



# Globalisation and Multinational Business



# Globalisation: Setting the Scene

- **Current issues in the global economy**
- **Defining globalisation**
  - global economic interdependence
  - implications for business
- **What is driving globalisation?**
  - market drivers
  - cost drivers
  - government drivers
  - competitive drivers

# The drivers of globalisation

<b>Market drivers</b>	<b>Cost drivers</b>
<b>Government drivers</b>	<b>Competitive drivers</b>
<b>Other drivers</b>	

# The drivers of globalisation

<b>Market drivers</b> Per capita income converging among industrialised nations Convergence of lifestyles and tastes Organisations beginning to behave as global customers Increasing travel creating global consumers Growth of global and regional channels Establishment of world brands Push to develop global advertising	<b>Cost drivers</b>
<b>Government drivers</b>	<b>Competitive drivers</b>
<b>Other drivers</b>	

# The drivers of globalisation

<b>Market drivers</b> Per capita income converging among industrialised nations Convergence of lifestyles and tastes Organisations beginning to behave as global customers Increasing travel creating global consumers Growth of global and regional channels Establishment of world brands Push to develop global advertising	<b>Cost drivers</b> Continuing push for economies of scale Accelerating technological innovation Advances in transportation Emergence of newly industrialised countries with productive capability and low labour costs. Increasing cost of product development relative to market life
<b>Government drivers</b>	<b>Competitive drivers</b>
<b>Other drivers</b>	

# The drivers of globalisation

<b>Market drivers</b> <ul style="list-style-type: none"><li>Per capita income converging among industrialised nations</li><li>Convergence of lifestyles and tastes</li><li>Organisations beginning to behave as global customers</li><li>Increasing travel creating global consumers</li><li>Growth of global and regional channels</li><li>Establishment of world brands</li><li>Push to develop global advertising</li></ul>	<b>Cost drivers</b> <ul style="list-style-type: none"><li>Continuing push for economies of scale</li><li>Accelerating technological innovation</li><li>Advances in transportation</li><li>Emergence of newly industrialised countries with productive capability and low labour costs.</li><li>Increasing cost of product development relative to market life</li></ul>
<b>Government drivers</b> <ul style="list-style-type: none"><li>Reduction of tariff barriers</li><li>Reduction of non-tariff barriers</li><li>Creation of blocs</li><li>Decline in role of governments as producers and customers</li><li>Privatisation in previously state-dominated economies</li><li>Shift to open market economies from closed communist systems in eastern Europe</li><li>Increasing participation of China and India in the global economy</li></ul>	<b>Competitive drivers</b>
<b>Other drivers</b>	

# The drivers of globalisation

<b>Market drivers</b> Per capita income converging among industrialised nations Convergence of lifestyles and tastes Organisations beginning to behave as global customers Increasing travel creating global consumers Growth of global and regional channels Establishment of world brands Push to develop global advertising	<b>Cost drivers</b> Continuing push for economies of scale Accelerating technological innovation Advances in transportation Emergence of newly industrialised countries with productive capability and low labour costs. Increasing cost of product development relative to market life
<b>Government drivers</b> Reduction of tariff barriers Reduction of non-tariff barriers Creation of blocs Decline in role of governments as producers and customers Privatisation in previously state-dominated economies Shift to open market economies from closed communist systems in eastern Europe Increasing participation of China and India in the global economy	<b>Competitive drivers</b> Continuing increases in the level of world trade Increased ownership of corporations by foreign acquirors Rise of new competitors intent upon becoming global competitors Growth of global networks making countries interdependent in particular industries More companies becoming globally centred rather than nationally centred Increased formation of global strategic alliances
<b>Other drivers</b>	

# The drivers of globalisation

<p><b>Market drivers</b></p> <ul style="list-style-type: none"> <li>Per capita income converging among industrialised nations</li> <li>Convergence of lifestyles and tastes</li> <li>Organisations beginning to behave as global customers</li> <li>Increasing travel creating global consumers</li> <li>Growth of global and regional channels</li> <li>Establishment of world brands</li> <li>Push to develop global advertising</li> </ul>	<p><b>Cost drivers</b></p> <ul style="list-style-type: none"> <li>Continuing push for economies of scale</li> <li>Accelerating technological innovation</li> <li>Advances in transportation</li> <li>Emergence of newly industrialised countries with productive capability and low labour costs.</li> <li>Increasing cost of product development relative to market life</li> </ul>
<p><b>Government drivers</b></p> <ul style="list-style-type: none"> <li>Reduction of tariff barriers</li> <li>Reduction of non-tariff barriers</li> <li>Creation of blocs</li> <li>Decline in role of governments as producers and customers</li> <li>Privatisation in previously state-dominated economies</li> <li>Shift to open market economies from closed communist systems in eastern Europe</li> <li>Increasing participation of China and India in the global economy</li> </ul>	<p><b>Competitive drivers</b></p> <ul style="list-style-type: none"> <li>Continuing increases in the level of world trade</li> <li>Increased ownership of corporations by foreign acquirors</li> <li>Rise of new competitors intent upon becoming global competitors</li> <li>Growth of global networks making countries interdependent in particular industries</li> <li>More companies becoming globally centred rather than nationally centred</li> <li>Increased formation of global strategic alliances</li> </ul>
<p><b>Other drivers</b></p> <ul style="list-style-type: none"> <li>Revolution in information and communication</li> </ul>	<ul style="list-style-type: none"> <li>Globalisation of financial markets</li> <li>Improvements in business travel</li> </ul>

# Globalisation: Setting the Scene

- **Current issues in the global economy**
- **Defining globalisation**
  - global economic interdependence
  - implications for business
- **What is driving globalisation?**
  - market drivers
  - cost drivers
  - government drivers
  - competitive drivers
- **Globalisation: the good and the bad**



# Multinational Corporations

- **Statistics on growth and size of MNCs**
  - the comparative size of MNCs and countries' GDP

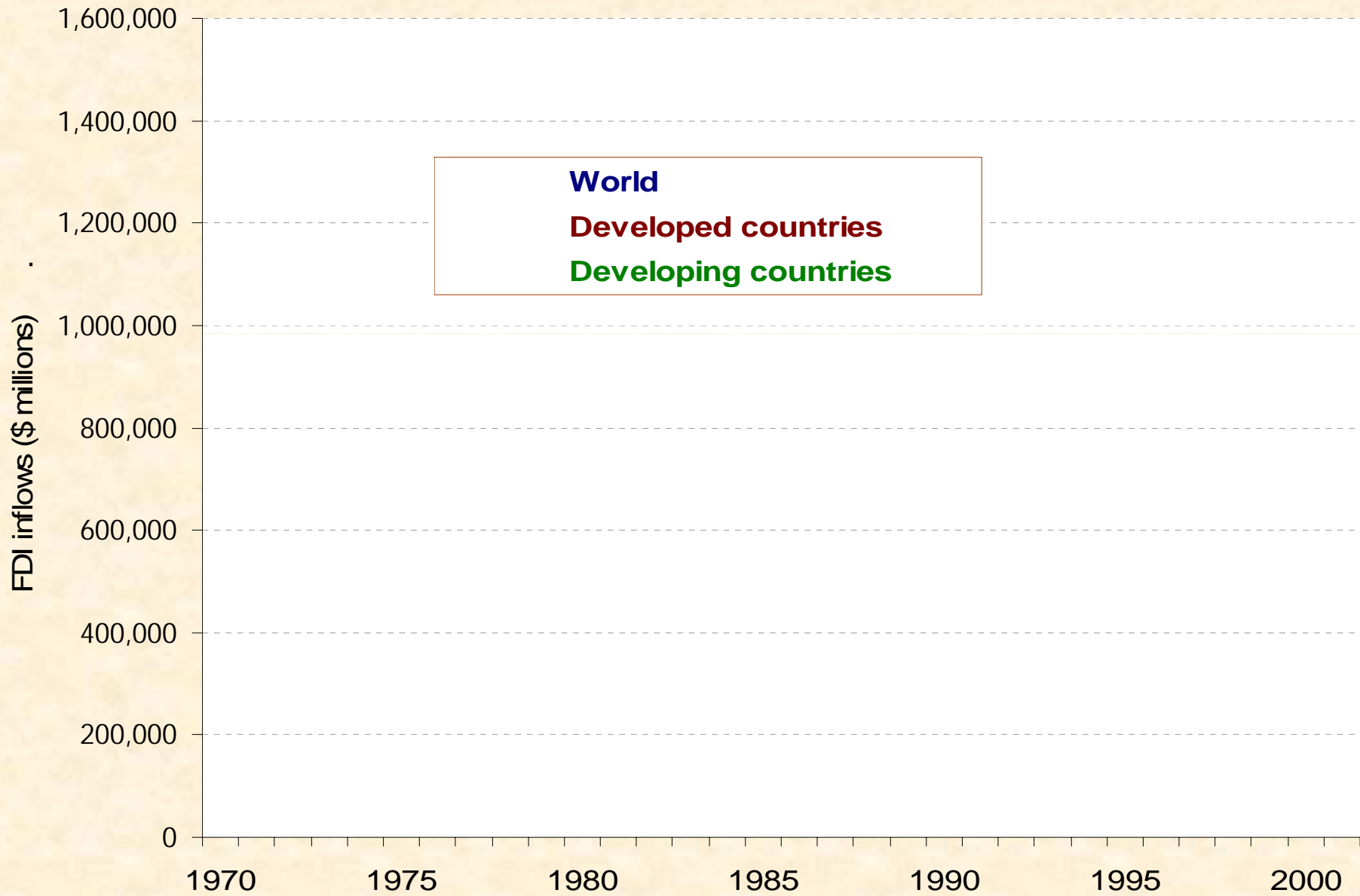
## Comparison of the 10 largest multinational corporations (by gross revenue) and selected countries (by GDP): 2002

M N C rank	Country or Company	G D P (\$bn) or gross revenue (\$bn)
	<b>U S A</b>	<b>1 0 , 8 6 9 . 1</b>
1	<b>W a l - M a r t S t o r e s</b>	<b>2 1 9 . 8</b>
	<b>I n d o n e s i a</b>	<b>2 1 2 . 9</b>
	<b>D e n m a r k</b>	<b>2 0 5 . 1</b>
2	<b>E x x o n M o b i l</b>	<b>1 9 1 . 6</b>
3	<b>G e n e r a l M o t o r s</b>	<b>1 7 7 . 3</b>
4	<b>B P</b>	<b>1 7 4 . 2</b>
	<b>G r e e c e</b>	<b>1 6 5 . 2</b>
	<b>C h i n a : H o n g K o n g</b>	<b>1 6 5 . 1</b>
5	<b>F o r d M o t o r</b>	<b>1 6 2 . 4</b>
	<b>F i n l a n d</b>	<b>1 5 8 . 2</b>
	<b>I r e l a n d</b>	<b>1 5 0 . 2</b>
6	<b>E n r o n</b>	<b>1 3 8 . 7</b>
7	<b>D a i m l e r C h r y s l e r</b>	<b>1 3 6 . 9</b>
8	<b>R o y a l D u t c h / S h e l l G r o u p</b>	<b>1 3 5 . 2</b>
	<b>T h a i l a n d</b>	<b>1 3 2 . 4</b>
	<b>I r a n</b>	<b>1 2 7 . 8</b>
9	<b>G e n e r a l E l e c t r i c</b>	<b>1 2 5 . 9</b>
	<b>A r g e n t i n a</b>	<b>1 2 1 . 8</b>
1 0	<b>T o y o t a M o t o r</b>	<b>1 2 0 . 8</b>
	<b>M a l a y s i a</b>	<b>1 0 2 . 7</b>
	<b>C h i l e</b>	<b>6 5 . 9</b>
	<b>L u x e m b o u r g</b>	<b>2 3 . 8</b>
	<b>K e n y a</b>	<b>1 2 . 9</b>
	<b>A l b a n i a</b>	<b>5 . 3</b>

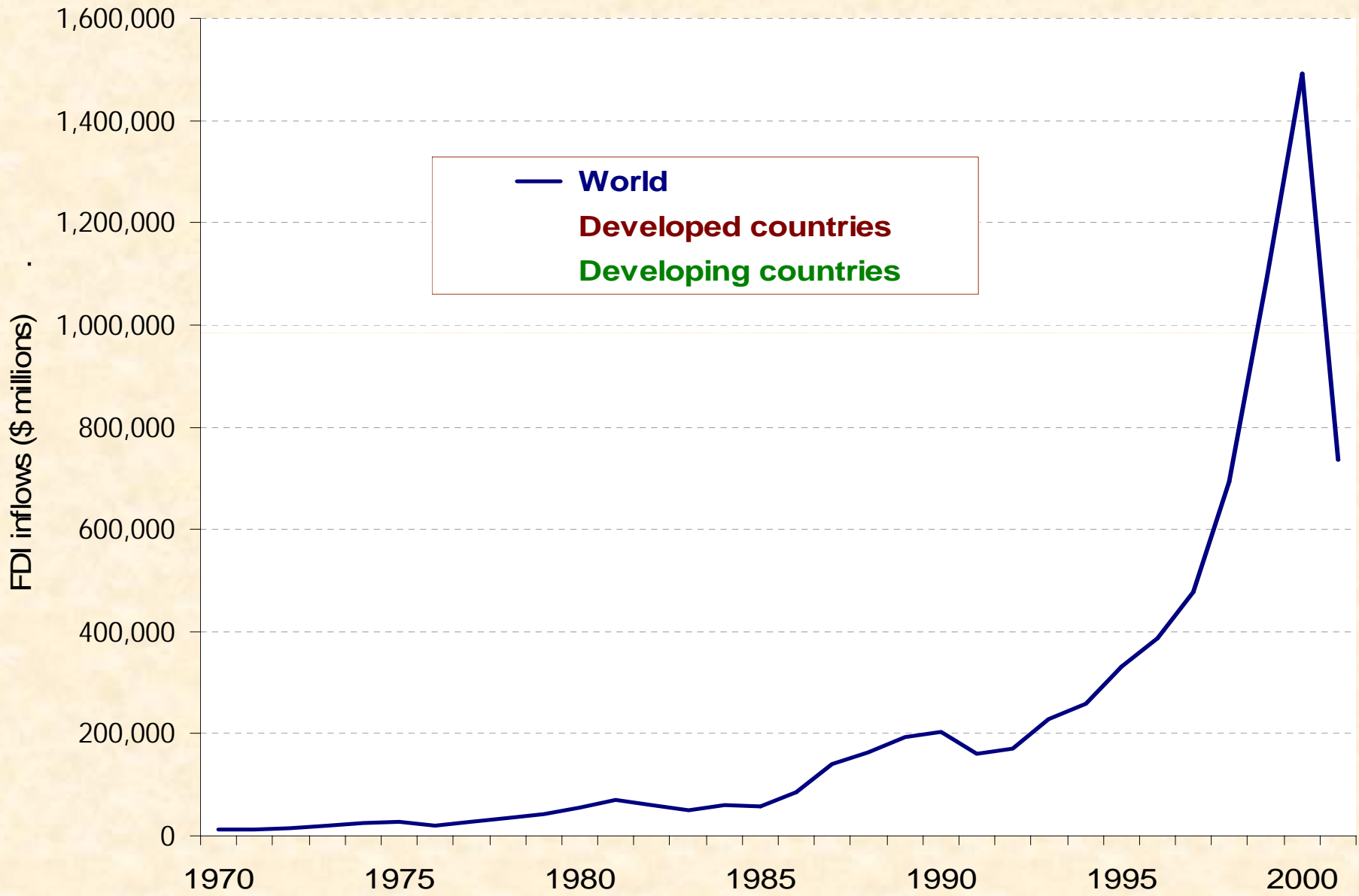
# Multinational Corporations

- **Statistics on growth and size of MNCs**
  - the comparative size of MNCs and countries' GDP
  - foreign direct investment (FDI) inflows

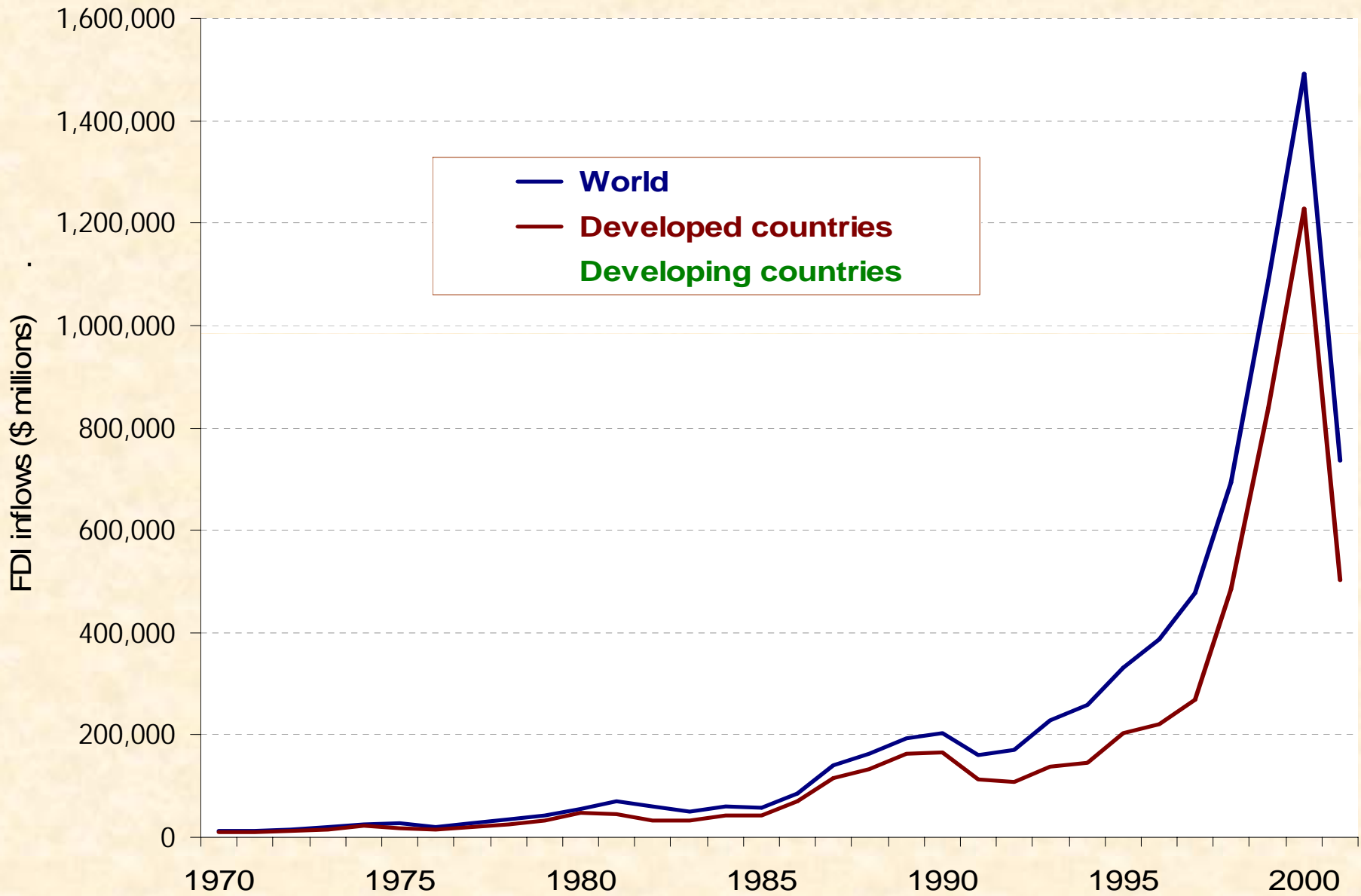
# FDI inflows (\$ millions)



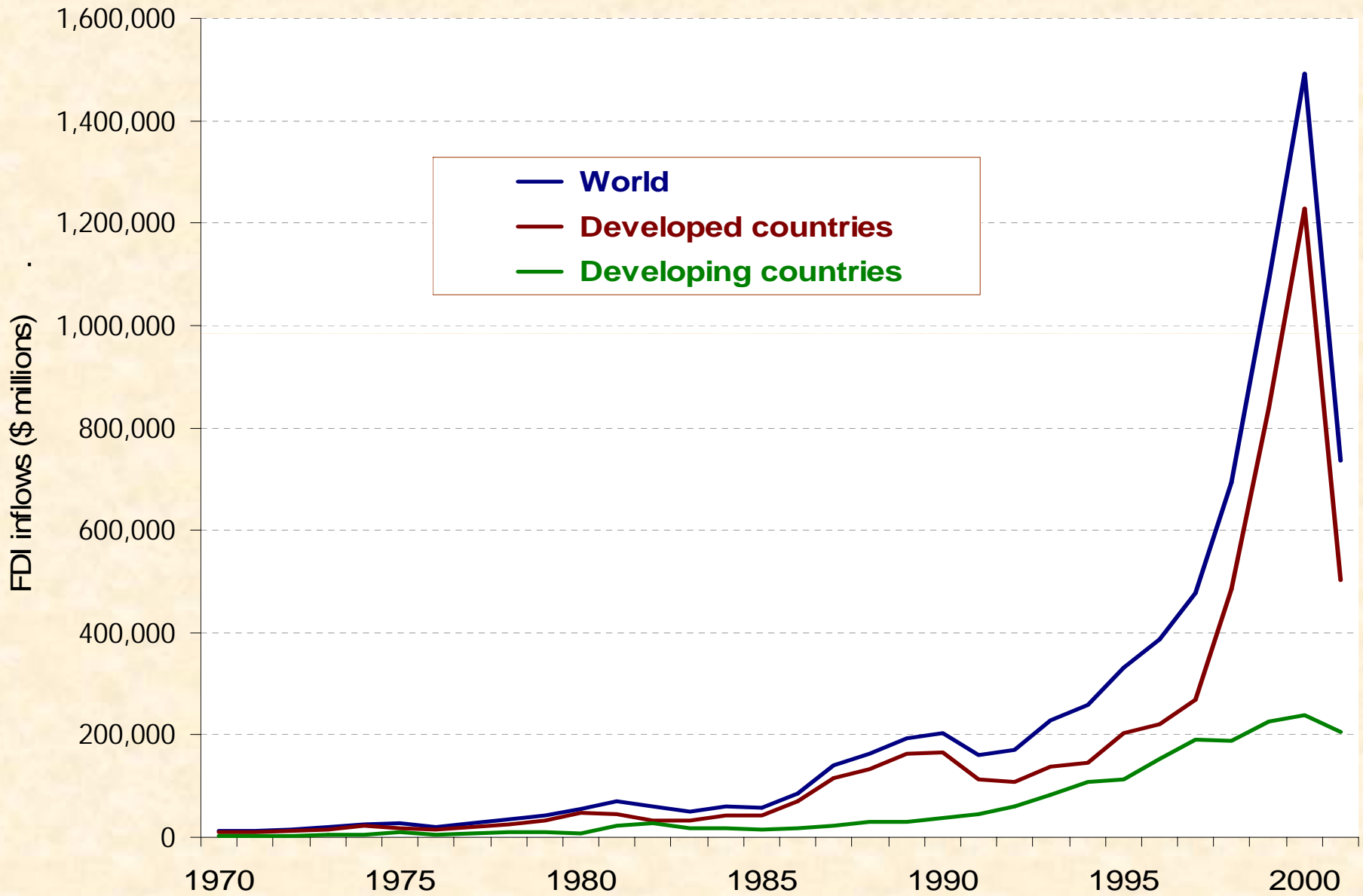
# FDI inflows (\$ millions)



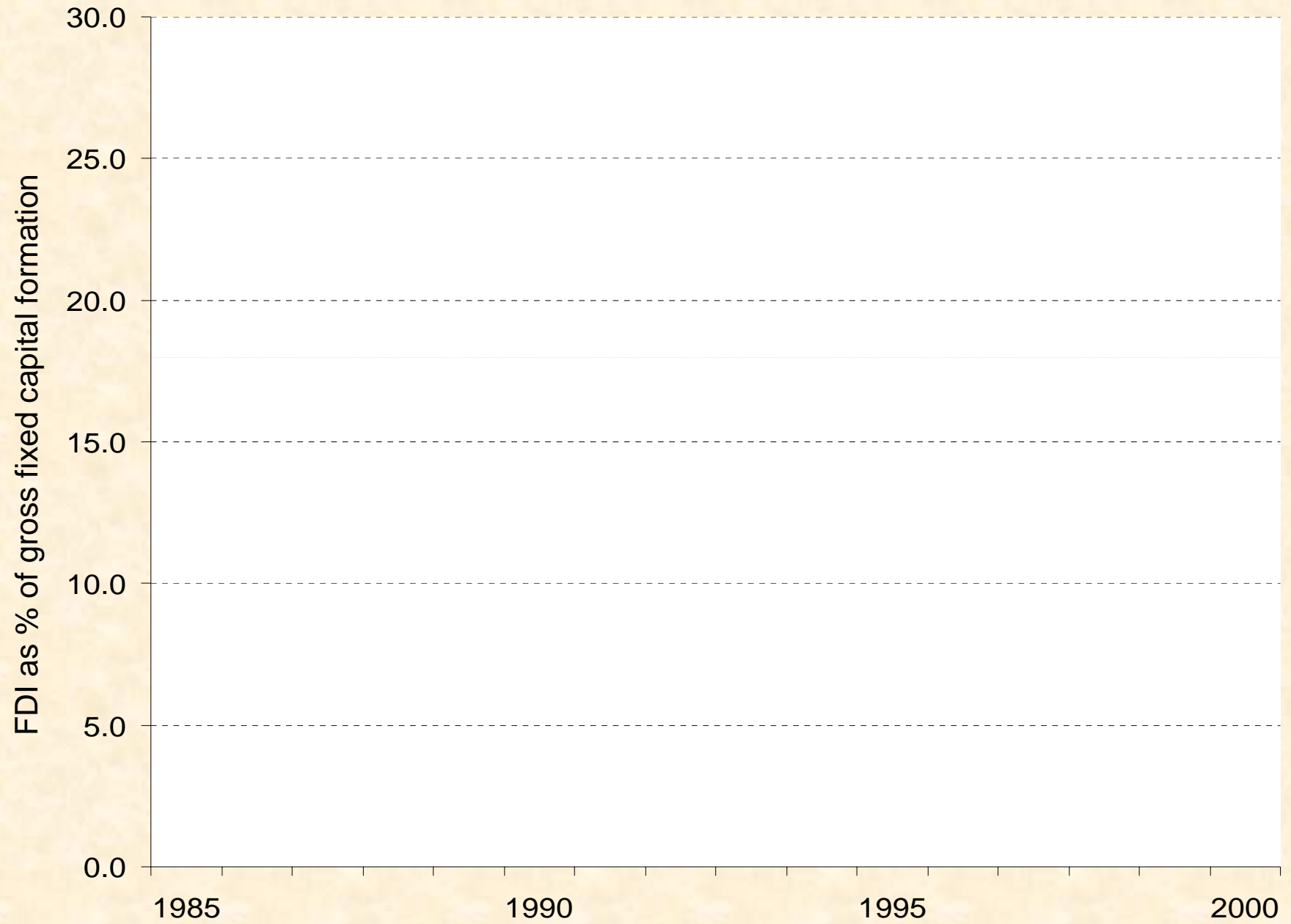
# FDI inflows (\$ millions)



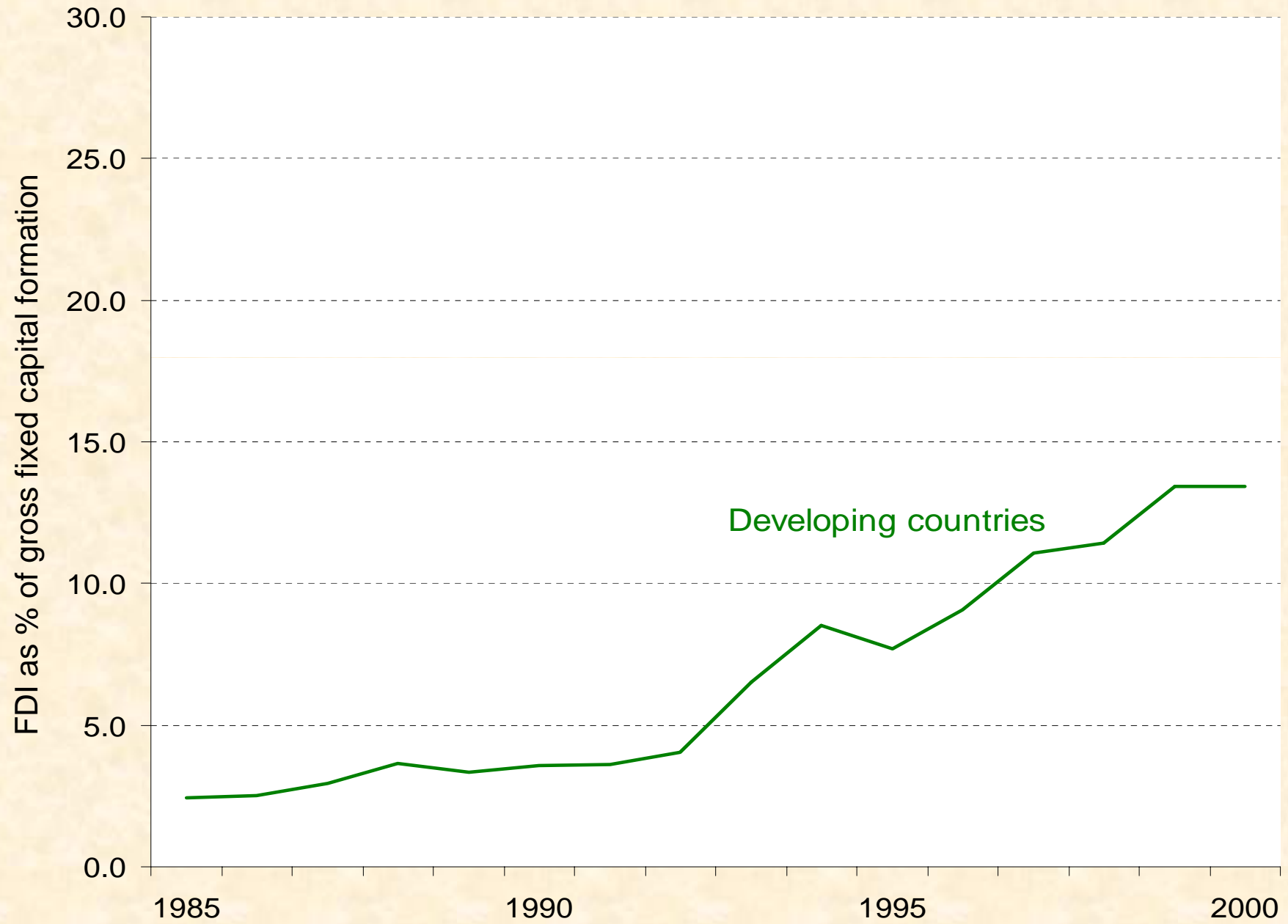
# FDI inflows (\$ millions)



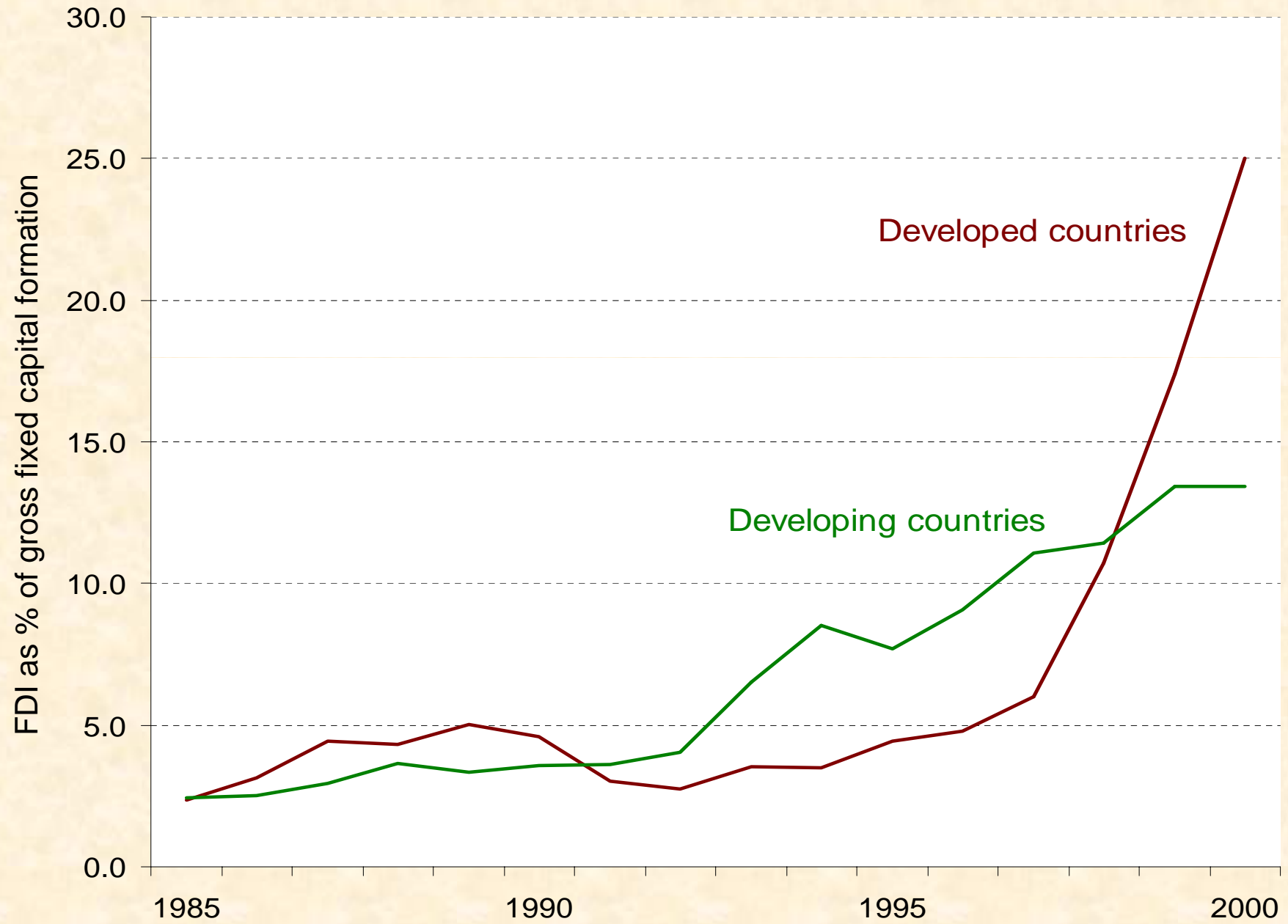
# FDI inflows



# FDI inflows



# FDI inflows





# Multinational Corporations

- **Diversity among MNCs**
  - **size**
  - **the nature of the business**
  - **overseas business relative to total business**
  - **production locations**
  - **ownership patterns**
  - **organisational structure**

# Why do Businesses go Multinational?

- **Categories of multinational organisation**
  - horizontally integrated
  - vertically integrated
  - conglomerate
- **Advantages to firms**
  - reductions in costs
    - international differences in factor prices
    - international differences in factor productivity
    - low-cost access to local markets
    - spreading overheads

# Why do Businesses go Multinational?

- **Advantages to firms (cont.)**
  - **government support in host countries**
    - lower taxes
    - subsidies
    - provision of infrastructure
  - **increased demand**
  - **spreading risks**
  - **can exploit advantages over local firms**
    - ownership of superior technology
    - entrepreneurial and managerial skills
    - R&D capacity
  - **access to local technology**

# Why do Businesses go Multinational?

- **The product life cycle and the MNC**
  - the launch phase
  - the growth phase
  - maturity
  - late maturity and decline
- **Problems facing multinationals**
  - language barriers
  - selling and marketing
  - relations with host governments
  - relationships between subsidiaries

# MNC Investment and the Host State

- **Advantages of MNC investment**
  - employment
  - balance of payments
  - technology transfer
  - tax revenues
- **Disadvantages**
  - uncertainty
  - power and control by the MNC over the host
  - transfer pricing
  - the environment

# MNCs and Developing Countries

- **The scale of MNC investment in developing countries**
- **Advantages to host country**
  - **the saving gap**
    - the importance of development finance
    - the contribution of saving to growth
  - **the foreign exchange gap**
  - **public finance gap**
  - **skills and technology gaps**

# MNCs and Developing Countries

- **Disadvantages to host country**
  - MNCs may drive local firms out of business
  - limited demand for local components
  - repatriation of profits
  - transfer pricing and effects on tax revenues
    - competition between developing countries to attract MNCs
  - **distorting the whole pattern of development**
    - increasing gap between rich and poor
    - introducing consumerist values
- **What can developing countries do?**