

## DIMENSIONS OF MULTINATIONAL ENTERPRISES

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**Abstract:** *Capital, creating new jobs, innovation, advanced technologies and the know-how transfer to local firms, human resources with a high level of training, effective management capacity, providing the necessary inputs for the evolution of the activity under the best conditions of efficiency, the access of local consumers to a variety of products and services are the main advantages that multinational enterprises (MNEs) bring in the countries where they expand their activities, with a significant impact on economic activities, between national economies. The purpose of this study is the analysis of the main non-financial multinationals in the world, based on the assets held abroad and depending on the transnationality index (TNI) in 2013. In order to achieve the purpose of the current paper we employed data from UNCTAD database and the World Investment Report (WIR) from 2015. Information on multinationals ranked by foreign assets according to the World Investment Report in 2015 show that, based on the TNI, European multinationals, such as the ones in France, Italy, Germany and Norway, have a higher transnationality index compared to multinationals from larger countries, such as the US and China. Among the top 10 European multinationals, the transnationality index reached an average of 55 % in 2013.*

**Keywords:** MNEs; TNI; social responsibilities

**JEL Classification:** F23; M14

### Introduction

The purpose of the current paper is the analysis of the main non-financial multinationals in the world, based on the assets held abroad and depending on the TNI in 2013.

In the international literature there is a large number of definitions regarding multinationals and different views of specialists who come to establish what is the multinational enterprise, many of them contradictory. Defining the multinational enterprises was not the only issue that gave rise to several divergent views, but also the terminology used to designate these enterprises failed to share a common point of view at an international level. The terminology used in order to designate these as enterprises is highly variable: international companies, multinational enterprises or multinational companies, transnational corporations, global companies.

Dumitriu (2000, p. 62) defines multinational companies as those companies “which generally meet one or more of the following characteristics: domestic production of products developed for international markets and distributed through its own subsidiaries in various countries; cost efficiency by controlling the manufacturing operations in the basic country; international networks of production

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and/or distribution of products for the country of origin". Boscoianu *et al.* (2006, p. 38) considers that a multinational can be defined as a "company that engages in international business and performs two essential functions: international marketing, which makes the exchange of goods and services across the national borders, but others than the ones traded domestically; engaging in several economic activities, but at least some of them have to be located in another country or in another countries, different from the country of origin". A more complete definition that takes into consideration the characteristics of the economic, institutional, legal and social-cultural environment considers that "multinational companies appear as enterprises or rather groups of enterprises which operate the activity of production, distribution and marketing in several countries, under the jurisdiction of several governments, in terms of a variety of markets, trade regimes, financial systems, language and culture, designed, organized and conducted on the basis of a common strategy developed on an international, regional, interregional or global scale" (Ignat *et al.*, 2006, p. 203). Another point of view concerning the multinational enterprises belongs to Ciobota (2013, p. 48) who considers that "multinational enterprises are established as aggregations made of a parent company and a number of subsidiaries spread on different countries of the world aiming a polycentric marketing".

As seen in the different definitions presented above, there is no consensus regarding the definition of the enterprise or multinational company, all reflecting the diversity and complexity of the multinational enterprises. Over time several perceptions have been formed regarding the presence of multinational enterprises such as that multinationals have expanded globally and became in some cases bigger than the nation-state (Cavanagh, *et al.*, 2000). To be noted that this comparison is made in order to highlight the significant dimension that these multinationals reached without undermining the global power of the countries. However it should be emphasized that the comparison between the multinational company's sales and the countries gross domestic product (GDP) are not comparable. The GDP is the sum of the value added and does not reflect the total amount of the sales of the multinational enterprises.

The paper is structured in the following sections: section one provides an analysis regarding the main non-financial multinationals in the world, based on the assets held abroad and on the TNI in 2013, while the second section of the paper presents the responsibilities of the multinational companies in the receiving economies, followed by the main conclusions.

## 1. Aspects on the main non-financial multinational enterprises

The level of multinational enterprises that generate changes in the global economy depends on the degree of integration of these activities abroad. In order to illustrate the involvement of multinationals abroad UNCTAD used in the non-financial companies sector, the transnationality index, which is determined as the arithmetic mean of three major reports namely: foreign assets to total assets, foreign sales to total sales, and foreign employment to total employment (UNCTAD, 2015, p. 17).

The composite index of transnationality reflects the companies' degree of transnationalization, the expression of their strategies to maintain and refresh their sources of competitiveness and the absolute value in foreign companies express as the size of the involvement in the international production (Mazilu, 1999, p. 95).

Among the largest MNEs in the world, according to the report released by UNCTAD, World Investment Report, in 2015, eight are European multinationals, one multinational is from China and one is from the US. The world's largest multinational enterprise operates in the motor vehicles industry (Volkswagen Group). Three multinationals listed in the top 10 non-financial multinationals enterprises ranked by foreign assets, operate in the utilities industry (electricity, gas and water), two multinationals are in the petroleum industry, two in the motor vehicles industry, one multinational in the aircraft industry, one in the telecommunications industry and one multinational operates diversified activities (Table 1). Also the rise of the multinationals in the petroleum industry and in the aircraft industry must be noted. The industry of utilities, motor vehicles and petroleum concentrates 71 % of the total assets held abroad by the top 10 non-financial State-owned MNEs.

**Table 1 – The top 10 non-financial State-owned MNEs, ranked by foreign assets, 2013**

(Millions of dollars)

SO-MNE	Home economy	Industry	Foreign Assets	Transnationality Index
Volkswagen Group	Germany	Motor vehicles	176 656	50
Eni SpA	Italy	Petroleum	141 021	70
Enel SpA	Italy	Utilities (electricity, gas and water)	140 396	67
EDF SA	France	Utilities (electricity, gas and water)	130 161	49
GDF Suez	France	Utilities (electricity, gas and water)	121 402	40
Deutsche Telekom AG	Germany	Telecommunications	120 350	62

CITIC Group	China	Diversified	97 739	17
Statoil ASA	Norway	Petroleum	78 185	30
Airbus Group NV	France	Aircraft	77 614	72
General Motors Co	United States	Motor vehicles	70 074	42

Source: based on UNCTAD, 2015 - World Investment Report - Reforming International Investment Governance, p. 17

Information concerning the multinationals on origin countries and industries shows that the transnationality indicator's value is higher for the top multinational enterprises that have as origin countries large states in Europe such as France (Airbus Group NV, EDF SA, GDF Suez), Italy (Eni SpA, Enel SpA), Germany (Deutsche Telekom AG, Volkswagen Group) and Norway (Statoil ASA) and belonging to aircraft, petroleum and telecommunications industry, compared to multinationals in large countries such as the US (General Motors Co) and China (CITIC Group). Analyzing the transnationality index, multinationals such as Airbus Group NV (Aircraft): 72%; Eni SpA (Petroleum): 70% ; Enel SpA (Utilities - electricity, gas and water): 67% ; Deutsche Telekom AG (Telecommunications): 62%; Volkswagen Group (Motor vehicles): 50%; EDF SA (Utilities - electricity, gas and water): 49%; General Motors Co (Motor vehicles): 42%; GDF Suez (Utilities - electricity, gas and water): 40%; Statoil ASA (Petroleum): 30%; CITIC Group (Diversified): 17% recorded in 2013 a TNI level between 17 per cent and 72 per cent. Must be mentioned that from year to year these rankings constantly change. Another important aspect is that this ranking highlights that multinationals that act in industries such as aircraft, petroleum, utilities (electricity, gas and water), telecommunications recorded the highest levels of the transnationality index, while a multinational with diversified activities knows its lowest level (17%).

The purpose of the transnationality index is to make a comparison between the origin market of the corporation and its global market, therefore the transnationality index will have higher values for multinationals which have small or medium origin markets (Voinea, 2007, p. 23). The global dimension of business, their level of internalization, push the ranked multinationals to concentrate complex activities in certain economies and to be present in several states.

## **2. The responsibilities of the multinational companies in the receiving economies**

Under international treaties and agreements it is considered that the main responsibilities of the multinationals are issues related to the contribution to the development of the receiving economy, the

development of relationships based on mutual trust with the local communities in the host countries, creating jobs and respecting the rights of the employees, the ties with the business associates, suppliers and customers, ensuring competition and removing the anti-competitive practices, consumer protection, standards in business ethics, removing corruption and bureaucracy, respecting the human rights, the impact of the company's activities on the environment. The host country is able to influence the behavior of multinational companies through measures that can boost their efforts, but host countries expect from the multinational companies as well as from the domestic companies to comply with the national law, also they shall not consider as an advantage the weaknesses of the legal system and of the administration, and they shall not use the practices of unfair competition or encourage the issues of corruption. The main outlined responsibilities of the multinational companies are: contributing to the public revenues of the host country; collaboration with local companies; creating new jobs on the local market and increasing the training of the local human resources and the technological transfer to the host country (Pandelica, 2006, p. 104 – 105).

Ionescu (1996, p. 233-234) considers that the prospects of the enterprise regarding the company “comprise three concentric circles of responsibilities”: the inner circle, which includes precise basic responsibilities concerning the effective accomplishment of the economic function namely products, services, jobs and economic growth; the intermediate circle which includes economic responsibilities for exercising the economic function with a sensitive awareness of the changing of social values and priorities such as environmental protection, employment and the relation with the employees, consumer protection and protection against slanders; the outer circle considers the new responsibilities and the still shapeless responsibilities that companies have to assume in order to be more involved in improving the social environment and solving social issues such as poverty and “other evils of urbanization”. In time we can observe a higher focus on environmental protection, conservation of energy and natural resources, and the relations with employees and clients, furthermore the audience has expanded perspectives about the involvement of the companies in activities such as reducing the unemployment and the development of health, education, culture and arts.

The advantages resulted from taking social responsibilities are synthesized by Bari (2003, p. 51): ensuring the long-term profit; improving the public image of the company and attracting favorable public opinion. But according to Bari (2003, p. 51), there are also disadvantages to the social responsibilities such as: higher cost that on long-term can bring higher benefits and higher costs that may occur as a result of not taking the social responsibilities; businesses are exclusively owned by the shareholders but there are a variety of shareholders in a company such as employees,

customers, suppliers; the time they request could be allocated to the real important aspects of business but social responsibilities are as important as other aspects; this task should be undertaken by the governments but they lose authority in favor of the multinationals; failure to assume social responsibilities by the companies for environmental conservation issues. In this context, Stiglitz (2008, p. 166) highlights a very important aspect, namely that multinationals, in the absence of government regulations and pressure from civil society, corporations have little incentive to protect the environment, in fact, they are stimulated to damage it, considering that this helps them save money.

It should be noted that aside from the companies that do not fulfill their social responsibilities, there are also successful companies and socially responsible such as (Adams, 2014): 3M Company (USA) performing in the manufacturing industry, ABB Asea Brown Boveri Ltd. (Switzerland) with activities in energy, oil and gas, Accenture (USA) conducts business services, Adobe Systems Incorporated (USA) with activities in computer software, AECOM (USA) with activities engineering and design, Capgemini (France) conducts business services, L'Oréal (France) with activities in health and beauty category, Thomson Reuters (USA) performing in the professional, scientific and technical services, Xerox Corporation (USA) conducts business services, which understood the need to perform their social responsibilities by getting involved in improving the education, sports, culture, environment or health.

As companies expand more across the national borders, their nationally and internationally responsibilities grow, making them responsible to the community, employees, customers, business partners, environment. In this regard, the society must also help the companies to fulfill their social responsibilities.

## **Conclusions**

Multinational enterprises are one of the most important factors in economic development, which has determined many states, especially the developing countries to encourage the location of the activities within their boundaries. The factors that determine the development of multinational enterprises are the following: getting the production closer to the customers and to the sales markets; development of international investments; the cost of labor; regulations favorable to foreign investments on the target market: financial and legal aspects, taxes; the achievement of higher performance indicators on foreign markets; non-restrictive regulations regarding the environmental protection.

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This composite index, TNI, calculated by UNCTAD, presents also its methodological risks (Voinea, 2007, p. 24). Given that among the top 10 multinationals ranked by assets held abroad in 2013, only one US multinational is found in the top 10 multinationals and no multinational from Japan, raises some questions.

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