MODERN APPROACHES REGARDING TRANSNATIONAL CORPORATIONS ACTIVITIES IN THE CURRENT ECONOMIC CONTEXT

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Abstract:
The development of transnational corporations is a new form of outward expansion of the monopolies, through the nature of their organization, through direct investments and free trade zones that represent areas of investment, these corporations activity is taking place on large areas, intensifying the internationalization of capital and increasing the degree of concentration and centralization of this capital. The activity of transnational corporations is one of the important factors in the current development of the global economy, becoming a power capable of provoking, in its own interests, great changes, both in international relations, as in most political and social spheres of life. This study will take into account the managerial strategies of the corporations in order to increase their position on the global markets.

Key words: *transnational corporation, expansion, global economy, foreign direct investments, managerial strategies.*

JEL classification: *F23, G34*

Introduction

Globalization is an obvious phenomenon and an important feature of contemporary social and economic life.

The structure of the current global economy, undergoing the globalization process, brings together two components that intersect. A component is represented by the national economies, as basic entities that are not isolated, but linked through trade, financial flows, investments, scientific exchanges, established by various treaties and agreements[1]. Some of them are grouped in unions, different types of regional economic alliances that do not show - at least at this stage - an attraction towards a planetary association.

The second component is the **transnational corporations** and international banks, which form a *network* over national borders. This component is called *Trans boundary global economy* or transnational economy.

It's hard to say whether, in the future, the global economy will be dominated by only one of the two current components.

The process of globalization of world economy began in the mid 80s, acquired new meanings and followers in the 90's and continues to strongly unfold today even if it has to face regionalist and nationalist conceptions.

In a broad sense, *globalization of world economy* can be defined as being the highly dynamic process of increasing interdependences between nation states, due to the expansion and deepening of transnational ties in more extensive and varied spheres of economic, political, social and cultural life and as having as effect the fact that the problems become rather global than national, calling for a global solution.

[1] Bari Ioan, *Economy globalization*, Economic Publishing House, Bucharest, 2005

Addressed from an economic and financial point of view, the globalization can be defined as strengthening and widening ties between national economies on the global market of goods, services and especially on the capital market.

As global players, *the transnational companies* impose their will using transnational economic forces, strategies, goals and self-governing operating rules, which, along with the decisions of governing bodies of the parent company, often contravene to host state's interests. In order to resist the cross-border economic expansion, states are often forced, under their policy of attracting direct investments, to make concessions at the expense of national economies risking in this way to create a tension between national economic interests and the interests of big transnational companies, in order to withstand the trans boundary economic character of global interdependences.

Transnational corporations - Conceptual delimitations and favouring factors

The Dictionary of International Economic Relations shows that: "the transnational corporations are economic entities made up of units linked by ownership relationships or otherwise, operating in two or more countries following a decision system in one or more centres, allowing the development of coherent policies and a common strategy in which one or more of these units have an important influence on the work of others, especially in resource utilisation and in assuming responsibilities."[2]

While the opinions about definition of transnational corporation are divided, in respect to the branches, two main typologies are admitted, namely:

- Relay subsidiaries that produce and sell goods on the local markets, goods that belong to the product family already present in the origin country of the Mother Company.
- Workshop subsidiaries that specialized in components production for a finished product for which the local demand is weak or null.

To these we can add the commercial branches that only resell and distribute the finished products of the mother company.

According to the findings of prestigious economists, transnational corporations are now perhaps the most important "characters" in the world economy.

A variety of factors have participated to the development of transnational corporations, one of the main factors is the current scientific and technical revolution. Currently, the industrialized world is in a terrible race for technological innovations and refinements. Therefore, experts consider that any enterprise that fails to renew at least ¾ of its current products will be threatened with marginalization.

This century, the importance of *innovation* will increase even more, becoming a *sine qua non* condition for the existence of modern business. But research and development costs are higher as the innovation effort is faster. These costs may be covered only by domestic sales, because the impact on prices is very high, the products become inaccessible. Thus, the innovation can only be fund by the internalization of corporate activities.

The role of foreign direct investments in the development of transnational corporations

Foreign direct investments (FDI) are an important component of the phenomena that maintain themselves in the global economy, representing the financial resources directed toward a particular area. These *investment flows* form between countries according to certain objectives which differ from country to country in the relation to

[2] Puiu Alexandru, *Dictionary of Economic International Relations*, Encyclopedic Publishing House, Bucharest, 1993, pg 127

the level of development, of economic structure, of production means, etc. We cannot neglect either the influence of progress in telecommunications, informatics, new materials, cooperation between corporations, or the expansion of international tourism. So the objectives that the formation of FDI flows depends on are:

- For the investing countries:
  - provision with raw materials and energy resources from the host states;
  - utilisation of available factors of production in the country;
  - selling its products in the markets of host countries.
- For host countries:
  - acquiring top technologies;
  - creating new jobs;
  - modernizing the production;
  - developing new branches;
  - performing management.

These driver forces work on a long term. Investment behaviour of companies is also strongly influenced by short-term changes of business cycles, as evidenced by recent trends in foreign direct investment. After record-high levels in 2000, global flows have declined sharply in 2001 – for the first time in a decade – and this downward trend has intensified while crossing the **today's global financial crisis**. This decline was the result of the global economy, especially in the three largest economies of the world (US, Japan, European Union), who went all in recession, followed by a decrease in the value of cross-border mergers and acquisitions. The total value of these cross-border mergers and acquisitions completed in 2001 (594 billion U.S. dollars) was only half of that in 2000. The number of cross-border mergers and acquisitions has dropped from over 7800 in 2000 to about 6.000 in 2001[3]. The number of cross-border transactions worth 1 billion USD fell from 175 to113, their total value falling from 866 billion USD to 378 billion USD. As a result, the decline in FDI was mainly concentrated in developed economies, where FDI inflows fell by 59% compared with a 14% fall in developing economies[4]. Inflows in Central and Eastern Europe have remained generally stable.

Global FDI inflows rose to $735 billion, of which $503 billion were directed towards the developed economies, $ 205 billion to developing economies and the remaining $ 27 billion towards transition economies in Central and Eastern Europe[5]. Among the top 10 countries with absolute investment increases, eight were developing countries, led by Mexico, China and South Africa. In contrast, among the 10 countries that experienced the most significant declines in FDI inflows, eight were developed countries. Belgium and Luxembourg, the United States and Germany reported the sharpest declines.

The transnational corporations' management

After the enterprise extends beyond the national borders of country of origin, it faces the need to *reorganize*, a process that must take place both at the parent company level and at the subsidiaries'. In terms of parent company is not about reform of existing services, but about the creation of a new structure; when the enterprise decided to internationalize their business, there was only one service for export often integrated into the sales service. The next stage of the reorganization was the integration of international activities within the core activities of the enterprise.

The reorganization process has become even more complex when they were hired specialists in economics, fiscal and legal problems, specific to the countries in which the group has implanted subsidiaries. Corporations tend to fundament their

[3] United Nations Organization – *Investments World Report 2002*, 2002, pg. 2-17
[4] idem
[5] idem

decisions less in impressions and more on reality, on the information provided by its specialists who rely on their most recent economic, sociology and political science data. To get the most favourable operating conditions in various countries, corporations seek to establish friendly relations with the respective governments. In this respect, it is often when the management positions are filled in by local specialists.

In regards to the *managerial and organizational principles* adopted by the transnational corporations, two are more important, namely: centralization and decentralization.

Centralization has occurred due to the fact that the activity in different countries that have different economic, legal, social and political characteristics required a decision center with a much higher authority than is necessary for enterprises operating in a national homogeneous environment. Within such an enterprise, headquarter is the center of decision, the branches following the imperative plan established by headquarter.

Decentralized management grants a large independence to the subsidiaries. An example is the Royal-Dutch Sell, the largest European corporate which adopted early from the beginning a "bicephalous" structure led by two parent companies of different nationalities.

Sell Royal-Dutch group is led by two totally separated companies: a Dutch one (Royal-Dutch Company) and an English one ("Sell Transport and Trading Company"). It indirectly controls the group's component companies (operational specialized companies and service companies) through two holding companies: Sell Petroleum NV based in The Hague, and The Sell Petroleum Company Limited, based in London. The two *holdings'* role is to mobilize capital and to analyse the financial results obtained by the "Operating Companies". The role of the latter is operating, manufacturing, transport and sale. Each company is responsible for developing a plan to cover all activities that take place in a given country. In this respect, as a key issue is raised: that of linking strategy and policy of global operating companies with the group[6]. Embarked on decentralization, many corporations have committed excesses, so that at one point recoil happened towards this form of organization. A recent study shows that two-fifths of large American corporations have returned to a centralized management, this is true for European corporations too.

In the current century, the pace of change is increasing, becoming increasingly difficult to stay in the top, phenomena that are a challenge for corporations and their managers. In a world where the economic power has its source in *information*, communication and high technology, innovation is vital. Ultimately, the battle between companies is decided by their ability to innovate. Faced with these challenges, professionals are already thinking of new organizational structure, new management techniques tailored to the specific branch segment. Alvin Toffler, in his book "The Adaptive Corporation", imagines "pulsating organizations", able even to change their size in time, their organizational system balancing between centralization and decentralization. He sees the futures of the company as "a thin control cable and modules with different shapes, each able to move his way, as the wind blows, and can be disconnected and replaced with another unit."

Transnational corporations have abandoned traditional organizational structures, approaching new ones capable to meet market requirements in the 21st century. The **conclusion** is that in this age of information, of innovation, technologies, the change and thus *change management* is the philosophy of big business.

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[6] Dumitrescu Steian, Bal Ana, *Global Economy*, Economic Publishing House, Bucharest, 2002, pg 112

Transnational corporation's market

The transnational corporation continually strives to expand its sphere of domination both within the country of origin and other markets in different countries.

Any transnational corporation is simultaneously manifesting in three economic areas: national, local in case of the parent company, and foreign in case of the subsidiaries, international one whenever it comes to trade between its constituent units or between them and the rest of the world.

There's an interaction and interpenetration between fields of micro, macro and global economy. By virtue of relations between parent company and foreign subsidiaries as well as those between the subsidiaries themselves, transnational corporation operates in its own market which is an *international market*.

The transnational corporations' internal market is also a capital, technology or labour market. Coordinates' center usually imposes exchange relationships between components and practicable prices. Usually, the prices of goods exchange are fixed on the basis of cost. There are also cases when the parent company demands a subsidiary to buy another one's production at a price different from the one set on world market. Such situations appear when it is seeken to conquer or maintain a dominant position, reduce the income taxes due to the host State, to elude exchange controls and protect against currency fluctuations. Thus, sub invoicing raw materials and intermediate products allows the receiving subsidiary to sell them at lower prices. To maximize the total profit, corporations manipulate prices to increase the benefit of the subsidiary in the country where the tax rate is low and vice versa. When devaluation is imminent, the corporation will seek to get out the country as most of the profits as possible and to move it to countries with strong currencies. Profit is thus transferred from one subsidiary to another or brought home using the mechanism of "*transfer pricing*", price that considerably deviates from its international quotation. This transfer price results from the acquisition of primary resources at the lowest prices, through its subsidiaries, which buy it directly from manufacturers and selling the finished goods at highest prices. Transfer prices are often identified with the profits transfer to the appropriate subsidiaries in order to reduce the tax burden across corporation. To achieve this, the corporation sells goods or services through a subsidiary placed in a country with low income taxes, to another subsidiary located in a country with a higher income tax. Thus, the corporate decreases profits in one country and increase it in another, the goal being to pay lower tax. The means for implementing transfer pricing are different, they result from corporate's motivation to use this practice (branches constantly record losses, repatriation of profits in the form of loans, expenses related to research and developed, know-how, trademarks, the use of tax havens.)

It is estimated that the share of internal trade of transnational corporations in world trade has become quite large, about 30%. Regarding the specific weight of the "internal market" of corporations in its total exports, it differs in relation to the country of origin. Given the characteristics of transnational companies's market, one can say that within the risk related to price fluctuation is reduced. At the border of the internal market of such companies the competition with other transnational corporations starts.

Conclusions

The phenomenon of globalization has two "pillars" of resistance. The first is the *technological* factor – the fast scientific and technical progress in the field of advanced technology and computer science in particular, has allowed unprecedented growth in speed and scope of circulation of information. The other – the *economic* factor is materialized by the disappearance of barriers in the flow of capital. Both factors lead to further decrease the economic importance of borders between states. The main actors of globalization are transnational corporations, respectively the big Western companies that have expanded beyond country of origin. They exist in all areas and sectors and hold decisive positions. Many of them concentrate more economic power than some states, which is a hard word to say about the direction of development of national economies.

At the beginning of 21st century, transnational companies are considered as one of the biggest challenges for the current international economic order. Some authors, such as Martin Carnoy[7], believe that the decisions made by transnational companies largely inflict the national economies – currently trying to emerge from recession.

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