

Globalization and Expansion of Transnational Companies

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Abstract

Transnational companies, by their essential features (economic nature, organizational structure, marketing and management, direct external investments) base their policy on expansion. They tend to develop and they have the capacity of transgressing both national borders, and those of inter-states integrational organizations, all of them having the tendency of becoming a global company.

Key words: *globalization, mondialization, transnational companies, external investments*

Mondialization and Globalization

The process of economy mondialisation has experienced several stages.

The first stage of mondialisation through external trade became evident after the first industrial revolution and lasted until the beginning of the 20th century. This stage represents the evolution of national economies and, taking into account their characteristics, it can also be called the stage of international economy.

The beginning of the 20th century marks a real revolution at the level of private economic agents. The most powerful companies do not limit anymore at internal capital investments, but they invest more and more abroad, and an economic good starts to be the result of the production organized simultaneously in different countries. Thus, the next stage of mondialisation is mainly under the influence of external capital investments as compared to international commerce. This tendency is based on the transnationalisation of economic life. The transnational companies, by means of their activity, transgress the national borders, the economic frontiers not being the same with the political ones anymore

At present, we can notice a strong integration of economic activity at a global level, against the emphasis of activities and roles of transnational companies. The tendency of globalize economy shows up that there is o growth without precedent of interdependencies between economic agents, national economies, generating great implications and sometimes quite unpredictable on the main international markets. Thus, at the moment, the most important economic agents are the transnational companies, and economy globalization generates conditions for the pace of business to grow a lot.

“The globalization concept refers to the world minimalisation and the increase of degree of seeing the world as a whole.” (Roland Robertson, “Globalization: Social Theory and Global Culture”, Sage, London, 1992).

As a last stage of mondialisation, economy globalization represents the most evident interrelation between economies, reflected by the growth within every country of the commercial exchanges, investments and foreign capitals in forming GDP.

The International Monetary Fund defines globalization as “growth of economic interdependence of the countries all over the world by increasing the quantity and variety of goods and services transactions over the borders, a flow of international freer and faster capital, but also a greater diffusion of technology.” (FMI, World Economic Outlook, May 1997), while the World Bank defines globalization as “the freedom and capacity of individuals and companies to initiate voluntary economic transactions with residents from other countries”.

The changes of the characteristics of the economic-social world refer to world economy as a whole and, separately, to each national economy. For the modern enterprise, the external medium to which it reports its activity has the tendency of spatial extension. And we do not refer only to companies whose profile, dimensions and placement finalize their activity on the market of several countries. Even national companies that are active within the limits of the internal or local market are exposed to the results of some changes recorded on a wider range than the national one.

The situation can be explained in the conditions of the growth of interdependencies between the component parts of the economy and, respectively, the world market. The market economy mechanisms stand for the confrontation and the equilibrium tendency between request and offer in larger and larger geographic areas, the flows between borders having as object goods, services, capitals, technologies, labor force; moreover, an export-import of crises, inflation and other similar phenomena belonging to market mechanism can be noticed.

This is the frame for placing the phenomenon of business globalization at international level, phenomenon that imposes a change of attitude on the company’s behalf, regarding the problems of world market.

Globalization represents, without any doubt, the great defiance of our days.

Transnational Companies

In nowadays world economy, in which mondialisation has become an obvious phenomenon, transnational companies have reached the stage of being the main economic agents.

The fact that, the same brand of products is manufactured in different countries or that in the administration boards of some of the most important companies one can find members of different nationalities, does not represent an exception anymore. This multidimensional universe and this cosmopolitan world are largely the product of more important activities of transnational societies.

A transnational company represents a firm that extended its economic – financial activity over the borders of its origin country. It represents, at an international scale, a vast assembly of a main company (the original company) and a certain number of subsidiaries, that is, firms depending on the main company, implemented in different countries.

Transnational companies can be found in all economic sectors: industry, agriculture, banking, insurance, publicity, tourism, etc; they have mainly shown up in the developed countries, having market economy, and they directly influence the evolution of world economy, most of them managing to have an even a greater economic power than the economy of the developed countries.

In contemporary world, the value of goods and services that result from external investments is considerably higher than the value of world goods exports. Thus, investments become the main tool for developing international economic relations and they represent the basis for the setting up of transnational companies.

International capital flows are: portfolio investments and direct investments.

Portfolio international investments represent the acquisition from a financial market of some foreign mobile values (shares, obligations), allowing making of decisions, but not control rights.

External direct investments represent the acquiring of control shares package, buying some companies or building them abroad. At the same time, capital increase of an external subsidiary or a loan given to the subsidiary, also represent other forms of direct external investments.

At a final level, control represents the way of distinguishing the two types of external investments. Portfolio investments can be changed into a direct one on condition that a minor participation becomes a major one.

Concrete ways of implementing the external investments are quite numerous, starting from a minor participation to the integral tenure of one subsidiary's capital.

The most well-known case is that when a main company sets up a subsidiary on a virgin market. Holding shares in an already existing foreign company is more advisable in the beginning.

A commonly used tactics is *initial penetrating into a certain foreign company*, aiming at studying and knowing the local market, evaluating expansion possibilities for certain products, etc and then, if the perspectives seem to be good ones, an increase of capital is required. Unusually, local capitals are not enough, so the transnational companies takes over the firm, and in a shorter or longer period, by buying stock, the size of the native company is totally reduced.

In other cases, though, *a strict policy of minor participations* is preferred. This type of association allows the main company to enter several markets, with a lower initial capital.

The most convenient external implantation strategy seems to be *buying already existing companies*. It represents a way which allows saving money, hiring people who know what they have to do, and it brings the advantage of a board that knows the characteristics of the local market, etc. buying a company is usually decided by the rapport between the paid price and the predicted benefit.

A special form of external investment is *creating mutual companies with the state representatives* (mixed joint ventures) and joint international business ventures. The first ones are made up of associations between a foreign company and a domestic state company, in approximately equal conditions (for example, Japanese legislation imposes a smaller or even equal participation of foreign capital and domestic one. The joint international business venture results from a contract by means of which the country (especially underdeveloped countries) obtains the recognition of its own infusion (natural resources, work force, capital) by the foreign company (which generally belongs to a developed country).

Among *the advantages* of direct internal investments, of implementing the subsidiary abroad, the possibility of avoiding customs barriers, where they exist, can also be noticed.

Transnational companies develop the international trade of the main company: the subsidiaries from abroad usually need machines and equipment, technical knowledge that can be bought from the country of origin.

A transnational company can take advantage as a result of the differences between national rates of interest. Using the communication network between external subsidiaries, the transnational companies will lend money where they have the best conditions and will give the obtained

funds to another subsidiary, which would otherwise be the victim – as competing companies are – of the “expensive money” policy.

Also, acting simultaneously in several countries, the transnational companies will fully take advantage of the monetary fluctuations. Usually, companies buy a lot of the national currency where a re-evaluation is expected, and then being exchanged for the currencies that are constant, thus resulting remarkable profits.

Types of Transnational Structures

Taking into account the criterion of capital investments orientation, one can distinguish between two types of transnational structures:

- introvert structure, supposes activities mainly aimed at the inside;

On long term, the investments made in the origin country are higher than the external ones, as in the case of transnational companies with the headquarters in big developed countries (U.S.A. – General Electric, Japan – Toyota, Hitachi, France – Renault, Italy – Fiat). According to UNCTAD calculations, these companies have the lowest degree of transnationality (approximately 30% General Electric, 20% Hitachi etc.).

- extrovert structure strongly emphasizes external activity.

This type of structure is mainly characteristic to transnational companies with the headquarters in small developed countries. These companies UNCTAD transnationality index is the highest. (Switzerland – Nestle 95%, Sweden – Electrolux 88% etc.).

Both types of transnational structures suppose a division of the work inside the company, between the component parts of the transnational company. This division is made horizontally (as in car manufacturing industry) or vertically (as in oil industry). The result is the development of matrix type networks, which involve not only the components of the transnational company (the main company, subsidiaries), but also external companies, independent ones, not having ownership relations. This leads to the occurrence of inter-company strategic alliances (Renault-Volvo, Apple-Sony).

A company can extend worldwide only by “spirit of enterprise”, that is, strongly accepting a dynamic strategy of growth. This growth may either be internal (organic) or external.

The internal growth represents the growth of the abilities of a company by itself, that is, by means of cash-flow, on the basis of its own profit, undistributed and reinvested. The internal growth becomes also possible by using external financial resources (loans, emissions of valuable titles in order to increase the capital).

The choice of financial sources is influenced by the official financial policy: by the amount of taxes on corporations’ profit, by the level of the bank rate. Finally, the evolution of the economic cycle is also important.

During the boom periods, when the profit rate increases, cash flow is the most important.

In the activity of a transnational company, there are situations when an increase of capital is necessary, and appearing on the stock market is the most convenient of all existing opportunities, this being realized by means of banks.

The internal growth of a transnational company is one of the conditions for external growth, as only a company that manages an important capital and production concentration may hope to an external growth as well.

External growth can be done using different ways:

The *merger* is the technique of capital concentration according to which two or more than two companies, no matter their native country, regroup itself into one company. From the legal point of view, the old companies disappear, being replaced by a new one. The main advantage of a merger is the synergy effect, the accountancy casting being superior to the simple gathering of resources.

The takeover represents a technique of acquisition by means of which a company totally buys another company. The takeover company does not exist as an independent company anymore.

Both merger and takeover have as an aim rationalization of structures, of workforce scheme in a very short time, in order to decrease costs. However, in order to be successful, these kinds of operations have to refer to the reduction of costs and making redundant some means in order to reach a superior development of scale economies.

Participation consists in buying a part of the capital of another company, either from the same country, or from abroad.

Participation is minor when the owned percentage of all the shares does not allow the control. It can be major if the participant company owns the control share package of the target company. The participation can also be 'in falls' when a certain A company buys another B company, that owns some parts from a C company.

The most frequently used and fastest method in order to succeed in an external growth is takeover bid or offre publique d'achat, by means of which a company announces its intention of buying a part of the shares of another company. This type of offer is strictly regulated, the transparency of the operation has to be total, and advertising has to be in accordance with the Operation Commission on the Stock Market.

In some cases, these regulations are not respected. The administration board of the target company is avoided and direct negotiations with some shareholders are usually tried, in order to obtain the control package. Thus, an attempt of "hostile takeover" shows up.

The public offer of exchange represents the operation by means of which the "raider" company wants to buy the target company, offering to its shareholders the payment on the basis of owned shares (an exchange of shares, not cash). The shares of the target company are then retired and replaced by the shares of the raider company, on a certain part.

The capital concentration and the increase in size of a transnational company are realized in well-known directions, depending on the specificity of the manufacturing process.

The horizontal international concentration is done by increasing the number of subsidiaries abroad, in the same field as the main company, each of the subsidiaries being more or less a reduced main company; they manufacture the same product.

The vertical international concentration represents the increase in size of the company by buying or building factories in another country, factories situated "downstream" or "upstream", according to the specific activity of the main company. The subsidiaries are specialized on a certain segment of the manufacturing process, in order to reduce costs.

Both forms of concentration are characterized by the diversification of the activity, which, on its turn, determines, an increase by sole ingenuity (Nestle has strongly diversified the production, from concentrates to frozen products, and Microsoft is a model of development by innovation).

The growth by international conglomeration represents "the union" of some companies, which have no common technological line, the motivation being strictly financial. By conglomeration policy, even in-development companies and bigger companies than the main company can be takeover.

Conglomerates, by their structure, assure a higher stability of the profit rate on the whole (the losses in a field are compensated by the results of some companies from a different field). Moreover, the conglomerates allow and avoid the effects of the antitrust laws, thought to limit the production monopolization in the case of horizontal or vertical concentrations.

Conclusions

Transnational companies represent the most important determination and promotion force of world interdependences, manifesting in all economic fields, thus, deleting the borders between them.

Global companies are one of the most representative factors of the contemporary economic progress. They are the vectors that spread advanced technologies and wealth, contributing to the rise of living standards and the improvement of business field.

As no coherent alternative exists at the moment, the transnational companies keep on their implacable existence. Less and less led by a flag and a state, they weave the global webs of production, commerce and finances, having no opposition at all. They expand, invest and grow, thus concentrating more and more wealth in a limited number of hands. They form alliances in order to influence local, national and international institutions and laws. Together with their domestic governments from Europe, North America and Japan, as well as with the international institutions, such as World Trade Organization, World Bank, Monetary International Fund and United Nations Organization, they shape an international system where they trade and operate more freely – a world where they are less and less responsible for cultures, national communities and states where they function. The foundation of this type of reality does not represent the historic unavoidableness of a progressive, enlightened civilization, but rather the unavoidable reality of the invading aim of the corporations: maximizing profits. (*David Korten – „When Corporations Rule the World”- 2004*).

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Globalizarea și expansiunea societăților transnaționale

Rezumat

Comaniile transnaționale, prin caracteristicile lor esențiale (natura economică, structura de organizare, marketing și management, investiții directe externe) au drept cuvânt de ordine - expansiunea. Ele tind să se dezvolte și au capacitatea să transgreseze atât granițele naționale, cât și pe cele ale organizațiilor interstaționale, fiecare dintre ele tinzând să devină firme globale.