3 Multinationals Strategies and Governance

3.1 Introduction

Modern large corporations are entities under the control of corporate officers and, ultimately, shareholders who own direct stakes in the firm. Economists assert that the primary objective of corporations is to make profits for their shareholders, with other objectives being subordinate. For that reason, decision regarding investments by managers are supposed to made with on the basis of economic considerations.

The expansion of MNCs from developed to developing countries could be explained by their capital and technological advantage, but not so for their expansion into other developed economies. Motives of EMNCs to expand into developed countries market is even more revealing. In seeking explanations for internationalisation, however, scholars have recognised the desire of firms to exploit and protect their propriety technology and knowhow with which they produce goods or services. These propriety technologies and knowhow are usually the source of competitive advantage. In varying circles of theoretical postulations and through several empirical studies, scholars have been able to identify a swath of motivation that prompt firms to expand abroad. Essentially, the motives for foreign expansion are to seek new markets for their goods and services, to find resources and inputs for their operations, to seek efficiency enhancing assets and sometimes expansion may for strategic reasons, like to diversify risk.

Foreign market entry requires a thorough examination of three separate units of analysis. The firm, the home and host country conditions. A framework has been designed that stands on the pillars formed by these viewpoints. The insights gained have spawned theories that explain internationalisation from the standpoint of firm resources, host country attractiveness regarding its market size, development of institutions and country risk profile.

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Decisions regarding FDI have been categorised into those made to satisfy economic objectives, and those made due to the behaviours and proclivities of managers. There are also different factors that influence the mode by which firms enter foreign markets. The choice of entry mode is determined by the risk appetite of the firm, the level of control the firm seeks in the management of its oversea subsidiary and the level resources it is willing to commit to the investment. Entry choice, however, range from low risk, medium to high risk entry options.

Governance of the behaviour of MNCs on a range of issues has preoccupied governments and regulators in recent times. The global expansion of MNCs has raised questions of their impact on society and role they play in host country economies and the larger global economy. These questions arise due to the immense power MNCs wield and the seeming inability of their home and host governments to hold them to account.

The power of MNCs lie in the economic benefits their investments bring to host countries, especially those in developing countries, but governments have raised concerns about their issues relating to the environment, labour relations, tax avoidance, supply chain responsibility and engagement with local communities.

3.2 Internationalization Theories

Internationalization of the firm from a theoretical standpoint usually tries to give answers to questions about why, when, where and how firms engage themselves in international business? (Törnroos 2002) These questions form the foundation of several theoretical and empirical enquiries and investigations. The two most investigated questions, however, are why firms internationalize and how. These questions have been encapsulated in several studies that seek to know the determinants of FDI and the entry mode strategies adopted by MNCs.

Before embarking on foreign market entry however, firms must possess some form of knowhow or capability that confers them with a competitive advantage. Some of these advantages are internal to the firm, and some are a function of the circumstances in home country of the firm. These advantages are thus, either firm specific or country specific.

Firm specific advantages, termed Ownership advantage by Dunning (1977), include the possession and exploitation of monopoly power like patented technology or process which are presumed to stem from, or create, some kind of barrier to entry to final product markets by firms not possessing them (Hymer 1960). Another form of O-advantage are those relating to the possession of a bundle of scarce, unique and sustainable resources and capabilities, which essentially reflect the superior technical efficiency of a particular firm relative to those of its competitors, these tacit knowledge is gained by the firms employee and they stem from, or create, some kind of barrier to entry to factor, or intermediate, product markets by firms not possessing them (Barney 1991). One other set of O-advantages are those relating to the competencies of the managers of firms to identify, evaluate and harness resources and capabilities from throughout the world, and to coordinate these with the

existing resources and capabilities under their jurisdiction in a way which best advances the long-term interests of the firm. They tend to be management, rather than firm specific in the sense that, even within the same corporation, the intellectual competencies of the main decision takers may vary widely (Dunning 2000).

Firms then compete in foreign markets with these capabilities helping them overcome the liability of foreignness. Thus, these patents, technological knowhow, unique processes and procedures are vital for the firm's existence and competitiveness.

When seeking a location to expand to, firms may find conditions in the host country attractive if it possesses a large market, factors that enhance operational efficiency, reduce transaction costs or assets that might enhance the well-being of the firm. Consideration would also be made of the availability of market actors like suppliers and competitors, political and macroeconomic stability of the host country as well as the level of is infrastructure and institutional development (Meyer 1998), exchange rate and political risks, the regulations and policies of supra-national entities, as well as intercountry cultural differences.

Conditions in the home country may also prompt or delay MNCs foreign expansion. Firms may be pushed abroad by competitive pressure, government regulations, high tax rates or high operating costs. Conversely, some country specific assets embedded in the firm's home country, like an ecosystem of suppliers, superior infrastructure, access to capital, may prompt a firm to delay its investment abroad.

Where the firms consider the host country to be attractive then the country possess a location advantage. As firms compete on the basis of their ownership advantage, which in some cases is patented, the firm has an incentive to protect its patent and technology. If conditions in the host country portend a risk to these patents or capability, firms then may seek to produce goods and services by themselves. In this case then there is an Internalisation advantage. These distinct advantages that informs strategic decision by firms are part of the framework through which FDI has been explained.

3.2.1 Why Firm Internationalise

Most of the studies of internationalisation have distilled the motives MNCs into four broad categories (Dunning 2000). These motives explain what the firms are seeking when they venture into foreign markets.

Resource seeking multinationals establish operations in countries where the raw material necessary for their production are situated. These resources include capital, knowhow and raw materials. For companies that mine and develop oil and gas deposits, their entry would be into countries with vast reserves of minerals and oil and gas. Firms may establish operations in financial centres like London, New York and Dubai to get better access to finance and investors, while some others may set up subsidiaries close to areas with skilled manpower like universities or where capabilities abound as regards their industry like Silicon Valley. Resource seekers were among the earliest multinationals and their aim was to exploit the raw materials that could be found overseas. The modern-day counterparts of these firms, the

multinational oil and mining companies such as British Petroleum, Exxon Mobil, International Nickel, etc.,

Efficiency Seeking firms invest in low cost production sites overseas to remain cost competitive both at home and abroad. MNCs enter host countries where the firms hope it can improve its operational efficiency. Countries with cheaper labour cost, well developed integrated supply chain networks, good infrastructure including transport that improves logistics performance and well-developed institutions that protect property and legal rights. For these reasons MNCs find most developed countries and emerging countries like Mexico, China, Vietnam, Thailand and other South Eastern Asian countries attractive. Increasingly, however, some African countries including Ethiopia and Morocco are attracting efficiency seeking MNCs. These firms also establish operations in a host country to overcome trade barriers, and other measures that make exports unprofitable. These are the motivation for Japanese and German car companies like Toyota, Honda, BMW and Honda establishing plants and factories in United States of America.

Market Seeking MNCs are the archetype of the modern multinational firm that goes overseas to produce and sell in foreign markets. Examples include IBM, Toyota, Unilever, Coca-Cola. They establish operations in host countries where they seek to increase sales of their products or services. In doing so, they believe they have products or services that can compete with incumbents in the country for market share.

Strategic asset seeking MNCs make foreign market entry that is designed to protect or augment the existing propriety assets or tacit knowhow and other ownership advantages of the investing firms or to reduce those of their competitors. Strategic asset seeking (SAS) FDI is dependent on intellectual capital being located in more than one country, and that it is economically preferable for firms to acquire or create these assets outside, rather than within, their home countries. This usually is the motive of firms that acquire older firms that for their stock of patents or and other intellectual property. This form of entry is usually common with EMNCs like Indian automaker, Tata acquiring United Kingdom based Jaguar Land Rover.

Two theoretical perspective have been identified as shaping the thinking and actions of managers in the decision-making process for internationalization. These include the economic and behavioural perspective to FDI.

The Economic Perspective focuses on the firm and its environment. It assumes that firms are rational in their choice of investments. The economic approach focuses on two fundamental aspects of international production; the ownership of assets employed in production activities in different countries and the locational pattern of such activities (Glückler 2005).

Corporate growth, new market opportunities, internalization and vertical integration were seen as being main driving forces for internationalization. Rational decision making, and classical types of markets constituted the world of theory in this type of reasoning (Törnroos 2002).

Theories from the economic perspective are based on the idea of the imperfectness of the market mechanism. The aim of firms is to seek optimally efficient ways of entering new markets. A firm's decision to invest abroad is looked at from the

perspective of cost and benefit. Entry into new markets is viewed as a one-off transaction that calls for a trade-off between risk, controls and resource commitment (Anderson and Gatignon 1986). Decision makers have access to perfect information and are rational, choosing the optimal solution. Theories from the economic perspective include internalization theory, eclectic theory, product life cycle theory, transaction cost analysis and the resources-based view.

Product Life Cycle theory (PLC) for company internationalization is based on the logic of international trade between different parts of the world. The basic assumptions of the theory are that location of new products usually is started in some of the developing economies, e.g. the United States. The new product innovation and production goes through different stages of the product life cycle, and in the new-product phase the demand and growth is assimilated through the growing markets at home. Later, when the product has gone through its growth stage and starts to mature the situation is different (Vernon 1966).

Internalization theory explains why firms embark on FDI through an evaluation of the options between FDI and licencing. The theory states that if the transaction and coordination costs of using external arm's length markets in the exchange of intermediate products, information, technology, marketing techniques, etc. exceed those incurred by internal hierarchies, then it will pay a firm to engage in FDI, rather than conclude a licensing or another market related agreement with a foreign producer (Buckley and Casson 1998). In general, the transaction costs of using external markets tend to be positively correlated with the imperfections of those markets. Over the last two decades, an extensive literature has identified a whole range of market failures, such as those associated with bounded rationality, and the provision of public and jointly supplied products and common intangible assets, and which permit opportunism, information asymmetries, uncertainty, economies of scale, and externalities of one kind or another.

The eclectic theory was developed by Dunning, and several other scholars have lent support (Dunning 1980). Dunning's approach is more in the nature of a theoretical framework to explain the why, where and when of international production. The theory emphasises the three sets of attributes that determine a firm's motives, location and ownership structure when expanding internationally. These attributes are ownership (O-) advantage, location-specific (L-) advantage and (I-) internalization advantages I-advantages.

The resource-based theories of the firm offer some reasons 'why' foreign owned affiliates may have a competitive edge over their indigenous competitors. Transaction cost theories TCA explains the concept of the firm as a 'nexus of treaties' between suppliers, employees and how these treaties influence entry and transaction costs. It explains why firms prefer to engage in FDI rather than sell their O specific assets, or the rights to use them, to independent foreign producers (Williamson 1990).

These considerations ultimately influence the mode by which a firm may choose to enter a host country however influence the mode by which MNCs would enter these counties.

The Behavioural Perspective of internationalization, also called the process approach, has its base in organizational theory. It replaces the economic man with

the behavioural-man, therefore the approach is regarded as behaviourally oriented (Andersson 2000). Theories and models following the behavioral approach treat individual learning and top managers as important aspects in understanding a firm's international behaviour. In the behavioural approach the focus is on the impact of international experience on the pace and direction of subsequent internationalization. An important theme in this approach is the role of organizational knowledge in the internationalization process. The theories of the behavioural perspective include the Internationalisation Process Theory, Decision Theory and the Born Global theory.

Decision Theory is the first to directly take ideas from the behavioral theory into consideration when developing a theory of the internationalization of the firm. Foreign direct investment is seen as a complicated social process. Many different attitudes and opinions, social relationships both inside and outside the firm and the way such attitudes, opinions and social relations are changing" (Aharoni 1966). This theory characterized the decision processes in MNCs as being a complex social process that is influenced by social relationships both within and outside the firm. The triggering signals for FDI are presented as being the following, an outside proposal, fear of losing a market, the 'band-wagon' effect: very successful activities abroad of a competing firm in the same line of business, or a general belief that investment in some area is a 'must', strong competition from abroad in the home market.

The process model states that internationalization takes place through incremental steps when entering into new markets, which have a greater psychic distance. The concept of psychic distance was seen as a factor preventing or disturbing the flow of information between firm and market. Factors included consist of differences in language and culture, level of education, political differences etc. (Johanson and Vahlne 1977).

The network theory is an outgrowth of the process model. Networks are defined usually as "sets of connected exchange relationships". The connectedness of firms to other firms forms the core of the business network approach. Through the firm's commitment through technological, market as well as e.g. financial ties with other so-called market actors (e.g. firms and departments of firms at the market or supply-side, financial institutions, and legal actors) firms gradually extend their network connectedness. These business networks are extended also across national borders and become internationalized.

Born Global theories postulates that there has been changes in today's world which has challenged the basic presumption of gradual learning and incremental internationalization. Technological development, especially developments in the field of communication, the Internet and media, has changed the matters. Some of the previous obstacles to internationalization have been removed and small companies are now able to leapfrog into the internationals arena not long after founding. This has led to the categorization of some companies as being Born Global. Born Global companies behave both like risk-seekers, innovators and proactively as well as risk-averts and reactively, today there is no theory that can explain why and when companies will be risk-avoiders and when they will risk- seekers. Born global firms can be said to be quite recent and a phenomenon which have occurred as a

consequence of opening markets through deregulation, new competitive spaces emerging and the rise of multinationals and some key markets which have a global scope and large markets across all continents. The rise of high-speed highways of information and new technological development has speeded up the existence of Born Global business firms (Bell et al. 2001).

3.2.2 Entry Mode Strategies

The decision to enter a foreign market is usually a well thought out one that involves consideration of several factors including those in the home and host countries and those within the firm as regards its wellbeing and capability to embark on foreign market entry. Entry strategy usually requires a comprehensive plan that sets forth the objectives, goals, resources, and policies that will guide a company's international business operations over a future period long enough to achieve sustainable growth in world markets (Root 1994). For most companies the entry strategy time horizon is from 3 to 5 years, which is the typical time period for achieving enduring market performance.

In choosing an entry mode, a firm would be aware of internal and external factors that can impact on its strategic objective as it expands into a foreign market. The factors in the host market that would influence the choice of entry mode include, socio-cultural distance, country risk and demand uncertainty, market size and growth, direct and indirect trade barriers, competitive environment, small number of relevant intermediaries available.

Information on these factors helps the firm determine the level of control to seek, the level of resources to commit and the level of risk it should bear as enters a new market (Erramilli and Rao 1993). Control refers to the level of authority a firm may exercise over the systems, methods and decisions of foreign affiliates. The level of control a firm seeks for a foreign operation is important in determining the level of resources it would commit and the level of risk it would take (Brouthers and Nakos 2004). This has led to a spectrum of choices that have been boxed into three broad categories of low risk, medium risk and high-risk investments.

Firms enter foreign markets by a variety of equity and non-equity modes. Non-equity modes include indirect or direct exports and contractual modes. Equity modes of entry involves the commitment of resources by the firm. Low risk options include exports, licencing and management contracts which entails little control, while medium risk options include strategic alliance and joint venture yields increased levels of control. By establishing wholly owned subsidiaries either through greenfield capital investment or brownfield M&A, firms declare an intent to have full management control of their operations in a particular host market (Anderson and Gatignon 1986).

Two major theoretical perspectives have emerged as viable frameworks for examining MNCs' entry mode choice (Tallman and Shenkar 1994). The first framework, transaction cost analysis (TCA), explains the concept of the firm as a 'nexus of treaties' between suppliers, employees and how these treaties influence entry and transaction costs. TCA theory posits that a company will internalize operations that

it can perform at a lower transaction cost than would be the case if the firm exported or entered into a contractual arrangement with a local partner (Williamson 1979).

The second framework, bargaining power theory, views entry mode choice as an outcome of negotiations between the firm and the government of the host country. BP assumes that both parties are looking to negotiate an outcome that is in their long-run best interests. Additionally, bargaining power assumes that the MNC uses its ownership advantage as a source of bargaining power, while the host government relies on its control over marketing access (Ganesh et al. 1997). Bargaining power theory asserts that the entry mode a firm chooses depends on the relative bargaining power of the firm and the foreign government (Tallman and Shenkar 1994). For those who have employed the bargaining power framework, access to foreign markets is controlled by political actors at home and abroad, so that the initial market entry decision has to include the political imperative. Without these actors' explicit or implicit permission, no subsequent marketing activity is possible (Boddewyn and Brewer 1994).

3.3 MNC Governance and Other Issues

Large corporations are an economic, political, environmental, and cultural force that is unavoidable in today's globalized world. Large corporations have an impact on the lives of billions of people every day, often in complex and imperceptible ways. The conception of corporations as merely economic entities is being replaced by a view that places corporations in a broader economic, social, and environmental context—often called the "triple bottom line." The policies and goals of multinational corporations may therefore conflict with the policies and goals of the states in which they operate (Roach 2007).

Proponents of multinational corporations argue that FDI is a mechanism for increasing productivity and stimulating growth. By transferring capital, technology, and know-how and by mobilizing idle domestic resources, multinational corporations increase productivity, foster growth, and thereby improve welfare. To be more specific, the potential gains from FDI fall into three main categories. First, FDI may facilitate trade in goods and services by allowing firms to compensate for market imperfections by engaging in international intrafirm trade. Second, FDI may increase the productivity of firms that are directly engaged in FDI, especially those that are the recipients of FDI inflows. Third, FDI may generate positive external economies that benefit firms and other economic actors that are not directly engaged in FDI. Global foreign direct investment (FDI) flows was USD1.43 trillion in 2017. FDI by MNCs represented 2.4% of global GDP in 2017.

MNCs are responsible for 80% of global trade. The top 2000 companies in 2017 accounted for USD39 trillion in sales and USD57 trillion in market capitalization, over 50% higher than the 2003 figures, when top companies accounted for USD25 trillion in sales and USD31 trillion in market capitalization.

MNCs tend to establish operations in markets where their capital is most efficient or wages are lowest. By producing the same quality of goods at lower costs,

multinationals reduce prices and increase the purchasing power of consumers worldwide (UNCTAD World Investment Report 2007).

Advocates of multinationals say they create high-paying jobs and technologically advanced goods in countries that otherwise would not have access to such opportunities or goods. Nevertheless, the processes by which MNCs create products and service sometime leads them into conflict with various stakeholder. And with their increased power and influence, MNCs have been accused by governments, especially in developing countries of political meddling, tax avoidance, an illicit financial dealing. They have been criticised for their treatment of the environment, intra-firm transfers, labour and employment practices and other issues relating to tax avoidance, supply chain responsibility, protection and their engagement with communities.

3.3.1 Governance

The multinational as an economic organization orchestrates and controls the entirety of its global operations. The group of firms or enterprises that make up the multinational as an economic organization is structured using the corporate form; but legally the group itself is not a corporation. MNCs are structured using the corporate form; but legally the group itself is not a corporation. The "parent company" enjoys limited liability even if it wholly owns all of its subsidiaries. This means that the corporate parent is generally not liable for risks incurred by a subsidiary, or monetary damages imposed on a subsidiary, beyond the extent of its investment in it (Roach 2007). Multinational corporations operate in many countries and are therefore subject to many different legal jurisdictions. Moreover, a subsidiary or affiliate may have subsidiaries and affiliates of its own, based on the same principle of limited liability. Some subsidiaries may be listed on stock exchanges in their own right, with the corporate parent remaining the majority or controlling shareholder. In all such cases, the parent company is not liable for harm caused by subsidiaries, other than in exceptional situations such as demonstrable negligence, fraud, or other illicit conduct that the corporate parent directed or of which it had knowledge and did nothing to stop.

Because no one country is responsible for overall jurisdiction and because jurisdiction can be unclear, a given MNC may have problems deciding what laws it needs to obey and where. However, national law for the most part governs the separate legal entities, not the single economic enterprise (Ruggie 2018). The main body of national law governing corporations is domestic corporate law and securities regulation, plus whatever civil and criminal provisions in other areas of substantive law and regulations may be applicable to corporations. But domestic law is only able to reach beyond its national borders in limited circumstances.

This legal reality has made the governance of the behaviour of MNCs very problematic. Some governments, like the U.S. government, engage in efforts to regulate the activities of U.S. citizens and U.S.-based companies abroad. One such exception is the US Foreign Corrupt Practices Act, the scope of which includes the overseas

conduct of US firms, as well as foreign firms, if their furtherance of a corrupt act takes place in or through the US. Anti-trust law is another exception in the US and the European Union (EU).

As governments have limited power to control the behaviour of MNCs some policy initiatives have sought to enlist their voluntary pledge to good and responsible behaviour. These include The Global Compact and Global Reporting Initiative. The Global Compact asks companies to embrace, support, and promote a set of ten principles relating to human rights, labour, the environment, and anti-corruption (Moran 2009).

Global Reporting Initiative, founded in 1997, seeks to develop and disseminate globally applicable sustainability reporting guidelines for voluntary use by organizations reporting on the economic, environmental, and social dimensions of their activities, products, and services. The GRI has published reporting guidelines for firms wishing to participate in the project. These guidelines explicitly incorporate the triple bottom line concept of financial, environmental, and social issues their close connections to their government.

Additionally, firms have been pressured into behaving in more sustainable manner and have thus sought to improve their corporate social responsibility and move towards sustainable behaviour and more supply chain management practices (Gold and Heikkurinen 2013).

3.3.2 Supply Chain Responsibility

Increasing competition is forcing MNCs in the developed countries to outsource to countries with lower labour costs. In this strategy, companies try to produce a cheaper final products and improve their competitiveness by sub-contracting part or all of their production to producers in countries with lower labour costs. Thus, supply chains are becoming increasingly global and complex. Savings from low-cost foreign production are increasingly achieved through contracts with external suppliers, a trend commonly referred to as outsourcing (Vaaland and Owusu 2012).

Multinationals used to have arm's length relationships with their suppliers but certain recent events have led to stakeholders to call on MNCs to take more responsibility on the actions of their global supply chain partners. This call became more strident in 2013 following the collapse of a building in Bangladesh housing factory workers. There were more than 1100 victims. This tragic case has raised awareness about responsible procurement from global supply chains. As a result, many stakeholders have become more concerned about the responsible sourcing of materials and products. Non-governmental organizations and customers themselves are constantly demanding for an increased focus on corporate responsibility practices in the value chain (Gold and Heikkurinen 2013).

Firms are facing increased stringent government regulations on their supply chain. Arguably, there are a number of governments hailing from the most advanced economies that have already redefined their conceptions of responsibility beyond their own national borders (Xia et al. 2015). However, the poorest countries may not

possess the same legal frameworks and regulatory policies on responsible supply chain management. Even if they have policies, guiding principles and codes of conducts in place; they will not necessarily enforce them in their workplace environments. This is especially the case for brand-owning companies, as they are likely to come under pressure from diverse stakeholders, including NGOs. The bigger companies are now expected to consider their environmental and social responsibility across their entire supply chain.

The stakeholder pressures are often being manifested both in name-and-shame campaigns and consumer 'boycotts' targeting big brands and in the pro-active developments of multiple institutional and regulatory innovations toward "sustainable supply chain management", including; eco-labelling, codes of conduct, auditing procedures, product information systems, procurement guidelines and eco-branding. Because of these pushbacks from stakeholders, purchasing and supply chain managers of the global brands are increasingly recognizing the importance of integrating social and environmental responsibility in their day-to-day operations. Some businesses are also embedding certain NGOs' standards (e.g., ISO 14001 and ISO 26000) in their daily tasks (Camilleri 2017).

3.3.3 Employment and Labour Issues

In an era of declining constraints on their mobility and the attraction of cheaper wages in developing countries eager to draw foreign investment, MNCs are eliminating jobs in their home countries and shifting production abroad. In these less developed regions, the lure for MNCs of fewer costs and regulations offers little promise to workers of decent working conditions, sufficient pay, or job security. MNCs that take advantage of cheap foreign labour gain an advantage over less mobile firms that remain dependent on higher-cost labour. Low-cost foreign labour is a major factor explaining the growth of multinationals in such sectors as electronics and apparel.

The outsourcing of production jobs to foreign countries is perceived by many to be a primary reason for the loss of traditional "blue collar" jobs in industrial countries. Relying on subcontractors offers MNCs several advantages. First, with short-term contracts and no large capital investments firms can quickly shift to contracts in other countries if lower costs are possible. Second, corporations can avoid some responsibility for instituting fair labour practices and meeting environmental standards by claiming these are at least jointly the duty of the subcontractors. While MNCs benefit from the flexibility offered through subcontractors, these arrangements can also create harmful social and environmental impacts (Roach 2007).

The International Trade Union Confederation published its Scandal report, which exposed the fact that 50 leading multinational corporations employ only 6% of the workers who manufacture their products directly (ITUC 2016). Suppliers and subcontractors employ the remaining 94%, or 116 million-strong hidden workforces.

An International Labour Organization study found that perhaps as many as one out of seven jobs in the world is supply-chain related (ILO 2015). As a rule, wages

and conditions of these workers are worse, and most union rights violations happen in the supply chain. MNCs have been criticised for wage disparities between affiliate subsidiaries even if workers perform the same work roles. MNCs have also been criticized for the labour practices of their suppliers, especially those in developing countries. campaigners have tried to hold firms to account by organising the boycott of product of MNCs over the employment of child labour, gender pay disparity and poor wages paid by suppliers to their workers in countries like Bangladesh, Pakistan, Vietnam and Thailand.

And as the UN guiding principles on business and human rights confirm, multinational corporations have due diligence responsibility over their supply chain.

3.3.4 Tax Avoidance

By establishing operations in many different countries, a MNCs are able to take advantage of tax variations by putting its business officially in a nation where the tax rate is low—even if its operations are conducted elsewhere. This has led to MNCs been accused by several governments of tax avoidance.

It was reported that Amazon paid little or no UK corporate tax between 2009 and 2011, on sales of over £7.6 billion. Amazon UK, with over 15,000 staff, is a service operation for its Luxembourg-based company. Apple had a reported effective rate of tax of around 2% in recent years on its non-US profits—approximately 60% of the total—with sales routed through its Irish subsidiaries. A US Senate investigation which included Apple's tax strategy concluded that its tax arrangements do not reflect its business. Google had a reported effective tax rate of 2.4% in 2009 on non-US profits, with the majority of Google's non-US sales billed in Ireland. Google Ireland paid, for example, for the services provided by the 1300 staff in the UK, with most UK-related sales of £3.2 billion routed through Ireland. The UK Labour party leader said that Google paid £10 million in tax between 2006 and 2011 on revenues of £11.9 billion (Needham 2013).

Countries do not look at an MNCs as a whole for tax purposes, but only the parts of a large corporation operating in its jurisdiction in order to avoid this leading to the double taxation of profits of growing global MNCs.

The tax reduction and avoidance methods used by MNCs have been well known for decades. The method revolves around shifting income from higher-tax to lower- or no-tax countries and include profit shifting strategy, corporate debt-equity, payments for intangibles and shell holding companies. These actions have been significantly aided by the digital economy and a rise in the value of intangible assets e.g. brands. Tax law appears out of date compared to MNCs' business practices.

Moreover, MNCs have increased their intra-firm trade to be able to take advantage of these tax avoidance schemes. The absolute level and value of intra-company trade has increased considerably. Additionally, 80% of international payments for technology royalties and fees are made on an intra-company basis. Problems stemming from intra-company trade concern MNC's ability to maximise profits by avoiding both market mechanisms and national laws with an instrument of internal

costing and accounting known as "transfer pricing." This is a widespread technique whereby MNCs set prices for transfers of goods, services, technology, and loans between their worldwide affiliates which differ considerably from the prices which unrelated firms would have had to pay. There are many benefits MNCs derive from transfer pricing (Greer and Singh 2000).

By lowering prices in countries where tax rates are high and raising them in countries with a lower tax rate, for example, MNCs can reduce their overall tax burden, thus boosting their overall profits. Virtually all intra-company relations including advisory services, insurance, and general management can be categorised as transactions and given a price; charges can as well be made for brand names, head office overheads, and research and development. Through their accounting systems MNCs can transfer these prices among their affiliates, shifting funds around the world to avoid taxation. Governments, which have no way to control MNCs' transfer pricing, are therefore under pressure to lower taxes as a means of attracting investment or keeping a company's operation in their country. Tax revenue which might be used for social programs or other domestic needs is thus lost.

3.3.5 The Power of International Mobility

Multinationals tend to be mobile and flexible. Some are tied to specific countries by the need to get access to specific assets, such as raw materials of a particular kind, or by a large capital commitment that cannot be shifted easily to another location (e.g., oil wells and refineries located near major oil fields). Nevertheless, MNCs have the ability to transfer resources across national borders. The more mobile a multinational corporation becomes, the more able it is to relocate production or seek new contractors as a result of changes in national regulations concerning workplace standards, minimum wages, and environmental quality. Tax breaks and subsidies which governments use as incentives are no guarantee that MNCs will not move on after the benefits have expired, and as cost advantages now found in Singapore appear in, say, Bangladesh, the countries currently experiencing an influx of investment may eventually find themselves in the same position as that of the US and other industrialised nations today (Roach 2007).

These special characteristics of MNCs can cause conflicts with national governments, because governments are territorially bound and politically committed to defending the interests of their citizens, whereas firms are not territorially bound and are legally committed to defending the interests of their stockholders or stakeholders. Most importantly, MNCs may seek goals or follow policies that are valid from the firm's international perspective but are not necessarily desirable from a national perspective.

An important contemporary example is the interest of Wal-Mart in obtaining products assembled or manufactured in the low-wage countries like China for sale to consumers in high-wage countries like the United States. Wal-Mart pushes its U.S. suppliers to relocate production to China for this reason, even though the

consequences for low-skilled workers in the United States may be quite negative. The policies and goals of multinational corporations may therefore conflict with the policies and goals of the states in which they operate.

3.4 Conclusion

Multinational corporations play a large role in the global economy and the examination of the internationalisation process has spawned several theories. The determinants of internationalisation are viewed from the economic and behavioural perceptive. These theories a based on frameworks that takes the home, host and firm as the units of analysis shaping motivation and entry mode choices of the firms.

Firms possess ownership advantages in the form of patented technology or knowhow and other capabilities with which it produces its goods and services. The host country would possess some location advantage while the firm would take a deep look at the associated transaction and entry cost that comes out of its negotiations and contracts with suppliers and employees and other stakeholders.

The increased role that MNCs play in global trade has necessitated the call for better governance mechanisms to control the behaviour of firms. But firms have market power, are mobile and have extensive supply chains globally. This has led to firms been accused of tax avoidance, not doing enough to regulate the behaviour it is supply chain.

There is increased demand for supply chain responsibility and more transparent conduct by MNCs from stake holders.

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