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FIRMS' TRANSNATIONALIZATION. EVOLUTION OF MULTINATIONAL GROUPS OPERATING IN ROMANIA

Case study

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Transnationalization
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External control
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JEL Classification
F21, F23

Abstract

International business development is a complex phenomenon, characterized by a particularly dynamic due both to external and internal factors of the company and the need to foreshadow future directions in the development of the economic, social, political framework. Taking into consideration the ways that a company can expand, this article aims to analyse the evolution of multinational corporations operating in Romania in 2007-2012. Using data provided by The National Institute of Statistics (NIS), we focus on the multinationals groups that entered Romanian market in the period mentioned above. In this regard, we compared the multinational groups with the national ones, identifying the concentration of foreign capital by country. The results show that although has been recorded a significant variation of multinational groups in Romania, especially during the financial crisis period, the companies from Deutschland occupy first place by number of employees.

1. Introduction

The internationalization of a firm can be achieved through various ways, from the simplest and less risky operations to those which imply a total commitment of the company in foreign markets. Each of the firm's internationalization strategies (export, counterpart, licensing, franchising, underproduction or subcontracting, joint ventures, direct property) is supported by certain motivational factors and gives benefits and/or disadvantages. Choosing one of the forms of internationalization is a complex decision that depends on company's resources (material, financial, human, technological, and organizational), the objectives and the benefits obtained by this approach.

Although there is no general model for choosing a certain form of internationalization for a firm, good results can be obtained basing the choice on a cost-benefit analysis for each possible option, according to company's internal and external factors, but also to those that characterize the industry.

2. Multinationals and foreign direct investment in global competition. Conceptual framework

The relationship between the multinational firm, foreign direct investment and international production, components of the same phenomenon of internationalization consists in the fact that the firm acts like is an agent of foreign investment, owner of assets created in foreign countries and also organizer of international production (Mazilu, 1999).

The growth and complexity of business internationalization and the importance that it has acquired in the contemporary global economy have led to increasing concerns to define and characterize companies operating on an international scale. The concept of "multinational firm" is used in a generic sense to refer to what the economic literature records as distinct companies: international, transnational, global.

In literature we find different views on the nature and characteristics of the multinational firm, starting from simple and comprehensive definitions to those which are restricting the inclusion of firms in a certain category, by imposing limits on the number of countries in which a firm is operating, the number of foreign subsidiaries, the percentage control and their turnover. The multinational is a firm that owns and controls economic units in two or more countries or, in other words, that engages in business operations outside national borders (Gilpin, 1987). This is the simplest definition given to multinationals and is characterized by a certain liberality, meaning that this category includes both the large companies, often called "corporations" and small, designated as "companies." Sometimes they are called simple "production units", which does not exclude from the definition the firms engaged in trading or providing services.

A more complex definition, that takes into consideration the economic environment of these firms and the way they function, considers multinational those enterprises or rather clusters which frequently operate production, distribution and marketing activities in several countries, under the jurisdiction of several governments, under a variety of markets, competitive regimes, financial systems, language and culture, being designed, organized and managed on a joint strategy developed at the international level, regional, interregional or global (Cullen, 1999).

In some cases, multinational firm is regarded as an "economic system" composed of tangible and intangible assets, financial resources invested in the production of goods and/or services, research and development capabilities, technologies, methods and practices of organization and management, trade links developed in the origin country (through parent company) and other countries (through subsidiaries), aimed mainly at increasing the competitive potential and profitability of firms components and the whole system. Other approaches focus on common ownership or common management strategy of the multinational group's firms.

So, whatever the nuances of the different definitions for multinationals are, two elements seem to be common: activity in at least two countries and a certain degree of integration and coordination of its operations. Summarizing, we can say that the multinational is formed form subsidiaries (parent company and one or more subsidiaries) located in more than one country, under common ownership, common management strategies and system-wide coordination. In addition, a multinational firm requires not only a transfer of productive capacities across national borders. Besides these, it "moves" foreign technology, technical know-how and managerial staff with some training and other skills that differentiate the company and gives it a competitive "winning" advantage (Barna, 2003).

A better understanding of the nature and especially the role of multinational firms in the global economy can't omit highlighting their main features. Firstly, the multinationals are large companies. This feature is judged by a complex of indicators, most commonly used being: turnover, number of subsidiaries located abroad, the number of foreign employees, assets held abroad. World Investment Report shows that the turnover of some of these companies (Exxon Mobil, General Motors, Ford Motors, Daimler-Chrysler) is comparable and sometimes larger than the gross domestic product (GDP) of some countries (Pakistan, Peru, New Zealand, Hungary), indicating the considerable influence that they have in the world economy and

the competitive strength compared to national firms in host countries (Işan, 2004).
Secondly, multinationals are characterized by unit or joint management decision centre. This is because multinationals, although they operate in a variety of national spaces are run by management team belonging to the country of origin (the head office) at least in terms of key functions: investment, research policy, strategy, control develop global policies and strategies. There are cases when it is difficult to establish a national origin of a multinational firm because it has a property that cannot be attributed to a specific countries and fully internationalized management mode.
Last, but not least, the multinationals are characterized by flexibility and mobility. This is due mainly to progress in transport and telecommunications, which gave them the opportunity to assess the environment in which it operates through subsidiaries (international) grasping opportunities and threats likely to provide information to fight against competitors, to control production and distribution abroad, to efficiently allocate resources to develop appropriate policies and strategies in foreign markets.

3. Types of firms with transnational activity

Although often multinational, global or transnational firms are considered the same, some authors (Bonin, 1984) make a distinction between types of companies operating in the global economy according to certain criteria. Starting from this, as the company owns or not a global brand (product globalization), production units in several geographical areas (globalisation of production) or distribute its products in various markets (market globalization), we find the following boundary: (Dumitriu, 2000)
Global firms with products that are manufactured and marketed under a global brand in manufacturing units located in different parts of the world and distributed across multiple geographic markets. These businesses seeks a global efficiency using economies of scale by supplying large quantities, standardization of products (limited range of products or services, with the same characteristics for each geographic area), standardizing all operations (marketing, financial management) on a global scale and under the coordination of the headquarters of the parent company. Going deeper analysis we find that if the globalization of markets is missing, than we deal with global a firm that adapts marketing the product to the specific host country. Also, a global firm can have centralized production in home country when production globalization criterion is not accomplished. A first observation is that after a closer analysis of firms in this category, we find that there are few pure global firms, most of them appealing to a marketing strategy adapted, if not entirely, at least partially. That's the way that famous companies such as Coca-Cola or McDonalds operate when launching products tailored to local markets consumption. However, in few cases, production is localized exclusively in the country of origin, this earning increasingly more global attribute.
Multinational firms, namely those that meet at least one of the following: manufacturing products in the country of origin destined to international markets and distributed through its own subsidiaries in several countries, controlling costs by controlling manufacturing operations in the country where the firm is parent, international networks of production and/or distribution for the home country.
Multidomestic firms don't own a global brand for their products and their manufacture is not intended for various markets, they seek to maximize profits by exploiting local advantages (cheap labour, proximity to sources of raw materials).
Transnational firms combine the advantages of production's standardization (scale economies) with flexibility (adapting to consumer tastes) developing distinct national brands made with components manufactured worldwide.
A typology more common, having as differentiation support the internationalization stages of firms, identifies four categories of firms with specific characteristics: (Larreche, 1998)
National/domestic entities are focused on the domestic market, where they are located their capacities to which they lead their main trade flows. Access to the international market can be achieved as external factors start to have an impact on domestic business, but its scale is reduced, representing a component and an extension of internal business operations. National firms with international activity correspond with the early stage of the internationalization process, managing their foreign transactions centralized, as a part of the global business strategy.
International entities have an increase interest in foreign markets, manifested through exports and foreign implants, finding itself in more advanced stages of internationalization. These companies seek to capitalize on the different competitive advantages from country to country, making production more standardized and differentiated according to the opportunities of cost or beneficial sources of supply. Their entire activity (both domestic and international) is coordinated by the parent company.
Multinational or transnational entities are established as a group of companies formed by a parent company and several subsidiaries in different countries. From the international development phases, these entities are the correspondent of going from the external implantation to work multinationalisation,

developing a multinational strategy designed globally

Global entities are representing those conglomerates performing a variety of activities on a variety of geographic areas; the world is seen as their own market. Characterizing best the stage of transition from multinationalisation to globalization of the firm, the global companies integrate their implantation into a global network (from sourcing raw materials to the product sale to the final consumer) designed to offer products tailored to local demand in each market. For example, Ford's truck cab is manufactured in Europe; North America chassis is assembled in Brazil and imported to be sold in the United States.

We notice that the distinction made in the literature between international, multinational, transnational, multidomestic or global firms is closely related to the degree in which they are engaged in the process of international development. Although multinational firms appear often as a particular type of firms that internationalize their activities, as far as we are concerned, we call these types of firms multinationals.

In addition to full characterization of firms classified above, we take into consideration the fact that, to become global, a company must possess a number of competitive advantages, other than products and services, embodied in innovation, human resources, managerial and marketing skills. Some authors call these fundamental capabilities advantages for global companies, consisting of: mission and vision, customer orientation, organizational culture, organization and systems, planning and intelligence, human resources, technical resources, innovation, marketing strategy, marketing operations, internationality, performance. In addition, these capabilities are intangible and therefore difficult to imitate by competitors.

4. Evolution of multinational groups in Romanian between 2007 - 2012

The data used are retrieved from annual reports of NIS published in the period 2009 – 2014 regarding the enterprise groups operating in Romania in 2007 - 2012. In this respect, the analyzed data refer at three types of groups:

1. Resident groups – composed from minimum two or more enterprises that operate in the same country (in this case, Romania).
2. Multinational groups with Romanian control – where control is exercised by a Romanian company (the parent) which operates in Romania and in other country as well.
3. Multinational groups with foreign control – where control is exercised by a foreign company (the parent) which operates in Romania and in other country as well.

After processing the reports of NIS we obtained a exactly statistics regarding the total of groups operating in Romania in the period 2007 – 2012. The results are shown in Table no. 1, Figure no. 1.

Analysing the evolution of groups operating in Romania starting from 2007 until 2012, we notice that in a six years period the number has more than doubled. Meaning if in 2007 they were 16,133 groups registered making transaction; in 2012 they reached 37.407, a growth of 131.86%. As data presented in Table no. 1 and Figure no. 1 show the trend wasn't always positive. The biggest decrease of multinational activity was in 2009, followed of small positive trend in 2010 and 2011. If we compare the numbers recorded in 2008, the year pre-crisis with those from 2012 (the last year available for data from NIS) it's obvious that in 2012 they were more multinationals subsidiaries with foreign control (31.616) operating in Romania, than in 2008 (26.332).

As data from Table no. 2 and Figure 2 indicate, in percentages, the trend was usually positive, excepting 2009, but the most significant changes were registered in 2008 (an increase of 90,56% per total groups) and in 2012 (an increase of 75,81% per total groups). Regarding the multinationals with Romanian control the only spectacular results were recorded in 2008, when there has been an increase of 213.95%, in comparison to 2007, in the following year the evolution being modest, even negative (-75.56% in 2009, respectively 212.12% in 2010, -1.94% in 2011, 0.99 in 2012).

From the total of multinational operating in Romania that are controlled by foreign parent companies in the analyzed period we noticed that the 5 for states since 2007 were the same with those recorded in 2012, only the ranking was different. As results presented in Table no. 3 and Figure no. 3 show, Italy and Deutschland are still the main countries of whose companies invested the most in Romania. But if in the case of multinational with Italian capital we notice a decrease of investments, from 20.4% in 2007 (No. 1 in Top 5 multinationals investing in Romania in 2007) to 10.2 in 2012 (No. 2 in Top 5 multinationals investing in Romania in 2012), in the case of Deutschland we see that the position has shifted from No. 2 in Top 5 in 2007, with only 11.1% investments in No. 1 in Top 5 in 2012, with 18.1%. Taking into consideration that in 2007-2008 there was a real boom of "lohn systems" used by Italian companies in order to produce cheaper clothes in Romania, the No. 1 position occupied by Italian multinationals during that period is total justified. But, once the market wasn't that attractive anymore, Chinese products being available at lower costs, the Italians considered Romania not that profitable anymore and migrated to other emergent markets. In detriment, multinationals from Deutschland have oriented to industries more profitable, taking advantage of the cheap labour force.

From the total multinationals operating in Romania nowadays a small percentage are internal controlled meaning that at least 51% of the control is owned by a Romanian firm. Unfortunately, the percentage of Romanian multinational operating in the total of multinationals is very insignificant, although the prognosis of specialist (Gândul, 2012 quoting KPMG study) is very optimistic. Basically, if in 2007 in the total of multinational from Romania only 0.35% were Romanian, in 2012 the percentage was only 0.32%. Although the number of Romanian groups has doubled in this period, from 43 in 2007 to 102 in 2012, the raise was slower than the one of groups with foreign control.

5. Conclusions

Typology of multinational firms helps us to detach the particular features extremely diverse. Thus, in expressing our most concise way possible, depending on the stage of its internationalization, a firm can develop outside national borders with standardized or tailored products for each market, manufactured in its plants from the home country and/or abroad. In search on location advantages (cheap labour, control power supply) products are intended for the international market and consumer worldwide, centralizing management of the activity in the parent company or decentralizing a branch level, in this case the leadership being exercised by "local managers". All these features and strategies adopted are largely related by multinational firms during its lifetime.

However, we cannot fail to notice that the forms presented, sometimes divergent, have in common that they sketch the evolution in time and space of a complex global economic. Thus, if in the years following First World War the predominant form of firms was national, which manufactured products for the domestic market and exported only occasionally, with the increasing global competition its place is taken by the international firm oriented towards varied markets, with different characteristics, which seeks to conquer by adapting the product. Entering the world economy globalization stage action is prefaced by transnational companies and global corporate behaviour expressed obviously nowadays.

Although the article doesn't present a specific statistics upon the industries preferred by the multinationals in Romania, our further researches will follow these aspects. Moreover, we will focus on the correlation between the industries and the form of association (joint-ventures, franchise, local branches).

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Appendices

Appendix A

Table no. 1. The number of groups (multinational and residents) operating in Romania between 2007−2012

	2007	2008	2009	2010	2011	2012
Total groups	*16133*	*30743*	*19954*	*20744*	*21277*	*37407*
Residents	*3914*	*4276*	*4696*	*5372*	*5555*	*5689*
Multinationals:	*12219*	*26467*	*15258*	*15372*	*15722*	*31718*
from which:						
with Romanian control	*43*	*135*	*33*	*103*	*101*	*102*
with foreign control	*12176*	*26332*	*15225*	*15269*	*15621*	*31616*

Source: author's processing of data from statistics issued by NIS Romania in 2009, 2010, 2011, 2012, 2013, 2014

Appendix B

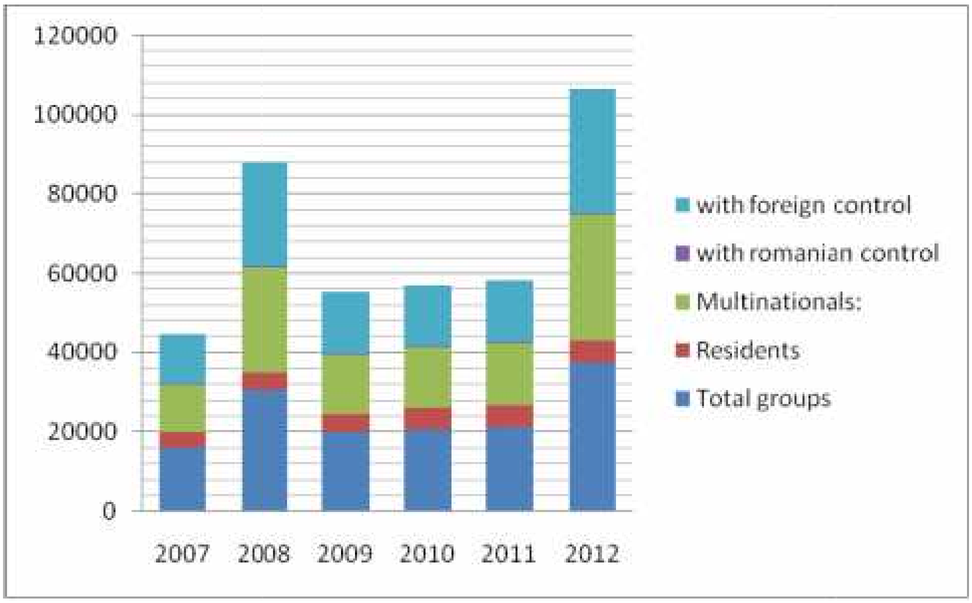

Figure no. 1. Graphic representation of number of groups (multinational and residents) operating in Romania between 2007−2012

Source: author's processing of data from statistics issued by NIS Romania in 2009, 2010, 2011, 2012, 2013, 2014

Appendix C

Table no. 2. The evolution of groups (multinational and residents) operating in Romania between 2007−2012 (%)

	2008	2009	2010	2011	2012
Total groups	*90,56*	*-35,09*	*3,96*	*2,57*	*75,81*
Residents	*9,25*	*9,82*	*14,40*	*3,41*	*2,41*
Multinationals:	*116,61*	*-42,35*	*0,75*	*2,28*	*101,74*
from which:					
with Romanian control	*213,95*	*-75,56*	*212,12*	*-1,94*	*0,99*
with foreign control	*116,26*	*-42,18*	*0,29*	*2,31*	*102,39*

Source: author's processing of data from statistics issued by INS Romania in 2009, 2010, 2011, 2012, 2013, 2014

Appendix D

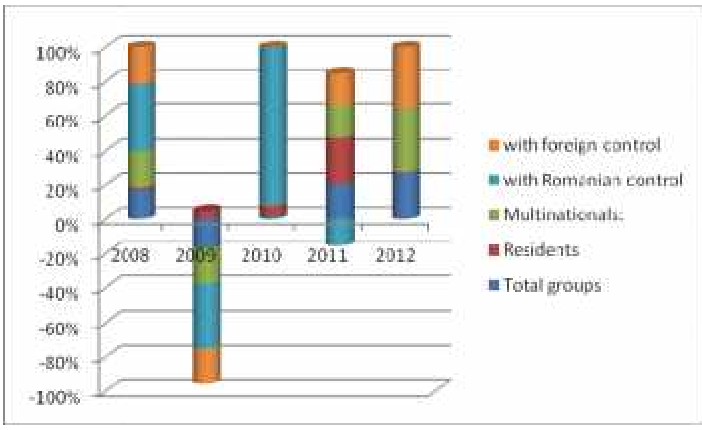

Figure no. 2. The evolution of groups (multinational and residents) operating in Romania between 2007−2012 (%)

Source: author's processing of data from statistics issued by INS Romania in 2009, 2010, 2011, 2012, 2013, 2014)

Appendix E

Table no. 3. Top 5 states with subsidiaries operating in Romania

	2007	***2008***	***2009***	***2010***	***2011***	***2012***
Austria	*5,1*	*8,5*	*9,3*	*8,8*	*8,2*	*8,2*
Deutschland	*11,1*	*15*	*17,3*	*17,4*	*17,3*	*18,1*
France	*5,1*	*9,7*	*11,3*	*11,2*	*11,1*	*9,3*
Italy	*20,4*	*11,7*	*7,9*	*8,4*	*11,1*	*10,2*
Netherlands	*5,8*	*6,4*	*7*	*6,3*	*8,3*	*9,8*

Source: author's processing of data from statistics issued by INS Romania in 2009, 2010, 2011, 2012, 2013, 2014

Appendix F

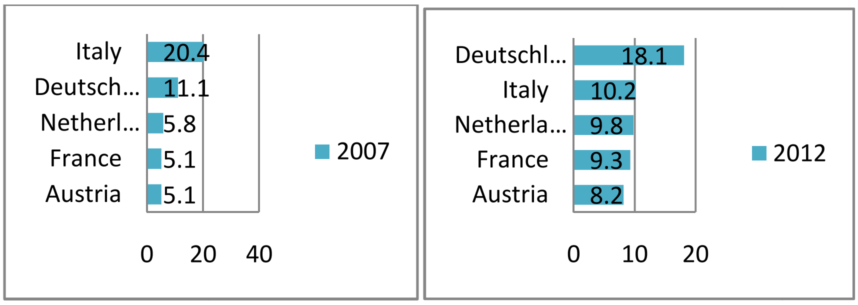

Figure no. 3. Ranking multinationals upon capital

Source: author's processing of data from statistics issued by INS Romania in 2009, 2010, 2011, 2012, 2013, 2014

Appendix G

Table no. 4. Percentage of multinationals with romanian capital in total multinationals operating in Romania

Year	*2007*	*2008*	*2009*	*2010*	*2011*	*2012*
Percentage	*0,35*	*0,51*	*0,22*	*0,67*	*0,64*	*0,32*

Source: author's processing of data from statistics issued by INS Romania in 2009, 2010, 2011, 2012, 2013, 2014