

Overview of Performances Achieved by Multinational Companies in the Globalization Era

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Abstract—The focus of this paper is to give an insight into the issue of multinational companies (MNCs) and their up-to-date role on the global economic scene. The paper relies on a qualitative approach in order to investigate the very nature, the performances and the impact of MNCs on host countries. It employs available data from international databases and reports released by well-known international organizations (namely UNCTAD and International Monetary Fund), working papers, articles or studies addressing especially the international business field, in order to highlight the spectacular dynamics behind the theoretical developments. The main findings of the paper consist of putting forward the overwhelming performances achieved by MNCs on global markets, by paying a special attention to MNCs from BRIC countries, which proved to be the engine of the world economy during the recent crisis. Many of them operate on the markets of South Eastern Europe and the evaluation of their impact on host countries also represents an issue with many practical implications.

Index Terms—Multinational company (MNC), foreign direct investments (FDI), cross-border mergers and acquisitions (M&A), emerging economies, BRIC states.

I. INTRODUCTION

The multinational company is a conglomerate organization which carries out multiple and diverse economic activities and it consists of a parent company and a large number of subsidiaries operating in various countries of the world. (Dura, 2007). In fact, the collocation "*multinational company*" is frequently used in the Anglo-Saxon literature without any distinction between the former and "*transnational corporations*" except for purely linguistic differences. However, there are opinions according to which the transnational corporation is an evolved form of the multinational company, which aims at a wider range of markets and uses differentiated strategies (Voinea, 2007).

Thus, according to Keegan (Keegan, 1989), a *multinational company* represents a stage in the evolution of a company from the level of *multi-local company* - which implements distinct business strategies in each country in which they operate - to the level of *global company* - which is based on the internationalization of production, uses a large "basin" of human, financial and material resources and it promotes a set of specific values on a global scale. This concept is by the way, perfectly compatible with the classical theory of the internationalization of the firm, a theory that determines three distinct phases which were

completed by companies doing business abroad, in the following sequence: a) *direct export of the products obtained* abroad on a national market; b) *cooperation with local distributors* that established relations with the parent company; c) *the transformation of the partnership into an ownership between the parent company and its agent* on that certain market, *by opening a subsidiary abroad*. This relation of property, which is mentioned by most authors that approach the multinational company issue, derives from the company's attribute to conduct foreign direct investment flows (Voinea, 2007). Statistics released by UNCTAD, as well as the economists acknowledged by this organization use the concept of "*transnational corporations*", which has a very broad meaning, namely *an economic entity consisting of a parent company and its subsidiaries abroad*. (Voinea, 2007). Taking this into consideration, the generic term that will be used further on to refer to the global corporate phenomenon is *multinational company* (MNC) or *transnational corporation* (TNC).

II. OVERVIEW OF MNCs PERFORMANCES ON GLOBAL MARKETS

Nowadays, among the top 100 economic powers of the world, almost 50 are no longer national economies, but MNCs. The top 100 multinational companies hold about 1/6 of the economic activity of the world, and the first 500 run over 2/3 of the world trade. (Săvoiu, Čudanov et al., 2010). Between 2006 and 2008, the first 100 non-financial MNCs have held an average of 9% of the assets of foreign subsidiaries, 16% of sale volumes and 11% of the labour force employed by active MNCs in the world. The contribution of these 100 largest non-financial MNCs to world GDP represented 4%, a percentage that has remained approximately the same since the reference year 2000 until today (UNCTAD, *World Investment Report – Transnational Corporations, Agricultural Production and Development*, 2009).

Statistical data released by UNCTAD (World Investment Report – *Transnational Corporations, Agricultural Production and Development*, 2009) is testimony to the crucial role multinational companies play in the world economy nowadays: in the early 1990s there were 37.000 multinational companies in the world that controlled about 170,000 foreign subsidiaries; the most recent figures show that today there are no more than 82,000 global corporations with 810.000 subsidiaries abroad which include 68 million employees (it represents twice the workforce employed in a country the size of Germany). Multinational corporate entities carrying out activities around the world have generated a value added of approximately \$ 16 trillion in the year 2010, accounting with more than a quarter to the

creation of the gross domestic product (GDP), while the foreign subsidiaries of these "giants" have gained more than one-tenth of GDP and 1/3 of world exports. The contribution of MNCs in the formation of the GDP for 2010 is shown in Fig. 1.

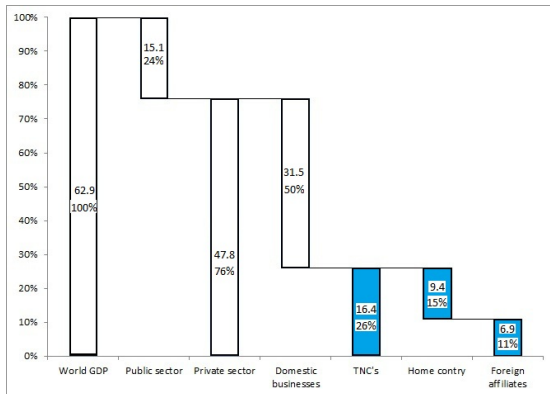


Fig. 1. MNCs account for one quarter of the World GDP in 2010

(Source: *World Investment Report 2011. Global Investment Trends*, UNCTAD, New York and Geneva, 2011, pp.25)

The remarkable performance achieved by MNCs during the period 1990-2010 can be analyzed on the basis of the economic and financial indicators shown in Table I.

TABLE I: SELECTED INDICATORS OF FDI AND INTERNATIONAL PRODUCTION (1990-2010)

Item	Value at current prices (Billions of dollars)				Annual growth rate or change on return (Per cent)			
	1990	2005-2007 average	2009	2010	1991- 1995	2001- 2005	2009	2010
FDI inflows	207	1472	1185	1244	22.5	5.3	-32.1	4.9
FDI outflows	241	1487	1171	1323	16.9	9.1	-38.7	13.1
FDI inward stock	2081	14407	17950	19141	9.4	13.4	17.4	6.6
FDI outward stock	2094	15705	19197	20408	11.9	14.7	20.1	6.3
Income on inward FDI	75	990	945	1137	35.1	32.0	-11.3	20.3
Rate of return on inward FDI	6.6	5.9	7.0	7.3	-0.5	0.1	-0.3	0.3
Income on outward FDI	122	1083	1037	1251	19.9	31.3	-6.8	20.6
Rate of return on outward FDI	7.3	6.2	6.9	7.2	-0.4	-	-0.2	0.3
Cross-border M&As	99	703	250	339	49.1	0.6	-64.7	35.7
Sales of foreign affiliates	5105	21293	30213	32960	8.2	14.9	-9.3	9.1
Value-added (product) of foreign affiliates	1019	3570	6129	6636	3.6	10.9	-1.4	8.3
Total assets of foreign affiliates	4602	43324	53601	56998	13.1	15.5	-16.8	6.3
Exports of foreign affiliates	1498	5003	5262	6239	8.6	14.7	-20.3	18.6
Employment by foreign affiliates (thousands)	21470	55001	66688	68218	2.9	4.1	3.4	2.3
GDP	22206	50338	57920	62909	6.0	9.9	-5.3	8.6

(Source: *World Investment Report 2011. Global Investment Trends*, UNCTAD, New York and Geneva, 2011, pp.27).

Moreover, increasing the assets of foreign subsidiaries by approximately 12.3 times in the past 20 years is undoubtedly the result of successfully implementing ambitious expansion strategies. The workforce employed by MNCs is another indicator which has experienced an upward trend, despite the economic crisis. The 68 million employees working in 2010 in MNCs represent an increase by more than 3 times of the total of employees as compared to the reference year 1990. As far as Cross-border Mergers and Acquisitions (Cross-border M&A) are concerned, we can report a tendency to revive multinational companies in 2010, with an annual growth rate of cross-border M&A of almost 36%, which led to an absolute value of the \$ 339 billion. However, Cross-border M&A represents at the level of the year 2010, less than half of the figure recorded in the peak year 2007 -

Developments registered during the period of time subject to analysis, regarding global growth and the performance of MNCs, are extremely interesting. The rate of return obtained by MNCs on foreign direct investments (FDI) was, in 2010, of 7.3%, after a slight reduction in 2009 because of the crisis. Thereby, returns registered approximately the same levels as they achieved in the pre-crisis period, although we witnessed a constant decrease in leverage, which was pointed out by FDI outward stock over foreign assets. Leverage reached the maximum level during the FDI boom years (between 2005 and 2007), with the stock over assets ratio slumping from nearly 40% to 25%. Nevertheless, the leverage followed a decreasing trend after 2007, so as the equity/asset ratio run high to 36% in 2009 and 2010 (UNCTAD, *World Investment Report 2011. Global Investment Trends*, 2011).

The data in Table I below shows a number of other indicators of the activity of the multinationals which register a climbing trend in 2010. Thus, the sales of foreign subsidiaries increased by 9.1% in order to recover almost all the losses from the year 2009, and this evolution is due to the sales recovery of MNCs in developing and transition economies.

\$ 707 billion. Although the data released by UNCTAD for the first five months of the year 2011, show that the raise of FDI is substantial enough, it should not be omitted the fact that in the next period, the international business environment remains volatile and there are many uncertainties with regard to developments in the global economy. Thus, managers of MNCs are required to review future investment plans with great caution.

III. THE RAISING IMPORTANCE OF MNCs WITHIN BRIC COUNTRIES

A special mention should be made related to the rising importance of MNCs from emerging economies, namely the BRIC states, according to an acronym coined in 2001 by the

Goldman Sachs analysts. This term, already established in specialized literature, represents the capital letters of the names of the following states: Brazil, Russia, India and China. The four BRIC countries which make up the group are not yet among the most developed countries of the world, but the potential of these emerging economies, evaluated from the point of view of the geographical area and/or the population, the growth rates recorded at the level of national economies, of their strategic position of super-regional powers, the military forces and political influences, confer the status of great powers of the world on them (Kurečić &

Bandov, 2011).

According to forecasts from Table II, made by the Goldman Sachs Economic Research Group, the economies of the BRIC countries will be among the first six economies of the world ranked in relation to the volume of GDP, in the year 2050, in the following order: China (which will take over the role of leader of the world), India (which will rank third), Brazil (on the fourth position) and Russia (which occupies the sixth place). In this context, it is obvious that MNCs from emerging economies will play a major role in the process of shaping the future global economy.

TABLE II: GDP OF BRIC STATES, UNITED STATES AND MEXICO 2006-2050 (IN 2006 BILLIONS OF DOLLARS)

Country	2050	2045	2040	2035	2030	2025	2020	2015	2010	2006
China	70.710	57.310	45.022	34.348	25.610	18.437	12.630	8.133	4.667	2.682
USA	38.514	33.904	29.823	26.097	22.817	20.087	17.978	16.194	14.535	13.245
India	37.668	25.278	16.510	10.514	6.683	4.316	2.848	1.900	1.256	909
Brazil	11.366	8.740	6.631	4.963	3.720	2.831	2.194	1.720	1.346	1.064
Mexico	9.340	7.204	5.471	4.102	3.068	2.303	1.742	1.327	1.009	851
Russia	8.580	7.420	6.320	5.265	4.265	3.341	2.554	1.900	1.371	982

Source: O'Neill, Jim (ed.): *BRICs and Beyond*, Goldman Sachs Economic Research Group, Goldman Sachs, New York, 2007

The position occupied by MNCs from BRIC states in *The Global 2000. The World's Leading Companies*, within the prestigious business magazine *Fortune* for the year 2009 is a strong argument in support of previous statements (see Table III).

TABLE III: THE FORBES GLOBAL 2000 (2009)

Industry / Country	China	India	Brazil	Russia
Materials	24	5	5	8
Banking	14	18	3	3
Capital goods	13	1	1	0
Diversified financials	10	3	2	0
Oil & Gas Operations	3	6	3	8
Utilities	6	6	5	2
Others	43	17	14	7
Total companies in top Global 2000	113	56	33	28

(Source: *World Leadings Companies in the World, Fortune, Global 2000*)

A more detailed analysis of the data in Table III, gives an overview of the growing role of MNCs from BRIC countries in the world economy (Herciu, et. all., 2010): China is the country which has 24 companies in the top 500 (these include PetroChina, Sinopec, the Bank of China, China Shenhua Energy, China Coal Energy) and 48 companies in the top 1000; in its turn, India has 8 companies in the top 500 (such as Reliance Industries, State Bank of India Group, Oil & Natural Gas, Icici Bank, Tata Steel, NTPC) and 25 companies in the top 1000; Brazil has 6 companies in the top 500 (Petrobras, Banco Bredesco, Banco de Brasil, Vale Itausa, Eletrobras) and 19 companies in the top 1000; Russia has 10 companies in the top 500 (including Gazprom, Lukoil, Rosneft, Sberbank, Severstal) and 16 companies in the top 1000.

Therefore, the statistics show that MNCs from BRIC states were highly competitive on global markets and have been the engine of the world economy during the recent western recession (2007-2009). Furthermore, as regards the role of BRICs in the new world economic order, a recent study made by International Monetary Fund experts argues that they will become the new growth drivers for low income countries (LICs). (International Monetary Fund, *New Growth Drivers for Low-Income Countries: The Role of BRICs*, 2011). Even though the study released by the IMF focuses on LICs and future opportunities for their

development in the context of globalization and the intensification of economic relations with the BRIC States, some extremely interesting parallels can be made with the economies of South-Eastern Europe.

Thus, statistics indicate that since 1989, Eastern Europe has attracted more than 300 billion dollars as foreign direct investments and MNCs penetration on the markets in the region. However, multinational corporate entities that were set up did not focus on strictly economic objectives – such as capital investments for the purpose of obtaining profits – but they were able to introduce higher performance standards, competitiveness and managerial ethics and practice which have spread throughout the region. Other positive effects of MNCs upon the host countries of Central and South-East Europe can be listed: offering global employment opportunities for highly qualified workforce in the region; carrying out projects of environment rejuvenation; reinvigoration of industries and of human communities and existing villages in the neighborhood of new industrial centers; the stabilization of banking systems and their connection to the international banking network; reconfiguration of local brands; increasing the volume of exports, with a direct impact upon economic growth; awareness of business partners and public opinion on the social responsibility, which lies at the beginning of the XXIst century, with all the economic entities that operate on domestic or global markets etc. (Săvoiu, Čudanov, et all., 2010).

Such driving effects that it entails the setting up of MNCs in transition economies could be expanded, certainly, on the low-income states in the outermost regions of the world. Those voices that call for substantial reduction of overall poverty might pay attention to a region which suffered in the last two decades, unprecedented economic transformation: the post-Communist Eastern Europe, a geographical area with special characteristics, but, at the same time, with global development trends that make it a very interesting model for the developing states of the world.

IV. CONCLUSION

The role of MNCs as an accelerator of unprecedented

transformations to which we are witnessing at a global level cannot be questioned today, when statistics show that these entities are able to propel the development of any state, and in particular the development of the countries in the process of growth and modernization of economic systems. Beyond the huge amount of resources that they control or the exceptional economic performance recorded at regional or global level, MNCs have achieved success after success by implementing classic strategies of exploiting competitive advantages and business opportunities identified on each market. Furthermore, a characteristic trend for the development of multinationals during contemporary period is the refinement of managerial strategies, meaning that traditional strategies acquire new dimensions, different forms of application and incorporate elements of modernity specific to the information economy.

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