

TOPIC THREE MULTINATIONAL CORPORATIONS

3.0 Definition

An MNC is a corporation operating in multiple countries, with headquarters in one (home) country and subsidiaries in others (host countries).

Global Terminology:

- MNE (Multinational Enterprise): Emphasises broader economic impact, typically offering **similar or standardised products across multiple countries** due to centralised control over operations, strategy, and product development (e.g., Unilever).
- TNC (Transnational Corporation): Features decentralised operations, often developing and managing products tailored to local tastes and needs, **products may vary significantly by country** (e.g., Nestlé).

3.1 How MNCs Operate: Models and Strategies

Model	Description	Example
Wholly-Owned Subsidiary	Full control over foreign operations, including full equity ownership and direct management.	TotalEnergies E&P Uganda (100% owned by TotalEnergies SE)
Joint Venture	A foreign company partners with a local firm to share risks, resources, expertise and returns.	Vivo Energy Uganda (Shell brand, joint venture of Vitol & Helios)
Licensing/Franchising	The parent company grants rights to local entities to use brand, technology, or systems for a fee or royalty.	Century Bottling Company - The Coca-Cola Company under Coca-Cola Beverages Africa (CCBA) franchise and Crown Beverages Limited (CBL) – PepsiCo International (USA) franchise.

Model	Description	Example
Global Supply Chains	Raw materials or components are sourced from different countries for production to reduce costs and increase efficiency.	Apple Inc. – sources parts globally (e.g., chips from Taiwan, cobalt from DRC), assembled in China.
Strategic Alliances	Firms collaborate without forming a new entity-sharing resources, markets, or technologies for mutual gain.	MTN Uganda, Safaricom Kenya, and Vodacom Tanzania for cross-border mobile money transfers, shared telecom infrastructure, and regional roaming.
Sales Organisations Abroad	MNCs create legally independent sales branches or subsidiaries in foreign markets to distribute products/services while the parent retains strategic control.	Movit Products Ltd (Uganda) has sales and distribution companies in Rwanda, Kenya, and South Sudan.

3.2 Examples of Multinational Corporations

MNCs operate across various industries, impacting both global and local markets:

- **Global Examples:**
 - Apple Inc. (USA): Designs consumer electronics in the USA, manufactures in China, and sells globally, known for innovation and brand strength.
 - Coca-Cola Company (USA): Operates in over 200 countries, producing beverages through local bottlers like Century Bottling in Uganda.
 - Toyota Motor Corporation (Japan): A leading automaker with global production and sales, known for efficient supply chains.
 - Shell plc (UK/Netherlands): Engages in oil and gas exploration and marketing worldwide, including in Uganda's energy sector.
- **Ugandan Examples:**
 - MTN Uganda Limited: A subsidiary of MTN Group (South Africa), it serves over 15 million subscribers and is Uganda's largest telecom provider.

- Airtel Uganda: Part of Bharti Airtel (India), it provides telecom and mobile money services to 10 million subscribers.
- Stanbic Bank Uganda Limited: A subsidiary of Standard Bank Group (South Africa), it is Uganda's largest commercial bank.
- TotalEnergies Uganda: A subsidiary of TotalEnergies (France), it operates over 200 fuel stations and supports oil exploration.

3.3 Features of Multinational Corporations

MNCs exhibit distinct characteristics that define their global operations:

1. **Global Presence:** Operate in multiple countries, accessing diverse markets and resources.
2. **Centralised Control with Decentralised Operations:** Strategic decisions are made at headquarters, but local subsidiaries adapt to market needs, as seen in MTN Uganda's localised marketing.
3. **Diverse Workforce:** Employ people from various cultural backgrounds, enhancing innovation and adaptability.
4. **Technology Transfer:** Introduce advanced technologies to host countries, e.g., Airtel Uganda's mobile money platforms.
5. **Economies of Scale:** Large-scale production reduces costs, making products competitive, as with Coca-Cola's global bottling.
6. **Brand Recognition:** Strong global brands like Apple enhance market dominance.
7. **Complex Supply Chains:** Handle international transport and sourcing, such as Unilever getting ingredients from around the world for products sold in Uganda.
8. **Economic Impact:** Influence host economies through investment and employment, as TotalEnergies does in Uganda's oil sector.

3.4 Procedure for Registration of Multinational Corporations (Foreign Companies) in Uganda

According to the **Companies Act, 2012 (Cap. 106)**, any foreign company establishing a place of business in Uganda must register with the **Uganda Registration Services Bureau (URSB)** within **30 days** of commencing operations.

1. Submission of Documents

The following documents must be submitted to URSB:

- **Certified copies** of the company's **Memorandum and Articles of Association** (or equivalent constitutional documents) from the country of origin.
- **Certificate of Incorporation** from the home country.
- **Form 24** – Particulars of Directors and Secretary (including full names, nationalities, addresses, and occupation).
- **Form 13** – Statement of all current charges on the company's assets (e.g., secured loans).
- **Form 25** – Names and addresses of Uganda-based representatives authorised to receive official documents on behalf of the company.
- **Form 26** – Physical address of the principal place of business in Uganda.

2. Payment of Registration Fees

Registration fees are approximately UGX 1.8 million (USD 470), including name reservation and processing charges. The actual amount may vary depending on share capital and legal structure.

3. Certificate of Registration

Upon successful submission and review, URSB issues a Certificate of Registration of a Foreign Company within approximately two working days.

4. Post-Registration Requirements

After obtaining the registration certificate, the company must:

- Register with the Uganda Revenue Authority (URA) for a Tax Identification Number (TIN).
- Register for VAT if annual turnover exceeds UGX 50 million.
- Comply with NSSF, Local Government licensing, and sector-specific regulations as applicable.

3.5 Advantages of Multinational Corporations

To the Host Country (e.g., Uganda)

- **Job Creation:** MNCs like MTN Uganda employ thousands, reducing unemployment and improving living standards.
- **Increased Competition:** Competition from MNCs like Airtel Uganda enhances product quality and affordability, breaking local monopolies.

- **Technology and Knowledge Transfer:** MNCs introduce advanced technologies, e.g., Stanbic Bank's digital banking platforms.
- **Economic Growth:** Investments and exports, such as MTN Uganda's production, boost GDP and tax revenue.
- **Cultural Exchange:** MNCs promote cross-cultural understanding through diverse workforces and global brands
- **Economic Diversification and Reduced Risk:** By establishing operations in agriculture-dependent countries like Uganda, MNCs introduce sectors such as manufacturing and services, reducing overreliance on farming. This broadens the economic base, enhancing resilience to shocks like droughts, pests, or price fluctuations.
- **New Businesses:** The economic diversity introduced by MNCs fosters the development of new skills and technologies, which in turn stimulate the growth of new enterprises, both independent businesses and those that support MNC operations. For example, the entry of telecom MNCs like MTN Uganda and banks like Stanbic has spurred growth of local mobile money agents, tech start-ups, and support services such as equipment maintenance and digital marketing.

To the Home Country (e.g., USA, China or South Africa)

- **Expanded Markets and Increased Profits:** By operating in multiple countries, MNCs tap into wider customer bases, boosting sales and revenues while spreading their brand globally e.g., MTN Group's revenue from Uganda.
- **Repatriation of Profits:** Brings foreign currency to the home country, strengthening its economy.
- **Global Competitiveness:** Experience in international markets enhances MNCs' strategic capabilities.
- **Access to Raw Materials and Cheap Labour:** MNCs establish operations in resource-rich countries with lower labour costs to cut production expenses and boost profits. For instance, Apple Inc. uses Foxconn in China for low-cost, skilled manufacturing, and sources cobalt from the DRC and chips from Taiwan.
- **Brand Diffusion:** Operating in multiple regions boosts brand visibility and loyalty, making the brand more recognisable worldwide. For example, Coca-Cola is available

in over 200 countries, maintaining consistent branding while adapting marketing to local cultures, which strengthens its global influence.

- **Economic Diversification and Reduced Risk:** By operating in multiple countries, MNCs spread their risks, protecting themselves from local economic downturns, political unrest, or currency fluctuations. For example, Unilever operates across diverse markets, reducing its dependence on any one economy.

1.6 Disadvantages of Multinational Corporations

To the Host Country (e.g., Uganda)

- **Resource Exploitation:** MNCs may over-extract natural resources in countries with weak regulation, causing environmental damage and resource depletion. For example, Glencore, a multinational mining company, has been criticised for intensive cobalt mining in the Democratic Republic of Congo, leading to environmental harm and community displacement.
- **Exploitation of Labour in Low-Regulation Environments:** Some MNCs have faced criticism for poor working conditions in Africa. For example, flower farms in Kenya and Uganda supplying global brands like **Marks & Spencer**, **Tesco**, and **IKEA** have been reported to pay low wages and offer limited workplace safety due to weak labour law enforcement.
- **Profit Repatriation Limits Local Reinvestment:** MNCs often send profits earned abroad back to their home countries, reducing funds available for local investment and development. E.g., Oil companies like TotalEnergies repatriate significant profits from Uganda's extractive sector.
- **Market Domination:** Large MNCs can dominate markets, forcing local companies out of business. For example, Coca-Cola's dominance in Uganda contributed to the decline of local firms like Schweppes, and similarly, the strong presence of MTN and Airtel has challenged local telecom firms such as Uganda Telecom Limited (UTL)
- **Loss of Economic Sovereignty:** Host governments may face pressure from powerful MNCs, impacting policy decisions. In **Zambia**, multinational mining firms like **Vedanta Resources** have been accused of influencing government policy to secure favourable tax regimes and avoid stricter environmental regulations, limiting national control over natural wealth.

- **Environmental Degradation:** Operations like oil exploration by TotalEnergies can harm ecosystems if not managed sustainably.
- **Cultural Homogenisation:** Global brands may erode local traditions. In Uganda and many other African nations, the dominance of Western fast-food chains like KFC, McDonalds and media platforms such as Netflix and MTV Base has led to a shift in youth preferences towards foreign diets, fashion, and social lifestyles sometimes at the expense of traditional foods, dress, and cultural practices.
- **Economic Dependency:** Over-reliance on MNCs like MTN Uganda for jobs can make economies vulnerable to their relocation when incentives fade. E.g., Textile MNCs (Levi Strauss, Gap Inc. & VF Corporation) once based in Lesotho and other parts of sub-Saharan Africa relocated to Asian countries like Bangladesh and Vietnam when production costs fell there, leading to job losses and factory closures in the original host countries.

To the Home Country (e.g., USA, China or South Africa)

- **Job Losses due to Outsourcing:** MNCs often relocate manufacturing and service jobs to countries with cheaper labour, leading to unemployment at home. E.g., many US-based companies like General Motors and Apple have outsourced manufacturing to China and Mexico, resulting in factory closures and job cuts in American towns.
- **Loss of Tax Revenue:** MNCs may shift profits to low-tax jurisdictions (tax havens), reducing the home country's corporate tax income. E.g., Google and Apple have been criticised for using subsidiaries in Ireland and other low-tax countries to minimise their tax obligations in the US.
- **Dependency on Foreign Economies:** Heavy reliance on foreign production or markets can expose the home country to supply chain disruptions or foreign economic instability. For example, during the COVID-19 pandemic, US and European companies faced shortages due to over-dependence on Chinese supply chains.
- **Brain Drain and Innovation Loss:** When R&D and high-tech operations are moved abroad, the home country may lose out on innovation and skilled jobs. E.g., IBM and other tech firms have relocated research units or opened major development hubs in India and Eastern Europe, reducing local innovation ecosystems.

3.7 Modern /Current Trends of MNCs

- **Digitalisation / Digital MNCs:** The rise of digital-native MNCs like Google, Amazon, Meta and Netflix has redefined global business, allowing them to grow internationally with different business models that require minimal physical footprint
- **Sustainability and Corporate Social Responsibility (CSR):** Increasing global pressure from consumers and governments requires MNCs to demonstrate ethical and sustainable practices in their operations. This includes fair labour practices, environmental protection, and community engagement.
- **Tax Avoidance & Ethics:** Many MNCs shift profits to low-tax countries to reduce their tax bills, raising concerns about fairness and ethics. Governments and global organisations now closely monitor these practices under frameworks like Base Erosion and Profit Shifting (BEPS) led by the Organisation for Economic Co-operation and Development (OECD -38 member states organisation, mostly from Europe, North America, and some parts of Asia and Latin America). E.g. Google and Apple have been criticised for routing profits through Ireland and other tax havens, prompting investigations and legal action in the EU.
- **Reshoring & Nearshoring:** Due to rising geopolitical tensions, COVID-19 disruptions, and supply chain risks, some MNCs are moving production closer to home (reshoring) or to nearby countries (nearshoring) to improve reliability and reduce dependence on distant suppliers. E.g. General Motors and Ford have reshored some operations from China back to the USA or Mexico. Similarly, Zara (Inditex - Spain) uses nearshoring by producing much of its fashion line in Portugal, Morocco, and Turkey for faster turnaround to European markets.

Sample Questions

1. Identify and describe one multinational company operating in Uganda. What strategy does it use?
2. What are the major benefits that MNCs bring to host countries like Uganda?
3. What are some of the challenges MNCs face when operating in developing economies?

4. How can strategic alliances, such as the MTN-Safaricom-Vodacom partnership, benefit companies and consumers in East Africa?
5. How should MNCs adapt their policies and products to local cultural values and legal frameworks?
6. What ethical responsibilities do MNCs have when operating in countries with weaker labour laws or environmental regulations?

Online Video Resources

- **Business Organisations: Multinational Corporations**
<https://www.youtube.com/watch?v=-rgLDwg1WsY>
- **What is a Multinational Company?**
<https://www.youtube.com/watch?v=gRYJYpfVBZc>
- **Multinational Companies Explained: Advantages & Disadvantages**
<https://www.youtube.com/watch?v=E4nxmPO7uk8>

Case Study: GlobalFoods in Uganda

The year 2025 has been a difficult one for Kula Foods, a Ugandan company founded by Ms Nambala, a graduate of Makerere University Business School. Over the past ten years, Kula Foods became well-known for its unique, locally made fruit juices with Ugandan spices. The company's success came from understanding local tastes and having a strong distribution system that reached even remote areas.

But now, Kula Foods is facing stiff competition from GlobalFoods, a large international beverage company operating in over 50 countries. Instead of building a new factory, GlobalFoods entered Uganda through a partnership with a well-connected local business group. This gave them easy access to existing transport and sales systems, as well as local influence. They launched a new juice brand, advertised widely on TV, radio and social media, and sold it at very low prices that Kula Foods couldn't match.

The Uganda Investment Authority (UIA) praised the arrival of GlobalFoods, pointing to the new skills, technologies and innovations introduced and hundreds of new jobs created in a modern juice factory as well efficiently utilising the previously unused or underused resources in the agricultural sector. However, the Uganda Revenue Authority (URA) noticed something unusual: even though the company earned a lot of money, it reported very small profits. This was because it claimed to pay high "management fees" to its parent company

overseas. Meanwhile, Kula Foods is losing customers and may have to lay off staff. Ms Nambala is now thinking about how to compete with a multinational company that seems to play by different rules.

Discussion Questions

1. How did GlobalFoods enter Uganda, and what are its distinguishing features from Kula Foods?
2. What are the economic benefits and possible long-term risks of GlobalFoods' operations for Uganda?
3. GlobalFoods is considering digital marketing and using biodegradable packing materials. Which modern multinational business trends is it trying to use?
4. Based on the UIA and URA reports, what problems do developing countries like Uganda face for hosting multinational companies, and what policies could help manage these issues?