
2. A centralized corporation that perform production activities wherever cheaper resources are available.
3. A corporation that builds on the parent corporation’s technology.
4. A corporation that combines the previous approaches.
Benefits of MNC’s

1. MNC’s exposes new ideas and opportunities to the local market regardless where they occur.
2. Their size provides them to achieve vast economies of scale in manufacturing product development.
3. Their location in many countries can be used as a bargaining chip.

Top 10 MNC’s of India Are

1. IBM
2. Microsoft
3. Nokia Corporations
4. PepsiCo
5. Ranbaxy laboratories Limited
6. Reebok International Limited
7. Sony
8. Tata Consultancy Services
9. Vodafone
10. Tata Motors Limited

LITERATURE REVIEW

Cohen and Levinthal (1990) assumed that a firm’s absorptive capacity tends to develop cumulatively, is path dependent and builds on existing knowledge: ‘absorptive capacity is more likely to be developed and maintained as a byproduct of routine activity when the knowledge domain that the firm wishes to exploit is closely related to its current knowledge base’ (p. 150).

Lyles and Salk (1996) included international joint ventures’ (IJV) capacity to learn as an independent variable to analyze knowledge acquisition from a foreign parent. Their results indicate that the ‘capacity to learn, mainly the flexibility, and creativity’ (p. 896), is a significant indicator of knowledge acquisition from the foreign partner.

Zahra and George (2002) summarized representative empirical studies on absorptive capacity. According to Zahra and George (2002), absorptive capacity has four dimensions – acquisition, assimilation, transformation, and exploitation – where the first two dimensions form potential absorptive capacity, the latter two – realized absorptive capacity. They argue that more attention should be devoted to studying the realized absorptive capacity which emphasizes the firm’s capacity to leverage the knowledge that has been previously absorbed (Zahra and George, 2002).

OBJECTIVE OF THE STUDY

1. To provide knowledge about the different type of MNCs’.
2. To provide knowledge why should MNCs’ be allowed in the country?
3. To provide knowledge about the social responsibility of MNCs’.
4. To provide information about the international regulation on MNCs’.

RESEARCH METHODOLOGY

Source of data collection is secondary.
With MNC a country is able to cover huge market. With MNC’s it is easier to pace with the growing economies of the world. India is making its policies liberal for the MNC’s. With vast population and large geographical boundaries other countries found it beneficial to establish themselves in India. Due to large population labor can be availed easily. Besides it Indian government has made FDI policy liberal to attract foreign currency. Following are the reasons why multinational companies consider India as a preferred destination for business:

- Huge market potential of the country
- FDI attractiveness
- Labor competitiveness
- Macro-economic stability

**Why Should MNC’s?**

Multinational Corporation are beneficial for both home and host country.

**Foreign Capital Inflow**

MNC has headquartered in one country but their operations are performed in different countries. They transact business in a large number of countries and often operate in diversified business activities. The movements of private foreign capital take place through the medium of these multinational corporations. Thus multinational corporations are important source of foreign direct investment (FDI). Besides, it is through multinational corporations that modern high technology is transferred to the developing countries.

Alternative Methods of Foreign Investment by Multinational Companies:

The giant host country firms’ kind it easier to go in for vertical or horizontal integration with MNC’s to enhance their profitability as MNC’s are highly efficient. There are three main modes of foreign investment:

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**Figure 1: Share of MNC in India**

[Graph showing distribution of MNCs across different sectors in India]
Agreement with Local Firms for Sale of MNCs Products: In this case, a multinational firm allows the foreign firms to sell its product in the foreign markets and control all aspects of sale operations.

Setting up of Subsidiaries: The second mode for investment abroad by a multinational firm is to set up a wholly owned subsidiary to operate in the foreign country. In this case a multinational firm has complete control over its business operations ranging from the production of its product or service to its sale to the ultimate use or consumers.

Foreign Collaboration or Joint Ventures: Thirdly, a multinational firm may set up its business operation in collaboration with foreign local firms to obtain raw materials not available in the home country.

Technology Transfer

Technology transfer is the transfer of skills, knowledge, techniques, methods of productions, samples of manufacturing and facilities among governments. MNC’s are the best channels through which technology can be transferred from developed countries to developed countries. Mainly underdeveloped countries have abundance of natural resources but they have lack of funds and modern techniques. MNC’s contribute to the rapid process of development of the country through transfer of technology. They transfer high sophisticated technology to developing countries which are essential for raising productivity of working class and enable us to start new productive ventures requiring high technology.

Export Promotions

MNCs help in promoting exports of the host country. MNCs by producing certain required goods in the host country help in reducing its dependence on imports. In recent years, Japanese automobile company Suzuki made a large investment in Maruti Udyog with a joint collaboration with Government of India. Maruti cars are not only being sold in the Indian domestic market but are exported in a large number to the foreign countries.

Investment in Infrastructure

MNC’s have also served as an engine of growth in many host countries. They help a developing host country by increasing investment, income and employment in its economy. The investment in infrastructure will give a boost to industrial growth and help in creating income and employment in the India economy. The external economies generated by investment in infrastructure by MNCs will therefore crowd in investment by the indigenous private sector and will therefore stimulate economic growth. So we can say MNC’s encourage Foreign Direct Investment in areas of (a) High technology, (b) Infrastructure and (c) exports

Social Responsibility of MNC’s

Every business unit survives in a healthy environment. Each business unit is a part of a society. Every business gains a lot of benefit from the society. Side by side it puts a great liability of responsibility on the business. Being a part of society, business units have an economical responsibility, legal responsibility or an ethical responsibility.

Economic Responsibility

Business is an economic activity. Its basis responsibility is to provide goods and services to society. So it is its primary responsibility to provide quality goods and services at cheap rate.

Legal Responsibility

For successful business operations for any international business community, it is essential responsibility that it should fulfill all the legal obligations of the country. Compliance of all the legal
obligations will help in smooth running of business. Government of the country will have no need to interfere in the business if all the legal obligations are complete

Ethical Responsibility
MNCs should adopt a code of conduct that includes these norms, to be adhered to at home as well as abroad so that daily operations reflect sensitivity to regional differences of color, race or creed as well as a respect for human rights. Managers in MNCs find themselves operating in areas of armed conflict, indigenous cultural disputes, epidemic, disease and other sources of social upheaval. This requires business professionals to be more security conscious as promoting peace becomes an essential element of successful business operations.

Responsibility towards Shareholders
In case of local business a corporation has responsibility towards domestic shareholders. But in case of MNC this local responsibility becomes global. MNCs have to protect the interest of shareholders of both home vs. host country.

Responsibility towards Community
An international corporation should fulfill all the obligations of the international environmental standards. International corporations should focus on that their activities should not be hazardous for the home country environment. It should take care of norms to protect environment from air, water and noise pollution.

Responsibility towards Employees
MNCs take benefit of labor from the home country. It should protect human rights in its own sphere. It should not exploit the labor. It should take care of basic needs of the labor like working environment should be hygienic, adequate working hours, wage as they deserve etc. there should not be any discrepancies on the basis of color, religion or creed

Responsibility towards Government etc.
MNCs come to perform their business operations. They should not interfere in the functioning of the government of the home country. Earlier India has faced such situation. However, World Bank is incorporating a mechanism to protect the interest of weak or no democratic countries.

Responsibility at Discretion
This responsible is at the will of the corporation to perform. It includes charities, educational facilities, medical facilities, help during any natural calamities like flood, earthquake etc.

The International Regulation on MNC’s
MNC’s can create specific problems in the host country especially in developing countries where the regulatory mechanisms are relatively weaker. Developing countries seek Multinational Corporation for their economic development. But parallels these can be a threat for them. Therefore it is necessary to regulate and control the operations of MNC’s. The way to exercise control on them is to lay down a code of conduct.

United Nations Code Of Conduct
United Nations expect from all the MNC’s that they should follow all the norms and international standards. The main provisions laid down by this code are:

1. Respect local laws, customs and practices. Respect the national sovereignty of host countries and observe their domestic laws, regulations and administrative practices
2. Disclose relevant information to the government and host countries
3. Not to interfere in internal political affairs and inter-governmental relations of host nations.
4. treat host country inhabitants with respect, courtesy and consideration
5. Act with impartiality, integrity and tact.

**OECD Code of Conduct**

Under it multinationals are expected to follow the principal of integrity and transparency. The norms of this conduct are

1. provide full information for tax purpose
2. not behave in manners likely to restrict competition by abusing dominant position
3. consider the balance of payments objectives of host nations while taking decisions
4. Regularly make public significant information on financial and operational matters.

**CONCLUSION**

Multinationals are growing rapidly in the progress of world’s economy. Apart from playing an important role in globalization and international relations, these multinational companies even have notable influence on the economies of developing countries. The developing countries seek MNC’s in their countries for development. When a MNC is set up in a country a responsibility is automatically occurs on it like responsibility towards society, culture, community, law and regulations, employees and shareholders of the host country. For the smooth running of business operations, these responsibilities should be accepted happily. MNC’s may pose a threat on the host country with its benefits. Some international code of conducts is laid down for the settlement of disputes between host country and home country.

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