

Strategies to develop transnational companies in the world market

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Abstract. The author considers key principles of development of transnational companies. The theories of origination and the stages of development of transnational companies are defined. Modern trends in formation of strategies of transnational companies development are identified, author's study of strategies of development of a number of transnational companies allowed to find main tools of organization of this process. The conclusion is made that further development of transnational companies is determined by 2 key approaches to regionalization at which new conditions for organization of investment projects appear. These conditions change not only business environment to make transaction but the mechanisms of interaction of the entities of regional economic relations, and deepening of integration processes suggests stimulation of economic growth, growth of competitiveness of goods and services and more efficient use of single markets' potential.

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Introduction

Current state of global economic processes is characterized by appearance and development of transnational sector in the structure of world economy. The issues of power and influence of transnational companies (TNC) was analyzed in a great number of scientific works - in the spheres of economy, state regulation, management, finances, political economy. There are no such sphere which was not related to transnational companies activity.

Formation and growth of the industries of developed and new industrial countries' economies takes place in fierce competition in the world market. One of the key condition for successful promotion is efficient state policy intended for stimulation and support of innovation development [1].

Transnational sector of modern world economy consists of about 80 000 head offices and huge "army" of affiliated enterprises (850 000 by UN data). Transnational companies are main structural element of economy of most countries, their leading power of development and increase in efficiency. Global trends in internationalization of production and capital, privatization, strategic alliances and liberalization of external trade made the transnational companies the center of world economic development. Transnational companies' expansion is one of the phenomenon of second half of 20th century.

UN data: transnational company is understood as activity of international operating companies in 2 or more countries and centers which control these divisions. Transnational companies provide about 50% of world industrial production. Transnational companies covers about 82% of world trade, and about 40% of this trade takes place inside the transnational companies by transfer prices in accordance with policy of head office. Last 20 years saw trend in increase of the number of affiliated companies in comparison with the number of head offices. So, we can compare that the increment in number of affiliated enterprises was 21% while increment in head offices was only 4,5%. The biggest non-financial transnational companies of the world are located in developed countries, in particular - in the USA: 40 of 100 biggest transnational companies of the world; in European Union - 36, in Japan - 10, in China - 8, in the rest of the world -6%. UNCTAD experts perform annual analysis of 500 transnational companies of the world. They use transnationality

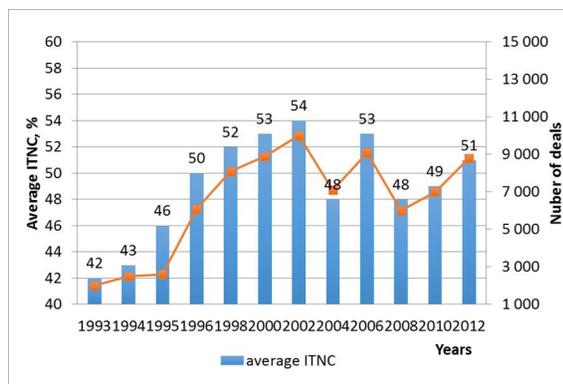


Figure 1.1 - Change of ITNC depending on transnational companies' activity, 2012.

index which evaluates the value of foreign transnational companies for specific country and is calculated as average sum of 4 variables: share of foreign direct investments (FDI), ratio of FDI in the country to its GDP, the share of the products manufactured by the branches of foreign corporations in GDP of the country, share of population occupied in these transnational companies sector. Figure 1.1 depicts the dynamics of transnationality Index for biggest transnational companies of the world.

As we see from Figure 1.1 average annual value of transnational companies dynamics is equal to 49%. It is especially influenced by FDI flows and increase and decrease in the number of companies as a result of mergers.

Table 11 gives data on transnational companies dynamics in Kazakhstan.

Table 1.1 Dynamics of transnational in Kazakhstan, in 1995-2012, billion dollars.

	1995	2000	2005	2012
GDP	16 639,7	18 292,4	57 123,7	203 520,6
FDI	984	2782	6619	22469
FDI/GDP,%	5,91	15,21	11,59	11,04

Table shows growth of transnationalization in Kazakhstan which in this case was expressed as a ratio of FDI to GDP. In comparison with 1995 this indicator increased from 5,8% to 11,04% in 2012. Functioning of the economy of any country depends on its external economic activity and on the inflow of foreign capital (mainly in the form of FDI) Today about 70% of world FDI are directed to developed and only 30% - to developing countries which is determined by the problem of favourable investment climate.

The priorities in development of the strategy of development of transnational companies are very specific in modern economy. The particular feature of strategic choice made by transnational companies today is preference for the projects with high NPV at marginal IRR, projects with high IRR but low NPV. In other words, modern transnational companies in conditions of crisis prefer growth of business to the growth of profitability. [2]. The reasons for that are as follows: [3]:

1. Transnational companies must prove all the time their ability to grow.
2. Works incur significant risks because of unpredictability of internal and external factors. Risk factors are accepted in the extent which is determined by expected economic values of activity. But risks are much higher threat if high potential profitability

in reality does not promise significant material return for transnational companies.

Significant volume of investments into innovation abroad is done in big international companies. So, about 500 biggest international companies provide about 70% of investments into innovative projects all over the world. These companies sell about 80% of production in electronics and chemistry, 95% - in pharmaceutical branch, 76% - in machine building.

The reason for that is that big scopes of already existing production and sales are obligatory condition for accumulation of money which will be used for further development of R&D and provision of sustainability of the enterprise during the period of launching of innovative product to the market.

On the other hand, big international companies often are not so flexible because of sophisticated bureaucratic structure and big size of production: this hinders efficient and timely transformation of the results of R&D into commercial products. Very often this stage is realized more successfully at small and medium enterprises which have less resources but they are more dynamic and concentrated on specific innovation solutions [4].

Best practices in Northway, Sweden, Japan, China and many countries of EU in different years show that when favorable economic and regulatory climate is formed there entering of transnational companies to their territories stimulates formation of national innovative economic systems. On the one hand, transnational companies having structural divisions in different countries and being the creators of technologies of world level facilitate their distribution thanks to technological exchange during cooperation with national enterprises. On the other hand, having internal corporative system of commercializing of R&D's results and facing constantly growing needs of the market, they form the demand for R&D inventions made by scientific institutes, laboratories and universities.

Around big transnational companies, as a rule, infrastructure forms itself in natural way and then it is being kept which influences the formation of specialization of regions where they are located and facilitates national competitiveness. In the same time the development of appropriate infrastructure and favourable business climate is obligatory condition for functioning of innovative enterprises, small and medium.

The theory of origination of transnational companies passed through 3 stages. Earlier activity of transnational companies was considered as a part of capital flows theory (R. Caves, 1997) The supporters of this theory argue that top-management of the company must be located in the country with

excessive capital but the production branches - in the countries which are short of this capital. Then transnational companies theory was divided into 2 approaches - 1st - origination of vertical FDI when a company divides the process geographically. It is based on the capital flows theory which says that direct investments are necessary for production in foreign branches. The essence of vertical direct foreign investments - saving on the factors of production, process for which differ greatly in different countries. Another approach is horizontal FDI when the company produces the same products and services in different countries. There is also the third approach which combines two above mentioned. This theory was named KC-model ("knowledge capital" model).

The second way to divide these two types of investments was proposed by Lael Brainard, in 1993, who explained activity transnational companies abroad introducing the notion "Factors proportion". This method is based on empirical evaluation of transnational trade flows.

The 3rd approach uses geographic distribution of sales through foreign branches which was developed by J. Markusen in 1995. He defined vertical FDI as geographic division of the process of production by stages which is very similar to fragmentation [5].

Modern notion includes some general features of these alternative approaches and defines vertical FDI as geographic division of the process of production, and horizontal FDI - as back-up activity of transnational companies in different countries.

Of course distinct boundary between horizontal and vertical FDI can not be found because even in case of horizontal FDI foreign branches still use the consultancy services and management of main company even if the company carries out the same activity in several countries. So, any horizontal FDI company has features of vertical investment [6].

Study of the development strategies of a number of transnational companies allows to identify the following main tools of organization of this process - R&D divisions of corporate structure; project targeted groups in which during implementation of the project specialists from different departments of the company are invited; formation of venture divisions or even specialized venture subsidiaries for development of specific innovative projects; movement of inventions into foreign branches, giving orders and production of testing samples to independent small and medium enterprises, carrying out of joint research work with universities and scientific-research institutes and laboratories, participation in transnational and national research

projects in cooperation with the state and public organizations.

If permanent R&D departments in corporative structures are most characteristic of European and German companies targeted formation of project groups to a great extent is characteristic for big American companies, such as Boeing, Hewlett Parkard, Digital Equipment, ATT, GM. In this case, side by side with traditional functional and production divisions the company organizes targeted groups supervised by project manager which perform specific task, as a rule, connected with development and/or implementation of some innovation. These groups include specialists from different company departments selected with due regard to their qualification skills and the contents of the project. In companies 3M and Hewlett Parkard they practice even attraction of potential consumers and the suppliers of future products to carry out the research at the final stages of the project in conditions maximally close to the market conditions. After finishing of the work project groups are dismissed [7].

In separate cases the strategies of development of transnational companies include realization of separate highly perspective innovation projects (such strategies are even formed on the base of project groups) on the base of independent scientific-production enterprises in new spheres of business or venture divisions in case of projects which incur high risks. For example, the company IBM reasoned their targeted delegating the realization of such projects to subsidiaries because it considers that in case of failure the reputation and the financial state of the main company will not be damaged. Analogous enterprises are formed by big companies, first of all with the purpose of development of strategically important aspects of research activity and/or support of private innovation projects of separate groups of specialists, and sometimes of separate employees-innovators. The projects considered by venture companies are as a rule with high risk with average period of pay-back period of 7-8 years. The company creates special venture fund for financing of such divisions, and the directors of venture companies are authorized to plan regularity of fund use and decide themselves which volume of money will be allocated. If the project is successful main company will be key shareholder of new company's shares, establishing in such a way full financial control and gets exclusive rights for implementation of innovative achievements.

Placing the orders for development and production of tests samples by the companies at the independent small and medium innovation enterprises is a characteristic feature of innovative

economy of Japan. In Japan the system of clusters formed around big companies, so called “keiretsu”, is functioning. More than 60% of small and medium innovation enterprises of Japan are closely interacting with keiretsu, getting financial means from them, supplying them with new technical inventions and taking different production functions in complicated system of contracts and subcontracts. Cluster character of location of Japanese small and medium innovation enterprises very close to the production of big companies and to each other allows to minimize all kinds of transaction costs and creates conditions for “overflow” of technologies from one company to another and carrying out by several companies of joint research projects and realization of technically difficult projects. As a result economy of scale is achieved side by side with flexibility of small and medium innovation enterprises. If in the beginning of cluster development in Japan small and medium enterprises carried out predominantly the contracts of keiretsu for delivery of different items or some technological operations in the framework of JIT (“just-in-time”) system recently the number of contracts for the research and engineering inventions increased suddenly [8].

Movement of R&D to foreign branches has become one of the key trends in innovation strategy of the North Europe companies. As a result Sweden faced serious social problem when such companies as ABB, Electrolux, TeliaSoner, Ericsson, Volvo, Saab, Scania being guided by their own economic interests started to move the production to the countries with lower labour wages (China, India and the countries of Latin America and East Europe) side by side with divisions which are engaged into assembly operations or production of spare parts (components) a part of their research work. As a result the demand for engineers inside the country reduces which results in serious social effects and decrease of total technical and innovative potential.

Companies of West Europe and North America for getting new innovative solutions practice joint research work with universities and scientific-research institutes and laboratories, and participation in transnational and national research projects, in partnership with the state. For example, in European division of Intel company only in R&D more than 800 employees work. Having rich experience of development of innovative projects in different spheres, it stands for joint research projects. Among them joint work with leading European universities, and with other leading enterprises of the industry and scientific community, including participation in the programs of European Union and joint development of standards. The Intel partners - interuniversity Center on microelectronics (Belgium), laboratory

CEA Leti (France), Fraunhofer institute (Germany), European center of nuclear research (CERN) and others [9].

Of course, state companies facilitate centralization of scientific-research work, creation of channels of their commercialization and introduction into production sphere. But these companies are, first of all, financial and administrative tools for promotion of state interests in prioritized branches. In spite of the fact that they became the catalysts of innovation processes in the economy of most countries, recently they are criticized more often.

For example, in practice export platform for the headquarters country carries on the production of goods abroad not completely but predominantly, for internal use. For example, American company Apple locates its assembling factories only in China, the goods are sold at the markets of Europe and developing countries but key users of iPhone, iPad are the USA. Generally speaking, export platform in any form is more common in production of machinery, automobile industry. The most spread kind of investment is global export platform. Ford company has a lot of plants producing components and cars in different countries. In accordance with clear scheme of supplies created with due regard to qualification and the cost of workforce, availability of raw materials, company structure, specialization of the country and the volume of the sales market, to assembly factories of Ford in Great Britain, Spain, Germany receive the carburetors and the distributors of ignition systems from Ireland, transmissions - from France, casts of the components and the gears - from Germany. Ford having combined the technological chains of the factories of these countries into integrated production scheme delivers its cars into a lot of countries and export them back to the USA, for internal consumption. Another example of similar companies - Toshiba, Electrolux, Sharp [10].

So, modern trends in formation of development strategy of transnational companies are as follows:

- getting rid of inefficient locations;
- concentration of efforts on the most profitable projects;
- grouping of projects by territorial (regional), product and functional features;
- intensification of work by highly efficiency projects;
- strict financial and investment discipline;
- increase in quality of production and efficiency due to sales of expansion of complex programs of promotion;
- transition to modern methods of strategic management of transnational companies;

- development of the criteria showing efficiency of completed project on the base of made assumptions and analysis of risks;
- use of modern methods of analysis of external and internal environment for planning of separate measures on realization of transnational companies development strategy;
- organizational transformations corresponding to strategic plans of transnational companies development.

Conclusion

Generally speaking, the further development of transnational companies is determined by two key approaches to development of regionalization, namely: increase in the degree of convergence of participating countries of integration group and increase in number of block participators. All this significantly influences the structure and dynamics of international production of transnational companies. New conditions of organization of investment projects appear which change not only business environment for making transactions but the mechanisms of interaction of regional economic entities. Deepening of integration processes suggests stimulation of economic growth, increase in competitiveness of goods and services and more efficient use of single markets potential.

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