

Multinational Companies in India

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Abstract: To understand what are Multinational Companies (MNC), how important is their growth required in Indian Economy, what profit motives they have to establish businesses in India. Also to learn their Merits and De-merits to Indian economy and discuss top MNCs currently growing in India. A multinational corporation is an organisation doing business in more than one country. It engages in various activities like exporting, manufacturing in different countries.

Keywords: MNCs, India, Economy, Features, Growth, Opportunities.

1. What are Multinational Companies?

Any company is referred to as a multinational company or corporation (M. N. C.) when that company manages its operation or production or service delivery from more than a single country. It has its Headquarter based in one country with several other operating branches in different other countries. 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. Apart from playing an important role in globalization and international relations, these multinational companies even have notable influence in a country's economy as well as the world economy. The budget of some of the M. N. C.s are so high that at times they even exceed the G. D. P. (Gross Domestic Product) of a nation.

1.1 Features of MNCs:

The main features/elements of MNCs are as follows:

1. MNCs consider opportunities throughout the globe though they do the business in a few countries.
2. MNCs invest considerable portion of their assets internationally.
3. MNCs are huge industrial/business organisation.
4. MNCs engage in international production and operate plants in a number of countries.
5. They take managerial decisions on a global perspective.
6. They produce in one or a few countries and sell them in most of the countries.
7. Their international operations are integrated into the corporations overall business.

1.2 Why are Multinational Companies setting up in India?

There are a number of reasons why the multinational companies are coming down to India. India has got a huge market. It has also got one of the fastest growing economies in the world. Besides, the policy of the government towards FDI has also played a major role in attracting the multinational companies in India.

For quite a long time, India had a restrictive policy in terms of foreign direct investment. As a result, there was lesser number of companies that showed interest in investing in Indian market. However, the scenario changed during the financial liberalization of the country, especially after 1991. Government, nowadays, makes continuous efforts to attract foreign investments by relaxing many of its policies. As a result, a number of multinational companies have shown interest in Indian market.

Few Important Reasons can be highlighted as follows:

- **Industrial Output:** India is tenth in the world in factory output. The manufacturing sector, in addition to mining, quarrying, electricity and gas, account for 27.6% of the GDP and employ 17% of the total workforce. Economic reforms introduced after 1991 brought foreign competition, which led to privatisation of certain public sector industries, opened up sectors hitherto reserved for the public sector and led to an expansion in the production of fast-moving consumer goods. In recent years, Indian cities have continued to liberalise, which has attracted MNCs and encouraged local entrepreneurs.
- **Services:** India is fifteenth in services output. The service industry employs English-speaking Indian workers on the supply side and on the demand side, has increased demand from foreign consumers interested in India's

service exports or those looking to outsource their operations. India's IT industry contributes significantly to its balance of payments.

India also has an extensive network of undersea fibre-optic cables, which has resulted in India becoming, almost overnight, the centre for outsourcing of business process. Within this sector and events, the ITES-BPO sector has become a big employment generator especially amongst young graduates. India has witnessed sustained economic development as envisioned by our founding fathers, and offers great opportunities to the private companies to feature in the development story of the country.

- **Talent:** The availability of strong technical as well as managerial talent has promoted India as a very attractive R&D destination, with the country being home to about 200 wholly-owned Centres of MNCs that deliver pure-play Information Technology services. Innovation from India has moved on from Ayurveda and yoga to cool internet products and apps.

Management consulting company Zinnov says India is home to about 200 wholly-owned Centres of multinationals that deliver pure-play IT and ITeS services. Ten new centres have been set up over the last two years and by 2015, the market research firm estimates that close to 50% of the Fortune 500 companies will have their facilities in India.

- **GDP Growth:** India's GDP has consistently grown at 8% in the last few years due to a robust infrastructure. The sector also provides immense potential to private companies under the public private partnership and has attracted several MNCs in the recent past. A PwC report titled Infrastructure in India says that "foreign companies who do not acknowledge the opportunity in good time may miss out on a critical opportunity to establish a long-term presence in one of the world's largest growth markets".

2. Profits of MNCs in India

A company enlarges its jurisdiction of work beyond its native place when they get a wide scope to earn a profit and such is the case of the MNCs that have flourished here. More over India has wide market for different and new goods and services due to the ever increasing population and the varying consumer taste. The government FDI policies have somehow benefited them and drawn their attention too. The restrictive policies that stopped the company's inflow are however withdrawn and the country has shown much interest to bring in foreign investment here. Besides the foreign directive policies the labour competitive market, market competition and the macro-economic stability are some of the key factors that magnetize the foreign MNCs in India

Following reasons make India attractive as Profit earner to MNCs:

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

3.1 Advantages of the growing MNCs to India

There are certain advantages that the developing countries like India derive from the foreign MNCs that establish. They are as under:

1. Initiating a higher level of investment
2. Reducing the technological gap
3. The natural resources are utilized in true sense.
4. The foreign exchange gap is reduced
5. Boosts up the basic economic structure.
6. Creation of employment opportunities
7. Favourable Balance of payments

3.2 Disadvantages of the growing MNCs to India

Roses does not come without thrones. Disadvantages of having MNCs in a developing country like India are as under:

1. Competition to Small scale Industries
2. Pollution and Environmental hazards

3. Some MNCs come only for tax benefits only
4. Exploitation of natural resources
5. Diffusion of profits and Forex Imbalance
6. Working environment and conditions
7. Slows down decision making
8. Economical distress
9. Political Interference

4. Top MNCs in India

The country has got many M. N. C.s operating here. Following are names of some of the most famous multinational companies, who have their headquarters of operational branches based in the nation:

- **IBM:** IBM India Private Limited, a part of IBM has been operating from this country since the year 1992. This global company is known for invention and integration of software, hardware as well as services, which assist forward thinking institutions, enterprises and people, who build a smart planet. The net income of this company post completion of the financial year end of 2010 was \$14.8 billion with a net profit margin of 14.9 %. With innovative technology and solutions, this company is making a constant progress in India. Present in more than 200 cities, this company is making constant progress in global markets to maintain its leading position.
- **Microsoft :** A subsidiary, named as Microsoft Corporation India Private Limited, of the U. S. (United States) based Microsoft Corporation, one of the software giant's has got their headquarter in Hyderabad. Starting its operation in the country from 1990, this company has got the following business units:

- Microsoft Corporation India (Pvt.) Limited (Marketing Division)
- Microsoft Global Services India
- Microsoft Global Technical Support Centre
- Microsoft India Development Center
- Microsoft IT
- Microsoft Research India

Working in close association with all the stakeholders including the Government of India, the company is committed towards the development of the Indian software as well as I. T. (Information Technology) industry.

- **PepsiCo:** PepsiCo. Inc. entered the Indian market with the name of PepsiCo India from the year 1989. Within a short time span of 20 years, this company has emerged as one of the fast growing as well as largest beverage and food manufacturer. As per the annual report of the company in the last business year, the net revenue of PepsiCo grew by 33 %. By the year 2020, this food manufacturing company intends to triple their portfolio of enjoyable and wholesome offerings. The expansion of their Good-For-You portfolio is believed to be assisting the company in attaining the competitive advantage of the growing packaged nutrition market in the world, which is presently valued at \$ 500 billion.
- **Sony:** Sony India is a part of the renowned brand name Sony Corporation, which started their business operation in the year 1946 in Japan. Established in India in November 1994, this company has captured one of the leading positions in the field of consumer electronics goods. The company has showed a remarkable increase in the share related to numerous categories. Sony India is planning to invest around INR. 150 crore for the marketing of the activities related to ATL and BTL. As far as Bravia TVs are concerned, they are looking forward to hold their market share of 30 %. In between the last and the current financial year, the number of their outlets in the country increased by 1, 000.
- **Vodafone:** Vodafone Group Plc is an international telecommunication company, which has got it's headquarter based in London in the United Kingdom (U. K.). Earlier known as Vodafone Essar and Hutchison Essar, Vodafone India is among the largest operators of mobile networking in the country. The parent company Hutchison started its business in the year 1992 along with the Max Group, which was its business partner in India. Much later in 2011, Vodafone Group Plc decided to buy out mobile operating business of Essar Group, its partner.
- **Reebok International Limited:** This global brand is a famous name in the field of sports as well as lifestyle products. Reebok International Limited, a subsidiary of Adidas AG, is based in U. S. A. (United States of

America) started its operation in 1890s. During the last financial year, Adidas's currency neutralized group sales increased by 9 %.

- **Nokia Corporation:** Nokia is one of the leading mobile companies in India. Over the past few years, this company in India has been acquiring companies, which have got new and interesting competencies and technologies so as to enhance their ability of creating the mobile world. Besides new developments to fight against mineral conflicts, they are even to set up Bridge Centers in the country for supporting re-employment. Their first onsite for the installation of renewable power generation are already in place.

Conclusions

MNCs have taken India with a wind in the past decade, with India's promising educated youth, huge industrial potential, government support, liberal FDI policies all these factors have lead to the set up of MNCs in India which have proved quite beneficial to the Indian Economy. Though they give us employment opportunities, growth, development etc they also create monopoly in the market which hampers the development of small scale sectors of the country. MNCs have majorly proved beneficial to India with few dis-advantages which the government is trying to minimise.

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