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# LOCATION DECISIONS OF MULTINATIONAL COMPANIES IN ROMANIA

Case study

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## Keywords

*Multinationals,  
Foreign Direct Investment,  
Location choice,*

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## JEL Classification

E24, F23, O13

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## Abstract

*This paper investigates the location decisions of foreign direct investments by the most important global multinational companies in Romania. The study covers the top 100 multinational companies, according to Fortune and underline that all of them have the headquarters location in the United States. In particular, this analysis presents the distribution of global companies based on the main industry and major economic sectors. The first company, from the rank 100, that invests in our country is Exxon Mobil (the number two on the list) and has numerous projects in petroleum refining industry in many other countries, because energy sector is one of the most important ones in the global economy.*

## Introduction

The top 100 companies are considered multinationals because they produce or deserve products/services across national borders. These types of companies are basic factors of globalization and world economic development. The sector activity of multinational companies` is different from a country to another (Favotto et al, 2012). The geographical location and the traditional and modern sources of host country are important factors to attract new foreign direct investments. These factors lead to a big difference between developed and developing economies regarding the distribution of foreign direct investments and to significant changes in the pattern of clustering (Dunning & Ludan, 2008). Knowledge and innovation are relevant factors used on international expansion strategies (Lynch & Jin, 2016).

Many countries focused on attracting foreign direct investment in order to expose their source of location advantages for multinational companies (Herrmann & Lipsey, 2003).

The empirical literature of driver investments is focused on the macroeconomics factors that influence the location decisions of multinational companies` divided in two classes of long-run macroeconomics and short-run macroeconomics, both focused on the country characteristics (Montiel, 2009). On the other hand, it is also focused on the microeconomics factors based on company and industry characteristics (Gottheil, 2013). The macroeconomics and microeconomics theories of foreign direct investments are used together to design a better strategy of multinational companies location decisions (Becker et al, 2005).

The competitive strategy is different from an economy to another and from a sector to another. The decision location of a company depends on the attractiveness of different sectors. The sector advantage is related directly with the structural benefits, size, revenues and the correlation between the capacity of companies and the potential of sector (Porter, 1987).

The economical and financial results of a multinational company are reasonable and in a great measure better than competitors when this holds important resources and competences produced and increased in favorable competitive environments (Baroncelli & Serio, 2013). This presents basically a set of resources inside of where there exists a stock of knowledge. The company size is related to the present value of her resources complex (Fiocca, 2014).

On this paper the data were collected from the official documents of the 100 biggest companies, by Fortune - *The Fortune Global 500*, 2015.

Where it was possible I accessed data from Annual Reports and from United Nations Conference on

Trade and Development Reports - World Investments Report.

### 1. The world`s largest multinational companies

In 2015, all of the world`s 100 multinational companies were from United States of America (Table 1). The most part of them was from New York – 15 multinationals, 13 from California, 12 from Texas and 10 from Illinois. Those 100 multinational companies play a crucial role on international business and sustainable global development (McIntyre et al, 2013).

The developing economies are the principal attraction for multinational companies` investments. Five of ten MNCs choose developing economies for their foreign direct investments. In 2014, the international production increased to \$7.9 trillion. The foreign affiliates of MNCs had a major contribution on international trade market and they also increase the employment global rate to 75 million people (UNCTAD, 2015).

In 2014, the cash holdings of the largest MNCs decreased because they invested more than in the last years. Multinationals have extended the investments area focused on new mergers and acquisitions. This decision reduces future debt and provides refinancing (Figure 1).

The cash holdings of oil and gas MNCs sector increased in 2014 with 24.5 % and the capital expenditures of the same sector increased significantly from \$ 223 billion (average between 2008 and 2012) to \$ 582 billion which is more than double (Figure 2).

This report proposes a study of multinationals foreign direct investments in Romania underlining the main sector of the first company from Rank 100 that are investing in our country.

First, we started with a classification of top 100 multinational companies by sectors, according to Forbes 500 and I realized that the largest share is hold by financial sector with 22 companies, health sector with 13 companies and energy sector with 11 companies (Table 2). These three sectors represent an important part of global economy. On these conditions is necessary for CEO to define new strategies not only at international level, but at regional ones (Rugman, 2005).

A large number of multinational companies from financial sector choose to locate subsidiaries in the economies not dependent on resources. These are considered more favorable for developing business (Kurronen, 2015). Countries have different taxes for financial sector and because of this multinationals decide to locate their activities from economies with high taxes to economies with low taxes (Zee, 2004). At the same time, a part of them prefer a country with high taxes to have more public goods. A country that has high taxes may represent a developed economy (Siedschlag et al, 2013).

Foreign direct investments had a remarkable increase on the health sector (e.g. pharmaceutical, chemical) during the last decade, especially through mergers and acquisitions. The population health of economies has a positive impact on the decision location of multinational companies (OECD, 2015). Health sector is a priority for both developed and developing economies supported by many economic politics (Novotny et al, 2013).

Government has an important role on the energy sector. This can help the multinational companies from this sector to invest in a green climate and support them with adequate policy (OECD, 2016). Second, I made a classification of these 100 multinational companies that are investing on first three important sectors and I focused my study on energy sector. On top 100 multinational companies, Exxon Mobil holds rank two, but first place of energy sector with 382597 \$M revenues, followed by Chevron with 203784 \$M and Phillips 66 with 149434 \$M (Table 3).

Of these 100 multinational companies studied, included in this paper the most relevant case for Romania –in the energy sector is held by Exxon Mobil.

## **2. Multinational companies` location in Romania**

In Romania, the net sales value of cross-border mergers and acquisitions recovers from 45 \$M in 2013 to 214 \$M in 2014. This was possible because the value of acquisitions made by multinational companies was double than divestments. Greenfield FDI projects in Romania as destination rebounded strongly to 467 \$M, but the trends as investors declined with 63.21 % in 2014. This trend is also present in all developed and developing countries (Table 4).

Also, in Romania the foreign direct investments grow the number of employees with 3.8% in 2014 (from 1,083 million employees in 2013 to 1,124 million employees in 2014) and the revenues of FDI also grow with 1.7% (from 129 615 millions of euro in 2013 to 131 820 millions of euro in 2014). The main investments were made in extractive industry, manufacturing, electricity and oil (BNR, 2015).

The economic and financial crisis that started in 2008 and the decrease of oil prices in 2014 affected strongly the energy sector of Romania. On these conditions, the multinational companies were forced to return on the economic and financial fundamentals to prepare for the new global context. Regarding the energy sector, in Europe it is strongly developed the concept of energy security. From this point of view Romania is favored, because it has significant energy resources and a small rate of dependency on imports. In Romania the rate of energy dependency is 17%, compared to

53.4 % in European Union and 60.3 % in Euro area (Eurostat, 2015).

The energy security increased and at the same time, improved the economic conditions of European Union. This is supported by national energy policies that encourage the energy production inside EU and reduce the energy imports. These measures have a strong impact for business environment (European Commission, 2014).

From 2014 the companies of oil and gas struggle with the lower price of oil that decreased from 120 per barrel to 30 dollars per barrel. At global level this means hundreds of billions of dollars cut from investment budgets, hundreds of thousands of jobs lost and declining budget revenues for producing economies. In this global context, Romania has the advantage of an economic growth above average and the potential of Black Sea that is very attractive for the multinational companies from the energy sector. ExxonMobil and OMV Petrom are two important investors that drilling the Neptune Deep perimeter (Forbes, 2016).

The oil companies that invest in Romania bring numerous advantages for economic development of the country, especially through the number of jobs created. On the other hand there are many voices from the environmentalists regarding the influence of their activities on global warming, but the companies` contradict this possibility by growing the investments in renewable energy and focused their direction to production of fossil fuels that emit less carbon dioxide. For example, Exxon Mobile, the biggest oil company supports the fossil fuels that represent a priority for their primary production and even in 2040 will respond with three quarters of fossil fuels production (The Economist, 2015).

From the beginning, the location decision of multinational companies` was influenced by the outsourcing to cheaper economies. The companies are oriented to markets with competitive advantages. The factors that led to location change were small prices, incentives and subsidies, low taxes, labor market flexibility, the facility of open and lead a business, infrastructure and accessibility, as well as logistics (Bari, 2010). From this point of view I can say that Romania presents some advantages for investors and that it is confirmed by the large number of foreign investments in this country.

When the multinational companies chose to locate their activities in the economies with attractiveness for domestic market, the employment and economic growth in the host country accelerate and are more sustainable (Brancu & Bibu, 2014).

## **Conclusions**

Romania has a current low level of energy dependence and the politics that are implementing by this country defines possible energy

independence over a decade. To perform this idea, Romania must adopt the community standards of European Union. Also Romania needs to define a clear strategy to develop the socio-institutional factors and improve the infrastructure, ensuring this way the necessary resources. These will contribute not only to attract foreign investments on the energy sector but will also present an advantage for each of other sectors.

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Table 1. *The world's largest 100 multinational companies HQ location*

Rank	HQ Location	Number of MNCs
1	New York (NY)	15
2	California (CA)	13
3	Texas (TX)	12
4	Illinois (IL)	10
5	Minnesota (MN)	5
6	Ohio (OH)	5
7	Connecticut (CT)	4
8	Georgia (GA)	4
9	New Jersey (NJ)	4
10	Washington (WA)	4
11	Michigan (MI)	3
12	Arkansas (AR)	2
13	Massachusetts (MA)	2
14	North Carolina (NC)	2
15	Pennsylvania (PA)	2
16	Tennessee (TN)	2
17	Virginia (VA)	2
18	Delaware (DE)	1
19	Florida (FL)	1
20	Indiana (IN)	1
21	Kentucky (KY)	1
22	Maryland (MA)	1
23	Missouri (MO)	1
24	Nebraska (NE)	1
25	Rhode Island (RI)	1
26	Wisconsin (WI)	1

Note. Author elaboration based on Fortune 500, 2015

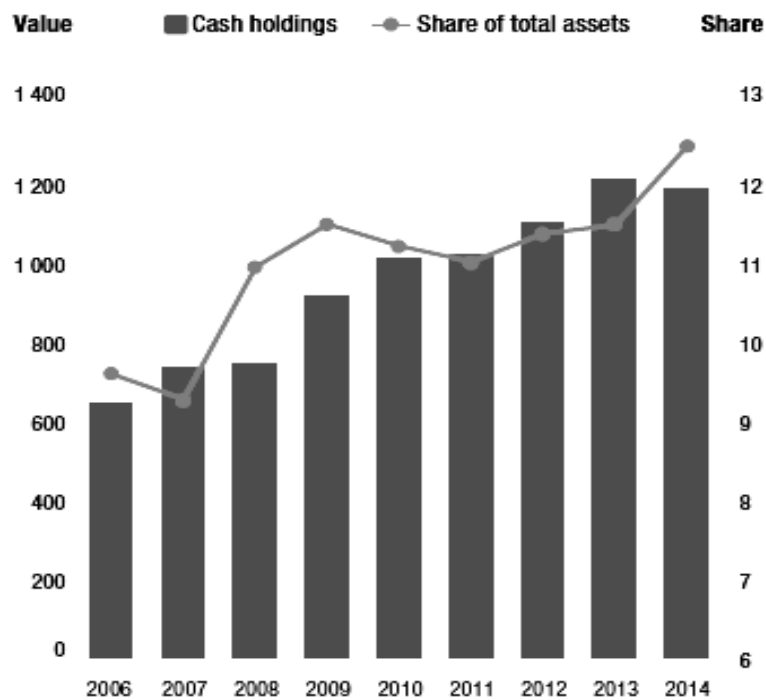


Figure 1: *Cash holdings of the largest 100 MNCs and their share of total assests (\$ billion & per cent)*

Source: UNCTAD, FDI/TNC database ([www.unctad.-org/fdistatistics](http://www.unctad.-org/fdistatistics))

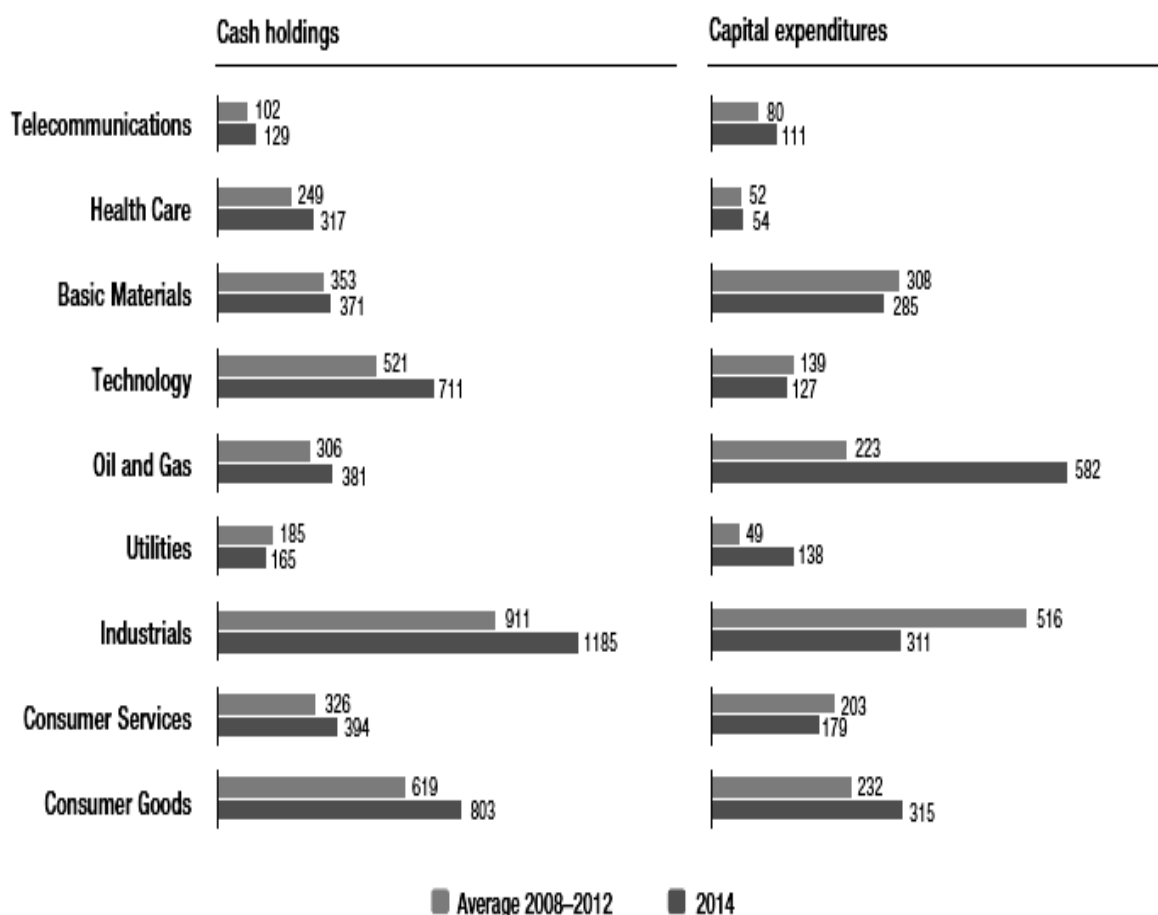


Figure 2. Cash holdings and capital expenditures of the top 5,000 MNCs, by sector, 2008 – 2012 average and 2014 (\$ billions)

Source: UNCTAD, FDI/TNC database ([www.unctad.org/fdistatistics](http://www.unctad.org/fdistatistics))

Table 2. Number of multinational companies (from Top 100 MNCs), by sector activity

Rank	Sector activity	Number of MNCs
1	Financials	22
2	Health Care	13
3	Energy	11
4	Technology	9
5	Food, Beverages & Tobacco	6
6	Retailing	7
7	Transportation	5
8	Aerospace & Defense	4
9	Food & Drug Stores	4
10	Telecommunications	4
11	Motor vehicles & Parts	3
12	Industrials	3
13	Wholesalers	3
14	Chemicals	2
15	Media	2
16	Household Products	2

Note. Author elaboration based on Fortune 500, 2015

Table 3. *Top 10 multinational companies of energy sector, by revenues (\$M)*

Rank	Rank 100	Company	Revenues (\$M)
1	2	Exxon Mobil	382597
2	3	Chevron	203784
3	7	Phillips 66	149434
4	13	Valero Energy	130844
5	25	Marathon Petroleum	91417
6	51	ConocoPhillips	55997
7	53	Energy Transfer Equity	55691
8	59	Enterprise Products Partners	47951
9	67	Plains GP Holdings	43464
10	77	Tesoro	40052

*Note.* Author elaboration based on Fortune 500, 2015

Table 4. *Value of cross-border M&As and Greenfield FDI projects in Romania, 2008-2014(\$ millions)*

	2008	2009	2010	2011	2012	2013	2014
<b>Cross-border M&amp;As</b>							
<i>Net sales</i>	996	331	148	88	151	45	214
<i>Net purchases</i>	4	7	24	-	-	-	-
<b>Greenfield FDI projects</b>							
World as destination (by source)	339	115	758	104	139	287	467
World as investor (by destination)	29190	14403	7347	11633	8836	9117	5586

*Source:* UNCTAD, FDI/TNC database ([www.unctad.org/fdistatistics](http://www.unctad.org/fdistatistics))