

# WAYS OF MANIFESTATION OF THE TRANSNATIONAL CORPORATIONS IN THE GLOBAL ECONOMY, STRATEGIES FOR A SUSTAINABLE DEVELOPMENT OF THE ECONOMICAL DIMENSIONS

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**Abstract:**

*The world impact of the Transnational Corporations is a huge and also a very important one. Their business created relations among countries and cultures as well as politics and economical systems. The economic production of a Transnational Corporation is an important part of the world economy production nowadays.*

**Key words:** *Transnational Corporations, sustainable development, economic dimensions, investments, global economy.*

**JEL classification:** F13

The set of the entrepreneurial activities that cross over the national borders encounter the name of the international business.

The internationalization of the business is made with caution in some steps:

- The first stage is the export, that allows first to obtain experience on the markets that are less known. This stage is generally completed by opening some selling agencies there.
- If the business seems to be a successful one, here comes another stage license cession to a local producer that knows better the local conditions, having so a powerful entrance on the local market. In this stage are avoided big investments and also the risks.
- Another stage is the foundation of a mixed society or creating a branch fully controlled.

This evolution is frequently met in the countries where the economy is developed. The license agreements and the mixed societies are sometimes the only possible variants for the countries in the process of development. The direct foreign investments require the administration and the control of the economic resources beyond national frontiers.

The company may engage international business without having investments made through export or import, license, technology selling activities, management contracts and project selling activities. The main carrier of the direct investments is the transnational society. This may be defined as a public or private company that has a property right and an administration function on the assets and liabilities made in several countries. When the participation is made in association the Transnational Corporations have the form of mixed ones and when the participation is fully hold by a single partner have the form of multinational companies.

Some of the main objectives of these companies are:

- to be present anywhere, even on the market where there is no concurrence;
- to be present anywhere, even on the market where is the concurrence;
- the decrease of costs;
- the development of the company;
- the competitiveness.

The Transnational Corporations have their origins, at least most of them, in the developed countries. For example, in 2007, 91 of the first noted 100 Corporations, listed according to their value and assets held, had their Headquarter in USA, European Union and Japan. Going deeper into the research, was noted that 9 out of 10 top transnational Corporations became from USA and only one from Great Britain.<sup>1</sup>

According to the business involvement from the 10 top Transnational Corporations, the first 5 were from USA, the next 2 from Great Britain, one from Holland, one from Japan and one from Germany.

According to the profits that were accomplished from the 10 top Transnational Corporations, the first 7 were from USA, the next 2 from Great Britain and one from Holland.

The Transnational Corporations are known also under the frame of Multinational Enterprises (MNE) re defined by Encyclopedia Britannica as it follows: 'any corporation that performs actions in more than one country in the same time'. Generally speaking the Transnational Corporations have the social Headquarter in one country and operates by using different subsidiaries in two or more countries. The company where is registered the social capital, most of the time is also the Mother company.

Historically point of view, we may talk about Transnational Corporations starting with the 16<sup>th</sup> century (some resembled in shape and functioning level as the modern ones). But in the manner as we know them today, it started to show up in the 19<sup>th</sup> century, and one example is Colt Company from USA that opened a gun factory in 1852 in Great Britain. The majority of these companies had a very quick and dynamic evolution, they had success first on the origin country and then they extended over the borders of the origin country.

A company will extend its activity beyond the borders of the origin country, because or due to the opportunities on the extern market. These opportunities are balanced also by the problems that appear when we talk about international business: the cultural differences, the legal restrictions, the linguistic barriers, the monetary differential system, and the distances that information has to pass.

The management of the Transnational Corporations must integrate in the multinational climate. The features of the organizational behaviour of the multinational companies are more complex. A Transnational Corporation does not face only the problems in the origin country but also in the host country. (The origin country is the country where is settled the central unit of the Transnational Corporation and the host country is the country where is the operational element of the Transnational Corporations)

So the Transnational Corporations has to adhere to the local legislation of the origin country but also it has to subject to the legislation of the host country. The saying: 'When you are in Rome, acts like a Roman' fits perfectly in this situation. In order to have a managerial, technical or professional position abroad the multinational companies may choose its employees from:

- the origin country;
- from the host country;
- from an auxiliary country.

The appearance of the global economy is powerful modelled by the actions of the Transnational Corporations. These are the main actors on the world scene and the main factors of the economical concurrence of a certain country.<sup>2</sup>

Some experts consider that a company that can be attributed to the characteristics of a multinational one must define the following conditions:

- to have business developed in at least 6 countries

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<sup>1</sup> World Investment Report 2005: Promoting Linkages, New York and Geneva, 2005.

<sup>2</sup> Voinea L. – 'Corporațiile transnaționale și capitalismul global', Editura Polirom, 2007, p.59

- at least 20% of the company goods to be held by the agencies that are abroad; or
- 20% from the total sales of the company must be accomplished in the countries they develop their activity, not in the original country
- to hold and to prove a managerial integration and global orientation:
  - the resources of the company to be allocated without any constraint outside borders
  - the national borders are considered as constraints that must be taken into consideration in the decision making process, they do not belong to the actual company
  - the organizational structure of company crosses the national borders of the company
  - the mobility of the personnel that is transferred in all the agencies in the host countries
  - The management assumes a global and general perspective; the managers regard the world as being an interdependent one.

The Transnational Corporations are characterized using the Transnationality Index (TNI). This index shows on what level the activities are developing in other countries than the origin one.

The Transnationality Index is being calculated according to 3 reports as it follows:<sup>3</sup>

- **foreign investments/total actives** – this report shows how much from the production or sales bases (factories, deposits, units of research or detail and engross units) are outside the origin country
- **the business profits from abroad/the total business profit** – this report shows how much of the potential is exploited on international level
- **the number of employees abroad/the total number of employees** – this one shows us the working force that is engaged by the companies outside the origin country.

Thus, the greater the value of the index is, the great part of the activities of a certain company and the less the value of the index is, the less activities of the company are on international level. Regarding the adapted economical strategy, according to the field of activity and of the specific conditions of developing the activities, the Transnational Corporations can decide the major orientation of the capital towards the origin country or towards the subsidiaries outside the origin country. Accordingly to this option, on the international level there are two main types of Transnational Corporations.

### **Corporations that have a low level of transnationalization**

In this case the activity of the company is mainly orientated towards the origin country. So, on long term orientation, the investments on the origin country are bigger than in the subsidiaries in the other countries. Without being a rule, these Corporations usually have their Mother Company in a well developed country, being characterized by an internal market of great dimensions. A typical example could be the Transnational Companies that have their Mother Company in USA, and this is because as it was said before this country has a great internal market. In this case of an internal market that is a great one, a company has the possibility to sell a great part of its products and services in its internal market. Here the activities and the sales that are made in different countries are considered to be complementary.

Some examples of such Transnational Corporations are: Philip Morris, Mitsubishi Motors, Fujitsu and Ford that represents an Index of Transnationality of 20%-30%.<sup>4</sup>

<sup>3</sup> Brailean T., - 'Noua economie. Sfârșitul ceritudinilor', Institutul European, 2005, p.98

<sup>4</sup> Nunnally, J.C. - 'Economic psychometric theory, 2<sup>nd</sup> edition, New York, McGraw-Hill, 2006, p.67

### **Corporations that have a high level of transnationalization**

In these companies the activities are orientated towards outside, towards the exterior of the Mother Country, to the subsidiaries in other countries.

Generally, this kind of corporations has their Mother Company in a developed country that has not such a great intern market as the other that we have mentioned. One good example here would be Nestle that has an Index of Transnationality of 94,7%, ASEA Brown Boveri ABB (electrotehnic and energy field) that has an Index of Transnationality of 94,9%, or British American Tobacco with 94,7%.<sup>5</sup>

Because of the fact that these companies operates on global level these are being more interested in extending more and more markets, to eliminate competence and to associate when necessary. The management of these corporations must have permanently a strategic component with the help of which the company protects itself, attacks, allies or extends. In order to extend the volume of the economical activities the corporations have at their disposal a series of methods that presents of great importance in the global economical environment.

The growth of the economical activities of the Transnational Corporations may have as purpose:

- entering a new market (entering a new country market using the same products);
- entering a new market (entering the same countries using different products from different fields of activity);
- developing activities of research and development;
- accomplishing some strategic alliances;
- some other combinations of the purposes mentioned above.

This growth of the economical activities of the Transnational Corporations may be done using mainly 2 ways:

- the first method is being used inside the Transnational Corporations, without involving other companies and this uses its own resources or borrowed ones (the intern growth)
- the second method implies some activities of the Transnational Corporations and other companies too (the extern growth)

The intern growth gas as basis the company's own resources and does not imply the changing of the structure. The extern growth implies the participation of other companies. The practical ways of mixing the capital are: the merger (the action by which two or more companies re-group in one) and the acquisition (that ha two forms: the absorption an the participation)

There are some strategies of extension at global level for the Transnational Corporations, regarding their activities specific, the Transnational Corporations may extent their activities at a global level:

- In the same field of activity, developing the same activities or similar activities. This is being accomplished by growing the number of subsidiaries in the same field of activity. In this case the subsidiaries are clones of the Mother Company. For example Coca Cola makes the same products no mater where is the subsidiary and Kraft Food makes the same types and brands of chocolate o matter where they develop their activity.
- In the same field of activity, developing complementary activities to the ones of the Mother Company. For example the transnational

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<sup>5</sup> Idem, p.68

- Corporation Exxon Mobile that has as specific activity refining the oil. Then they opened some units of distribution or extraction the oil.
- In totally different fields of activity. The motivation for this action is strictly financier.

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