

MULTINATIONAL CORPORATIONS

5 A company often becomes involved in international trade by exchanging goods or services with another country--importing raw materials it may need for production or exporting finished products to a foreign market. Establishing these trade relationships is the first step in the development of a multinational business. At this stage, however, the corporation's emphasis is still on the domestic market. As trade expands, the corporation's dealings with companies or people outside the "home country" of that corporation increase.

10 The corporation then begins to view the whole world as a base for production and marketing operations. The next step in the development of a multinational business is focusing on the world market. The company may establish a foreign assembly plant, engage in contract manufacturing, or build a foreign manufacturing company or subsidiary. Therefore, a multinational corporation is a company that is primarily based in one country and has production and marketing activities in foreign countries.

15 Since World War II, multinational corporations have grown rapidly. The names and products of many of the multinationals have become well-known in the world marketplace: International Business Machines (IBM), Royal Dutch Shell, Panasonic, Coca-Cola, and Volkswagen. Coca-Cola, for example, now has operations in more than 180 countries.

20 A multinational corporation operates in a complex business environment. Cultural, social, economic, political, and technological systems vary from country to country. In order to operate successfully, a multinational company needs a basic understanding and appreciation of the foreign business environment.

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A. Answer the following questions about multinationals. Questions with asterisks (*) cannot be answered directly from the text.

- 1. What is the first step in the development of a multinational business?
- 2. Where is the company's emphasis when it is simply trading with other countries?
- 3. What market does a multinational corporation focus on?
- 4. A company may establish its manufacturing operations in foreign countries. What are three forms that these operations may take?
- 5. What is a multinational corporation?
- 6. When have multinationals grown rapidly? Why do you think they have experienced this period of rapid growth?
- 7. *What are some products that are produced by the following multinational corporations: IBM, Coca-Cola, Panasonic, Shell, and Volkswagen?
- 8. *Why does a multinational corporation operate in a more complex business environment than a domestic company?
- 9. *What are some of the social and political factors that can vary from country to country?
- 10. Why does a multinational corporation need a basic understanding of foreign business environments? How can a multinational gain this understanding?