ECONOMIC CRISIS AND THE COMPETITIVENESS OF TRANSNATIONAL COMPANIES

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Abstract

In crisis situations, the competitiveness of transnational companies becomes a particularly complex concept, due to the fact that said business entities are continuously moving within the context of internationalization and increasing use of global strategies. Given the current economic context, one cannot merely assess the competitiveness level of any given transnational company from a static standpoint, depending on the turnover, sales volume or number of employees of said company, but such assessment needs to be made from a dynamic standpoint, in close connection with the internal and international business environment in which that company carries out its activity.

Keywords: *national competitiveness, transnational companies' competitiveness, competitive advantage, transnational level, economic crisis*

Introduction

The concept of competitiveness is similar to that of economic efficiency and reflects a conjuncture of the economic activity, determined by a certain consumption of resources for obtaining goods and services. This approach presents the competitiveness from the efficiency of distributing resources standpoint, bringing in the center of attention the existing relation between maximizing effects and minimizing the efforts made by economic agents. The production of goods and services reflects the competitiveness under the conditions of diminishing costs, while the production's distribution under competitiveness conditions must assure, on one hand, a concordance between the volume, structure and quality of goods and services and, on the other hand, the market's exigencies.

While studying competitiveness, this has been approached through the angle of competitive advantage, when the competitiveness on a national level and similar with the term of competition was taken in consideration, and when the competitiveness of an economic agent on an international plan was being analyzed. At the same time, more detailed approaches were expressed by Kirsy Hugues[1] who considers competitiveness to be a problem of relative, static or dynamic efficiency, as well as a reflection of firm's performances in the international commerce (moderated performances), either under the form of export mark shares, or under the form of import penetration degree.

In conclusion, competitiveness is the capacity of an economic agent, product or service, individual or activity, to be susceptible to support the competition with the others participants to the market. On each economic agent's level, more categories of competitiveness can be identified: global, financial, commercial, human, managerial, technical and organizational. On the economic

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[1] Hugues Kirsty (1993), European Competitiveness, Cambridge University press, p. 5

agent's level, global competitiveness represents his potential and implies the accomplishment of a diagnosis or an analyzing inventory of the capacity it disposes of, namely that of the financial-economic forces it can mobilize and the firm's vulnerable points. In other words, competitiveness depends on the proper functioning of the economic agents' assembly of organizational components.

The analysis of competitiveness concepts and competitive advantage, the role of foreign investments and attenuation of economic crisis are subjects of permanent interest. Specialized literature has benefited in time of the analyses of multiple prestigious authors, such as John H. Dunning, William Northaus, Kirsty Hugues, Robert Solow, Gilbert Abraham – Frois, or Ngaire Woods. In the Romanian economic literature the special contribution of researchers Costea Munteanu, Alexandra Horobeț, Anda Mazilu, Vasile Dan, Liviu Voinea etc. are noticeable.

The present global crisis, initiated in 2008, determined a decrease in international production of goods and services offered by the 82.000 transnational companies and by their 810.000 branches that function on a global scale. Decreases in profit, withdrawals of capital, massive discharges, restructurings and bankruptcies were recorded on these companies' level.

The global crisis initiation was predicted and afterwards analyzed by Nouriel Roubini, the Nobel Prize for economy winner from 2008, Paul Krugman, Professor Joseph Stigliz and the controversial investor George Soros. Along with them international financial organisms such as the World Bank, European Central Bank and the International Monetary Fund, and trough competent voices such as Christine Lagarde, warn that the crisis situation has not yet been surpassed and, instead, the risk exists that it will gain new features and aggravate in 2012.

The present study proposes to analyze the challenges to which the transnational companies that wish to maintain a high competitiveness in the context of the actual crisis must answer to.

PAPER CONTENT

1. Conceptual analysis of the term competitiveness

The specialized literature (David Held, Anthony Mc Grew, David Goldblatt and Jonathan Perraton, 2004)[2], while analyzing the transnational companies' activity, considers that at the present time they compete on a global scale, remaining, however, anchored in the originating country's economic system and extracting their competitive advantage particularly from the national base, but applying global strategies in order to withstand the competition. To this extent, UNCTAD (2002) considers competition as being "the main locomotive" of competitiveness, by referring to the activity of those said companies, and delimits static competitiveness from the dynamic one. Static competitiveness highlights emphasizes price competitiveness, determining firms to compete on the basis of facilities. Conditions in which maintaining the competitiveness depends on the increase or decrease of fabrication costs. Simultaneously, dynamic competitiveness is associated with the changing nature of competition which does not only emphasize the connection between costs and prices but also the firm's ability to learn, to rapidly adapt to new market conditions and to innovate. Consequently, the lack of resources, insufficient technological capacities and the incapacity to adapt trough innovation can cause the firms considered competitive on internal scale, to lose the ability to answer to the international competition's exigencies.

[2] Held David, Mc Grew Anthony, Goldblatt David and Perraton Jonathan (2004) – Global changes : politics, economy and culture, Polirom Publishing House, Iași

Other approaches (Iuliana Ciochină, Alina Voiculeț, 2004)[3], define the term competitiveness through its characteristics: strategic competences: long term prediction and organizational competences: risk management.

The definition underlines especially the managerial competences, the adaptability of production and of transnational companies' marketing, on the host-countries' level.

Associated to a multinational corporation, the term of competitiveness suggests security, efficiency, quality, high productivity, adaptability, success, modern management, superior products, optimum costs. However, in order to consider a firm to be competitive, a rigorous analysis is required to be applied on the said firm as well as on its activity environment. A firm's competitiveness is mainly influenced by the capacity to understand and adapt as properly as possible to the surrounding world. These approaches along with classifying the corporations whose activity exceeds national borders (established by Charles Hill in 1998)[4], empower us to consider a transnational company to be competitive under the conditions in which it can adapt its production and marketing offer to the local environment's conditions, which brings into foreground the commerce and its competitive advantage. To this extent, the companies' present tendency to globalize determines us to not neglect the aspects related to competition, analyzed through the experienced gained and valorized as a result to adaptability and innovation.

The recent study on competitive firms emphasized some of their similar characteristics but the audit of the firm's potential remains to be concretized in the list of factors or foundations of competitiveness as follows[5]: The financial competitiveness can be evaluated by: the size of the profit, the capacity to auto finance, potential of financial capacity and potential to solvability. The commercial competitiveness is given by: market share, turnover evolution and commercial notoriousness; the technical competitiveness implies: the nature of equipment, technical advance and supply; the managerial competitiveness involves: the leaders' profile, the capacity to lead and the collaborators' value; the organizational competitiveness refers to: the form of organizational structure, the nature of decisions delegation and the rate of integrating individuals and services in the firm's objectives.

Thus, one might consider competitiveness to be the economic capacity of an enterprise to comply with an effective or potentially competition. Competitiveness can be evaluated in accordance to certain elements, such as: price, product quality, services post sales, flexibility and versatility of offer. Out of all these elements the most important ones are the price and quality of products. At the same time and according to a well-known definition from the American specialized literature (M. Porter – 1987)[6], the competitive advantage can be obtained: by reducing costs or by qualitative differentiation of products. In the fight for new markets, the firms must emphasize their qualities in order to win advantages ahead the competitors. This is one method of seeing competition, but a more detailed view must take in consideration the obtained results in an industrial competitive structure in the international market. A firm's direction is given by its own strategy, whilst the chances to succeed are given by competitive advantages. In order to increase an enterprise's competitiveness, to withstand the competition and exacerbate profits, the manager requires information regarding changes from the domain on a global scale, needs to know the tendencies on the international market

[3] Ciochină Iuliana, Voiculeț Alina (2004) – The firm's competitiveness from European perspective, paper sustained at the International Economic Conference - Lucian Blaga University, Sibiu, 2004

[4] Hill Charles (1998) - International Business: Competing in the Global Marketplace, McGraw-Hill Companies; 2nd edition (July 2, 1998)

[5] Dan Vasile – *Industrial competitive strategies and structures*, All Educational Publishing House, Bucharest, 1997

[6] Porter Michael (1987) – From competitive advantage to corporate strategy, Harvard Business. Review, no 3, 1987

and the perspectives of its evolution and also to detain information about the global competitors' programs. The managerial model is changing and the present manager must not limit to the strict business of its firm and just to knowing the evolution of business from the branches in the country in which he works. Transnational competitiveness is carried out by transnational companies, through complex managerial strategies, by effectuating strategic merges and alliances and promoting foreign direct investments.

2. The connection between national and transnational companies' competitiveness

According to certain experts' opinion[7], „there was a time when the nation state was regarded as being an economic force, primordial and capable to dictate the rules of the game in accordance to other economic agents. That period is long gone. Gradually, a transfer of power was produced by the following three coordinates: from the poorly industrialized countries to the strong ones; from states to markets and through this to transnational companies; part of the power gradually diminished, in the sense that no one carries it out." The same author also identifies the main causes at the base of this forces rapport: technological innovations promoted by transnational companies; high costs of new technologies that the said companies cannot sustain alone and not to mention the emphasis placed on the structural power to the detriment of the relational one.

The transnational companies' objectives are not always similar to the competitive objectives of every country in which these companies act. However, the governments of the host countries can, most of the times, encourage the STN arrival, trusting that those will contribute financially, humanly and technologically to the national economic and social competitiveness. Transnational companies have as well their own interest in maintaining some connections with the host countries' governments in order to avoid the enclosure of the awarded rights and freedoms. At the same time, another interest is to keep the inalienable image of the products and brands they represent by avoiding any inappropriate behavior on a national market that could have serious consequences on their competitiveness on all national markets in which they are present.

Consequently, all international agreements and treaties consider the following as being main responsibilities for the multinational corporations that are active in host countries: to contribute to the development of receiving economies; to protect the environment; to create new jobs; to maintain good relations with the employees; to assure a loyal competition; to take in consideration the consumer's norms of protection; to contribute to the removal of corruption and bureaucracy and to value the human rights. At the same time, the host country is interested in the transnational companies and autochthon firms to follow the national legislation and not violate to their own advantage the weaknesses of the legislative and administrative system even if it interposes in the economic activity.

The connection between the host countries' and the transnational companies' double competitiveness is emphasized by the main responsibilities established by the international forums (U.N.O. and O.E.C.D.)[8] for this companies. OECD creates a set of rules that should be followed by transnational companies in order to pursue the host countries' interest: firstly, they have to contribute to the economic, social and environmental progress; secondly, to encourage the local capacity for developing the enterprises' activities on local and foreign markets; thirdly, to encourage the development of human resources especially by assuring opportunities of development and facilitating

[7] Strage S.(1997) – The Retreat of State, Cambridge University Press

[8] In 1986, within the U.N.O., a Code of conduct of CMN was adopted and greeted with the universal need of regulating the conduct of relations between the states members of U.N.O. and the transnational corporations, and the Organization for Economic Co-operation and Development (OECD) established a guide for CMN in 1976.

the access of employees to courses for specializing one's carrier (training) and last but not least, to not involve in the local policy by respecting the human resource to its true value.

In short, one might consider the following as being particularly important in analyzing the competitiveness of transnational companies and of host countries:

▪ The contribution of public incomes of the host countries. As it is well-known, public incomes are part of the most important sources of financing development projects. Consequently, the governments of host countries are interested that the transnational companies are respecting the engagements of paying debts to the state budget and are not using abusive practices in remigration of profits. The companies are, simultaneously, indebted to put, at the service of fiscal authorities, correct data and accounting financial documents which the authorities might solicit.

▪ The collaboration with autochthon firms. The transnational companies must initiate and maintain close connections to national firms, thus aiding the increase of their competitiveness. This requires from the transnational companies tight, long term engagements of incorporating in the host country's economy

▪ The creation of jobs and increase of the autochthon work force's degree of training. Along with this, the transnational companies are invited to promote good relations with local firms and make considerable efforts to reduce the negative effects that might result in certain situations, like, for example, the effects of the present economic crisis.

▪ The transfer of technology. Transnational companies contribute to the increase of the host countries' competitiveness by cooperating with autochthon firms as well as with local authorities. greet

As the transnational companies extend over national borders, the obligations assumed by them on the host countries' level and especially on the host economies level, extend also. From this point of view, Kofi Annan (1999)[9] considers that the assembly of industrial operations with a social impact on implemented communities, require valences with different sense and action, derived and reunited under the shape of norms, instruments and politics, that can exert successive shaping of the behavior of local consumers and, implicitly, in the image of products manufactured on regional plan, by the resident transnational companies.

To this extent, we present a few of the politics adopted by some countries for the functioning of transnational companies[10] on their territory. In the U.S.A. a politic of "open doors" is being promoted, simultaneously with blocking some acquisitions, protecting certain areas of activity and declining unwanted investments. In Japan an administrative surveillance is being applied while it is specialized in restrictions over remigration of profits and establishment of companies of joint-ventures type, monitoring the transnational companies' activities and the thorough analysis of foreign investments. In the European Union investments are approved under the condition they do not affect the activity of its own societies and for this purpose they are being carefully supervised.

The following are among the authors devoted to explaining competitiveness under the form of cost/benefit advantages: J. Dunning (1993)[11], R. Caves (1982)[12] and S. Vogel (1997)[13]. On this matter, the argument brought by J. Dunning is interesting: "the more a transnational company cares about its advantages over property, the smaller the probability it will renounce on the control over them".

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[9] Annan Kofi (1999) – A compact for the new century; New York; United Nations

[10] Bailey, D., Harte, G., Sugden, R.,- Transnationals and Governments, Routhledge, 1994

[11] Dunning J. (1993) – Multinational Enterprises and the Global Economy, Addison – Wesley.

[12] Caves R. (1982) – Multinational Enterprises and Economic Analysis, Cambridge University Press

[13] Vogel S..(1997) - International Games With National Rules: How Regulation Shapes Competition in Global Markets", Journal of Public Policy No.1, 1997

The competitiveness of transnational companies on the levels of host country and mother country's economy can be studied through the standpoint of the alliances' strategies and of the management specific to these companies, as well as through the foreign direct investments (FDI) accomplished by them.

3. The influence of economic crisis on the investments of transnational companies

American economists consider as being the source of crises the fact that: "…the markets have become too big, too complex and too dynamic to make the object of the type of surveillance and regulation of the twentieth century. No wonder that this financial globalized mammoth surpasses the power of complete understanding of even the most sophisticated participants to the market." In order to have an image on the financial system from the beginning period of the global economic crisis and in order to connect to the above quote, we present a few statistical data: Among the 50 classified financial transnational companies, 9 of them are American with a capital of 8,260 billion dollars, 6 are English with a total capital of 6,780 billion, 5 are French with a capital of 6,360 billion dollars. Germany and Japan occupy the same position with 4 other financial transnational companies, and both have a total capital of approximately 4000 billion dollars.

The erosion of the moral capital, necessary for the business environment, is also caused by some discoveries related to some corporations' corporatist frauds that are part of the 50 transnational companies on a global level. Morgan Stanley, Goldman Sachs Group Inc, Merrill Lynch % Company Inc, Citigroup Inc, Ubs Ag, Credit Suisse Group and Societe Generale are some of these transnational companies.

The changes produced nowadays in the global economy have reached such an extremely fast pace that we can expect the significant deceleration of the global economy's increase rhythm. Economists warned in 2010 that the assistance program does nothing more than delay the inevitable. Unfortunately, their predictions have been confirmed. Ireland avoided a banking crisis only by appealing to a loan of 85 billion Euros from the EU and IMF, and Portugal was forced to choose a similar solution by taking in loan 78 billion Euros. In Spain, the unemployment rate has exceeded 21%, the highest in the developed world, and Greece's public debt increased from 120% from GDP to 150% and in 2011 the state requested a new loan. Italy has already reached the point in which these states were when they requested emergency credits, from the standpoint of interests the markets required to finance the state. Volatility remains the defining word for Europe and the risk of public debt has been transferred to the banks since they have massively loaned the governments. Being integrated in a succession of consecutive phases and periods, these changes to which the international business environment has been complied to, imply an entire process of re-dimensioning and re-allocation of funds for the purpose of maintaining them on the parameters impose by the exigencies of global competitiveness[14].

The global financial and economic crisis strongly affected the evolution of international investing activities in 2008 by determining the notable decline of the foreign direct investments (FDI) flows, intercepted and generated on a global plan, after a cycle of four years of continuous increase. According to the estimations revised by UNCTAD, the value volume of the intercepted global FDI incomes had reduced to 15% in 2008, summing up to 1,659 billion USD, as opposed to the historical record from 2007, of 1,941 billion USD. The decline of FDI outcomes from 2008 was caused especially by the 29% collapse of the sales volume associated with trans-boundary fusions and acquisitions. The decrease of FDI outcomes between the period of 2008 and 2009 is the result of two

[14] Crafts Nicholas (2000) – Globalization and Growth in the Twentieth Century, IMF Working Paper, WP-00-04, IMF, Washington D.C.

major factors that affect internal market, such as international investments. Firs of all, the firms' capacity of investing was reduced by the decrease of access to financial resources, internally – due to the decline of corporative profits – as well as externally – as a result of a lesser availability and a higher cost of financing.

Second of all, the tendency to invest was negatively influenced by the economic perspectives especially in developed countries that are affected by the most severe recession of the post-war era. The impact of both factors is aggravated by the fact that at the beginning of the year 2009, a high level of perception over risk determined transnational companies to reduce their investments cost and programs, so that they will become more resistant to any deterioration of the business environment. All three major types of foreign direct investments (FDI of valorizing markets, FDI of valorizing resources, FDI of efficiency) will be affected by these factors, but in a different manor. The regression of foreign direct investments has especially affected the trans-boundaries fusions and acquisitions. The crisis's impact over the FDI differs in terms of region and sector. The developed countries have been the most affected until now, with a significant decrease of FDI outcomes in 2008, mainly because of the slow market's perspectives. The FDI outcomes continued to increase in the developing economies during 2008, however on a much slower rate than in the previous year. All developing regions, with the exception of West Asia, recorded in the year 2008 higher values of FDI incomes. Afterward, the crisis extended in size and turbulence on a large scale, thus being followed by financial markets that hit many developing and emergent economies. Emergent economies, such as Hungary, Iceland, Latvia and Ukraine needed to appeal to the International Monetary Fund (IMF) for assistance. From the beginning of 2009, this list has been extending for other countries, such as Indonesia, Pakistan and Romania. Subsequently, the crisis rapidly spread to sectors other than the financial one, with severe damage for real economy. The much more strict conditions of credit inevitably affected the companies' capacity to spend on factories and equipment, along with being able to make acquisitions. The consumers trust has roughly decreased in many states of the world, reaching historical minimum first in the United States and later on in the European Union. Also large companies from many industries were severely affected by the decrease of sales. Beginning with the financial services, which were directly affected by the crisis, the shock waves hit many other industries, from extraction and fabrication industries to infrastructure services. The foreign direct investments were in 2010 of 2,596 billion Euros, with 25,6% less than in 2009 when they reached 3,48 billion Euros.

The World Bank's rapport from January 2012 considers that, in 2012, the global economy should be sustained by an 5,4% increase in the developing countries. In spite of this, the increase will only be of 1,4% in the countries strongly industrialized. The same rapport expresses that the progression of the volume for global economic exchanges had reduced to 6,6% in 2011 (in comparison to 12,4% in the year 2010, the year of global economy re-launch) and that in 2012 it will continue to drop, reaching only 4,7%.

CONCLUSIONS

The transnational companies' competitiveness is a highly complex notion due to the fact that at present times, this type of economic agents represents entities that are in a continuous motion in the context of the internationalization process and that of changing to using global strategies. The transnational company is a complex system in which a permanent manifestation takes place regarding the contradiction between activities' flexibility and coordination. This contradiction has its origin in the very motion tendency of the firm abroad and from the permanent objective to extend its actions beyond the originating country's borders. Given the current economic context, one cannot merely assess the competitiveness level of any given transnational company from a static standpoint, depending on the turnover, sales volume or number of employees of said company, but such assessment needs to be made from a dynamic standpoint, in close connection with the internal and international business environment in which that company carries out its activity.

The business environment of a transnational company imposes the analysis of the manifestation mode of the existing competition between these entities in the national economic area. The competitiveness represents a competition between transnational companies with the aim of occupying new positions on market outlets. Regarding the multinational corporations' competitiveness, the most suitable description was given by G.A. Frois, who considers these enterprises should think globally, but act locally.

The economic crisis obviously influences transnational companies' competitiveness and, at the same time, their decreasing competitiveness determines the adjournment of surpassing the crisis situation and re-launching economic growth. In the last years, numerous transnational companies have drastically reduced their activity, from the foreign investments standpoint, as well as from reducing production in accordance to the decreasing demand from individual and institutional consumers.

The austerity politics to which many governments were forced to resort to, have an impact on consumers (on incomes and their capacity to consume) and also on transnational companies that are no longer in resonance with them. Reducing major public investments is another loss for the transnational companies that beneficiated of state orders in multiple countries.

The European Committee is discussing today methodologies of co-sharing sovereign debts by emitting community obligations. France, and Germany especially, are opposing this. On one hand are the so-called PIGS states – Portugal, Italy, Greece and Spain – and on the other – Germany, Austria, Holland and Finland.

In this derogatory context, 2012 will unfortunately be an eminently electoral year and the following voting that will take place in 2012 may bring major changes or confirmations on a political level in many important countries, including countries that are great or regional powers, such as the USA, the Russian Federation, China and France, in smaller countries that are politically important through their resources and strategic positions hold, and in the Arab states (Egypt, Libya, possibly Syria or Iraq), Eastern Asia (Taiwan), the Euro zone or Eastern Europe and from the formal Soviet Union (Greece, Italy, Slovakia, Serbia, Romania, Ukraine, Georgia and Moldavian Republic), might decisively mark the geopolitical configuration of Europe and the rest of the world. Under these conditions it is highly unlikely for the said governments to establish radical reforms that could bring electoral losses. The lack of economic measures will reflect on transnational companies from the mother states as well as from host states.

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