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A Study on the Multinational Management of Working Capital

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Abstract – In the present day world of Globalization, Multinational Companies have played an important role in the development of home countries where the MNCs are operating. Foreign direct investment by multinational companies involves much more than just transfer of capital as it brings with them technologies of production, managerial services and other business practices. Employment opportunities created by the MNCs have solved an important problem of unemployment which is an important characteristic of the underdeveloped as well as developing countries.

With the shortage of savings for financing developmental projects, there is need to depend on foreign capital. Inviting and making ways for MNCs to operate in India will enhance the economic development of the country. Prime Minister Narendra Modi's initiatives for 'Make in India' and 'Skill India' campaigns, inviting Global Companies to invest in India as well as efforts to simplify the Foreign Direct Investments regulations will certainly make India a favourite destination of MNCs.

Keywords: Multinational Companies (MNCs); Globalization; Foreign Direct Investment (FDI); Economic Development; Domestic Savings

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INTRODUCTION

Multinational Companies (MNCs) are large companies that operate in several countries with their headquarters at a particular country. Multinational Companies as recently have gain more momentum in terms of investment and playing a greater role in countries' development, it succeeded in having more attention and more focus.

The first Multinational Companies were established in the year 1920's. Many more came up in the 1950's and 1960's as U.S. businesses expanded worldwide and Western Europe and Japan also recovered to become powerful industrial economies. The world wide spread of MNCs was a notable feature of 1950's and 1960's. This was partly because high import tariffs imposed by different governments forced MNCs to locate their manufacturing operations and become 'domestic producers' in as many countries as possible.

Multinational Companies are generally operated in the less developed or developing countries with their head office in the foreign developed countries. They have been playing a significant role in the economies of those countries where they are operating. As the two sides of a coin, operation of Multinational Companies has both the advantages as well as drawbacks to such countries.

The role of MNCs has figured prominently in both development economics and international economics. The most commonly used measure of economic development are per capita income, rates of growth, changes in the sectoral distribution of activity, and distribution of income (including employment). All of these may be very much affected by the operations of MNCs in both home (capital exporting) and host (capital receiving) countries.

Moreover, the important policy issues raised for home countries are very similar to those raised by any outflow of capital and technology and restrictions on the expansion of their firms abroad may have results similar to those of protectionist trade measures. It is against this backdrop that we discuss the role of multinationals in developing countries like India.

MNCs not only supply the much needed real capital to less developed countries (LDCs) but also act as a vehicle for the transfer of technology across national borders. The capital exporting country is called the home country and the capital receiving country is called the host country.

In underdeveloped countries like India domestic savings are not enough to ensure economic development. In such a case some external helps are required in the form of “foreign aid”.

If we turn the pages of history relating to economic development, we find that every country had to rely on foreign aid for speeding up the economic growth. In the words of W.A. Lewis, “Nearly every developed state has had the assistance of foreign finance to supplement its own meager savings during the early stages of its development. England borrowed from Holland in the seventeenth and eighteenth centuries, and in turn came to lend to almost every other country in the world in the nineteenth and twentieth Century’s. The United States of America, now a rich country in the world borrowed heavily in the nineteenth century and is in turn called upon to become the major lender of the twentieth”. It is thus not the underdeveloped countries alone which need foreign capital for economic development but even the advanced countries of Europe had to seek external aid in the initial stages of their development.

MULTINATIONAL MANAGEMENT OF WORKING CAPITAL

Many MNCs have larger annual sales volumes than the entire GNPs of developing nations in which they operate. By 1980 the 20 largest MNCs had annual sales volume excess of $10 billion, while more than 200 others had sales in excess of $1 billion. The largest U.S. transnational (MNCs) like Exxon and General Motors, each sold over $60 billion in 1980; while Mobile, Texaco and Ford each had annual sales in excess of $30 billion.

In recent years there has been tremendous increase in the private foreign investment. In this connection, it is required to mention that foreign direct investment by multinational companies involves much more than just transfer of capital as it brings with them technologies of production, managerial services and other business practices.

In the past, investment by MNCs was mainly confined to extractive activities but of late manufacturing interests account for a greater share of their activities.

The domestic sources of capital formation in underdeveloped countries are inadequate to secure a growth rate of economies. These countries have not only small capital stock but their current rate of capital accumulation is very small ranging from 5 to 6 percent in advanced countries. Such a low rate of capital formation can hardly provide for a rapidly growing population which increases at the rate of 2 to 3 percent per annum. If they want to depend on themselves for economic development then they need to wait for a pretty long time. So they need to import foreign capitals to supplement domestic resources to quicken the pace of economic development.

In the initial phase of economic development, developing countries have unfavorable balance of payments. They have to imports more in order to meet the growing requirements of development and at the same time their export decreases to meet the growing domestic requirements. These countries have to take recourse of deficit financing which results in inflationary pressures. The prices increase and the cost of production goes up.

The underdeveloped countries require not only foreign capital but also technical know-how and skill to ensure the proper use of capital. Technological backwardness is responsible for high cost of production and low productivity of labor and capital.

MNC’s bring along with it modern technology and train people in new skills. The marginal productivity of labor increases which results in lower prices for consumers and higher real wages of labor. All this quicken the pace of economic development.

There is a problem of high population pressure in underdeveloped countries and there is also the familiar problem of disguised unemployment on a large scale.

To transfer the surplus labor from agriculture and provide them with work, foreign capital is needed to start secondary and tertiary industries.

The industrialization of the country and the creation of employment increase job opportunities solving the problem of unemployment.

There is a great risk involved in the setting up of new undertakings. The shortage of capital, small extent of the market, absence of enterprising groups and underdeveloped infrastructure signify a high degree of risk in different fields like mining, oil exploitation, power, transport, etc.

MNCs will undertake such initial risk and when such businesses become successful the home enterprises feel inspired and try to collaborate with foreign enterprises without suffering initial losses. It shows that foreign capital has a vital role to play in the economic development of underdeveloped countries.

There may be potential savings in the economy which may be available at a higher level of economic development. It is therefore essential that foreign capital be imported to speed up economic activities at first instance with the view of providing inspiration to the people and incentive to the home capitalist.

DISCUSSION

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 investment. As a result, there were a 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.

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 for the financial year 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. With its presence in more than 200 cities, this company is making constant progress in global markets to maintain its leading position.

Nokia Corporation was started in the year 1865. Being one of the leading mobile companies in India, their net sales increased by 4 % in the last financial year with sales of EUR 42.4 billion as compared to 2009's EUR 41 billion. 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.

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.

Ranbaxy Laboratories Limited, one of the biggest pharmaceutical companies in India, started their business in the country from the year 1961. The company made its public appearance in 1973. Headquartered in this nation, this international, research based, integrated pharmaceutical company is the producer of a huge range of affordable cum quality medicines that are trusted by both patients and healthcare professionals all over the world.

In the year 2010, the registered global sales of the company were US $ 1, 868 Million. Successful development of business forms the key component of their trading strategy. Apart from overseas acquisitions, this company is making a continuous endeavor to enter the new global markets, which have got high potential.

Commonly known as TCS, this multinational company is a famous name in the field of IT services, Business Process Outsourcing (BPO) as well as business solutions. This company is a subsidiary of the Tata Group. The first center for software researching was established in the country in 1981 in the city of Pune.

The biggest automobile company in India, Tata Motors Limited, is among the leading commercial vehicles manufacturer in the country. They are one of the top 3 passenger vehicle manufacturers. Established in the year 1945, this company, a part of the famous Tata Group, has got its manufacturing units located in different parts of the nation.

CONCLUSION

In this world of Liberalization, Privatization and Globalization (LPG), it may not be possible to restrict the goods as well the foreign Multinational Companies, instead it is the time to invite these MNCs to establish in the home countries and to extract the maximum benefits from them to strengthen the countries' economies along with the safeguarding of own interest.

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