

THE OPORUNITY OF GROUP ENTITIES FROM THE PERSPECTIVE OF MULTINATIONAL CORPORATIONS

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Abstract: Organizing traditional group entities is desirable firstly because, from a structural, managerial and operational perspective, a conformation to the global competitive structure of the environment is imposed, which means embracing some competitive decisional systems in what concerns the conscription of the possible fluctuations produced on international markets.

Key words: entities group, multinational corporation, holding, opportunity, evolution.

In the current situation where the competitive Romanian space underlie on the construction of a permissive regime of investments for the multinational operators, from the point of view of the “**HOLDING Societies**” and of the “**Groups of companies**” there are some structural coordinates which are flexible enough and totally connected to the requisitions of the regional and global integration process of Romania, and which can be classified as following:

- ✚ the possibility of sustaining an operational structure such as a **holding** or **group of companies**;

- ✚ the development of external commercial relations with a level of transnationalization competitive enough compared with other regions of investments from Central and Eastern Europe. This feature is considered through the assertive regime put in practice according to the European Union’s stipulations as referential elements when structuring the legislative frame specific to an absolute functionality of an internal and external competitive mechanism

- ✚ liberation of the systems and of the lending policies on regional and especially on European level by assimilating the functional mechanisms specific to multinational consortia with conglomerate character.

In what concerns the investments structures regarding operational centers which are administered globally (Lasserre, Ph., 1992) – the group entities – we can identify in the contemporary period a diversified amplexity displayed as “**Holding**” companies.

We consider that, as a whole, this management form is applicable to the competitive and institutional environment from Romania, despite the inexistence of a legislative system which should regularize these forms of manifestation of the investments operations.

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Singularizing this statement, the organization of a multinational corporation, as expression of the set of interceded changes in the economical policies orientation promoted globally, implies diversified manifestations (Bari I., 1997). An indicatory example in this way is DANONE Corporation, which has developed its activity in more than 70 states, through almost 400 affiliated entities, does nothing but to confirm the above mentioned aspects.

Organizational evolution perspectives regarding group entities (multinational entities) are perceived nowadays as a direct effect of the global economy globalization process, assuming a distinct form resulted from the multiple changes intervened in the profile of the international flow of foreign capital, technology, human resources etc., displayed on interstate economical relations.

Analyzing the impact of the investments that multinational corporations¹⁰ promote in different areas, regions or states, we can conclude that the assumption according to which the effect of global commerce's development on national economies gives to these kind of organizations a special perspective, objectified in the following formal approach (Harrison Bennett, 1993): the multinational corporation is a form of economical and social organization of the companies with an industrial, commercial, banking or diversified profile, that comprises specific features such as:

- 51% of the global income comes from abroad;
- is comprised of many societies or/and branch offices, each of them having their own individuality or/and economical profile;
- controls the entire group of societies or/and branch offices, making possible the detachment of an economical and financial decision unit to the global level;
- makes fusions or/and affiliations through international placements of capital;
- acts upon the motivation to keep harmony between social interests, specific to the employees and to the medium they get in contact with, and corporation's interests, as an individual entity.

The diversity of the operations on global level and the totality of the multinational corporations allow the highlight of some trends (Business Week; The Virtual Corporation, 8th. February 2006) with general traits regarding the functional approach of these affiliated entities: considering companies which generally run external operations, no matter of the volume and weight of these activities as "multinational corporations"; rating as multinationals only the entities with a certain level of trans-national activities (a specific representation of the external branches, a quantified set of the external markets on which the company operates, the total value of the turnover, of the benefits or production realized on these markets etc.); narrowing down the domain of multinational corporations by appreciating only the companies affix to their antecedent features a managerial structure strongly integrated either in the leader company level, either in the external branches level, which also assimilates strategic valences of global orientation (Coșea Mircea, Dambischi, Arthur, 2002).

Most of the multinational corporations, regarding the decisional mechanisms adopted on global level, display a series of criteria of operational base of the set of committed and developed investments, such as:

- ✚ branches criteria;

- ✚ organizational criteria;
- ✚ decisional criteria.

While the decisional systems are mostly flexible and almost impossible to identify, especially as consequence of the managerial approach, the model of the branches and the organizational model require a strict assignation due to the assimilation of the functional peculiarities between the corporative entity and the implantation economies.

Thus, the branches which are characteristic to the group entities can be displayed in one of following forms:

- ❖ specialized branches, whose activity is oriented on production of compounds necessary in order to create a final product which has a low or inexistent local demand;
- ❖ diversified branches which produce and sell on local markets goods that belong to the range of products that exists in the origin country of the leader entity;
- ❖ distribution branches, whose activity consists only in commercializing locally the products that are created by the corporation in another state or geographical area.

The diversity of the models that multinational corporations have does nothing but to confirm the evolution thesis of the economical and social progress registered nowadays both on global level and on each national state. Thereby, the existence of foreign capital investments in different host states confirms the systemic organizational model of a multinational corporation, which is displayed as an economical and social entity.

Therefore we can say that the macro-economical balance is based on the structural and functional balance of each organization of this type, while the well being of the structural, managerial and operational activity is fully connected with the stability of the entire global economical system (Stoner, James A.F., Freeman, Edward R., Management, 1992).

This perspective, approached by the multinational corporation and identified in the model of the sub-factors market emergence, confers the organizational corporative entity the institutional environment meant to allow its structure a permanent conformation to the interfered changes at the level of frequent factors in the structure that are affiliated to the multinational corporation.

The main element in group entity organizational analysis is the connection between some divergent but interdependent models, out of which we can state:

- ✚ the model of a global decision center;
- ✚ the model of a production and division unit;
- ✚ the model of a social cell.

These aspects confer the organizational entity of group an orientation which is generated by the emergent mechanism of the global economical system.

In this way we consider that the entire operations run by the multinational corporation create in the end an added value for the entire systemic structure.

From organizational point of view its operations are finalized in an investment cycle, which has as objective the redistribution of the benefits that were cumulated from different areas, regions or implantation economies to the main structural elements: employees (as salaries, participants in profit etc.); to the national states in which the corporation develops its activities (as mandatory detachments); to the capital beholders (as interests given to the beholders of internal placements, creditors of any kind); to the shareholders (as due dividends); to the corporation itself with the purpose of self

financing for development and making international investments.

The global approach regarding multinational corporations confirms their interest in making an optimum combination and an enhanced efficiency in using the production factors in order to increase the global productivity, especially by using reduced prices on sales, faster reimbursement of assimilated credits in their different financial stages, increased due dividends for the stakeholders and enlarging the possibilities of self-financing the new investments program and also of the expanding organizational structure.

The perception of the group entities in the domain of the current global cycle of goods and services vindicates the opportunity to approach this type of organizations as a decisional systemic complex, taking into consideration the structural model of the development mechanism of investments programs.

The model of decisional systems, pertaining to management levels of the multinational corporations, implies an estimative approach of the decisional entropy as a result of the analyzed organization's system (Oprea D., 1999).

But, from an evaluative point of view, the determination of decisional entropy is founded on Shannon's analysis criteria, adapted to multinational entities, according to which the capacity of decisions' selection conditioned by the manifestation of disrupting factors is assigned by the following equation:

$$H(P_n) = - \sum_{k=1}^n P_k(r) \times \log_2 P_k(r)$$

where: P_n = finite field of probabilities ($p_1, p_2, \dots, p_k, \dots, p_n$) that characterizes the appearance of some events ($y_1, y_2, \dots, y_k, \dots, y_n$), in the context of applying Poisson's Law where the parameter $X = 0,5$ over the entire incorporated subsidiary companies.

$$(k = 1, n): P_k(r) = \frac{0,5^r - e^{-0,5}}{r!} \quad (12); \text{ where: } e \sim 2,71828\dots;$$

r = the needed supplement of financial resources that appears when some unforeseen events manifest in the operational planning; $P_k > 0$; $1 < k < n$; and

$$\sum_{k=1}^n P_k(r) = 1.$$

Moreover, the decisional system's level of organization of the multinational corporation is assigned by this report:

$$(I/i) \times \sum_{i=1}^n (I/H_{\max})_i$$

where: H_{\max} = maximum decisional entropy, and (i) = the number of incorporated subsidiary companies to the corporative system.

Basically, we can state that the organization level of the corporative decisional system is directly proportional with the volume of registered information from the competitive environment and with the volume of implantation economies (I) and inversely proportional with the maximum decisional entropy.

From this point of view the entire decisions which form the decisional process at multinational corporation's management level can be structured taking into consideration the decisional categories in the following way:

- strategic decisions, when the multinational corporation analyzes the evolution in the investments domain on the global market;

- tactical decisions which have positive or negative effects on the markets where the multinational corporation is implanted;
- operational decisions which are adopted in daily administration of the set of actions on global level by the multinational corporation.

In this context we share the opinion according to which, no matter the decision adopted by the corporation, its management is continuously strained to find solutions meant to allow the organizational entity to adapt its actions and also its human, material and financial resources to permanently change the global economical and social environment.

From this point of view, the opportunity of legislative and operational support of the global organizations such as multinational corporations (as in Romania's particular case) is justified by the fact that they accomplish certain purposes of the human society. In this case, the multinational corporation, as an organizational entity with emergent trait, serves the entire society and simultaneously contributes to improve the conditions on all the levels of the economical activities.

The amplification of the process of global economy integration, in this case of regionalization and globalization, contributes to the consolidation of the mechanisms which are specific to collateral activities or run by the subsidiary companies and also by the multinational corporation as a leader entity.

Regarding the host countries we notice that it's more often the situation in which the branch that is totally held by foreign capital (the case of multinationals) contributes in a higher proportion to the increase of the level of professional development of the local human resources, to the activity of research and development or to the increase of the productivity in that domain, compared with the proportion represented by any other local company.

Thus, the American multinational corporations have increased 5 times their expenses made abroad, in activities of research and development compared with the ones made in their our country, while a more considerable proportion of the entire expenses of this kind in U.S.A. is realized by the specialized branches of foreign corporations.

The strategy of "transfer price" implies the accumulation of benefits accounted on the practice of minimum prices in the states with high rates of fiscal exaction and also on the implementation of a system with maximum prices in the economies with high taxation, the final object being the reduced rates of fiscal installments, thus eliminating a big part of the volume of scheduled barriers used in interstate commerce and also in the fiscal relations between the corporation and the implanted countries. In this way the multinational corporations totally capitalize on the advantages found in the receptive economies, having in the same time as trade-off, the balance of an accounting system competent enough to select the unattached financial resources for their future expansion.

In order to acquire the minimization of the fiscal and custom exaction, the mechanism of transfer prices implies also the approval of the bank expenses made in order to guarantee the "trade mark" and to keep the financial performance standards required by the managerial centers from fluctuant investments environments.

All these elements deeply mark the assessment of the multinational corporation's objectives (strategy), the acquirement of the necessary resources, the adoption and application of the decisions related to the consumers, the implanted markets and not the least, the entire global market.

Therefore, the necessity of creating an efficient operational environment for the group entity is justified by the fact that it reflects a series of accepted needs and values from a cultural point of view, hence they accomplish certain missions which are peculiar for the human society.

Having in mind the same general idea, but from the group entities' perspective, we can notice that at the beginning of XXI century, their expansion on global level is made through complex strategies which facilitate multiple forms of transnationalization of the activities, such as international sub-production or sub-contracting and also other forms of inter-companies reports.

A series of investments strategies meant to favor the beginning and the end of the cooperation with some companies in order to penetrate the industries which imply high implanting costs as a result of the economies of scale (Kindleberger, C., 2005), are promoted by the corporations which are trained in authentic strategic alliances.

The interdependent reactions between the companies, which are created in order to keep them in the competitive race, from a market where the interest to reach the global level has a privileged position among the corporative system's operational objectives, reflect the progressive trend of strategic alliances and affiliated investments strategies.

The group entities has to produce for a permanently dynamic market, where the accession of the production costs and the harmonization of the consumption peculiarities at global level have proved to be more and more stringent in this context. According to this aspect the expansion of the operators with foreign investments has implied the fructification of the competitive advantages that they have, which has induced changes in the global economy, as a consequence of structural integration strategies (table 1) meant to consolidate the competitive position.

Table no. 1 Strategies of structural integration in the multinational corporations' system (Dumitrescu S., 1998)

Strategy	Connections between the corporation and subsidiary entities	Model of the external subsidiary entities	Level of integration	Local or general economical environment
Unidirectional integration	The propriety, the technology and the financial resources are approached in an unidirectional way	A small imitation of the "emitter society"	Low	(1) The host country is accessible for direct foreign investments. (2) The commercial barriers, the transportation and communication costs are low.
Bidirectional integration	The propriety, the technology and the financial resources are approached in a bidirectional way	The production is "rationalized" to the level of one or few elements in the value chains	Strong on the same point on the value chain, weak on others.	(1) The commerce is open and the direct investments regime is bilateral . (2) Union association is restricted.
Consolidated integration	All the functions are mainly multidirectional	(1) The products or processes are specialized. (2) The systemic specialization is of a functional sort.	Strong potential of the value chain	(1) Liberalized commerce. (2) Tolerant regime in technology domain. (3) Consumers' preferences are convergent. (4) Reduced costs of transportation and communication

From this point of view, we consider that in case the developing states reach the stage of industrialized country, they will become participants to the globalization process, having competitive and technological concerns for the current big regional commercial spaces: USA, Japan and European Union. This interpretation can be sustained by the example of networks of international strategic alliances which have developed especially in high intensive technological industries and have overlapped the regional active agreements between the states which hosted those corporations.

This aroused also the reorientation of direct foreign investments flows towards the states and regions which promote politics and economical practices which are set basically on decreasing the fiscal pressure, on simplification of the general economical climate, on budgetary, financial and banking advantages.

The intensification of the interstate connections during the enhanced competition is the basic criteria of a society where the globalization will make more and more difficult the identification of strategic "challenges", which will impact different structural levels of the interstate economical relations.

If making an analysis of the arguments launched by Raymond Vernon, we can see that products' life cycles are given a primary role regarding its impact upon the level of economical integration asserted by world economy. Moreover, the international specialization of the groups is funded on the transfer of technology made against traditional production factors. Accordingly, world economy hierarchy is determined by the multinational group's flowchart.

From the national economical systems' point of view, the multinational corporations become the main agent in ensuring a full correlation with the globalization process of contemporary economy.

This perspective confirms the thesis of international comparative advantages launched by John H. Dunning, according to which the prevalent position of the investments flows is promoted by the multinational corporations.

Therefore, the developing states resorted to multiple regional and interregional cooperation having as main objective the consolidation of productive and investments potential in order to connect their own economies to the new global system.

Analyzing from this perspective we consider that an economy which has a big number of developing states that become industrialized, generates concerns of a competitive and technological nature for the current big commercial areas: USA, Japan and European Union. The flow of direct capital investments towards developing states is, together with the cooperation form between the companies (group entities), the main factor which stands at the base of defining the world economical system.

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