

## ROLE OF TRANSNATIONAL CORPORATIONS (TNCs) IN THE WORLD ECONOMY—AN EVALUATION

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### ABSTRACT

*Transnational Corporations are large international companies that follow polycentric philosophy and conduct their international operations under decentralized set-up coordinated from the headquarter. These companies have been operating in the markets of developed and developing countries to exploit their inherent market potentials. In view of the role of TNCs, both developed and developing have been enjoying the benefits of significant employment generation, rise in per capita income, technology up-gradation, direct foreign investment, managerial resource development and rising standard of living of people. Nevertheless, TNCs have certain negative impacts on the world economy. Among these, creating unfair competition in the market, involvement in business malpractices, hampering the growth of infant industries in developing countries, undue influence in local culture & tradition and interference in the political process are worth mentioning. TNCs are found to encounter various challenges in serving the world economy. These enterprises try to overcome these challenges through prudent strategies.*

**Keywords:** Transnational Corporation, Multinational Corporation, Global Companies and World Economy

### INTRODUCTION

Companies possessing excellent core competencies are now becoming more and more international to reap the attractive international market opportunities and to diversify the business risks with a view to ensuring their corporate growth. Multinational, Transnational and Global companies are the major players in the global market place. These companies are found to operate with wide range of competitive strategies in the light of their corporate philosophies for achieving their enterprise objectives. Transnational Corporations (TNCs) are found to serve the international economies by acquiring multinational managerial, technical and behavioral skills and resources and make splendid contribution to the economic development process of many developed and developing countries. Students

pursuing higher studies in business administration need to be very conversant with the conceptual aspects as regards the operational dimensions of TNCs. How do these companies contribute economically to world nations? Is there any difference in the operations of TNCs in comparison with MNCs and Global companies? What are the challenges of TNCs in serving world economy? How do they face these bottlenecks? This research paper attempts to answer these questions to provide clear view on the strategic role of TNCs in the world economy.

### **LITERATURE REVIEW**

Jaworek & Kuzel (2015) in their research article on “Transnational Corporation in the World Economy: Formation, Development and Present Position” revealed that TNCs started to grow from the second half of the twentieth century and the growth of these companies by two and half times occurred between 1995 to 2010. They found that in 2013, foreign affiliates of TNCs created a total of 70726000 jobs in different countries. The total assets of these companies stood at \$96625 billion and contributed 10% of global GDP. The sales revenue generated by these enterprises was \$34508 billion, which was 1.5 times higher than world exports. These TNC affiliates accounted for 30 % of total world exports.

Westaway (2012) published a research paper on “Globalization, Transnational Corporations and Human Rights- A new Paradigm”. The researcher uncovered the significance of Transnational Corporations in the context of human rights and economic & financial sustainability concerns. The author opined that transnational corporations can exercise positive or negative impact upon human rights by adopting and enforcing voluntary codes of conduct for employees. These companies also face the challenges of globalization through influencing the international legal framework for smooth functioning of world economy.

Kordos & Vojtovic (2016) in their international conference paper on “Transnational Corporations in the Global World Economic Environment” opine that new trends in international business, global competitiveness in the international markets and economies of nations are being constantly affected by the activities of transnational corporations. With the involvement of TNCs in national and international environment, the world nations are expected to achieve sustainable social and economic development facilitating the achievement of better quality of life for their people.

The above literature provides ample hint about the role played by TNCs in the world economy. In view of the need to examine the role of TNCs from the

perspective of developed and developing countries, this study has been designed. Moreover, it tried to provide conceptual clarity regarding various types of international companies serving the world economy

### **STATEMENT OF THE RESEARCH PROBLEM**

Internationalization of business operations is an emerging trend in developed and developing countries to reap the enormous business potentials of global economy. The past decades witnessed very low economic growth rate in many developed countries, which compel the TNCs of developed countries to hunt business opportunities abroad to sustain their corporate growth. On the contrary, large companies of developing countries are increasingly becoming involved in export operations to augment their corporate growth, which also contribute to foster the economic growth of their economies. Thus Transnational Corporations have ample business involvements in both developed and developing countries. Does the operations of TNCs is only blessing for the world economy? Clearly, the answer will be in the negative. There are positive and negative aspects of the role of Transnational Corporations serving the world economy.

Research reveals that the significant rise in the number and size of TNCs since late 1970s has resulted in the transformation of international economy into global economy. Presently, the globalized economy has created attractive business opportunities for the large companies like TNCs to exploit these opportunities for safeguarding their own business interests. These companies make all their vital decisions on cost-benefit analysis and seldom show sacrificing mentality for the benefit of host countries. It is also true that TNCs create unfair competitive situation for the relatively less competent local companies making their future uncertain. Developing countries are also affected by the manipulative practices of TNCs under different business situations in their growth process. The intervention of TNCs on the political process of host countries in their own interest is also a matter of concern for these countries.

Admittedly, there exists ample conceptual ambiguity about the nature, philosophy and strategies followed by different types of international companies. Researchers become confused when the term Multinational Corporation and Transnational Corporation are alternatively used in the literature. It is necessary to dispel this misconception about the three types of international companies at the service of world consumers. The above scenario induced the researcher to make an attempt to prepare this research paper through the survey of available secondary literature.

## OBJECTIVES OF THE STUDY

The main objective of this research paper is to highlight the role of Transnational Corporation (TNC) in facilitating the growth of world economy. In keeping with the main objective, the specific objectives of the paper are as follows:

- a) To analyse the conceptual aspects of TNC with special reference to its differences with Multinational Corporation (MNC) and Global Company (GC)
- b) To highlight the roles of TNCs in developed and developing countries by using the secondary sources of data.
- c) To identify the challenges faced by the TNCs in serving the world economy.
- d) To reveal the strategies used by TNCs to overcome the global business challenges.

## RESEARCH METHODOLOGY

This is a qualitative research study relying heavily on the secondary sources of literature. The knowledge and experience of the researcher in teaching international business have been used to explore the various dimensions of the research issue. Text books, Journals and internet provided useful information for analyzing different aspects of the research problem. The paper has been structured in keeping with the specific research objectives of the study.

## TRANSNATIONAL CORPORATIONS: A CONCEPTUAL REVIEW

Transnational Corporation (TNC) refers to the giant international firm, which operates in different parts of the world with the help of its foreign subsidiaries. It adheres to market specific international competitive strategies and tries to create a fair and attractive local image in the host country. Daniels & Radebaugh (2000) opine that TNC is basically a large company in which different capabilities and contributions among different operations are shared and integrated. Its multinational operations are owned and managed by nationals from different countries. Hedley (1999) views a Transnational Corporation as “any enterprise that undertakes foreign direct investment, owns or controls income-gathering assets in more than one country, produces goods or services outside its country of origin, or engages in international production”. Robbins & Coulter (1998) define TNC as “a company that maintains significant operations in more than one country simultaneously and decentralizes decision making in each operation to the local country”. In their opinion, TNC makes international decisions from the host country perspective instead of replicating domestic successes by managing its

foreign operations from the home country. Host country nationals are basically recruited to manage the international operations of TNC. And the product and marketing strategies are designed in keeping with the needs of specific overseas country. Nestle, the world's largest food company provides the best example of TNC, which has business operations in 191 countries having manufacturing operations in 80 countries around the world. In 2017, it employed 323000 people globally (Nestle, 2018). The company tailors its products uniquely to the needs of different host countries. This Swiss based company was established in 1905 through the merger of an American owned company and German owned company. In 2011, 98% of Nestle's sales revenue accrues from countries outside Switzerland and half of its top management personnel are non-Swiss (Nestle, 2012).

The above literature review reveals certain glaring characteristics of a TNC, which are mentioned below.

1. A TNC is a giant international firm operating in large number of countries around the world with its market specific, competitive and operational strategies.
2. It employs decentralized administrative set-up to operate at the international level smoothly and efficiently and enforces precise accountability of its international subsidiaries to the corporate office (Robbins & Coulter, 1998).
3. There exists multinational ownership and management expertise in TNC that helps the company to become international from the very beginning with professional outlook in the handling of management and technical issues.
4. A TNC basically adheres to polycentric philosophy in its operations which implies host country orientation in decisions, plans, policies and strategies to serve host countries in the best possible ways by creating impressive local image.(Robbins & Coulter (1998)
5. TNC is found to make best use of its foreign income in the business development in host country by spending on relation building with the stakeholders and discharging corporate social responsibilities in the country of operations.
6. In designing the competitive strategies, environmental conditions in the host countries, government policies and regulations in the country of operation, proper analysis of competitive situation and behavior, company's strengths and weakness are usually considered carefully by the foreign subsidiaries of a TNC.

7. TNC is an international organization which leverages the capabilities of home and host countries for use into global operations and the locus of power is geographically dispersed.

**Distinction between MNCs and TNCs**

Multinational Corporations (MNCs) and Transnational Corporations (TNCs) represent the major international firms serving the global market. Although these are large companies that try to reap international market opportunities in different parts of the world using their resources and capabilities emphasizing the internationally accepted quality standards, economizing cost as far as possible, providing excellent services and customer orientation are the common bases of their strategic framework to operate internationally. Despite the similarities, there are various points that manifest the differences between these two types of international firms.

**Table 1: Distinction between MNCs and TNCs**

<b>MNCs</b>	<b>TNCs</b>
MNCs represent those large companies having significant operations in several countries which they usually manage from their corporate office in the home country.	TNCs refer to those large companies that maintain significant operations in different foreign countries and decentralize decision making authority to the management of SBUs in host countries.
MNCs are capable domestic companies having expanded their business operations in other countries to reap international market opportunities from the home country.	TNCs come into existence to serve the international markets through multinational ownership and multinational management of operations through a decentralized administrative set-up.
MNCs follow ethnocentric philosophy in conducting organizational operations in different countries. Their main decision making focus are home country oriented.	TNCs follow polycentric philosophy in managing overseas operations. Organizational decisions are basically made from the perspective of host country to ensure their survival and prosperity.
MNCs recruit manpower usually from home country nationals, train them up in the head-quarter and use them as expatriate managers as and when necessary in different overseas countries.	TNCs recruit most of its manpower from the host countries to create a bright local image and to facilitate the cultural adaptation of the company’s operations.
MNCs become involved in international operations gradually after attaining	TNCs become associated with international operations from the

<b>MNCs</b>	<b>TNCs</b>
considerable success and experiences in domestic operations.	inception to exploit international market opportunities for their planned corporate growth.
General Electric, IBM, Toyota, Phillip Morris, Ford Motor companies provide the examples of MNCs.	Nestle, Proctor and Gamble, Sony, Walmart, Nike and Caterpillar can be cited as the examples of TNCs.
MNCs usually produce internationally acceptable standardized products produced on a large scale at home or host country locations, capable of marketing in different parts of the world to attain the organizational objectives.	TNCs think globally but acts locally. These companies adopt global strategy allowing adaptation of product-line that will add value to the host country customers (Keegan, 1999).

**Table 2: Differences between TNCs and Global Companies (GCs):**

<b>TNCs</b>	<b>GCs</b>
TNCs come into existence through the merger of large companies and multinational ownership to perform business operations in the world market from their inception.	Global companies are established to serve the world markets with homogeneous standardized goods produced in different convenient world locations and distributed from suitable world distribution centers.
TNCs follow polycentric business philosophy in which they produce market oriented products, price the goods as per the market acceptability and promote goods on promotional theme acceptable to the host country culture.	Global companies are found to adhere to geocentric business philosophy, in which they consider the world economy as a global village. Based on similarities in the world consumption patterns, these companies produce standardized goods in bulk quantities in various world locations and distribute these goods from convenient world distribution centers.
TNCs operate with decentralized administrative set-up to facilitate these companies provide services according to the convenience of customers.	Global companies operate with completely decentralized set up but all its operations are integrated through the role of corporate office by employing networking system.
TNCs produce goods as per the market demand of host country through sound product planning and procure other resources mainly from the host country.	Global companies are inclined to produce specific standardized goods in bulk quantities as per the world market demand or specific customer order.
TNCs recruit resources from the host country and invest their after tax profit in the host country to build up institutional image in the	GCs recruit competent human resource from any country to build up a strong base of managerial resource for the

TNCs	GCs
host country for attaining its growth objectives.	company. It also collects other resources from appropriate country to reap economic benefits for the company.
Nestle, Walmart, Caterpillar and Proctor & Gamble are the instances of TNCs.	Gillette, BIC, Arcopal, Boeing Company, Turner and Grahams provide excellent examples of Global companies.

### **POSITIVE IMPACTS OF TRANSNATIONAL CORPORATIONS ON THE WORLD ECONOMY**

The world economy witnessed the successful operations of many TNCs in different parts of the world. These companies tried to reap the international market potentials not only for their corporate growth but also fostered the economic growth process of the host economies in which TNCs have been operating. The positive impacts of TNCs are stated in the following paragraphs.

There is a paucity of technological resource around the world. TNCs are involved in the creation of technology in their R&D centers situated in different strategic locations and coordinated from the head-quarters. These technologies are basically used in different countries for running their enterprises efficiently and profitably. World nations are benefitted from the technological support of TNCs. In 2014, Samsung of South Korea spent \$13.4 billion and Johnson & Johnson employed \$ 8.2 billion in technology development as revealed from the Annual Reports of these companies.

TNCs have immense contributions to employment generations in different countries in which these enterprises operate. In 2017, the employee size of Caterpillar was 96,000 (Statista, 2018a), General Electric Ltd. employed 313000 persons (Statista, 2018b), and Nike's employee size stood at 74400 (Forbes, 2018) respectively. TNCs basically work for the host country nationals to create their positive image in the host countries and to comply with the legal framework for their country of operations. The international sub-contracting policy of TNC also creates a lot of employment avenues in many developing countries. In view of this role of TNCs, unemployment problem is largely reduced in different host countries.

TNCs are professionally managed. These giant firms introduce sophisticated strategic planning system, prepare well-thought guidelines for their foreign subsidiaries to facilitate sound decision making and introduce sound reporting system for ensuring accountability at all levels. They create strong management team to facilitate effective management. Host countries can learn modern and

professional management technology from these companies and thereby can enhance their management standard gradually.

The standard of living in many developed countries is on the increase due to easy availability of different brands of quality products which people can buy using their rising income. TNCs produce market specific quality goods and services to different countries at an affordable price and thereby play a meaningful role in improving the quality of life in the host countries. TNCs make good contribution to social development in developing countries through the discharge of corporate social responsibilities (CSR).

TNCs are capable of stimulating world-wide innovations and learning by creating a congenial organizational environment and the effective conduct of their competence centres. The output of their innovation and learning process is then transferred to the world organizations. World nations can reap benefits from these innovations and learning to improve the quality of products or reduce operational cost significantly. As a result, consumer's satisfaction can be enhanced.

Many developing countries are confronted with the capital scarcity for developing their economies. These countries need sufficient foreign investment to make best use of their natural and other resources. TNCs have trillions of dollar investment around the world. These companies always try to exploit lucrative investment opportunities in other developed and developing countries. As a consequence of their investment policies, many developing countries are able to exploit their economic development potentials properly through foreign investment.

### **ADVERSE IMPACTS OF TRANSNATIONAL CORPORATIONS ON THE WORLD ECONOMY**

The role of TNCs is not an unmixed blessing for the world nations. Despite various positive contributions to the world economy, many nations had to suffer because of TNC operations in their economies. The adverse impacts of TNCs on the world economy are described below:

The existence of TNCs in developing countries is a major threat to the survival and growth of their infant domestic industries. TNCs possess adequate financial, managerial, technological and information resource which enable these firms to compete in the international markets with enough power and dominance. As a result, domestic industrial and business concerns in developing countries find it difficult to compete effectively with TNCs due to their limited competitive ability making their survival at stake.

TNCs are found to operate in many developing countries with a view to exploiting their scarce resources and attractive business opportunities that provide them a high rate of return on investment. But when the resource base is on the wane and business opportunities decline in these countries due to socio-economic and political problems, these companies do not hesitate to withdraw their investment hampering the national interest of host countries in which they operate.

TNCs often follow manipulative business practices to safeguard their interests at the cost of host country interests. The transfer of financial resource to other countries by TNCs in the name of transfer pricing, occasional failure to ensure product safety, frequent retrenchment of employees to reduce operational cost, use of automated manufacturing plant to minimize labor cost and sourcing of materials from their country of interest are some of the unethical practices followed by TNCs affecting host countries.

TNCs create undesirable expectations among the people of host countries through their marketing promotional activities. But when the consumers fail to meet these expectations through lawful means, they resort to various corrupt practices to enhance their income to meet their unreasonable expectations. It is also true that undesirable cultural changes influencing the life style of people also occur in many developing countries due to the role of TNCs.

TNCs try to influence the political circle to make the national policies in host countries friendly to foreign companies. At times, many industrial and business contracts are signed by host country government that do not protect the national interest properly. It is also found that TNCs become involved in the internal politics of host countries to attain their long-term objectives. Clearly, this is contrary to a country's national interest.

TNCs create bottle-neck in the development of perfect competition in the market especially of developing countries by using their competitive strengths and superior strategies. These enterprises are found to exert dominance over market by using attack strategies on their weak opponents and enhance their competitive power by using integrative growth and acquisition strategy. This is why, consumer sovereignty in the markets of developing countries cannot often be established due to the absence of healthy competition.

The growth of mighty international firms like TNCs and eventual expansion of different world regions give rise to strong capitalism in the world economy

causing harm to social equality and peace. This does not help to alleviate poverty in the society and makes it difficult to lay the essence of a healthy and prosperous society. The basic rights of people cannot be ensured in such a situation.

## **CHALLENGES ENCOUNTERED BY TRANSNATIONAL CORPORATIONS IN SERVING THE WORLD ECONOMY**

### **Rapidly changing consumer behavior**

Consumer behavior in the host countries is under continual change under the influence of international media and multi-cultural society. These changes have negative impact upon the operations of TNCs. Enormous difficulties are to be experienced to uncover the changes in consumer behavior in host countries due to cultural and geographic barriers. Consequently, the task of devising superior strategies by TNCs to adjust with the consumer behavioral changes becomes arduous.

### **Difficulties in copying with the local culture**

Culture differs from country to country in respect of values, beliefs, norms and habits. These elements of culture have profound influence in shaping the consumer behavior. There are also certain peculiarities in each culture. A precise understanding about these dimensions of culture may enable the TNCs to plan effectively their international operational policies and strategies in keeping with the needs of culture for achieving success. Admittedly, this is not an easy task to perform.

### **Soaring international competition**

Transnational Corporations are to operate in the international market amidst severe competition, which has been increasing day by day. This intense international market competition is due to the interplay of international companies from developed and developing countries with prudent strategies. Soaring competition creates bottlenecks to the attainment of financial objectives and corporate growth of TNCs. These companies often experience future uncertainties owing to rising international competition.

### **Business cost escalation internationally**

The rising cost in all elements of business operations at the international level is a major challenge for the Transnational Corporations to operate effectively in the target international market. High level of cost escalation creates compelling situation to devise ways and means to reduce costs through research, use of international sub-contracting and reallocating the business operations to prospective developing countries, where operational cost saving can be enjoyed. Moreover, it affects the competitive advantage of TNCs.

**High rate of product obsolescence**

TNCs develop new products through R&D operations for attaining a desired rate of return on their investments and recover the invested money within reasonable payback period. But this cannot be achieved because of the advent of new technology by other competing international companies resulting in the introduction of better quality products at reasonable cost to international consumers. This may often be the root cause of product obsolescence and early product failure in the international market.

**High level of political and other risks**

TNCs are confronted with the challenge of high level of political, economic and other risks. The political risks arise from the host country policy of nationalization, domestication and expropriation. Political instability and unworthy law & order situation also increase political risks. The economic risks stem from economic recession, high investment requirement, domestic content laws, high interest rate and rising inflation. These risks increase the possibility of attaining business inefficiency and financial losses leading eventually to business failure in host countries.

**Legal interventions over TNC operations**

TNCs are often affected by the legal interventions in the host countries. Laws for employing local employees, prohibiting child labor, enforcing building codes for industrial concerns and hostile & unfair trade union practices create impediments in the operation of TNCs in various developing and less-developed countries. Lengthy legal formalities in foreign investment and long time requirement in the handling of trade disputes through legal means create challenging situation for TNCs.

**STRATEGIES USED BY TNCs FOR HANDLING INTERNATIONAL BUSINESS CHALLENGES****Intensifying consumer research efforts**

TNCs make concentrated efforts to uncover the changing consumer behavior by augmenting the consumer research efforts on a regular basis. By using secondary and primary sources of data, these large companies try to become well conversant with the periodic changes in consumer needs, preferences and expectations of international consumers. This helps in modifying the operational strategies as per the needs of changing international consumer behavior.

**Adopting organizational strategies in keeping with local culture**

For achieving success in international operations, TNCs formulate their marketing mix strategies as per the need of local culture in host countries. Cultural adaptation of strategies calls for clear understanding of all important dimensions of local culture through research. When strategies match with the needs of local culture, these are capable of achieving desired result for the enterprise.

**Formulating superior competitive strategies**

In order to consolidate their position internationally, TNCs formulate superior competitive strategies concentrating on continuous quality improvement, effective product design, timely product delivery, providing best customer value and offering new products as per market needs. These strategies are reviewed regularly to make sure that these are capable of meeting international competition effectively.

**Developing strong R&D set-up**

TNCs develop strong R&D operations to facilitate the development of new products, renovation of existing product to enhance product life cycle, and overcome the product related problems that arise from time to time. For strengthening R&D, steps are taken to allocate adequate fund for R&D, employ strong research team and create laboratory facilities to perform R&D operations with effectiveness. Sometimes, R&D activities are dispersed around the world to take advantage of current researches in developed countries.

**Creating competitive advantage through reducing operational costs:**

In order to create competitive edge over rival international companies, TNCs employ the cost-reduction strategy by paying attention on various elements of production, marketing, financing and using capital intensive technology. The cost reduction is achieved by engaging research team in the possible areas of institutional operational costs. TNCs now use international sub-contracting and reallocating the production operations in the developing countries to achieve same purpose.

**Devising effective risk reduction strategies**

With the increase in the operational costs, TNCs are found to employ various risk reduction strategies. Some of these strategies include foreign investment through joint ventures, developing business relations with competent foreign business firms, making foreign investment in prospective developing countries, signing business contracts with utmost caution and care with foreign firms and reducing financial risks through careful planning. The adherence to these strategies can minimize the business risks of TNCs substantially.

**Ensuring proper legal compliance to overcome inherent problems**

In order to ensure successful existence in the international arena, TNCs provide priority on the proper compliance of international legal requirements and national laws of host countries. They instruct their foreign subsidiaries to comply with labor laws, provide attractive fringe benefits, ensure employee health and safety and create congenial work environments in host countries. Foreign subsidiaries of TNCs are advised to settle all legal issues amicably to the satisfaction of host country government in different countries.

**CONCLUDING REMARKS**

TNCs are essentially international corporate giants serving the world nations from strategic locations by adhering to polycentric philosophy and decentralized administrative set-up with proper accountability to their corporate offices. These companies operate in different parts of the world by facing certain operational challenges. Obviously, these firms have been making commendable contributions to the world economy by producing time- befitting quality goods and services, which are offered at competitive prices and thereby help improve the quality of life of people in the developing countries. Ensuring maximum satisfaction of the consumers in the host countries and building hearty relationship with the stakeholders represent important goals of TNCs. Nevertheless, the enormous market power of TNCs creates impediments in the systematic industrial growth process of many developing countries in which TNCs operate. If the national government of a developing country can avail the services of TNCs on terms and conditions conducive to its national interest, the inhibiting factors of TNC operations on the national economy of developing nations can be largely removed.

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