TNCs: their nature, role and impact
3.2.1.3 Global systems and global governance

What you need to know
The varying nature and character of transnational corporations (TNCs)
The role of TNCs in global systems
The spatial organisation, linkages, production networks and marketing patterns of TNC s

Introduction

A TNC, or Transnational corporation, is a business with operations in more than one country. They may also be referred to as Multinational companies (MNCs).

- Large firms such as Coca-Cola or Unilever have expanded their businesses globally over time by building **branch plants** overseas, or by forging links with foreign suppliers as part of the **out-sourcing** process.

- Another way of achieving global growth and increased market share is through **mergers, takeovers** and **acquisitions** – buying up shares and ownership of foreign or rival firms.

TNCs are "architects" of globalisation. They build the networks of production and consumption that link states together and foster a sense of global interdependency. While many are headquartered in developed countries, increasing numbers originate in EEs (Emerging Economies) as the table shows.

TNC	**Headquarters**
Apple	USA
Kraft	USA
Tata	India (EE)
Samsung	South Korea
Airtel Africa	Kenya (EE)
BMW	Germany
Shanghai Electric	China (EE)
Lego	Denmark
Carrefour	France

The varying nature and character of transnational corporations (TNCs)

TNCs can be found operating in every sector of industry as the table below shows.

Primary sector	Commercial agriculture is a major global employment provider dominated by TNC giants such as Del Monte and Cargill. Some large UK supermarkets send automated emails to their Kenyan vegetable suppliers requesting increased production quotas whenever store tills register especially good sales for any particular item. This 'just-in-time' ordering is made possible by ICT and global information flows, together with rapid delivery systems.

Secondary sector	Many manufacturing companies are household names from Samsung and Sony to BMW and Unilever. These companies have extensive production networks. In reality, companies like Samsung are also constantly innovating and advertising new products. It is thus oversimplifying matters to describe them as entirely secondary sector operations.
Tertiary sector	Many banks, insurance, investment and media corporations have large global networks with specialist branches operating in different world regions. Dutch production company Endemol has licensed the rights to its "Big Brother" franchise in nearly 70 countries, sometimes even taking the unusual step of re-naming the show (in Canada it was called "Loft Story").
Quaternary sector	Research and development of new information technology, biotechnology and medical science comes under the umbrella of quaternary sector work. In China, US firm Intel employs 1,000 research staff on the outskirts of Shanghai. ABB, the Swedish-Swiss engineering group, has a research wing in Beijing, as do Nokia and Vodafone. Medical research is increasingly conducted in India by western firms such as Pfizer and GlaxoSmithKline.

The role of TNCs in global systems

TNCs have the effect of 'grouping' nations together systematically through both their production and supply chains and via the different markets they serve with products.

- The UK and Malaysia are linked together by the TNC Dyson. The famous bag-less vacuum cleaners are designed and sold in the UK but manufactured in Malaysia.
- Viewed from a market angle, 'easyJet countries' can also be mapped via countries that are destinations/origins for easyJet flights.

The actual methods that TNCs use to develop their leading role in global systems can be a complicated business. Complexity may manifest itself in the following ways:

- The executives of TNCs may build their businesses up by buying foreign firms. These are called **mergers** and **acquisitions**. For instance, the Irish beer manufacturer Guinness merged with Grand Metropolitan in 1997 to form the world's largest producer of spirits, the giant drinks TNC, Diageo, with its HQ in London.

- Much of the manufacturing work done in so-called 'sweat shops' is not actually conducted in buildings owned by the TNC or using labour that has been directly employed. Instead the work has been **sub-contracted** to a third party. This is what makes it hard to enforce good working conditions in factories where global brands are made. Employee-exploitation may be carried out far down the supply-chain.

- Most manufacturing TNCs are **assembly industries**, relying upon a chain of interconnected upstream and downstream suppliers. Some suppliers may be independent sub-contractors, some may be owned by the parent company. For instance, the Mini factory in Oxford is owned by the German firm BMW. A vast 2,500 different suppliers provide parts to assemble the Mini, from the engine right down to the windscreen-wipers, sending them to the main Oxford assembly plant.

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The spatial organisation, production networks and marketing patterns of TNC

The branded manufactured goods sold by many TNCs are really the product of an entire world of small companies all working in an integrated way (the TNC's actual role is to "run the team", rather like a sports captain). The following three examples all serve to outline the geography of some global production networks of interconnected firms. In these cases, multiple "tiers" of production can usually be identified.

Computers	In order to produce competitively-priced machines at prices of £200 or less, firms like Dell and Hewlett Packard search for cheap suppliers of component parts such as the printed circuit board (PCB), processor memory - among many more. In a Hewlett Packard laptop there are around 20 major component parts, each of which may be produced by different companies located across several continents, arranged in different tiers: • **first tier:** Prior to final assembly of laptops in Kunshan, China, the manufacture of each machine's PCB (printed circuit board) is out-sourced to a company in Penang (Malaysia) • **second tier**: The PCB in turn requires memory chips and a cooling fan. These can be sourced from other Malaysian factories and firms • **third tier**: The wire, screws and plastics that are used in the manufacture of each component part will need to be sourced too
Clothes	Cheap garments sold by supermarket TNCs such as Tesco will require not just cotton or another fabric for their manufacture but also buttons, zippers, studs and other materials that all may be sourced from different suppliers. Even the production of a simple garment such as a T-shirt requires materials to pass through four to seven pairs of hands so the number of variations in the supply chain is huge.

Marketing patterns of TNCs have become more sophisticated over time. The arrival of large numbers of new markets in Emerging Economies has meant that TNCs need to customise their products for an ever-widening range of national cultures.

In particular, the strengthening of Latin American, Asian and Middle Eastern economies has prompted an explosion of TNC interest in these emerging markets, where over 2 billion people have moved from dollar-a-day poverty into higher income brackets since 1990.

In order to maximise profit, many TNCs have, additionally, adapted their products to suit local tastes and laws. This is called **glocalisation** (combining a 'global' product with 'local' variations). It may involve paying attention to geographical variations in:

- **religion:** Domino's Pizza only offers vegetarian toppings in India's Hindu neighbourhoods
- **laws:** the driving seat is positioned differently for cars sold in US and UK markets
- **local interest:** reality TV shows like Jersey Shore gain larger audiences if they are re-filmed using local people in different countries
- **availability of raw materials:** SABMiller, a major TNC, uses local cassava (a tropical root crop) to brew beer in its African breweries to suit tastes there. This reduces the transport cost of importing barley, while changing the product's taste considerably, but to one more in tune with local market preferences.