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Transnational corporations in the global world economic environment

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Abstract

Transnational corporations are one of the most important subjects of international economics. They are directly affecting new trends in international business, global competitiveness on international markets as well as economies of states, nations. This paper will analyze how the internationalization is implemented into competitiveness enhancement of transnational corporations, how important role transnational corporations play within the current global economic turbulent processes to assure sustainable economic growth in the world economy and enhance the competitiveness within the world economy environment. By means of analysis, comparative analysis methods followed by logical deduction the main aim of this paper is to figure out how and in what way the transnational corporations implementation processes within the business environment can affect the international economics system in terms of social and economic development. The issue is also to find out the proper involvement of TNCs in international and national environment along with the possible risks and benefits for particular economies and other stakeholders. The goal of all those efforts is supposed to lead to sustainable social and economic development and better quality of life in the global world economy environment.

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Keywords: foreign direct investment; competitiveness enhancement; globalization processes; social and economic development; international economics

1. Introduction and Theoretical Background

The issue of globalization appears to be as one of the most debated topics today. It is being discussed from many

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aspects. Ivanička (2006) distinguishes globalization from economic, political and social point of view, its instruments, manifestations and consequences. Some of the leading proponents of globalization identified by Kenichi Ohmae are the three trends in global political economy. The first one is increasing influence of transnational corporations, the second one is decreasing influence of nation state and the third one is the creation of regions as a new space for economic activities (Hamilton, & Webster, 2009). During the 20th century, the nature of these relations has changed significantly. At present times they are entered by politically single state units (or economic entities operating within these countries). Their level of economic development, however, remains significantly different. This is evident when comparing the industrialized countries on one side and developing countries on the other side, but also when comparing individual economic subjects belonging to one or the other group of countries. Fabuš (2011b) argues that development of globalization processes in recent decades (or, in the last decade) has been considerably enhanced by ongoing revolution in information and communication technologies. Also, the rapid globalization shift has been caused by the intensification of efforts to promote free trade throughout the world, political changes in many countries accompanied by efforts to expand free enterprise, or the need to join efforts to protect environment, etc (Miklosik, Hvizdova, & Zak, 2013).

In the 90's the shaping of global economic contacts is becoming even greater than in previous decades. One of the major trends with global impact, pursuing the turn of the 20th and 21st centuries is known as a boom (increase of production and circulation) of global economy - the economic forces in the world are crossing borders (Tauser, 2007). The result is more democracy, more freedom, more trade, more opportunities and greater prosperity. The world is moving from the trade exchange among countries to a single world economy. One economy, one market - it is a natural next step in the economic history of civilization (Appleyard, Field, & Cobb, 2006) The process of re-allocation of economic responsibilities between various national economies, taking place now, is contributing to deepening of their economic dependence. The global economy, on this basis, envisages completely free trade, ergo creating the same conditions as operating in business area and successfully working within national economies (Jeníček, & Foltín, 2010). The convergence in this area probably most clearly is demonstrated by integration processes in European Union.

One of the most striking manifestations of globalization is a phenomenon of international business, where an important role is played by subjects of international economics supporting and deepening the internationalization processes in global environment – the transnational or multinational corporations (TNCs). Transnational corporations as a result of scientific and technological revolution development are one of the most important and most dominant phenomenon of modern global economy (Šaková, 2004). The father of the TNC theory is considered the English neoclassical Coast, whose ideas were developed by S. Hymer. According to Brakman (2006) it is necessary to emphasize two key aspects of multinational corporations: the first one emphasizes the TNC as a modern industrial company which has a dominant role in economy and presents a major administrative network, the place where decisions are made. At the international level, the issue of multinational companies is the same as the issue of large national firms in a particular country. The second aspect deals with the fact that even if these companies are developing the international activities, by their very nature they are a national company.

The Conference of United Nations Organization on Trade and Development (UNCTAD) provides in its World Investment Report the following definition: "Transnational corporations are legal entities or entities without legal personality consisting of parent companies and their foreign affiliates. The parent company is defined as an enterprise that controls assets of other entities in countries other than the mother country, usually by owning a capital stake. Foreign affiliate is a legal entity or entity without legal personality in which an investor as a resident in other economy holds a share that allows a long-term interest in managing of this company" (UNCTAD, 2016).

Rugman (2006) argues that transnational or multinational companies are businesses that produce and sell their products in more than one country and create added value. Usually they consist of a parent company located in the country of origin of the company (in home country) and at least five branches located in so-called host country, e.g. of foreign affiliates. A multinational company is considered to be a company that conducts research, production, sales respectively other activities in different countries, not just where it has its headquarters (Zak, 2012). At the same time TNCs actively create relatively stable, internationally operating corporate networks with their suppliers, customers and cooperating partners. They create a considerable amount of profit for investment in research and development and thanks to the creation of corporate networks they significantly influence the choice of technology later expanding on a global scale (Zadražilová, 2007).

Šaková (2004) characterizes multinational enterprise as a company that is managed from a single country but performing operations in other countries. She points out that it is often difficult to determine whether the company is a multinational enterprise, as there is a hidden fact that the owners of a company are foreign entities. TNCs can be performed in private, public or mixed ownership and can be owned by the bodies of host, and domestic country. Mostly they act in the form of a joint-stock company within the holding structure.

It is being estimated that supranational organizations directly employ 4% of total employment in developed countries and 12% of all employees in developing countries. According to information from European Commission (2016) currently multinational corporations are controlling more than ½ of international trade. Today, the number of parent TNCs is about 60 000, with about 500 000 branches being spread all over the world. Many TNCs today had grown to huge proportions and their annual turnover exceeds the gross national product of most countries. Typical TNC has a high proportion of sales abroad to total sales - often 25% or more. The number of employees in the largest TNCs consists of several hundreds of thousands – e.g. General Motors in 2015 employed 708,000 workers, Siemens 486,000, Ford Motor 464,000 etc.

2. Goal and Methodology

The research task of this paper is focused on the analysis how the internationalization is implemented into competitiveness enhancement of transnational corporations, how important role transnational corporations play within the current global economic turbulent processes to assure sustainable economic growth in the world economy and to enhance the competitiveness within the world economy environment. The issue is also to find out the proper involvement of TNCs in international and national environment along with the possible risks and benefits for particular economies and other stakeholders.

By means of analysis, comparative analysis methods followed by logical deduction the main aim of this paper is to figure out how and in what way the transnational corporations' implementation processes within the business environment can affect the international economics system in terms of social and economic development.

To accomplish this goal, methods such as analysis, comparison, synthesis and logical deduction are to be used; facts from scientific and professional publications, periodical and non-periodical press as well as internet sides will be primarily used and examined. Subsequently the analysis will lead to synthesis and prognosis by means of abstraction method eliminating the less important factors in order to set general statements and opinions.

3. Results and Discussion

The importance and status of transnational corporations in the world economy is already given by the fact that up to three quarters of world trade takes place within their area. They are considered as a key globalization agent and resource of efficiency and growth. The most important effects of TNC acting in global environment are aspects such as transnationalization processes, FDI movement, social and economic responsibility and global risks and limits.

3.1. Internationalization versus transnationalization

Transnationality brings a qualitative big new change into the international economic space. It gave a rise to new and very important subjects of international economics - transnational corporations. It brought qualitative new effects and dependence between states along with their economies on the state level and TNCs, and among companies. It is directly linked to its bearers - TNCs. Transnational processes and relationships mean something beyond, spanning the border of "state-national". P. Drucker in 1995 in his work "The new reality" used the concept of transnational economy and by its characteristics he highlighted the key role of transnational corporations - transnational corporation is such a company that "owns (wholly or partially) controls and manages the assets generating income in more than one country, is involved in international production and is financed by foreign direct investment" (Peng, 2009). The fact is that the process of globalization is gaining discuss from the 80's of the 20th century when the hallmark of evolution is a huge increase in quantitative and qualitative changes, both technological, organization-management, as well as in the area of production and in services. Also the process of concentration in individual sectors dramatically pick up speed; the role of transnational corporations is increasing; the whole shape of research and development, production, marketing chain and service chain is being changed (Mühlbacher, Leihs, & Dahringer, 2006). New forms of specialization, institutionalization of transnational institutions, creating of planetary flows and processes in real time, including the new insights into the structure and changes of comparative advantages of countries and territories; all that changes the overall appearance of planetary economic development.

In terms of international economic relations, it is important to analyze the consequences of international corporations' acting in global economy and states' policy. It can be noted that these consequences are quite contradictory. In terms of benefits for states in which they operate there are advantages such as unemployment decreasing, the rise of economy, a bigger amount of taxes being collected, the arrival of new technologies and scientific and technological development. By using the comparative advantages and private business development the production is getting cheaper. Concentration of resources enables the realization of demanding investment projects that would not be possible. To sum up, we can say that TNCs increase the wealth of the world. Krajnakova, & Vojtovic (2011) classify among additional advantages so-called general and specific competitive advantages such as: proprietary technology, goodwill based on brand or trade name, the economies of scale, of large volume in purchase, of a large volume in funding, large volume in distribution, of a large volume in advertising, next government protection, human resources management, the ability of multinational marketing to gain multinational resources, multinational diversification and management experience.

On the contrary, in terms of disadvantages of TNCs the oligopolistic nature of international corporations can undermine market forces and allow unreasonable profits. In order to maintain its influence they often support various authoritarian regimes. TNCs strengthen the dependence of less developed countries on the richest countries. By moving production to countries with lower standard of living and wages they can hinder the growth of living standards. By transferring of assets to countries with lower social contribution of payments they minimize their tax burden. Global maneuver of multinational corporations generally weakens states' abilities to pursue autonomous economic policies, which especially in case of weaker economies is the only option - to meet the demands of foreign investors (Dunning, & Lundan, 2008). This is done by providing incentives, exemptions, investment incentives, adapting social and labor legislation and education etc.

As reported by Balaz (2013) in recent history many cases have been even known when multinational corporations were able to influence political development in certain countries for their own benefit or the benefit of their home countries. From many cases we can give an example of the United Fruit Company and its impact on the Central American so-called "banana republics", which thanks to the support of dictatorial countries of South America was responsible for many lives of workers, oppressed ones etc. The share of ATnT Company in the overthrow of the Allende government in Chile in 1970, operations of oil companies in the world etc. Some possibility for nations that are under this pressure is to build their unions and agreements against companies using the international space and thus increase their influence on decision-making.

3.2. FDIs – the way how TNCs go global and are competitive

The vast majority of transnational corporations (multinational and transnational companies) mostly execute their international business by exporting their foreign direct investments (FDIs) to different countries worldwide. Especially by investing abroad TNCs have increased their turnover in recent decades and in this way they have developed into unbeatenable and superior multinational economic giants. A significant part of what today is usually referred to as "foreign trade" means the movement of goods and capital inside within the globally organized companies. The aim of their strategy is to increase the profitability of the whole chain consisting of various parts of global corporation. Fabuš (2011a) states that this "global company" organizes its business, from research and development through production and distribution to final sales and marketing, as an internationally integrated complex. It draws materials from the cheapest sources, manufactures or completes assembly in place with the cheapest labor and its managerial and technical resources are used as economically as possible. This allows it to stand out on the markets of individual countries very flexible and efficiently. In competition with domestic firms it therefore becomes very often much more successful, which can lead to gradual weakening and disappearance of small and medium sized domestic firms.

That implies that when only one big company operates on the market it has a dominant position. This often leads to a monopoly and its abuse. Nation of which economy is dominated by foreign companies is increasingly becoming dependent on their business strategy and it is then very difficult to maintain its overall political and economic power (thus its sovereignty and independence is partly weakened and hampered) (Ahlstrom, & Bruton, 2010). Ultimately, it does not mean globalization, but just bipolarization, anyway some kind of division of world into rich and powerful countries on one hand and poor and dependent countries on the other hand. Rich countries appear to be the ones that are the home for companies understood as multinational corporations and investments are coming out to abroad (parent countries). By means of FDIs those countries pull strings in other countries, and they increasingly strengthen their economic and political power. Poor countries will again become those ones benefiting from investment from abroad and their economy is increasingly becoming dependent on other countries (host countries).

On the other hand, if on the market of particular country there are two or more equally powerful companies in particular sector, it can have a very positive effect. Haviernikova (2013) argues that an equivalent competitive struggle is being created in which each of the companies has equal conditions and opportunities and they influence each other. This condition is probably the best, since it is the most suited for a customer who has a choice. Therefore a great emphasis should be put on antitrust laws and the legislation should drive the economic situation to such conditions. Fears from major investments of foreign companies are reflected in particular in small economies. There are also often concerns to possible adverse long-term effects of FDI on the balance of payments (outflow of profits, royalties, etc.).

The policy of foreign companies may appear as incompatible with the objectives of national economic and social policy, with regard to national security. Different aspects of foreign direct investment impact and differing national targets have produced various reactions by governments to FDIs control. Regarding the outflow of capital in form of the FDIs, most governments do not put any restrictions (Reinert, 2012). However, when it comes to the flows of capital and investment from abroad, a wide range of approaches have appeared: from the unobstructed inflow (except in cases when capital inflows threaten the national security) to very severe restrictions, linked to the protectionist policy.

3.3 TNCs in terms of global responsibility

Currently, TNCs as well as other businesses in their activities in international environment are forced to take into account some factors relating to global activities such as: environment, human health, corporate social responsibility, and regulation of different interests.

Recent myth that TNCs must choose between higher profits or environmental protection, currently opposes the view of many experts after years of analyzing the large TNCs; they concluded that zero waste means zero defect. That means that companies that polluting the environment the least, they offer the best quality products and services. Snaar (2002) states that waste or pollution becomes a key indicator of unnecessary costs and inflexible management. However, many governments do not emphasis enough on prevention and solution of environmental issues. Among the so-called environmentally advanced countries can be classified for instance Scandinavian countries improving environmental legislation, constantly evolving technological innovation for the benefit of environment and reducing environmental charges for the least polluting companies.

Particularly developing countries and third world countries of which legislation is generally weak and insufficient are used by TNCs. This results in a situation where there is an endangering human health as a physical threat from the extreme loads and exploitation, chemical and bacteriological threat (disasters of a technical nature). Those countries are faced with TNCs, which seek to circumvent the health and plant health standards being set by the governments. The essential tragedy of current economic globalization is that the fate of planet is in hands of impersonal institutions that are not motivated by the concern for the welfare of earth inhabitants, but the desire for their own growth and profit (Sterbova, & Machkova, 2011). Due to the natural characteristics of TNCs it cannot be expected to be behaving responsible as most discerning consumers require. Impersonal form of ownership and organization leads to the fact that this responsibility is too sparse and slowly disappears completely.

Examples of TNCs financial scandals in recent years show that only corporate profit is not enough for the long-term successful business in an international environment of the world economy. Success today is directly dependent on how TNCs are evaluated by their surroundings. An example of cooperation between TNCs and nation-states could be relations within the EU in terms of corporate social responsibility. In this sense EU requires TNCs to abide by business ethics, reject corruption, behave well with customers, suppliers and investors, provide care for their employees and provide retraining for workers being redundant (Lipkova, 2012). The goal how to meet the social responsibility by TNCs is to ensure goodwill, tradition and success in making business, sustainable growth and, ultimately, the human resources development.

When it comes to the issue of different interests' regulation the thing is that national interests and the interests of TNCs in the past made a clear and unquestioned dividing line between demands and interests of the owners. At present the interests of politicians who run the country are increasingly linked to the interests of those who manage TNCs. For this reason, there have been adopted standards such as non-interfering into government affairs as well as rules related to investment activities. As reported by Todaro (2000) the first Code of Conduct in International Investing was adopted by the International Chamber of Commerce in 1972. Its aim was to establish guidelines and rules which would enforce TNCs to contribute more to the realization of national targets in countries where they operate. Obligations of both sides have been also delineated. On one hand there are duties of TNCs such as: to respect the host country laws, to dispute settlements between TNCs and the host country at the court chosen by the host country, non-interference in domestic political affairs, and finally, respecting national sovereignty. On the other hand there are obligations of national governments such as: fair and equal treatment of TNCs and domestic firms, compensation in case of TNCs activities nationalization, and at last to facilitate funds transfers of TNCs.

Globalization process clearly contributes to blurring of existing stereotypes races and cultures and the longstanding presumption of superiority. For a long time TNCs will take strategic location in world economic affairs. There are many things TNCs can do and nation states cannot. However, there is only one important thing that government can do and TNC cannot – to set a commitment of huge masses of people. Based on analyzed TNCs development Rupert (2000) provides the following direction:

- continued division of central office headquarters,
- further transfer of key business processes to developing countries,
- greater managers integration of different nationalities,
- increased use of R&D from other sources than own corporation labs,
- effort to restructure the company,
- continuing trend of fusing processes and creating joint-ventures and strategic alliances,
- adaptation to the new e-economy (internet economy).

3.4. TNCs and global risks in international economics environment

Dramatic increase of foreign direct investment (FDI) flows as well as the growing power of corporations, which can be seen on their market power or global strategies raise legitimate concerns that many countries will be exploited by TNCs. It is a matter of fact that in the last two decades of the 20th century there has been a vast expansion of corporate power in the world. According to Ivanova, Kordos, & Habanik, (2015) this cause is evoked by a number of factors - a spectacular boom in the US stock market (US stock market boom), that provides capital to take-over the absolute majority of shares, deregulation, new communications and technologies enabling companies to oversee more extensive operations and exploit economies of scale. Maintaining a strong regulatory framework and encouraging companies of different countries for investment and competition on local market are possible answers to potential dangers of corporate power. However, despite these and other safeguards the concept of global economy with a huge number of powerful TNCs is rather dangerous option for companies and governments of small and poor countries than rich and large ones.

The primary objective of corporations is, of course, to gain profit, and to reach it at minimal costs - they invest where there is a cheap labor and it is not necessary to meet high environmental standards. For poor countries the FDI is often the only way how to create new jobs. Peng (2009) argues that in terms of global exposure of TNCs in international environment, they can have following negative effects on world economy:

a) Market decline. Due to their size, multinationals can have a significant impact on government policy, particularly through the threat of a market decline. For example, in an effort to reduce health care and related costs, some countries tried to force pharmaceutical companies to license their patents to local competitors for a very low fee, and in this way to influence artificially lowering prices (Fojtikova, & Kovarova, 2014). When TNCs were confronted with such a requirement, multinational pharmaceutical companies simply withdrawn from the market, resulting in limited availability of advanced drugs. In these cases, governments are forced to retreat from their requirements. Similar corporate and government disputes have become when government tried to force companies to disclose their corporate ownership (intellectual property) in order to get technology for local entrepreneurs (Wild, 2006). When companies are faced with the choice to lose the essence of competitive and technological advantage they by themselves decide whether to stay or withdraw from the market of hosting country. The "withdrawal threat" often makes government change its policy. Countries that are the most successful in these types of disputes with multinational companies are usually large countries such as India and Brazil, which have the potential to grow in occurring market competition.

b) Lobbying. Multinational corporate lobbying is directed to a range of business enterprises from tariff structures to environmental regulations. There is no standardized multinational perspective on any of these contentious issues. Companies heavily investing into pollution control mechanisms can interpellate very strict environmental standards in an attempt to compel non-identical competition and thus to push it into a weaker position (Mura, & Rozsa, 2013). For each tariff category where one multinational company wants to reduce fees, there is another multinational company that wants to increase fee. Even within the U.S. automotive industry, a part of the companies that import components are inclined to tighter import restrictions, while another part of the companies prefer import restrictions to be reduced to a minimum (Tauser, Arltova, & Zambersky, 2015).

c) Government forces. As TNCs are trying to have strong influence on the government, so the government is trying to have the biggest control on TNCs. The threat of nationalization (forcing the company to sell its local assets to government or other local stakeholders of a nation) or changes in local business laws and regulations may limit the multinational force.

d) Trends. Very sharp competitive struggle is currently forcing companies to find new ways how to succeed in competition. We can see different modes of action and reaction of market participants. Market instability leads to mutual cooperation among companies in order to jointly exploit the opportunities being offered. Most international strategic alliances are being formed in North America, Asia and Europe. Among the OECD countries, leaders are notably the US, Japan, UK, Canada and Germany (Gress, Lipkova, & Harakal’ova, 2016). Manufacturing alliances are typical mainly for Asian countries, as Asia in recent years has become a global manufacturing center. Marketing and research and development alliances are presented primarily in North America, reflecting the size of regional markets and their broad technological and research base. These alliances are founded specifically for the purpose of entering the market and important motive there is also technology transfer. Europe has the best trade structures between these kinds of strategic alliances.

4. Conclusion and Future Directions

Finally we can summarize that the formation of TNCs was a reflection of the effective capital allocation need in terms of conditions of economies being internationalized. Although TNCs existed in the past, their boom has started in the era of globalization. These include a number of companies of different size but the major representatives of this category are TNCs operating in many countries. Next to the TNCs there are acting already mentioned strategic alliances, which sometimes can be created within TNCs but they often emerge in national economy among smaller firms. According to Cihelkova, & Hnat (2008) strategic alliances do not need to be associated with global strategy, but the improving qualities of alliance members can be realized within the national strategy. The situation in the US, where since 1990 has been an increasing number of domestic strategic alliances, has just confirmed this thesis. This is especially true for sectors where alliances are significantly present such as biotechnology, information technology and new high-tech materials.

Generally speaking transnational corporations are one of the driving forces of international production internationalization, international trade liberalization and ultimately world economy globalization and also due to the development of scientific and technological revolution TNCs are becoming one of the most important and most dominant phenomena respectively subjects of current international economics turbulent processes. Transnational corporations are historically a new phase in the management of global enterprises, they are the "muscles and brain" of a new global system in which their success is alternated with an enfeebled workforce and degrading role of national governments.

In this paper we have shown that globalization does not have an equal impact on all entities operating in global markets. In terms of strategic alliances assessment (i.e. cooperating companies) globalization sometimes is linked only to certain sectors or countries. In other areas, it remains only in the early stages of development. By developing their structures and strategies large corporations do not have to be affected by globalization, but tend to be shaped by domestic environment. Dicken (2007) talks about hysteresis when there is a certain "historical memory" or what is known under the term of “corporate inertia”. Companies adapt to long-term shaping domestic institutional environment, and are not directly affected by globalization factors. Corporate governance is one of the factors influencing the long-term development of companies. But globalization also brings suggestions for strategies to be changed. It does not mean automatically to create a single market, but it is a multidimensional entity expressing the same sophisticated tools of competition as those on national markets.

We have arrived to the conclusion that many of the problems attributed to globalization are related to the weakening position of national states and growing status of transnational corporations. Even though these strategies of TNCs are determined by institutional arrangement that exist in their home country or in the country where they have a key presence, then theses on weakening position of national states apparently are not sufficiently justified. We can reason that globalization is thus not the universality of values or other aspects of social life, even if it can be proved in certain segments. The fact that there is no universality even homogenization is confirmed when we begin to analyze this area in more detail. Capital market regulation models, types of corporate organization, economic ideologies within the political economy, views on the implementation of economic reforms and the TNCs strategies in different parts of the world just confirm this matter of fact. World processes are also complemented by process of regional cooperation and integration and increasing role of sub-regional units.

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