MULTINATIONAL COMPANIES UNDER THE GLOBALIZATION CONTEXT

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Abstract

The main reasons that compel companies to internationalize their assets refer to obtaining both the highest possible profits against the lowest costs, and also an increased profitability. This being the context, the transnational companies shall become the globalization process main motor, since they operate within a global – type economy that relates to: global production, global capital, global market, respectively. The later ones can be achieved by means of capitalizing those opportunities that other countries provide with cheaper material and human resources, by way of penetrating on markets that are advantageous from the export point of view. Given such a context, the principle criteria, that the multinational companies take into consideration while they are being under the development process of their domain of activity at the global level, by setting up new branches in other geographical areas, refer to the interference of factors such as the free circulation of labour and commodities.

Keywords: multinational companies, globalization, world – wide community, international exchanges

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1. Globalization significance from the multinational companies' perspective

"Despite these uncertain economic times, globalization continues … Forecasting the future is risky, but it is clear that volatility is increasing, as government debt downgrades, the shifting political environment and stock market fluctuations all illustrate. How can companies succeed in this highly connected and volatile world? In any volatile situation, size and strength aren't advantages - speed and agility are. So companies must develop highly nimble operating models that enable them to respond to new opportunities and new threats. Doing so quickly will require the right balance of local and global decision-making. At the same time, new competitors are emerging. Companies from rapid-growth markets are investing in innovation and expanding worldwide … What is certain is that in 2012 and beyond, old models must make way for new solutions."

James S. Turley, Chairman and CEO, Ernst & Young,
The 2011 Globalization Survey

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The contemporary international economic policy is characterized by unprecedented aspects such as: *multinational products, financial flows between countries, international exchanges*. This economic policy is counteracted by political conflicts between individuals, groups, social classes and countries. The contradiction between the developing economic integration and the welfare that it gives birth to, on the one side, and the wish to have political control and national autonomy, on the other hand, characterizes, with priority, the contemporary period.

Since they operate in an economic system inside which the interdependence relationships have amplified, the so called **global market** being thus outlined, the researchers have been facing new requests as concerns the explanation method of the world – wide economic mechanism new characteristics, mechanism that is marked by the high level internationalization process of the relationships between companies, fact that is modifying the entire architecture of the world - wide economy. This way, the concept that contributes to the understanding of the nature and consequences of all such changes was particularly the *economic globalization* concept.

The **economic globalization** concept has appeared as triggered by the need of the economic theory to use new notions that would be capable to accurately explain the major transformations that have lately occurred to the world – wide economy, and particularly during the past two decades (*inflation rhythm, economic integration process evolution, technological modifications, competition intensification, impact on the environment*, *etc.)*.

At the world – wide level, the globalization process registers different evolutions while there also exist open-eye visible contrasts between geographical zones right inside the same state (considerable differences have been registered as concerns the way in which the globalization issue between the West and the East of **Germany** has been approached, as well as between the South and the North of **Korea**, etc).

The globalization term significance can be analyzed and understood from different points of view. The globalization phenomenon can be characterized if reported to three essential features: *its universal nature, the economic and social implications that it generates, and the manifestation intensity.*

In the specialists' opinion, the globalization phenomenon shall be looked at under the form of the competitive advantage that is likely to be obtained by a company further to this one's decision to extend its activities to the global level, since **the competition advantage** can be obtained by a company under the conditions in which the activities this one develops are consistent with the efficiency criteria, and if the costs with labour are low. This way, globalization shall be perceived as a continuous process to be characterized by **particularities** such as: *foreign investment development, export activity amplification, and strategic alliance development at the international level, in view of extending and orienting the companies' activities to new markets.*

Despite the above, the globalization phenomenon should not lead either to the elimination of each company's local specifics and of the area differences, or to the developed countries' policy to enforce their own success models, but, on the contrary, this phenomenon should trigger the integration of the differences into a common model to be applied at the world – wide level, model whose main goal would consist in obtaining success.

As far as the multinational companies are concerned, globalization shall be perceived as *one of the most important factors that have an impact on such companies' activity.* The firms start from the premise that they have to quickly adapt to the clients' new requests, as such requests imply to implement a flexible organization, to set global logistics, and to extend the collaboration with other companies with the purpose to capitalize the opportunities that already exist at the world – wide market level.

Henceforth, reorganization, re-technologization and specialization – they all decisively contribute to maintaining and developing the company's activity in the new competition environment.

Changes have marked particularly the multinational companies' management that shall consequently take the necessary steps if the intention is to assure the company's competitiveness in the European and international economic context that is characterized by: *re-structuring and re-organization; development of that company culture that would be in favour of performing change and of turning efficient the company's activities by way of modifying its mentality towards change; assurance of the employees' satisfaction for the provided work, and increase of the company's good name by improving its quality and increasing the level of its procurement process.*

All the same, globalization implies an extension of the company's businesses to other markets where the request level is higher than the offer level. To this purpose, the firms shall be compelled to adapt their manufacturing conditions to the ones that already exist at the local level, to enlarge the range of products and services, and to adapt to the local organizations' managerial culture. The development of activities abroad provides the companies with new perspectives to capitalize their own resources, and, this way, *the place occupied by the internationalization process* within any organization's general strategy acquires new valences.

A definition provided by Mr. **John H. Dunning[1],** a British Professor**,** (Academy of International Business), who dealt with the globalization phenomenon and with the multinational corporation – related issue, stipulates that "globalization refers to the multiplication of bonds and interconnections between those states and the companies *that are, as of the present moment, part of the world – wide system*". This definition presents the process by means of which the events, decisions and activities that are being developed in a part of the world have significant consequences for individuals and communities that are separated by vast distances between each other.

This is the way in which there are outlined two distinct characteristics of the phenomenon: *domain of activity* (area) and *intensity* (or profoundness). On the one hand this defines a set of processes that cover almost the entire earth, or that operate all over the world, fact that confers this concept a spatial connotation. On the other hand, this implies the intensification of the interaction, interconnection or

[1] Dunning, J. H., *The Advent of Alliance Capitalism,* United Nations University Press, New York, 1997; p. 12.

interdependence levels between those states and companies that make up the world – wide community. Therefore, besides the extension of the connections, there also takes place a widening and deepening of the global processes.

At the same time, Mr. John H. Dunning outlines two globalization forms: *a superficial one and a profound one*, The former one has in view the involvement of a country, as an independent economic entity, in commercial exchanges, with only one product, with another country that is also looked at as an independent entity. The latter globalization form has in view the transactions that a state carries out with a large number of states from all over the world

A global firm has or controls a large number of branches that are located in different places of the earth, and it is engaged in alliances and business relationships across almost all the continents. Such a firm procures the production factors it needs (raw material, capital, labour and other intermediary products) from wherever it is more advantageous, and, at the same time, such a firm trades its products and services on whatever more important world – wide market. Similarly, a country that is open to globalization forces has commercial, financial and investment relations that are highly diversified from the geographical point of view, and the added value that is associated to such relations represents a significant part of the gross internal product[2].

As concerns the size and the operation of the companies from abroad, there has been outlined[3], by means of the *O.L.I. paradigm*, a series of representative factors:

● the *O Factor (Ownership Advantage),* also referred to as "the competition capacity that is specific to the organization" - it refers to the new products that have been launched on the market, to the company's research – development capability, to the know – how that is specific to the firm;

● the *L Factor (Location Advantage)* – it represents the advantages that are specific to the company from the regional point of view, and it quantifies, in a global expression, the wage level from a certain zone that is of interest for the company; the corresponding infrastructure; the political bottlenecks that the new investors are facing; the technological dynamics; the tax system that is characteristic for the respective zone;

● the *I Factor (International Advantage)* – it mainly underlines the analysis of the transactional costs that are consistent with the firm's own activities or it underlines the analysis of the results of the cooperation with third party companies.

There is no accurate delimitation between these factors, but, however, there is a reciprocal dependency relationship as follows: the factors that are specific to the firm (represented by the O factor) influence the location factor (L) as the investor promotes the competition advantages he has available abroad, as well. Any local disadvantages (L) that might occur can be compensated by lowering the transactional costs.

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[2] Pandelică A., *Companii multinaţionale: strategii de marketing,* Editura Economică, Bucureşti, 2006, pg. 67

[3] Dunning, J. H., *The Advent of Alliance Capitalism,* United Nations University Press, New York, 1997.

2. Globalization and the new increase strategies

Based on the study that the consultancy company called Ernst & Young finalized at the beginning of 2012, study by means of which the above named company announced the countries' classification as reported to the globalization index for 2011, **Romania** maintains its middle classification position as concerns the countries with the highest degree of openness to globalization (*position 32, index 4.05*), after its neighbours: **Hungary** (*position 10, index 5.19*) and **Bulgaria** (*position 26, index 4.25*); but, however, in front of countries such as: **China** (*position 39, index 3.56*) or **Japan** (*position 40, index 3.47*), in compliance with the globalization index calculated by Ernst & Young for 2011[4].

The globalization index that was set for this report measures the performance of the biggest 60 economies at the international level, while taking into account 20 indices (openness to trading activities, capital movements, exchange of ideas and technologies, labour flexibility and cultural integration) that contribute to assessing the key aspects of the cross-border integration of the economic activities.

The first positions are taken by **Hong Kong** *(position 1, index 7.42)*, **Ireland** *(position 2, index 7.24)* and **Singapore** *(position 3, index 6.88)*, while **Venezuela** *(position 58, index 2.80)*, **Algeria** *(position 59, index 2.63)* and **Iran** *(position 60, index 2.13)* occupy the last three positions.

The consultancy company points to the fact that, although the globalization process, re-launched, has registered an upwards tendency after the last two years' decreasing phenomenon, the economic and social tensions are presently threatening the states' and governments' capacity to resist protectionist pressures. Nevertheless, the emergent markets are the ones that are in need, at the highest level, of continuing the globalization process in order to attract foreign investments.

Ernst & Young[5] has identified four major challenges that companies are facing as concerns the globalization process, and one of these is represented by the difficulties associated with the development on emergent markets.

- *A new approach that relates to the launching on emergent markets* – previously to the present moment, companies used to finance investments on emergent markets out of the significant profits that they have obtained on the developed markets; due to the fact that their increase tendency has registered a slowing down process, and, also, due to the need to maintain the competition level inside the developed countries by means of dedicated investments, the capital orientation towards the quick increase tendency markets is no longer possible to the same extent. There is more to it namely the costs increase and the competition intensification, both on the side of the multinational companies, and also on the side of the local companies on the emergent markets need a new approach for those who plan to launch themselves on these markets. Such constraints provide, however, the managers with the chance to

[4] http://www.gandul.info/news/ernst-young-romania-se-mentine-la-mijlocul-clasamentului-intre-tarile-cele-mai-deschise-catre-globalizare-9169238/ 14.01.2012

[5] *Globalization and new strategies for growth*, The 2011 Globalization Survey, Ernst & Young

develop innovative business models and solutions that would allow them to obtain a gain in a shorter period of time than in the case in which they would follow the standard corporatist model applied on developed markets – see the quoted source.

- *Globalization vs segmentation* – the same approach is no longer consistent with all the markets, therefore the multinational companies are making efforts to set an equilibrium between the global dimension and the local one, their goal being to preserve their relevance for the consumers of each market. This approach can be translated by re-considering the entire operational model inside a mix that would efficiently use the resources and the procurement chains. The operation complexity increases in the context in which agility and dynamism turn into very important factors for them to be able to cope with the market volatility.
- *Public policies acquire more and more importance* – should we take into account the extent to which the great majority of states have suffered lately because of the global economic recession, the political leaders' concord to avoid protectionist measures turns out to be impressive and worth mentioning. Irrespective of the above mentioned facts, 90% of the interviewed executives expect that such measures become a reality if the recession goes even deeper. Surprisingly, it is only a percentage of 15% of the companies that is prepared to cope with such a situation while taking into account this type of evolution of the planned business strategies.
- *Good employees are hard to find* – the companies all over the world assert that they are facing bigger and bigger difficulties in finding candidates to be adequate to the jobs they have available. It is particularly the emergent markets that have to handle such problems, and we are referring here to those emergent markets where the recruiting of specialized human resources and of employees from the middle segment and from the management one is more difficult than on the developed markets. On the other hand, in spite of the fact that they grant more importance to investments on quick development markets, the multinational companies are not in a hurry to temporarily transfer their most skilled employees to such locations since there still is the perception that it is not necessary to make investments in human resources that are similar to those from the mature markets.

2.1 Globalization impact

An unexpected consequence of the globalization process was represented by the local companies who outran the big concerns. This way, big Western brands, such as Coca-Cola, Nescafé, Nivea or Persil, are facing real competition. Firms from **Brazil, India, China or Russia** adjudicate more and more of the market share of the international firms, since their purpose consists in extending to the Western markets.

Globalization has known a single direction for a long period of time. It seemed that nothing could stop the triumphant march of the Western consumption commodities to the countries with an economy under the development process. On the other hand, as far as their economic progress is concerned, Brazil, Russia, India and China, the countries from the so-called BRIC group, respectively, wanted to obtain reference trade marks on the segment that is dominated by brands such as: *Coca-Cola*, *Nescafé, Gillette, Danone or Nivea.* A report that was drawn by the consultancy company called *OC & C Strategy Consultants* points to the fact that 50 big world – wide market leaders have lost their position and surrendered it to national organizations that have a more accelerated development rhythm than the their Western models (local companies quickly minimize the quality discrepancy and submit competition prices).

More than that, they came out on the world – wide market, and they offer not only their own products, but they also purchase perspective assets. For example, Inbev, the Brazilian beer producer who is present in Europe with trade marks such as Beck's and Hassroeder, has managed to access to important positions on the old continent's market. As concerns the top of the greatest 50 consumption commodity producers of the world, Inbev occupies the sixth level[6].

In **China,** the Wahaha and Tingyi drinks producers cause huge problems to the giant Coca-Cola; according to the latest statistics, the Chinese consume more local drinks / spirits than the ones offered by the Westerns. This is a tendency that causes problems to German companies, as well. This is the way in which the Beiersdorf Group has already lost in China a large part of its capital value since their products do no longer sell.

The Henkel Concern has withdrawn, from the market, less known brands that have failed to create an impression on the consumers, and concentrated their forces on traditional brands such as Persil and Schwarzkopf, to be able to cope with the aggressive resistance deployed by the Chinese market.

Under the circumstances, acquisitions turn out to represent a vital strategy; this way, the company called Wahaha has separated from its partner Danone, with whom a joint venture had previously been entered into. And, to be able to take over Wimm-Bill-Dann, the American Concern Pepsico has paid, in 2010, the amount of 3.8 billion $.

Based on supplementary acquisitions, the Western leaders are attempting to find a way out of the situation in which, in emergent countries, such acquisitions do not register an increase to be similarly quick as their local competitors'. By bought out Wimm-Bill-Dann, Pepsico has valuated the Russian company at a price that is 19.8 times higher than its total revenue, debts included. It is almost double if compared to the average per domain.

In 2011, the company called Nestlé made a double acquisition on the Chinese market: they bought 60% of the shares of a foodstuffs company and of a company that produces sweets.

The acquisition strategy becomes a more and more important component part for the Western concerns, that either look for *distribution networks for their trade marks*

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[6] /http://www.fin.ro/articol_64895/efectul-neasteptat-al-globalizarii-marile-concerne-au-fost-depasite-de-companii-locale.html/17aug.2011

(option that is used, for example, by Danone in Russia or by Nescafé, whose coffee differs, from the taste point of view, depending on the region), or *purchase local brands* because they no longer have the means to create a new brand, Wahby says.

In other cases, the brands that have been launched to different places all over the world have been adapted to the respective area tastes (Nestlé sells the Maggi cubes to India even separately piece by piece, and Procter&Gamble offers products that are out of fashion in Europe, at very low prices in other countries).

Globalization impact at the social level – it refers to the fact that the state grants more attention to the flow control than to the territorial control since it brings along the movement of activities that are essential for the operation of the states from the territory when related to the global super-territory. This directly influences the states' tax capability to collect, by means of taxes, those funds that are necessary for the disadvantaged population protection, for social insurance, for health, education and any other public interest forms. Generally speaking, the social domain is the one that suffers the most due to globalization. It is not part of the equation that refers to the super-territorial state movements. **From the individual point of view**, the individual's or the group's identity is threatened by the globalization fluidity and rhythm. Nevertheless, there also is the new horizon of an identity to be fed by the reflexivity that the globalization chances provide. This way, knowledge is at an advantage due to the information flow, due to its continuous production and circulation, as well as due to the contemporary civilization's eagerness and thirst for information.

3. Forecastings related to the world–wide trade evolution – a premise of globalization

In spite of a 20% decline that was registered during the financial crisis, the world – wide trade shall register a 6.1% increase each year during the period ranging between 2011 and 2030[7] and a 4.4% average rate for the period ranging between 2030-2050. In real terms, commerce shall register an increase, namely from 37 billion Dollars to 287 billion Dollars, in 2050, according to Citigroup's latest report that is quoted by Business Insider.

The report, entitled *"The new emergent corridors of the commercial power",* stipulates that, at the world-wide level, trade shall suffer transformation in accordance with the emergent market development. The Citigroup's analysts estimate that the Chinese state shall become the earth leader before the year of 2015 has come, and that, consequently, the United States of America shall thus lose their leading position.

Based on their currency reserves that exceed 3.6 billion Dollars, and represent 9.5% of the international commerce operations, China shall deprive the United States of America of their world-wide throne in 2015. In 2030, owing 21.3 billion Dollars, the Chinese state shall stand for 17.4% of the globe's trade, and, in 2050, the estimations go to 52.2 billion Dollars and a percentage of 18.2%.

[7] Source: http://www.business24.ro/articole/comert+mondial/24 oct. 2011

Chr. No.	*Country*	*Commerce value in 2050 -billion dollars-*	*Percentage from the world-wide commerce in 2050*
1.	**China**	52.2	18.2%
2.	**India**	25.7	9%
3.	**USA**	19.1	6.6%
4.	**Germany**	9.9	3.5%
5.	**South Korea**	9.7	3.4%
6.	**Indonesia**	8.8	3.1%
7.	**Hong Kong**	8.5	2.3%
8.	**Japan**	7.6	2.7%
9.	**Singapore**	7.6	2.7%
10.	**Great Britain**	6.02	2.1%

Source:http://www.fin.ro/articol_68211/which are the countries that shall dominate the world-wide trade in 2050.html/aug. 2011

As a conclusion, the main reasons that persuade the companies to extend their activities to the global level refer to:

- creation of an environment that would favor the company's development by increasing the volume of sales, of the profit and of the market share (the penetration of these ones on certain external markets);
- capitalization of the competition advantage the companies have available;
- competition removal / elimination by penetration on the competitors' market.

This way, it can be openly asserted that *globalization* makes it possible to obtain advantages based on the capitalization of the synergetic consequences and of economy in particular by way of: focusing of the multinational companies' managers on the most important activities; moving, outside the companies, those activities that are less important from the point of view of the company's competitive advantage, which triggers the obtaining of an optimization environment of the company's activities under the economic efficiency conditions.

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