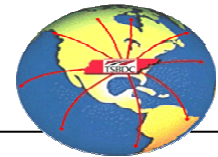












# Transnational Corporations



- A multinational corporation (MNC) or transnational corporation (TNC) is one that spans multiple nations; these corporations are often very large. Such companies have offices, factories or **branch plants** in different countries. They usually have a centralised head office where they coordinate global management.
- A company that both produces and markets products in different countries.

## 2003 Top 10 Multinational companies

Rank	MNC		Rank	MNC	
1	Microsoft		6	Sony	
2	Nokia		7	IBM	
3	Toyota		8	General Electric	
4	Intel		9	Nike	
5	Coca-Cola		10	Citigroup	

**What are some Benefits and Disadvantages to Multinational Companies?**

# Transnational Corporation Simulation



## Alpha Shoe Company

### Description:

Participants take on roles assigned to them and try to think, feel, and act in their roles. Participants are divided into groups of five and each given a role description. Within their groups each person makes a one-minute presentation on the location of an Alpha Shoe Company factory in Nocomo, then they debate the issue and make a decision. The groups return to the large group to reflect upon the role play and discuss the process and the decisions. (Both "Alpha Shoe Company" and "Nocomo" are fictitious.)

### Plan

1. The participants are divided into groups of five, each group is given copies of each of the five role descriptions and told the following:

"You are citizens of a medium-sized and relatively non-industrialized Third World country called Nocomo. Your community has been asked to make a decision as to whether or not to permit the large multinational company - the Alpha Shoe Company - to build a manufacturing plant here. In order to help your country make a decision, you will be asked to make a one-minute presentation to the group using the information provided in your role descriptions. Your presentations should give your opinion on this matter and reasons or facts to support that opinion."

Give the role players five minutes to read their roles and put together their one-minute speech.

2. After the presentations each "community" should debate the issue for about 15 minutes.

3. After the debate, the community (each small group) should make a decision on whether or not they will permit the Alpha Shoe Company to locate in Nocomo. The role play should run approximately 25 to 30 minutes in total.

4. When all the "communities" have reached a decision, bring the groups back together for the debriefing discussion. Give the participants a few moments to "get out of their roles" with a stretch and a pause; then begin the discussion. Have the groups share their decisions.

## DISCUSSION QUESTIONS

- How did the participants feel in their roles?
- How did they feel about the decision?
- Who had power in the community?
- What was the power?
- What kinds of things maintained the power?
- Can you think of any real life situations that resemble the Alpha Shoe Company and Nocomo?
- Who are we in that scenario and what role do we play?
- What can we do about multinationals?
- What can we do about development?

# **PARTICIPANT ROLES**

## **REPRESENTATIVE FROM ALPHA SHOE COMPANY**

You are a representative from the North American head office of Alpha Shoe Company. Your company is very interested in building a plant in Nocomo because it knows its profits are substantially higher in the developing world than in industrialized countries. (For example, a vice-president of a United States bank recently quoted a 13 to 14% rate of return in the United States compared to a 33% profit in Latin American countries.\*)

You have the advantage of being able to corner local markets and to export to First World countries taking advantage of lower wages, tax rebates, war environmental laws, government restrictions on unions, and political stability.

You are concerned that profits not appear to be the only motivation for your interest in this country, even though you believe there is nothing wrong with making a profit. You feel that Nocomo should welcome your company for the following reasons:

- Your plant will provide 2,000 new jobs in a country where unemployment is very high.
- Your plant will bring new and advanced technology into the country.
- Because you are a multinational corporation, you will help the country to obtain export markets to which it does not presently have access. This will provide foreign exchange to the country for payment of foreign imports and debts.

## **A LOCAL SHOE MAKER**

You are a local shoe maker in Nocomo.

You run a small shoe manufacturing company using labor-intensive techniques (methods which employ people rather than highly mechanical processes) with a small number of shoe styles.

You are opposed to Alpha Shoe Company building a plant in your country for the following reasons:

- You would like to expand your own shoe business in the future. To do that, you need loans, and these are difficult to obtain because capital is scarce. If Alpha Shoe builds a plant, banks will prefer to give loans to them because they are bigger and more secure. That means no loans for your company and no expansion. (For example, in Argentina in 1971, credit was scarce. Local firms were forced to decrease their borrowing by 42 percent, but global firms actually increased their borrowing by 20 percent.\*) You do not have access to foreign bank loans and "aid funds" as larger companies do.
- You are afraid that Alpha Shoe Company will drive you, and other small companies like yours, out of business. (Global corporations are able to use local finance capital and their technological advantage to absorb local industry. A study by the Harvard Business School of 187 United States global corporations investing in Latin America showed that about 46 percent of all manufacturing operations established were takeovers of existing domestic industry.\*) A very large company can drive a smaller one out of business through superior advertising, control or takeover of export markets, or by lowering its prices until the small business can no longer afford to compete.

## **WORKER**

You are a Nocomo worker.

- Unemployment in Nocomo is very high and, although you are presently employed, unemployment is a constant fear.
- You find the Alpha Shoe's promise of 2,000 new jobs appealing, but you are skeptical about how much this will actually benefit Nocomo people.
- You know that Alpha Shoe uses a much more automated process than local shoemakers and thus employs fewer people to make the same number of shoes. (Statistics have shown that the expansion of global corporations have contributed to the expansion of world unemployment. A study of 257 manufacturing firms throughout Latin America shows that global corporations use less than one half the number of employees per \$10,000 of sales than local firms do.\*) Modernization may increase "efficiency", but people lose jobs.
- Wages within the global corporations are frequently low - much lower than wages for comparable work in First World countries.
- Even though wages paid by global corporations are sometimes above average wages received by workers in the developing world, they are frequently less than subsistence.
- The company will bring in new technology, but this will mean work is more automated, more routine and less highly skilled. This kind of technology is very expensive. It makes more sense, given the high unemployment rate, to use more labour and simpler technology.

## **FIRST CITIZEN**

You are a fairly wealthy landowner in Nocomo.

- You stand to benefit greatly from the presence of Alpha Shoe Company in this country.
- The new plant will attract other industry and service, and land prices will rise.
- You know that multinational corporations can raise the GNP of a country. (For example, Brazil, which has more multinational investments in it than any other developing country, tripled its GNP in little more than a decade.\*)
- Brazil's growth has been called an "economic miracle," and you would like to see Nocomo developed in the same way.
- Nocomo needs foreign trade in order to develop its economy, and international trade is largely controlled by multinational corporations like Alpha Shoe.

## **SECOND CITIZEN**

You are a community worker in Nocomo. You work with and are concerned about the poor of this country.

- You are opposed to Alpha Shoe Company building a plant here because you believe that multinational investment negatively affects the development of developing countries.
- You think of the example of Brazil, which has more multinational investments than any other developing country. Since 1964, the GNP tripled, but the relative income of the poorest 80% of the population is still decreasing; about one half of all children in Brazil have no school to attend; infant mortality is the second highest in the hemisphere and one fifth of all children in Brazil suffer from extreme malnutrition.
- Because multinationals control international trade, they control prices and profits. International companies trade among to themselves and make profits in the process - profits that go to shareholders in the First World and not to developing countries.
- Profits are high for multinationals in the developing world. (For example, a vice-president of a United States bank once stated that they could earn around 13% to 14% on their United States operations, but can easily count on a 33% rate of return on their business conducted in Latin America.\*)