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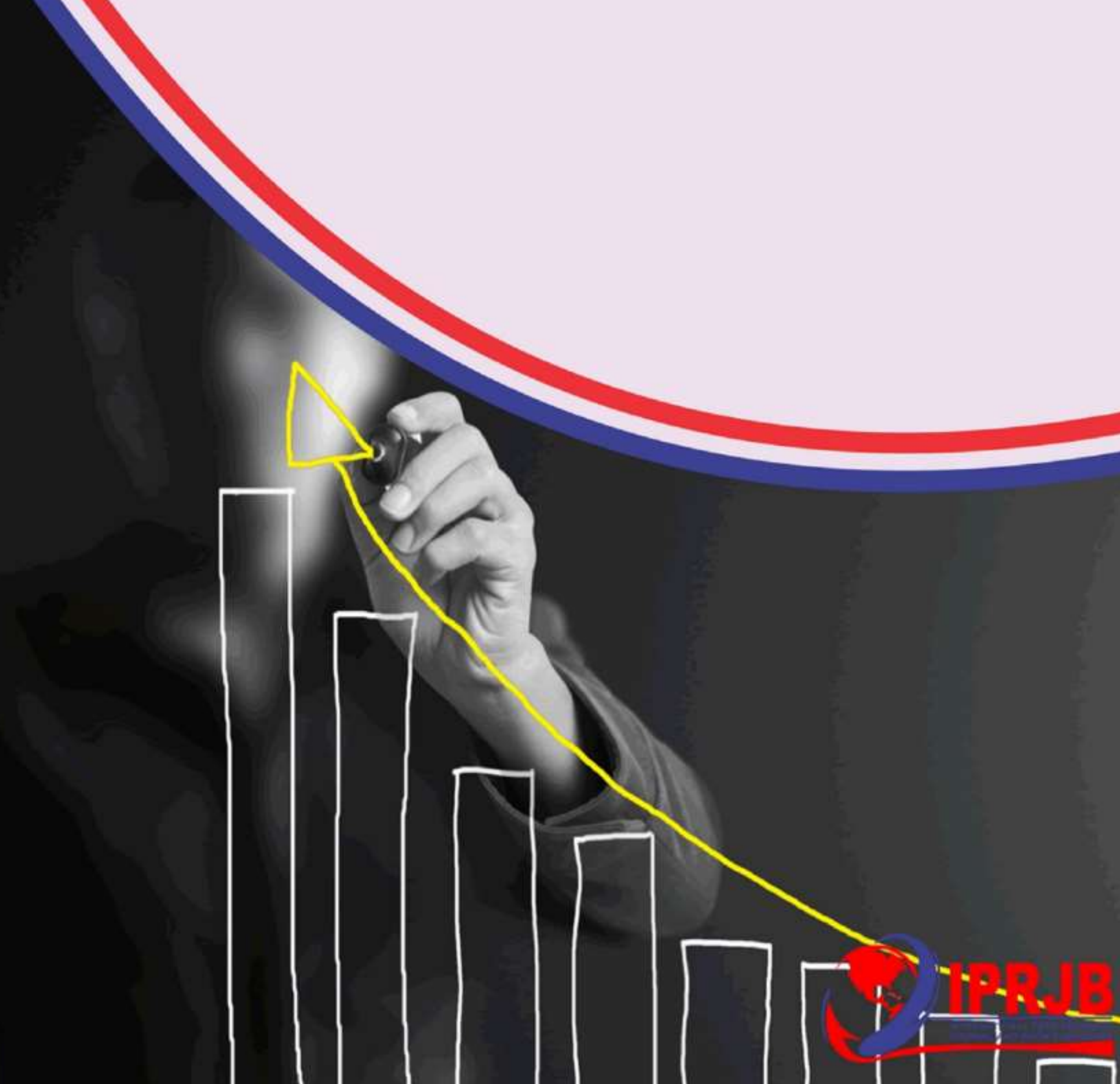
Benard Nsaku



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**The Effects of Multinational Companies (MNCs) Involvement in Developing Nations**

Benard Nsaku
University of Kisangani

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**Abstract**

**Purpose:** The purpose of the study is to examine the effects of Multinational Companies involvement in developing nations.

**Methodology:** This study adopted a desktop methodology. This study used secondary data from which include review of existing literature from already published studies and reports that was easily accessed through online journals and libraries.

**Findings:** The study concluded that the critical roles played by MNCs include providing employment, contributing to community development projects, and providing industrial training to youth. Other roles include providing local markets, providing emergency assistance to disaster survivors, environmental protection, staff development and contributing to the tax base.

**Unique Contribution to Theory, Practice and Policy:** The study was anchored on legitimacy and stakeholder's theory. The study recommends that multinational companies should ensure they have in the board of directors, a member who is originally from the host country. The study also recommends that there should be more incorporation of the community and other stakeholders in future MNC activities to avoid conflicts.

**Keywords:** *Effects, Multinational Companies, Involvement, Developing Nations*

## INTRODUCTION

### Multinational Companies

Multinational corporations (MNCs) were established with the goal of supplying countries lacking in capital with both physical and financial resources. Because of the growth of money, new employment are created both directly and indirectly (Abimbola, 2015). Also, MNC funding brings in more tax revenue, enabling the development of human resources and infrastructure in underdeveloped nations. Through enhancing the effectiveness of capital flows, MNCs lower levels of poverty worldwide and create a positive externality that is consistent with the UN's mandate. As a result, nations are urged to work together and seek out peaceful fixes for both their internal and foreign issues.

The UN's supportive role was to convince developing countries to provide the necessary political and economic circumstances in order to attract foreign direct investment (Aust, 2020). The economy of nations with low levels of foreign direct investment are heavily regulated by the government, they are monopolized by inefficient state-run corporations, and their governments are often not democratic. As a result, these nations have egregious levels of poverty, the suppression of human rights, and serious environmental damage. The areas with the biggest concentration of these troubled countries include Sub-Saharan Africa, South Asia, North Africa, and the Middle East.

Because of economic globalization, product and market expansions necessitate improved current technology-based research and development methods for businesses, as technology continues to supplant development (Parente, 2018). Multinational firms from the United States, Japan, and Europe discovered that a company's technical strategy shouldn't be self-sufficient but should instead embrace the superior kind. A portion of the technology used by multinational businesses operating in the host nation is transferred to local suppliers in the form of products, production methods, and organizational structures. Nowadays, acquiring support from a multinational is a surefire way to acquire technology. This may occur through agreements between MNC and receiver for the transfer of specific technologies or through the sharing of knowledge, skills, and experiences through collaboration on projects and agreements for practical support, services, or expertise (Davitti, 2021).

By utilizing local responsiveness, value chain structure, and coordination, multinational corporations can expand their operations globally to generate foreign earnings (Das, 2017). Technology makes it easier for knowledge to flow and synchronize along the value chain by enabling high-quality knowledge transfer and consumption. The interconnectivity of national economies is a result of multinational corporations. This is because they are able to create and leverage networks across national economies, and because they are able to operate across several nations, creating a single market. The emergence of several market participants has boosted the market's competitiveness, opened it up, and made it more relevant to a system run on a worldwide scale (Narula, 2017).

Multinational corporations have the power to hasten the process of globalization by their actions and reactions in other markets, as seen by the numerous cross-border mergers, strategic alliances, and acquisitions (Ritzer, 2019). Multinationals are affected by globalization in both positive and negative ways, mostly dependent on how each company runs its operations. Looking back, it is evident that multinational firms greatly profit from economies' interconnectedness, while some of their subsidiaries suffer losses. For operations in many different countries, foreign direct investment (FDI), which makes investments in the host nation, is required.

**Multinational Companies in Developing Countries**

International joint ventures (IJVs) involving young multinational enterprises from developing countries and international conglomerates have shown to provide considerable benefits for local businesses in terms of knowledge and technology transfer (Cohen, 2018).Yet, there are rumors that this IJV technology transfer could make some domestic businesses unduly reliant on their foreign partners, which would hinder their ability to develop. Additionally, it has been asserted that the host nation's institutional development and market friendliness have a favorable impact on FDI. For instance, in China, an open trade-based economy has encouraged FDI and made it easier for multinationals to establish their operations there due to a number of efficiency-related factors (Kyove, 2021). By the development of business networks that have connections to regenerate and build new business output, such international corporations can greatly increase efficiency. Thus, host governments play a crucial part in guaranteeing ongoing facilitation to enhance the domestic market system. Countries should also implement rules and mechanisms to make sure that FDI does not displace domestic businesses. The most effective rising multinational businesses will be able to expand abroad as the economy grows and the competitive business system matures.

Both the number of MNCs and their influence on developing nations are expanding. MNCs have become more drawn to emerging nations as a source of raw materials, production outsourcing, and sales to new consumers (Pratono, 2020). A globalizing economy, new technologies, and financial incentives from local governments, such tax cuts, have all contributed to this trend. The expanded presence of these businesses in the developing world has had a huge impact on the host nation and beyond, both positively and negatively.

Foreign ownership may boost manufacturing output, improve working conditions, raise pay, and increase worker productivity. MNCs have a big impact on emerging countries' technical development. A record amount of foreign direct investment (FDI) went into developing countries in 2019, with an increase of 11% in Africa, 4% in Asia, and 2% across all emerging economies (Ogbonna, 2022). The facilitation of intraregional and South-South FD is greatly helped by regional investment centres. Evidence suggests that some MNCs operate in host nations with substantially lower environmental and social standards than their home nations, and that legal challenges frequently make it more difficult to regulate the environmental practices of MNCs. MNCs can also hinder economic growth by restricting host economies to low-value-added businesses and by undermining local investments and employment opportunities. MNCs' political sway has also been questioned, as has the tax gap, which makes it difficult for governments to pay for necessary services that can then help realize the Sustainable Development Goals.

Local air pollution, water extraction, deforestation, garbage creation, packaging and e-waste, and climate vulnerability are only a few of the environmental effects. In general, climate impacts can have significant distributional repercussions; compared to the richest nations, poor countries are bearing the brunt of the harm caused by climate change. Impacts on human rights, along with problems like gender discrimination, are extremely important for emerging nations. Due to their interconnectedness, MNCs' effects on developing nations are complicated and multidimensional (Jamali, 2018). Because of this, the Global Benchmarking Alliance has chosen to benchmark keystone companies using a systems approach. Systems thinking views each company as a component of a web of relationships, including those with other businesses (such as competitors, suppliers, or corporate customers), with individuals and groups of people (such as citizens, customers, and employees), with regulators and governments, and with investors and the media.

MNCs can be at the vanguard of industry development and investment, setting an example for other businesses to follow (Kaymak, 2017). From suppliers to distributors to customers, along the entire value chain, they collaborate with tens of thousands of business partners. Additionally, they influence billions of consumers' lives through the innovative goods and services they create and advertise. MNCs may have a significant leveraging impact on the shift towards more sustainable, responsible, and inclusive value chains and hence contribute to realize the 2030 Agenda by establishing sustainability standards, establishing incentives, and collaborating with others in the system.

It has been demonstrated that joining global value chains helps emerging nations experience immediate advantages like higher production and decreased poverty. Large development spurts occurred in nations like Bangladesh, Cambodia, and Vietnam as they switched from economies based on the export of commodities to those based on the production of basic goods (Woetzel, 2018). Yet, the danger of becoming resource traps results in unfair outcomes, with value being collected mostly by MNCs rather than domestically.

Commodity dependence is a prevalent trait as supply chains become more interconnected globally. According to UNCTAD, this characteristic is particularly highly concentrated in developing nations, with just 13% of developed nations being commodity dependent, compared to 85% of least developed nations, 81% of landlocked developing countries, and 57% of small island developing states. As a result, MNCs can be demonstrated to have a substantial impact in developing countries through their supply chains through sourcing cobalt, cotton, palm oil, coffee, and oil, among other commodities (Ajiola, 2021). There are around 5 million coffee farmers in East Africa alone, the majority of whom are smallholders. Moreover, $340 billion, or 30% of the worldwide market share, was generated by oil shipments from Iran, Iraq, Nigeria, Kazakhstan, Angola, Libya, Mexico, and Venezuela combined in 2018. Sales of soft drinks by the corporation in 2018 were primarily sourced from emerging markets like China, Mexico, and India. Given the enormous amount of waste and packaging involved, the invasion of such products has wide-ranging effects on society, particularly on health and nutrition. It also has an influence on the environment. MNCs from all industries appear to be boosting their sales in developing and emerging regions (Rana, 2021).

Due to the value of their products and the use of differential pricing models, MNCs can significantly affect society in developing nations. The Access to Medication Index has shown over the past ten years the advantages of such pricing strategies in the pharmaceutical business. The index uses AstraZeneca as an illustration. Since 2016, the company has collaborated with a top data provider, using socioeconomic data to develop a specialized affordability model in Brazil and raise the cost-effectiveness of hypertensive heart disease medications. MNCs can increase accessibility to necessary pharmaceutical items in underdeveloped nations in addition to making them more affordable (Ahen, 2017). These nations consume a sizable portion of the world's pharmaceuticals, and the use of prescription drugs in their healthcare systems is on the rise. Contrarily, incorrect medicine labeling and distribution may endanger the health and safety of local customers.

The Syngenta Foundation, which has created insurance programs in India, Indonesia, Kenya, Tanzania, and Rwanda to assist farmers in managing their business risks while tackling climate hazards, was highlighted by the access to seed index, which is now a component of WBA. By 2017, farmers in all five of these nations were covered by one of these programs, which are administered by neighborhood insurance brokers.

Additional advantages include established connections with political figures, unique products that appeal to regional tastes, and local distribution networks that would take years to duplicate for a global company. Any of these advantages can serve as the foundation. To successfully defend the domestic market and provide more advantages to regional economies, suppliers, and customers. Physical presence in a nation can signal considerable investment, the creation of jobs, and the introduction of technologies and talents that wouldn't otherwise be available (Fu, 2021). Old Mutual, a South African insurance provider, is one instance. Old Mutual raised $320 million to finance infrastructure projects around Africa.

**Statement of the Problem**

It is becoming more widely acknowledged that MNCs may have an impact on a number of crucial factors for emerging nations looking to increase their competitiveness. The aforementioned dimensions could take the shape of infrastructure, capital, technical processes, skills, and competences, as well as exports and capital. MNCs have a significant amount of power to affect economic development and job creation in developing nations. The effects are visible through domestic production growth and stability, trade, and the transfer of knowledge and skills (UN forum, 2014). Due to the fact that these studies concentrate on MNCs' contributions to the fight against poverty and their methods for surviving the competitive environment, Joy Turyahabwa (2014) and Likuyani (2015) have a contextual gap. It is necessary to conduct the study because it intends to analyze the function of multinational firms in developing nations.

**Theoretical Framework**

This study will be guided by theory of legitimacy that was proposed by Davis's in 1973 and Stakeholder's Theory that was proposed by Edward Freeman in 1984.

**Theory of Legitimacy**

Businesses, a type of social arrangement, need legitimacy to coexist peacefully with enduring linkages to several host communities. The iron law of responsibility proposed by Davis (1973) supported the premise of legitimacy. It holds that businesses are social institutions that must exercise their authority properly or risk having it revoked by society. According to him, businesses are given legitimacy and authority by society, and those who fail to use such powers in a way that the society deems responsible eventually tend to lose them. When a company is deemed to be righteous and deserving of support, it is considered to be legitimate (Deegan, 2014). Companies that lose their legitimacy suffer a range of difficulties, including punishing legislation and difficulties finding competent employees. Managers of illegal firms were typically forced to work toward increasing their organizations' legitimacy due to the benefits of legitimacy and social pressures to conform. Sethi (1979) posited that if businesses ignore societal norms, they run the chance of losing control over internal decision-making and interactions with others (Filatotchev, 2015). According to his theory, legitimacy issues arise when societal expectations for corporate behavior and societal views of corporate behavior diverge. The research will make use of this theory to comprehend the function of multinational corporations and the environment in which they function.

**Stakeholders Theory**

Stakeholder theory hold it necessary to take into account and carefully analyze the legitimate interests of each and every stakeholder for effective management. (1984, Freeman). Anybody who has an interest in or a claim on the company is a stakeholder. Any group or individual that has an impact on the corporation or has the capacity to do so, in his interpretation, is included. The limited and well-known definition of stakeholder groups excludes the local community and includes only the following: shareholders, employees, consumers, management, and suppliers (Miles, 2017). Therefore, the stakeholder theory asserts that the best way for a corporation to achieve financial success is to properly consider the company's shareholders, employees, clients, managers, suppliers, and neighborhood, and to develop policies that will achieve an ideal balance among all the interested parties (Miles, 2017). This hypothesis is crucial because it will help us comprehend the role that multinational corporations play in developing nations.

**Empirical Review**

Joy Turyahabwa (2014) looked at how multinational corporations may help end affluence in Africa. Both qualitative and quantitative data were employed in the study. Interviews with members of the public, Uganda employees, and Sheraton trainees in Urbarn Kampala were used to gather the data. The study found that MNCs' crucial contributions to community development initiatives, youth industrial training programs, and employment opportunities all fall under these headings. Local markets, disaster relief assistance, environmental preservation, employee development, and increasing the tax base are some additional responsibilities.

Likuyani (2015) conducted research to identify the tactics used by global pharmaceutical companies in Kenya to contend with competition. A cross-sectional survey design was used in the study. A structured questionnaire was used to gather the information. The intended audience consisted of 220 international pharmaceutical businesses' marketing managers. Using descriptive statistics, data was examined. Many tactics were identified by the study, including cost-cutting initiatives, low-cost product offerings, differentiation, cost-focused strategies for differentiation, concentric growth, innovation acquisitions and mergers, product development, and market expansion. According to the survey, pharmaceutical product diversification is the most widely used strategy. According to the study, international pharmaceutical companies should make sure their board of directors includes a representative from the host countries.

Ooko's (2019) study on the role of multinational corporations in Kenya's socioeconomic development (2003 -2017). The chosen survey design was descriptive. According to the report, Dominion made a significant contribution to irrigation farming, which mostly generated rice and subsequently enhanced Siaya County's socioeconomic development. The study also showed that the company's policy on corporate social responsibility had little bearing on the socioeconomic development of the County. In order to prevent disputes, the report suggested that the community and other stakeholders should be more heavily involved in future MNC activities.

Karanja (2014) studied the value of corporate parenting to multinational corporations listed on the Nairobi Stock Exchange. Purposive sampling was used in this study's approach to pick the two managers from among the 50 publicly traded MNCs on the NSE. Descriptive statistics and regression analysis were used to analyze the data that had been obtained. The results of the study showed that corporate parenting has improved the value of MNCs listed on the NSE. The study found that budget control, staffing, capital investment choices, and strategic discussion are among the important elements impacting the establishment of corporate parenting value. The study also suggests that the parent company' expertise and resources should be of a high caliber and should be mirrored in the subsidiary enterprises.

Rita (2014) ascertained the supply chain integration practices used by the 226 multinational companies in Kenya. The survey design chosen was cross-sectional. Structured questionnaires were used to gather primary data. According to the study, the performance of multinational corporations remains constant even when vendor (supplier) managed inventory practices, collaboration planning, forecasting, and replenishment, effective consumer response practices, customer relationship and management practices, and enterprise resource planning practices are not taken into account.

Were (2015) conducted research on how foreign exchange risk management strategies affect multinational firms' financial results in Kenya. The research design used in the study was descriptive. Thirty corporations were the intended audience. Between 2010 and 2014, five years, secondary data were gathered via annual reports, publications, and newspaper supplements. Tables were created using SPSS to analyze the data and present it. According to the study, there is no statistically significant relationship between foreign exchange risk management strategies and financial performance.

## METHODOLOGY

This study adopted a desk methodology. A desk study research design is commonly known as secondary data collection. This is basically collecting data from existing resources preferably because of its low cost advantage as compared to a field research. Our current study looked into already published studies and reports as the data was easily accessed through online journals and libraries

## RESULTS

The results were analyzed into various research gap categories, that is, contextual and methodological gaps.

### Contextual and Methodological Gaps

Karanja (2014); Rita (2014); Were (2015) present a contextual gap as the none of these studies addresses the role of multinational companies in developing countries. Joy turyahabwa (2014); Likuyani (2015); Aoko (2019) present a methodological gap as these studies used cross sectional survey design and descriptive research design while the current study adopts desktop study research design.

## CONCLUSION AND RECOMMENDATIONS

### Conclusion

According to the study's findings, MNCs play important roles in creating jobs, funding community development initiatives, and giving young people industrial training. Additional responsibilities include supplying local markets, offering catastrophe survivors emergency aid, protecting the environment, fostering employee development, and increasing the tax base.

According to the study, among the tactics used by multinational corporations to combat competition are cost-cutting measures, providing low-priced goods, differentiation, cost-focused strategies, differentiation-focused strategies, concentric growth, innovation acquisitions and mergers, product development, and market development.

The study found that multinational firms had helped the host countries' social and economic development.

## RECOMMENDATIONS

According to the report, international corporations should make sure its board of directors includes a representative from the host countries.

In order to prevent disputes, the study suggests that the community and other stakeholders should be more heavily involved in future MNC activities.

The study also suggests that the parent company' expertise and resources should be of a high caliber and should be mirrored in the subsidiary enterprises.

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