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WHY DO COMPANIES WANT TO BECOME TRANSNATIONAL?

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Abstract

The question that this paper tries to answer is a little bit difficult for a lot of specialists: Why do the companies want to become transnational? As it appears from the paper, for the internalization process of a company there are many motivations, like: finding resources, finding markets, finding efficiency. Romania is also presented in the paper, especially some aspects about the way in which the foreign investments have influenced the penetration on our market of the transnational companies and what have been the negative elements that have made the Romanian business medium not to be very attractive for the investors in the first part of the 90's.

The international specialty literature generally agrees with the existence of four important categories of motivations for the process of internationalization of a company, and these are:

- *Search for resources*. This was, in fact, the main economic motivation for the appearance of the colonial empires, in which, some radical authors (Kuerten, 1995) see the forerunners of the today's transnational companies. We refer especially to the natural resources, the absence of which in their homeland forces the corporation to extend abroad. The corporation can also look for fiscal stimuli, many countries offering different forms of this kind of stimuli (tax reductions), or financial stimuli (Some home states or international organisms offer financial stimuli to corporations that invest in under-developed or now being developing countries). Also, the existence of some local partners who want to exploit together (by means of joint-ventures) the existent resources can be a motivation in this category.
- *Search for markets.* The companies want to expand on markets which are big because of the number of consumers (China) or because of the purchasing power (USA). It is important not only the static analysis of a market, but also the dynamic analysis (Romania has become attractive for investments and also because of the boom of the private consumption, generally on credits)Other important variables in this category include: transportation costs, tariff and non-tariff customs barriers, the existence of an educated man-power, the quality of the understructure and the institutional development, the existence of the support services for business matters, the local macroeconomic politics.
- *Search for efficiency*. To this category there belong: the reduction of the production costs (low costs with the man-power, the materials, the equipments), stimuli for investments(for example, the accelerated liquidation or public subventions), the existence of some profile clusters, the presence of other complementary companies from the production and distribution chain, the integration of the research-developing activities.

- *Search for some strategic assets.* The access to technology or to the possibility to develop some new technologies is the main reason in this category of factors.

The search for markets is, in general, the motivation of the "horizontal" companies, meaning that they produce relatively global standardized goods. The search for the efficiency is, on the other hand, the favorite motivation of the "vertical" companies, because they geographically break up the production in more stages, depending on the different equipment with factors at the local level. A recent model (Ekholm, Markusen, 2002) of the main knowledge (that is the knowledge supply) brings together the two approaches, starting from the premise of the geographical mobility of knowledge, which means that common inputs can be introduced into geographically separated productive units.

Of course, the decision to invest on an extern market is, most of the times, the result of a combination of factors, and not only of one particular motivation. Another two motivations were launched and accepted in the literature of specialty, but their place is disputed.

Close to the motivation of the activity efficiency, not from the cost reduction point of view, but from that of reducing the risks, there is the *theory of the portfolio diversification*.

Starting from Markowitz and Grubel's theory, Rugman applied it on international direct investments which represent a diversification of the assets of a transnational corporation. Taking into consideration the fact that the report between the sales abroad and the total sales is relevant in order to approximate the trans-nationalization of a company, Rugman proved that this report is negatively correlated and significantly statistic with the risk of obtaining incomes. Practically, the transnational corporations have a more stable income in time as they have a higher degree of trans-nationalization. A transnational company offers higher benefits to its stockholders, through diversification of its own portfolio, especially if there are institutional barriers or other ones linked to the free circulation of the capital. The stockholders of some transnational companies are more protected through the international diversification of the risk. Finally, it is about accomplishing a balance of the risk of the country by means of this diversification, because the fluctuations of the host-economies are imperfectly correlated with the fluctuations of the original economy. There are, of course, counter-arguments to this theory. The first would be that the character of the risk is more complex. The country risk must be taken into consideration along with the industry risk, and the geographic diversification is not enough to reduce the industry risk, but the international diversification means more than the geographic diversification. Another counter-argument would be, ironically, the fact that the process of globalization, understood as the free circulation of the capital and even the global macro-economic politics, leads to the reduction of differences between countries in what the economic cycle is concerned. A recession in America will be also felt in the appearing economies. It is probable that to this observation, Rugman would answer that similar reactions to similar shocks are possible only regionally (for example The European Union, where the theory of accounts integration has as its basis this very premise).

Another explanation of the trans-nationalization of a company, this time similar with the strategic motivation theory, is the global competition. The training effect, made-up at the localization of a company on a new market, leads to the investment of other rival companies on that market. Differently put, the need to follow the rivals is a per se motivation of the internationalization.

The classical motivations of the above mentioned internationalization disappear when they have to explain a sudden not an evolutionary process of internationalization. It is a characteristic process of the so-called *globally born* companies- companies that, although they are in an incipient level of development and have very limited resources, want to appear in the international environment. Being also influenced by the new technologies of transportation and communication, these IMMs (often family businesses) which want to obtain competitive advantages by geographically expanding their activity, are characterized not by the knowledge accumulation but by the own entrepreneurial spirit, the intensity of the competition and the consumers' dynamics.

At a macro-economic level, the model of the entering capital order sustains that the structure of capital flows in an open economy is influenced by the informational costs and predicts the following order of foreign capital entrances: direct foreign investments, bank loans, portfolio investments. The direct foreign investments should prevail in the initial stages of the development of the economies, because they remove the informational barriers. According as the economy develops and adapts itself to the international rules and regulations, in a more predictable institutional environment, the informational costs decrease and the speculative capital flows are encouraged. Still, this pattern is contradicted by the dynamics of capital flows in Romania. Although there are powerful informational costs, other barriers which acted against direct foreign investments in Romania can be identified, especially in the first half of the 90s, that is: administrative barriers, the substitution of foreign investments with imports, in the context of commercial liberalization, the weak budget constraints of local companies which permitted them to act as competitors of the potential foreign investors, the prevail of the privatization methods which excluded the foreign capital, as the privatizations to the employees (MEBO) and through coupons.

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